KENDRIYA VIDYALAYA SANAGATHAN
RAIPUR REGION

तत् त्वं पूषन् अपावृणु
केन्द्रीय विद्यालय संगठन

Student support material
(including COMPETENCY BASED QUESTIONS)
CLASS: XII (055)
SUBJECT: ACCOUNTANCY
(2022-23)

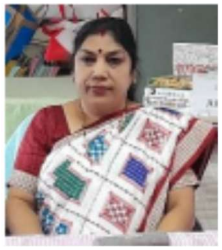
Our Patron

SHRI VINOD KUMAR

(Deputy Commissioner, KVS RO Raipur)

SHRI A. K. MISHRA

(Assistant Commissioner, KVS RO Raipur)



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Accountancy (Code No. 055)

Class-XII (2022-23)

Theory: 80 Marks & Project: 20 Marks 3 Hours

Units			Periods	Marks
Part A	**Accounting for Partnership Firms and Companies**			
	Unit 1. Accounting for Partnership Firms		105	36
	Unit 2. Accounting for Companies		45	24
			150	**60**
Part B	**Financial Statement Analysis**			
	Unit 3. Analysis of Financial Statements		30	12
	Unit 4. Cash Flow Statement		20	8
			50	**20**
Part C	**Project Work**		20	20
	Project work will include:			
	Project File	4 Marks		
	Written Test	12 Marks (One Hour)		
	Viva Voce	4 Marks		

Part A: Accounting for Partnership Firms and Companies

Unit 1: Accounting for Partnership Firms

Units/Topics	Learning Outcomes
* Partnership: features, Partnership Deed. * Provisions of the Indian Partnership Act 1932in the absence of partnership deed. * Fixed v/s fluctuating capital accounts. Preparation of Profit and Loss Appropriation account- division of profit among partners, guarantee of profits. * Past adjustments (relating to interest on capital, interest on drawing, salary and profit-sharing ratio). * Goodwill: meaning, nature, factors affectingand methods of valuation - average profit, super profit and capitalization. ***Note:*** *Interest on partner's loan is to be treated as acharge against profits.* Goodwill: meaning, factors affecting, need for valuation, methods for calculation (average profits,super profits and capitalization) , adjusted throughpartners' capital/ current account or by raising and writing off goodwill (AS 26) **Accounting for Partnership firms - Reconstitutionand Dissolution.** * **Change in the Profit-Sharing Ratio** amongthe existing partners - sacrificing ratio, gaining ratio, accounting for revaluation of assets and reassessment of liabilities and treatment of reserves, accumulated profits and losses. Preparation of revaluation account and balance sheet. * **Admission of a partner** - effect of admission of a partner on change in the profit-sharing ratio, treatment of goodwill (as per AS 26), treatment for revaluation of assets and re-assessment of liabilities, treatment of reserves, accumulated	**After going through this Unit, the students will beable to:** * state the meaning of partnership, partnershipfirm and partnership deed. * describe the characteristic features of partnership and the contents of partnershipdeed. * discuss the significance of provision of Partnership Act in the absence of partnershipdeed. * differentiate between fixed and fluctuating capital, outline the process and develop the understanding and skill of preparation of Profit and Loss Appropriation Account. * develop the understanding and skill of preparation profit and loss appropriation account involving guarantee of profits. * develop the understanding and skill of making past adjustments. * state the meaning, nature and factors affectin goodwill * develop the understanding and skill of valuation of goodwill using different methods. * state the meaning of sacrificing ratio, gainingratio and the change in profit sharing ratio among existing partners. * develop the understanding of accounting treatment of revaluation assets and reassessment of liabilities and treatment ofreserves and accumulated profits by preparing revaluation account and balancesheet. * explain the effect of change in profit sharingratio on admission of a new partner. * develop the understanding and skill of treatment of goodwill as per AS-26, treatmentof revaluation of assets and re-assessment ofliabilities, treatment of

profits and losses, adjustment of capital accounts and preparation of capital, current account and balance sheet. * **Retirement and death of a partner:** effect of retirement / death of a partner on change in profit sharing ratio, treatment of goodwill (as per AS 26), treatment for revaluation of assets and reassessment of liabilities, adjustment of accumulated profits, losses and reserves, adjustment of capital accounts and preparation of capital, current account and balance sheet. Preparation of loan account of the retiring partner. * Calculation of deceased partner's share ofprofit till the date of death. Preparation of deceased partner's capital account and hisexecutor's account. * **Dissolution of a partnership firm:** meaningof dissolution of partnership and partnership firm, types of dissolution of a firm. Settlementof accounts - preparation of realization account, and other related accounts: capital accounts of partners and cash/bank a/c (excluding piecemeal distribution, sale to a company and insolvency of partner(s)).	reserves and accumulated profits, adjustment of capital accounts and preparation of capital, current account and balance sheet of the new firm. * explain the effect of retirement / death of a partner on change in profit sharing ratio. * develop the understanding of accounting treatment of goodwill, revaluation of assetsand re-assessment of liabilities and adjustment of accumulated profits, losses and reserves on retirement / death of a partner and capital adjustment. * develop the skill of calculation of deceased partner's share till the time of his death andprepare deceased partner's and executor'saccount. * discuss the preparation of the capital accounts of the remaining partners and thebalance sheet of the firm after retirement / death of a partner. * understand the situations under which a partnership firm can be dissolved. develop the understanding of preparation of realization account and other related accounts.
(i) If the realized value of tangible assets is not given itshould be considered as realized at book value itself. (ii) If the realized value of intangible assets is notgiven it should be considered as nil (zero value). (ii) In case, the realization expenses are borne by a partner, clear indication should be given regarding the payment thereof.	

Unit: 2 Accounting for Companies

Units/Topics	Learning Outcomes
Accounting for Share Capital Features and types of companies * Share and share capital: nature and types. * Accounting for share capital: issue and allotment of equity and preferences shares. Public subscription of shares - over subscription and under subscription of shares; issue at par and at premium, calls inadvance and arrears (excluding interest), issue of shares for consideration other than cash. * Concept of Private Placement and EmployeeStock Option Plan (ESOP), Sweat Equity. * Accounting treatment of forfeiture and re-issue of shares. * Disclosure of share capital in the BalanceSheet of a company. **Accounting for Debentures** * Debentures: Meaning, types, Issue of debentures at par, at a premium and at a discount. Issue of debentures for consideration other than cash; Issue of debentures with terms of redemption; debentures as collateral security-concept, interest on debentures. Writing off discount /loss on issue of debentures.	* state the meaning of share and share capitaland differentiate between equity shares and preference shares and different types of share capital. * understand the meaning of private placementof shares and Employee Stock Option Plan. * explain the accounting treatment of share capital transactions regarding issue of shares. * develop the understanding of accounting treatment of forfeiture and re-issue of forfeited shares. * describe the presentation of share capital inthe balance sheet of the company as per schedule III part I of the Companies Act 2013. * explain the accounting treatment of different categories of transactions related to issue of debentures. * develop the understanding and skill of writingof discount / loss on issue of debentures. * understand the concept of collateral securityand its presentation in balance sheet. * develop the skill of calculating interest on debentures and its accounting treatment. state the meaning of redemption ofdebentures.
Note: Discount or loss on issue of debentures to be written off in the year debentures are allotted from Security Premium Reserve (if it exists) and then fromStatement of Profit and Loss as Financial Cost (AS 16)	

Part B: Financial Statement Analysis

Unit 4: Analysis of Financial Statements

Units/Topics	Learning Outcomes
Financial statements of a Company: Meaning, Nature, Uses and importance of financialStatement. Statement of Profit and Loss and Balance Sheet in prescribed form with major headings and sub headings (as per Schedule III to the Companies Act,2013) **Note:** *Exceptional items, extraordinary items andprofit (loss) from discontinued operations are excluded.* * **Financial Statement Analysis: Meaning, Significance** Objectives, importance and limitations. * **Tools for Financial Statement Analysis:** Cash flow analysis, ratio analysis. * **Accounting Ratios:** Meaning, Objectives, Advantages, classification and computation. * **Liquidity Ratios:** Current ratio and Quick ratio. * **Solvency Ratios:** Debt to Equity Ratio, Total Asset to Debt Ratio, Proprietary Ratio and Interest Coverage Ratio. Debt to Capital Employed Ratio. * **Activity Ratios:** Inventory Turnover Ratio, Trade Receivables Turnover Ratio, Trade Payables Turnover Ratio, Fixed Asset Turnover Ratio, Net Asset Turnover Ratio and Working Capital Turnover Ratio. * **Profitability Ratios:** Gross Profit Ratio, Operating Ratio, Operating Profit Ratio, Net Profit Ratio and Return on Investment.	**After going through this Unit, the students will beable to:** * develop the understanding of major headings and sub-headings (as per Schedule III to theCompanies Act, 2013) of balance sheet as per the prescribed norms / formats. * state the meaning, objectives and limitationsof financial statement analysis. * discuss the meaning of different tools of 'financial statements analysis'. * state the meaning, objectives and significance of different types of ratios. * develop the understanding of computation of current ratio and quick ratio. * develop the skill of computation of debt equityratio, total asset to debt ratio, proprietary ratioand interest coverage ratio. * develop the skill of computation of inventory turnover ratio, trade receivables and trade payables ratio and working capital turnover ratio and others. develop the skill of computation of gross profit ratio, operating ratio, operating profit ratio, net profit ratio and return on investment.

Note: Net Profit Ratio is to be calculated on the basis of profit before and after tax.

Unit 5: Cash Flow Statement

Units/Topics	Learning Outcomes
Meaning, objectives Benefits, Cash and Cash Equivalents, Classification of Activities and preparation (as per AS 3 (Revised) (Indirect Method only) ***Note:*** *Adjustments relating to depreciation and amortization, profit or loss on sale of assets includinginvestments, dividend (both final and interim) and tax.* *Bank overdraft and cash credit to be treated as short term borrowings.* • *Current Investments to be taken as Marketablesecurities unless otherwise specified.*	**After going through this Unit, the students willbe able to:** • state the meaning and objectives of cash flowstatement. • develop the understanding of preparation of Cash Flow Statement using indirect method as per AS 3 with given adjustments.
Note: *Previous years' Proposed Dividend to be given effect, as prescribed in AS-4, Events occurring after the Balance Sheet date. Current years' Proposed Dividend will be accounted for in the next year after it is declaredby the shareholders.*	

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Typology of Questions

R – Remembering

U- Understanding

A – Application

A&E- Analysis & Evaluation

Pattern of Questions

- **Competency based questions:** MCQ, CCT based, Case study & Source based
- **Objective based questions:** One sentence, MCQ, fill in the blank, True & False and Assertion & Reason based question etc.
- **Short & Long answer-based questions:** as earlier asked

Fundamentals of Partnership Accounting:

- Partnership: Features, Partnership Deed. Provisions of the Indian Partnership Act 1932 in the absence of partnership deed.
- Fixed V/s Fluctuating Capital Accounts
- Preparation of Profit & Loss Appropriation Account – division of profits among partners, guarantee of profits.
- Past Adjustments (relating to interest on capital & drawings, salary, profit-sharing ratio)
- Goodwill: meaning, nature, factors affecting and method of valuation – average profit, super profit and capitalization.

Partnership: An agreement between two or more than two partners to share profit/loss in the business to be carried on by all or any of them acting for all, under the terms and condition.

- An agreement
- Two or more than two persons
- Profit/loss-sharing
- A legal business
- Mutual agency between partners

Partnership Deed: An evidence of partnership agreement containing terms & conditions to carry on business activities. i.e. name & address of partnership firm, nature of business activities, name & address of partners, rights & duties of partners, profit-sharing ratio etc.

In the absence of Partnership Deed, the following provisions will be applied:

a. Interest on capital will not be allowed to the partners.
b. Interest on drawing will not be charged on the partners.
c. Remunerations will not be allowed to the partners.
d. Interest @ 6% per annum will be allowed, if the partner lends the money to the firm.
e. Profit & Loss will be shared by partners in equal proportion.

The partnership Deed is silent on payment of salary to partners. Sandeep, a partner, has put a claim that since he manages the business, he should get a monthly salary of ₹ 5,000. Is he entitled to the salary?
Ans: No, he is not entitled to the salary because it is not so provided in the Partnership Deed and according to the Partnership Act, 1932 if the Deed does not provide for payment of salary to partner, he will not be entitled to it.

Fixed V/s Fluctuating Capitals of partners:

Fixed Capital: The capitals of partners are remaining constant in the life of partnership and will not be change year after year. There is need to prepare two accounts of partners.

1. Capital Accounts: It contains only the amount of capital contributed by partners.
2. Current Accounts: It contains Drawings made by partners, Interest on drawings, Remunerations of partners (salary, commission etc.), guarantee of profits, share in profit/loss of partners, interest on capital etc.

Capital Account

Particulars	₹	Particulars	₹
To Cash A/c	Xxx	By balance b/d	Xxx
(withdrew excess capital)		By Cash A/c	Xxx
To balance c/d	Xxx	(introduced additional capital)	
	Xxx		Xxx

Current Account

Particulars	₹	Particulars	₹
To Drawings	Xxx	By balance b/d	Xxx
To Interest on drawings	Xxx	By General Reserve	Xxx
To P/L Suspense A/c	Xxx	By Interest on Capital	Xxx
To Goodwill A/c	Xxx	By Salary	Xxx
(to written off)		By Revaluation (share in gain)	Xxx
To balance c/d	Xxx	By P/L Account (share in profit)	Xxx

Fluctuating Capital: The amount of capitals of partners will be changed year after year due several adjustments into capitals of partners i.e. Drawings made by partners, Interest on drawings,

Remunerations of partners (salary, commission etc.), guarantee of profits, share in profit/loss of partners, interest on capital etc.
There is need to prepare only one account of partners – 'Capital Accounts'.

Capital Account

Particulars	₹	Particulars	₹
To Cash A/c	Xxx	By balance b/d	Xxx
(withdrew excess capital)		By Cash A/c	Xxx
To Drawings	Xxx	(introduced additional capital)	
To Interest on drawings	Xxx	By General Reserve	Xxx
To P/L Suspense A/c	Xxx	By Interest on Capital	Xxx
To Goodwill A/c	Xxx	By Salary	Xxx
(to written off)		By Revaluation (share in gain)	Xxx
To balance c/d	Xxx	By P/L Account (share in profit)	Xxx
	Xxx		Xxx

Profit and Loss Appropriation Account

At the end of accounting year, the balance of Profit & Loss Account to be allocated between partners into their profit-sharing ratio. This is to be done with an account is called – Profit & Loss Appropriation Account.

- An adjustment which was not considered (due to omission) while preparing profit and loss account then the same has to undertaken through 'Profit & Loss Adjustment Account', before to prepare profit and loss appropriation account.

Profit & Loss Appropriation Account

Particulars	₹	Particulars	₹
To Interest on capital	Xxx	By Profit & Loss A/c	Xxx
To Partner's Salary	Xxx	(net profits)	
To Partner's Commission	Xxx	By Interest on drawings	Xxx
To Capital a/c (if capitals are fluctuated)	Xxx		
Current a/c (if capitals are fixed)			
	Xxx		Xxx

Past Adjustment: Any adjustments which was not considered while preparing financial statements of partnership firm due to omission, it should be consider at the beginning of year with past adjustment entry is called – Past Adjustment.

Goodwill: Goodwill is a good name, reputation of a firm represents with over and above the actual / average profit of the firm to normal profits in the same line and size of business firm.

<u>Factors Affecting Goodwill</u>:

- **How Efficiency of Management will affect**: If the management of a firm is more efficient and reputed, the value of goodwill in such business will be more as compared to the business where the management is not efficient.
- **How Location will affect**: Business, if located at a favorable place results in good sales and higher value of goodwill.
- **How the Contracts will affect**: If a firm enters into long-term contracts for sale of its products, then this will affect profits and goodwill.

<u>Valuation of Goodwill</u>

(i)Average Profit Method (ii) Super Profit Method (iii) Capitalization Method

Average Profit Method – Under this method, goodwill to be valued at few years of purchase value of average profits of the firm. Goodwill = Average Profits x No. of purchase year

Super Profit Method – Under this method, goodwill to be valued at few years of purchase value of super profits of the firm. Goodwill = Super Profits x No. of purchase year

Super Profit = Average Profits – Normal Profits

Capitalization Method – Under this method, goodwill can be valued either by capitalization of average profit or capitalization of super profit.

<u>Capitalization of Average Profit Method</u>:

Goodwill = Capitalized Value of Business – Net Assets (Capital Employed) of Business

- Capitalized Value of Business = Average Profit X 100 / Normal Rate of Return
- Net Assets (Capital Employed) of Business = Total Assets – Outside Liabilities

Capitalization of Super Profit Method:

Goodwill = Super Profit X 100 / Normal Rate of Return

- Super Profit = Average (Actual) Profits – Normal (Expected) Profits
- Normal Profits = Capital Employed X Normal Rate of Return / 100

Calculation of Interest on Drawings:

Periods for which interest to be calculated as under:

$$= \frac{\textbf{(Number of months left after first draw + Number of months left after last draw)}}{\textbf{2}}$$

Timing for Drawings made by partners	Periods for interest calculation
Drawn at the beginning of every month for 12 months	**6 ½ Months**
Drawn at the middle of every month throughout year	**6 Months**
Drawn at the end of every month for 12 months	**5 ½ Months**
Drawn at the beginning of every quarter throughout year	**7 ½ Months**
Drawn at the middle of every quarter throughout year	**6 Months**
Drawn at the end of every quarter throughout year	**4 ½ Months**
Drawn at the beginning of every month for 9 months	**5 Months**
Drawn at the middle of every month for 7 months	**3 ½ Months**
Drawn at the end of every month for 5 months	**2 Months**

One Mark Questions: Fundamentals of Partnership Accounting

Q1. In the absence of partnership deed, interest on capital is allowed at the rate of:

a) 6% p.a. simple interest
b) 6% p.a. compound interest
c) 12% simple interest
d) None of the above.

Q2. Rent to a partner is shown in:

a) Dr. side of Profit And Loss Appropriation A/c
b) Cr. side of Profit And Loss Appropriation A/c
c) Dr. side of Profit And Loss A/c
d) Cr. side of Profit And Loss A/c.

Q3. Which of the following items will be shown in Partner's Capital A/c under Fixed Capital method?

a) Drawings from profits
b) Drawings from capital
c) Interest on drawings
d) All of the above.

Q4. Interest on Partner's Loan will be credited to:

a) Partner's Loan A/c
b) Partner's Capital A/c
c) Profit and Loss A/c
d) None of the above.

Q5. Which one of the following items is not an appropriation out of profits?

a) Interest on capital
b) Salary to a partner
c) Commission to a partner
d) Interest on partner's loan.

Q6. Following are essential elements of a partnership firm except:

a) Atleast two persons
b) There is an agreement between all partners
c) Equal share of profits and losses
d) Partnership agreement is for some lawful business activity.

Q7. Which one of the following is not a right of a partner?

a) Right to inspect the books of the firm
b) Right to take part in the affairs of the company
c) Right to share the profits/losses of the firm
d) Right to receive salary at the end of each month.

Q8. The relation of partner with the firm is that of:

a) An owner
b) An agent
c) An owner and agent both
d) A manager.

Q9 Pick the odd one out:

a) Rent to a partner
b) Manager's commission
c) Interest on partner's loan
d) Interest on partner's capital.

Q10. Can a partner be exempted to share the losses of the firm?

a) Yes
b) No
c) Yes, if partnership deed provides so
d) Never.

Q11. In case of partnership, the act of any partner is:

a) Binding on all partners
b) Binding on that partner only.
c) Binding on all partners except that particular partner
d) None of the above.

Q12. Interest on capital will be paid to the partners if provided for in the partnership deed but only out of:

a) Profits
b) Reserves
c) Accumulated profits
d) Goodwill.

Q13. What is the minimum number of partners in a partnership firm?

a) 50
b) 100
c) 2
d) None of the above.

Q14. Current accounts of partners are maintained under which method?

a) Fluctuating Capital method
b) Fixed Capital method
c) Both of the above
d) None of the above.

Q15. Limited Liability Partnerships came into existence in India after the enactment of:

a) Indian Partnership Act, 1932
b) Limited Liability Partnership Act, 1932
c) Limited Liability partnership Act, 2008
d) Indian companies Act, 2013.

Q16. A and B are partners sharing profits and losses equally. They admitted C as a partner with an equal share giving him a guarantee of minimum ₹50,000 profit p.a. The profit for the year after C's admission was ₹1,20,000. What will be the net amount that will be credited to A's Capital A/c?

a) ₹50,000
b) ₹40,000
c) ₹35,000
d) ₹80,000.

Q17 If a partner withdraws an equal amount in the beginning of each month for a period of 10 months, what will be the average period for calculation of Interest on Drawings?

a) 6.5 months
b) 7.5 months
c) 6 months
d) 5.5 months.

Q18. X and Y are partners sharing profits and losses in the ratio of 3:2 with capitals ₹5,00,000 each. According to partnership deed, interest on capital is allowed @ 10% p.a. The profit for the year is ₹ 50,000. What amount will be credited to X and Y in such condition?

a) ₹50,000 to A and B each
b) ₹25,000 to A and B each
c) ₹30,000 to A and ₹20,000 to B
d) None of the above.

Q19. Manager is entitled to a commission of 10% of the net profits after charging such commission. The net profit for the year is ₹1,32,000. What will be the amount of manager's commission?

a) ₹13,200
b) ₹12,000
c) ₹10,000
d) None of the above.

Q20. P and Q are partners sharing profits and losses in the ratio of 2:1 with capitals ₹1,00,000 and ₹80,000 respectively. The interest on capital has been provided to them @ 8% instead of 10%. In the rectifying adjustment entry, Q will be:

a) Debited by ₹400
b) Credited by ₹400
c) Debited by ₹1600
d) Credited by ₹1600.

Q21. Akhil and Ravi are partners sharing profits and losses in the ratio of 7:3 with capitals of ₹8,00,000 and ₹6,00,000 respectively. According to partnership deed interest on capital is to be provided @ 8% p.a. and is to be treated as a charge. Profit for the year is ₹80,000. Choose the correct option:

a) A will be credited by ₹ 64,000 and B will be credited by ₹ 48,000.
b) A will be credited by ₹ 56,000 and B will be credited by ₹ 24,000.
c) A will be credited by ₹ 22,400 and B will be credited by ₹ 9,600.
d) A will be credited by ₹ 41,600 and B will be credited by ₹ 38,400.

Q22. X, Y and Z are partners sharing profits and losses equally. Their capitals on March 31, 2021 are ₹80,000; ₹60,000; ₹40,000 respectively. Their personal assets are worth as follows: X- ₹20,000; Y - ₹15,000 and Z- ₹10,000. The extent of their liability in the firm would be:

a) X- ₹80,000; Y- 60,000; Z- ₹40,000
b) X- ₹20,000; Y- 15,000; Z- ₹10,000
c) X- ₹1,00,000; Y- 75,000; Z- ₹50,000
d) Equal.

Q23. A and B are partners. B draws a fixed amount at the end of every month. Interest on drawings is charged @15% p.a. At the end of the year interest on B's drawings amounted to ₹8,250. Drawings of B were:

a) ₹12,000 p.m.
b) ₹10,000 p.m.
c) ₹9,000 p.m.
d) ₹8,000 p.m.

Q24. Mohit and Rohit were partners in a firm with capitals of ₹80,000 and ₹40,000 respectively. The firm earned a profit of ₹30,000 during the year. Mohit's share in the profit will be:

a) Rupees 20000
b) Rupees 15000
c) Rupees 10000
d) Rupees 18000.

Q25. R and S are partners sharing profits in the ratio of 2:1. S has advanced a loan of ₹1,00,000 to the firm on 1st October, 2020. The net profit earned by the firm for the year ending 31st March, 2021 is ₹ 90,000. What amount will be credited to S's capital account?

a) ₹60,000
b) ₹30,000
c) ₹29,000
d) ₹32,000.

Match the following based MCQs

Q26.

I	Interest on Capital	A	Cr. Side of Profit and Loss Appropriation A/c
II	Interest on Drawings	B	Dr. side of Profit and Loss Appropriation A/c
III	Interest on Partner's Loan	C	Dr. side of Profit and Loss A/c

a) I-A; II-B; III-C
b) I-B; II-A; III-C
c) I-C; II-B; III-A
d) I-B; II-C; III-A

Q27.

I	Rent paid to a partner	A	Charge against profits
II	Salary paid to a partner	B	Appropriations out of profits.
III	Partner's Commission		

a) I-A; II-B; III-B
b) I-A; II-A; III-B
c) I-A; II-B; III-A
d) I-B; II-A; III-B

Q28.

I	Maximum number of partners	A	6% p.a.
II	Partnership Deed	B	50
III	Interest on partner's loan	C	Written agreement

a) I-A; II-B; III-C
b) I-B; II-A; III-C
c) I-C; II-B; III-A
d) I-B; II-C; III-A

Q29.

I	Drawings in the beginning of each quarter	A	4.5
II	Drawings in the beginning of each month	B	6.5
III	Drawings in the end of each quarter	C	7.5

a) I-A; II-B; III-C

b) I-B; II-A; III-C
c) I-C; II-B; III-A
d) I-B; II-C; III-A

Q 30. State two circumstances under which the fixed capitals of partners become changed.

Case Study Based Questions

Read the following information carefully and answer the questions that follow:

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

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

Drawings of the partners were ₹20,000 and ₹30,000 respectively during the year. Net profit earned by the firm was ₹2,08,000.

Choose the correct option based on the above information:

Q31. What is the amount of Interest on capitals of X and Y:
a) ₹12,000 each
b) ₹12,000 to X and ₹ ₹13,000 to Y
c) ₹13,000 to X and ₹12,000 to Y
d) None of the above.

Q32. What is the amount of interest on drawings of X and Y:
a) ₹ 1200 and ₹ 1800 respectively
b) ₹ 800 and ₹ 1200 respectively
c) ₹ 1200 and ₹ 800 respectively
d) ₹ 1600 ₹ 2400 respectively

Q33. What is the amount of commission payable to Y?
a) ₹ 15000
b) ₹ 16500
c) ₹ 20800
d) None of these

Q34. What is X's share in the net divisible profit?
a) ₹ 124400
b) ₹ 83600
c) ₹ 91200
d) ₹ 60800

Q35. What will be the closing capital of X after all adjustments?
a) ₹ 422200
b) ₹ 401400
c) ₹ 300000
d) ₹ 423000

Read the following information carefully and answer the questions that follow:

A, B and C were partners sharing profits in the ratio of 1:2:3. Their fixed capitals on 1st April, 2020 were: A ₹3,00,000; B ₹4,50,000 and C ₹10,00,000. Their partnership deed provided the following:

i. A provides his personal office to the firm for business use charging yearly rent of ₹1,50,000.
ii. Interest on capitals @8% p.a. and interest on drawings @ 10% p.a.
iii. A was allowed a salary @ 10,000 per month.
iv. B was allowed a commission of 10% of net profit as shown by Profit and Loss account, after charging such commission.

v. C was guaranteed a profit of ₹3,00,000 after making all adjustments.

The net profit for the year ended 31st march, 2021 was ₹10,30,000 before making above adjustments.

You are informed that A has withdrawn ₹5,000 in the beginning of each month, B has withdrawn ₹5,000 at the end of each month and C has withdrawn ₹ 24,000 in the beginning of each quarter.

Choose the correct option based on the above information:

Q36. A's rent will be shown in:

a) Profit and loss account
b) Profit and Loss Appropriation account
c) A's Capital account
d) None of the above.

Q37. Net profit for the year is:

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

Q38. What will be the divisible profit?

a) ₹5,56,000
b) ₹5,50,000
c) ₹5,52,000
d) ₹5,53,000.

Q39. What will be the total interest on drawings?

a) ₹24,000
b) ₹12,000
c) ₹36,000
d) 48,000.

Q40. What will be the commission of B?

a) ₹8,00,000
b) ₹96,000
c) ₹80,000
d) ₹72,000.

Assertion-Reasoning Based questions

Q41. **Assertion (A):** In the absence of Partnership deed profits and losses are divided equally among the partners.

Reason(R): This rule is applicable according to Indian partnership Act, 1932.

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

Q42. **Assertion (A):** Personal properties of a partner may also be used to pay off the firm's debts.

Reason(R): All partners have limited liability in the firm.

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

Q43. **Assertion (A):** Partnership firm is a form of organisation where two or more persons carry on business activity on the basis of agreement among them.

Reason(R): The profit or loss arising from the partnership business is shared by the partners in the agreed ratio.

a) Both (A) and (R) are true and (R) is the correct explanation of (A)
b) Both (A) and (R) are true and (R) is not the correct explanation of (A)
c) (A) is true, but (R) is false

d) (A) is false, but (R) is true.

Q44. **Assertion (A):** Maximum number of partners in a partnership firm is 50.

Reason(R): Maximum number of partners in a partnership firm is prescribed in Companies Act, 2013.

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

Q45. **Assertion (A):** A partnership deed covers all matters relating to mutual relationship among the partners.

Reason(R): But in the absence of partnership deed, provisions of the Indian partnership Act, 1932 shall apply for accounting purposes.

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

Q46. **Assertion (A):** Rent to partner is not shown in Profit and Loss Appropriation Account.

Reason(R): Rent to a partner is a charge against profit..

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

Q47. **Assertion (A):** Interest on Partner's capital may be shown in Profit and Loss Account.

Reason(R): If Partners treat interest on capital as a charge.

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

Q48. **Assertion (A):** Rent payable to partner is credited to Partner's Capital account.

Reason(R): Rent is payable to partner for letting the firm use his personal property for business.

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

Q49. **Assertion (A):** For calculating Interest on Drawings, product method is used.

Reason(R): Partners withdraw different amounts of money at different intervals of time.

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

Q50. **Assertion (A):** Guarantee of minimum profit may be given to a partner**.**

Reason(R): It is compulsory as per Indian Partnership Act, 1932.

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

ANSWER KEY: Fundamentals of Partnership Accounting

Q.NO.	Answer	Reason/Hint/Explanation
1	D	Interest on Capital is not allowed if there is no partnership deed.
2	C	Rent to a partner is a charge against profit.

3	B	Under Fixed Capital method only Withdrawal from capital and Introduction of Capital are shown in Capital account, all other items are shown in Current account.
4	A	Interest on Partner's Loan is not shown in Partner's Capital account, it is credited in Partner's Loan A/c.
5	D	It is a Charge against profit.
6	C	Profits are divided in the ratio decided by partners in partnership deed.
7	D	Salary is payable only if it is mentioned in partnership deed.
8	C	All the partners are mutual agents of each other and of the firm also and they are also the owners of the firm.
9	D	Interest on Capital is an appropriation out of profits whereas all other items are charges against profit.
10	C	Unless mentioned in the partnership deed, all partners are liable to share the losses and profits of the firm.
11	A	Since all partners are mutual agents of each other and of the company also.
12	A	Since Interest on capital is an appropriation out of profits, so it is paid only out of profits.
13	C	As per Indian Partnership Act, 1932, minimum 2 partners are necessary to start a partnership firm.
14	B	Under Fixed Capital method Capital accounts and Current accounts both are maintained whereas under Fluctuating capital method only capital accounts are maintained.
15	C	Limited Liability Partnership Act was passed in India in the year 2008.
16	C	Share of A in profit= 40,000 less Deficiency paid to C=5,000. So net amount received by A=35,000.
17	D	Time left after first drawing=10 months; Time left after last drawing=1 month; (10+1)/2=5.5
18	B	Interest payable to A and B=50,000 each. So the profit will be divided in an equal ratio between A and B. When appropriations are more than profits then the available profit is distributed between the partners in the ratio of net amount payable to them.
19	B	1,32,000*10/110=12,000.
20	B	Q will be credited by ₹1,600 (interest@2% to be given to Q) and Q will be debited by ₹1,200(share of Q in loss to the firm). So, finally Q will be credited by ₹400.
21	D	IOC to Akhil= ₹64,000 less share of loss= ₹22,400 (32,000*7/10). Net amount paid to Akhil= ₹41,600. IOC to Ravi= ₹48,000 less share of loss= ₹9,600 (32000*3/10). Net amount paid to Ravi= ₹38,400.
22	B	A partner has unlimited liability in the partnership firm. So he has to pay the amount of capital plus his personal property to pay off the debts of the firm. Since partners have already paid the amount of capital so now they will have to pay only their personal assets to the firm in case of loss.
23	B	8,250*(100/15)*(12/5.5) =1,20,000/12= 10,000.
24	B	In the absence of partnership Deed, profits are shared equally among the partners.
25	C	Net profit of the firm=90,000-3,000(interest on loan) = 87,000. S's share in profit=87,000*1/3= 29,000. Only share of profit is credited to Partner's Capital a/c, interest on loan is credited to Partner's Loan A/c.
26	B	IOC is transferred to Dr. side of P& L Appropriation A/c; IOD to Cr. Side of P & L Appropriation A/c and Interest on Partner's Loan to the Dr. side of P & L A/c.
27	A	Rent paid to a partner is a charge against profit; Salary and commission paid to a partner are both appropriations out of profits.

28	D	Maximum no. of partners is 50 as per Indian Partnership Act, 1932. Partnership Deed may be an oral or written agreement among partners. Interest on partner's loan is allowed @ 6% p.a. in the absence of partnership deed.
29	C	Average period for drawings in beginning of each quarter is 7.5; for beginning of each month is 6.5 and for end of each quarter is 4.5. Formula for calculating average period = (Time left after first drawing +Time left after last drawing)/2
30		1. When excess capital withdrawn by partners, as per the agreement. 2. When additional capital introduced by partners, as the need of firm.
31	C	IOC to X= (2,00,000*6/100)+(1,00,000*6/100*2/12)= 13,000 IOC to Y= 2,00,000*6/100= 12,000
32	B	IOD will be calculated for an average period of six months since time of drawings is not given.
33	A	2,08,000-13,000-12,000(IOC)-18,000(salary)= 1,65,000*10/110= 15,000.
34	C	Divisible profit= 2,08,000(N.P.)+800+1,200(IOD)-13,000-12,000(IOC)-18,000(salary)-15,000(commission)= 1,52,000. Share of X in divisible profit= 1,52,000* 3/5= 91,200
35	B	Closing capital of X= 2,00,000(opening capital)+1,00,000(addl. capital)+13,000(IOC)+18,000(salary)+91,200(profit share)-20,000(drawings)-800(IOD)= 4,01,400.
36	A	Charge against profit is shown in P & L A/c.
37	D	10,30,000-1,50,000(rent to the partner)= 8,80,000
38	B	IOD for A= 60,000*10/100*6.5/12=3,250 IOD for B=60,000*10/100*5.5/12=2,750 IOD for C=16,000*10,100*7.5/12=6,000. Total IOD= 3,250+2,750+6,000= 12,000.
39	C	8,80,000*10/110= 80,000.
40	C	8,80,000(N.P.)+12,000(IOD)-24,000-36,000-80,000(IOC)-80,000(commission)-1,20,000(salary)= 5,52,000.
41	A	In the absence of partnership Deed, profits are shared equally among the partners, as per the provisions of Indian partnership act, 1932.
42	C	All partners have unlimited liability.
43	B	Both the statements are two different facts.
44	C	Maximum number of partners is 50 according to Indian partnership Act, 1932 and 100 as per Indian Companies Act, 2013.
45	B	Both the statements are two different facts.
46	A	Charge against profit is shown in P & L account.
47	A	Charge against profit is shown in P & L account.
48	D	Rent payable to partner is not shown in Capital account; it is shown in Rent payable account.
49	A	Both the statements are true and R is the correct explanation of A.
50	C	Guarantee of minimum profit to a partner depends on mutual consent of partners, it is not compulsory.

THREE / FOUR/SIX MARKS QUESTIONS

☺ X & Y are partners in a firm. X is entitled to a salary of ₹ 10,000 p.m. together with a commission of 10% of Net Profit after charging salaries but before charging any commission. Y is entitled to a salary of ₹ 25,000 p.a. together with a commission of 10% of Net profit after charging salaries and all commissions. Net Profit after partners' salaries but before charging any commission for the year ended 31st March, 2012 was ₹ 2,75,000. Show the distribution of profit.

→ **Sol.:** **Profit & Loss Appropriation Account**

(For the year ended 31st March, 2012)

Particulars	Amount in ₹	Particulars	Amount in ₹
To X's Salary	1,20,000	By Profit before salary & Commission (₹ 2,75,000+ ₹ 1,20,000+ ₹ 25,000)	4,20,000
To Y's Salary	25,000		
To X's Commission (10% of ₹ 2,75,000)	27,500		
To Y's Commission {(₹ 2,75,000-27,500) x 10 / 110}	22,500		
	2,25,000		
To Net Profit transferred to:			
X's Capital A/c 1,12,500			
Y's Capital A/c 1,12,500			
	4,20,000		4,20,000

☺ A & B are partners sharing profits in proportion of 3:2 with capital of ₹ 4,00,000 & ₹ 3,00,000 respectively. Interest on capital is agreed @ 5% p.a. B is to be allowed an annual salary of ₹ 30,000 which has not been withdrwan. During 2011-12, the profit for the year prior to calculation of interest on capital but after charging B's salary amounted to ₹ 1,20,000. A Provision of 5% of this amount is to be made in respect of commission to the Manager. Prepare an account showing the allocation of profits between partners.

→ **Sol.:** **Profit & Loss Appropriation Account**

(For the year ended 31st March, 2012)

Particulars	Amount in ₹	Particulars	Amount in ₹
To B's Salary	30,000	By Profit & Loss A/c	1,44,000
To Interest on Capital:	35,000	Net Profit 1,20,000	
A 20,000		Add: B's Salary 30,000	
B 15,000		1,50,000	
To Net Profit:	79,000	Less: Manager's	
A's Capital A/c 47,400		Commission 6,000	
B's Capital A/c 31,600		(5% of 1,20,000) 1,44,000	
	1,44,000		1,44,000

☺ Aman, Chetan and Deepak are partners in a partnership firm sharing profit/loss in the ratio of 3:2:1. The balance of their capitals as on 1st April, 2021 ₹ 5,00,000; ₹ 3,00,000 and ₹ 2,00,000 respectively. They are allowed interest on capital @ 10% p.a. and Chetan allowed salary of ₹ 40,000 per annum. The profits of the firm for the year ending 31st March, 2022 ₹ 3,20,000.

Aman and Chetan have given guarantee of profits to Deepak that his profits will not be less than the 20% of his capital any year.

You are required to prepare Profit and Loss Appropriation Account from the above information.

Solution: **Profit & Loss Appropriation Account**

(For the year ended 31st March, 2012)

Particulars	Amount in ₹	Particulars	Amount in ₹
To **Chetan's Salary**	40,000	By Profit & Loss A/c	3,20,000
To **Interest on Capital**:	1,00,000		
Aman 50,000			

Chetan 30,000				
Deepak 20,000				
To **Capital A/cs:**		1,80,000		
Aman's Capital A/c	90,000			
Less: Guarantee to Deeak	(6,000)			
(transferred to capital A/c)	**84,000**			
Chetan's Capital A/c	60,000			
Less: Guaranttee to Deepak	(4,000)			
(transferred to capital A/c)	**56,000**			
Deepak's Capital A/c	30,000			
Add: Guarantee of profit	10,000			
(transferred to capital A/c)	**40,000**			
		3,20,000		3,20,000

Past Adjustment

(A) Calculation of interest on capital by ascertainment of opening capital of partners:

☺ On March 31, 2008 after the close of books of accounts, the capital accounts of A, B and C stood at ₹ 24000; Rs 20000 and ₹ 12000 respectively. The profit for the year ₹ 36000 was distributed equally. Subsequently, it was discovered that interest on capital @ 5% p.a had been omitted. The profit-sharing ratio was 2:2:1. Pass an adjustment Journal Entry.

→ **Sol.:** **Adjusted Journal Entry**

Date	Particulars	L F	Dr Amount	Cr Amount
1	C's Capital A/c Dr. To A's Capital A/c To B's Capital A/c (Being capitals adjusted)		5000 --------- ---------	---------- 2600 2400

Statement showing Calculation of Opening Capital & Interest on Capital

Particulars	Partner 'A"	Partner 'B'	Partner 'C'
Closing Capitals as on 31/3/2008 Less: Profit already credited	24000 12000	20000 12000	12000 12000
Opening Capital	12000	8000	NIL
Interest on Capital	600	400	NIL

Table showing adjustment of Capital of Partners

Particulars	Partner 'A'	Partner 'B'	Partner 'C'
(A) To be given: 1. Interest on capital 2. Share of profits	 600 14000	 400 14000	 NIL 7000
	14600	14400	7000
(B) Already given: As share of profits	 12000	 12000	 12000
Adjustment to be made	2600 (Cr)	2400 (Cr)	5000 r)

(B) Adjustment entry through Current A/c because there is fixed capital:

☺ X, Y and Z were partners sharing profits in their fixed capital proportion, which was as under: X – ₹ 100000; Y – ₹ 200000 and Z – ₹ 300000. During the year firm earned a profits of ₹ 90000 and it was distributed in equal proportion without providing interest on capital @ 10% p.a. though, the partners were allowed for the same. Pass an adjustment entry for the above.

→ **Sol:** **Table showing adjustment of Capital of Partners**

Particulars	Partner 'X'	Partner 'Y'	Partner 'Z'

(A) To be given: 1. Interest on capital 2. Share of profits	 10000 5000	 20000 10000	 30000 15000
	15000	30000	45000
(B) Already given: As share of profits	 30000	 30000	 30000
Adjustment to be made	15000 (Dr)	-	15000 (Cr)

Adjusted Journal Entry

Date	Particulars	LF	Dr Amount	Cr Amount
1	X's Current A/c Dr. To Z's Current A/c (Being partners A/c adjusted)		15000 ---------	---------- 15000

(C) Past adjustment entry while a partner has guarantee of profit:

☺ X, Y and Z were partners sharing profits in their capital proportion, at the beginning of the year, which was as under: X – ₹ 100000; Y – ₹ 200000 and Z – ₹ 300000. During the year firm earned a profit of ₹ 90000 and it was distributed in equal proportion without providing the following terms:

a. Partners were entitled for interest on capital @ 6% p.a.
b. X allowed salary ₹ 5000 and Y allowed commission of ₹ 4000.
c. Z has guaranty of profits ₹ 30000; which may be borne by X and Y in equal proportion.

Pass an adjustment entry for the above.

→ **Sol:** **Revised Profit & Loss Appropriation Account**

Particulars	**(₹)**	**Particulars**	**(₹)**
To Interest on Capital X – 6000 Y – 12000 Z – 18000	36000	By Profit & Loss A/c	90000
To Salary (to X)	5000		
To Commission (to Y)	4000		
To Capital A/c (share of profits) X – 7500 – 3750 = 3750 Y – 15000 – 3750 = 11250 Z – 22500 + 7500 = 30000	45000		
	90000		**90000**

Table showing adjustment of Capital of Partners

Particulars	**Partner 'X'**	**Partner 'Y'**	**Partner 'Z'**
(A) To be given: 1. Interest on capital 2. Share of profits 3. Salary 4. Commission	 6000 3750 5000 --------	 12000 11250 --------- 4000	 18000 30000 ---------- ----------
	14750	27250	48000
(B) Already given: As share of profits	 30000	 30000	 30000
Adjustment to be made	15250 (Dr)	2750 [Dr]	18000 (Cr)

Adjusted Journal Entry

Date	Particulars	L F	Dr Amount	Cr Amount
1	X's Capital A/c Dr. Y's Capital A/c Dr. To Z's Capital A/c (Being capitals adjusted)		15250 2750 - --------	---------- ---------- 18000

Valuation of Goodwill
(Capitalization Method)

☺ A business has earned average profits of Rs 100000 during the last few years and the normal rate of return in the similar type of business is 10%. Ascertain the value of goodwill by capitalization method, given that the value of net assets of the business is Rs 820000.

Solution: (a) Capitalization of Average Profit Method –

Goodwill = Capitalized Value of Business – Net Assets (Capital Employed) of Business

- Capitalized Value of Business = Average Profit X 100 / Normal Rate of Return
  = 100000 X 100 / 10 = Rs 1000000

Goodwill = 1000000 – 820000 = Rs 180000

(b) Capitalization of Super Profit Method –

Goodwill = Super Profit X 100 / Normal Rate of Return

- Normal Profits = Capital Employed X Normal Rate of Return / 100
  = 820000 X 10 / 100 = Rs 82000
- Super Profit = Average (Actual) Profits – Normal (Expected) Profits
  = 100000 – 82000 = Rs 18000

Goodwill = 18000 X 100 / 10 = Rs 180000.

Accounting for Reconstitution of Partnership

Reconstitution of Partnership: When there is any change in the terms & condition of partnership deed is called – reconstitution of partnership i.e. changes in rights & duties of partners, changes in the nature of business, changes in the name & address of firm as well as changes in the profit-sharing ratio, admission of a new person as a new partner, retirement or death of existing partner etc.
There is end of old relations between partners but business will be continued with new agreement.
Accounting point of view, there are four circumstances of reconstitution of partnership under which accounting treatment is required to take place.

- Change in the profit / loss sharing ratio.
- Admission of a new partner
- Retirement of an existing partner
- Death of an existing partner

Accounting treatments on reconstitution of partnership will be take place as under:

1. **Distribution of accumulated profits/losses, reserves, written off of appeared goodwill**
   (balance of the above will transferred to capital account in their old profit-sharing ratio)
2. **Revaluation of assets and reassessment of liabilities to find gain/loss on revaluation**
   (Gain/loss will be transferred to capital account in their old profit-sharing ratio)
3. Valuation of goodwill and adjustment entry for the same
4. Adjustment of capital of partners as per the new profit-sharing ratio.

Therefore, Accounting treatments for the above first two will be same in all four circumstances of reconstitution of partnership.

Sacrificing, Gaining and New Profit-sharing Ratio

Sacrificing Ratio**:** The ratio in which other or one partner will sacrifice their share in favour to other partners' is called sacrificing ratio.

Sacrificing Share of a partner = Old Share – New Share

Gaining Ratio: The ratio in which one or other partner will gain in their share from other partners' is called gaining ratio.

Gaining Share of a partner = New Share – Old Share

The circumstances under which sacrificing or gaining ratio is required to find:

1. When it is asked in the question i.e. find the SR or GR as per given information.
2. To make adjustment entry for valued goodwill, if there is change in the profit-sharing ratio between partners than the earlier profit-sharing ratio.
   - Change in profit-sharing ratio and need to adjust valued goodwill
   - Admission of partner and profit-sharing proportion between old partners being changed.
   - Retirement or death of partner, profit-sharing ratio between remaining partners being changed than the earlier profit-sharing ratio.

Similarly, need to find new ratio, if there is asked in the question.

Hidden Goodwill

Sometimes the value of goodwill is not given clearly in the question. This hidden goodwill is calculated with reference to the total existing capital (including the new partner) of the firm; needed capital of the new firm (to be ascertained on the basis of new partner's capital & his share in profits).

Goodwill = Needed capital of the firm – Existing capital (including new partner's capital) of the firm.

(Points to be remembered)

Adjustments	Treatment for the items
(01) **Several items of Old Balance Sheet**	* P/L A/c (Cr.); Gen. Res.; Unclaimed WCF; etc accumulated profits will transferred to capital A/cs of old partners in their old profit-sharing ratio. Profit & Loss A/c Dr. xxx General Reserve A/c Dr. xxx Workmen Comp. Fund Dr. xxx To Old Partner's Capital A/cs xxx * P/L A/c (Dr.); P/L Suspense A/c; existing Goodwill etc accumulated losses will be charged (debit) to capital A/cs of old partners in their old profit-sharing ratio. Old Partner's Capital A/cs Dr. xxx To Profit & Loss A/c xxx To Profit & Loss Suspense A/c xxx To Goodwill A/c xxx
(02) **Treatment of Premium /valued goodwill**	**On Admission** **(1) Premium brought in cash by new partner:** Cash A/c Dr. xxx (part of valued G/w) To Premium xxx Premium A/c Dr. xxx To Old Partner's Capital A/cs xxx **(2) Premium did not brought in cash:** (by new partner's share of valued goodwill) **Normal Case**: New Partner's Capital A/c Dr. xxx; To Old Partner's Capital A/cs xxx **Case of Capital Adjustment**: New Partner's Current A/c Dr.; To Old Partner's Capital A/cs

	On Retirement/Death (by retiring/deceased partner's share of valued goodwill) Old Partner's Capital A/cs Dr. xxx (with the gaining part) To Retired/Deceased Partner's Capital A/c xxx To Old Partner's Capital A/c xxx (with the sacrificing part)
(03) **Revaluation of Assets & Liabilities**	**(1) Appreciation of Asset & Decline of Liability** Asset A/cs Dr. xxx (with the appreciated value) Liability A/cs Dr. xxx (with the decline value) To Revaluation A/c xxx **(2) Appreciation of Liability & Depreciation of Asset** Revaluation A/c Dr. xxx To Asset A/cs xxx (with depreciated value) To Liability A/cs xxx (with appreciated value) **(3) Gain or Loss on Revaluation** (On gain on revaluation) Revaluation A/c Dr. xxx To Old Partner's Capital A/cs xxx (On loss on revaluation) Old Partner's Capital A/cs Dr. xxx To Revaluation A/c xxx

There may be the term of reconstitution to adjust the capital of old/existing partners OR ascertain the capital of new partner –

The 04th step has to follow as under:

Capital Adjustments	**On Admission**	
	Ascertainment of New partner's capital 1. Find the adjusted capital (after all adjustments-as above 3 steps) of old partners. 2. Find the total capital of new firm (on the basis of adjusted capital of old partners and their total share of profit in the new firm) 3. Find the capital of new partner (by taking difference between total capital of new firm and adjusted capital of old partners)	**Adjustment of old partners' capital** 1. Find the adjusted capital (after all adjustments-as above 3 steps) of old partners. 2. Find the total capital of new firm (on the basis of capital of new partner & share of profit of him/her) 3. Find the share of new capital for old partners (by taking difference between total capital of new firm & capital of new partner) 4. Find the share of capital for each & every old partner (on the basis of new capital of old partners & profit-sharing ratio between them) 5. Find the deficiency or surplus capital of old partner (by comparing between adjusted capital of each partner with share of new capital)

On Retirement / Death

If future profit sharing ratio between continuing partner will be as earlier

Adjustment to be made for existing capital	**Adjustment to be made for TARGET capital**
1. Find the adjusted capital of them 2. Take total of their adjusted capital as total capital of new firm and find the share of new capital for each continuing partner. 3. Find the deficiency or surplus capital of them	1. Find the adjusted capital of them 2. Find the share of new capital for each continuing partner (on the basis of Target/fixed capital and their profit-sharing ratio. 3. Find the deficiency or surplus capital of them

If future profit-sharing ratio between continuing partner will be new

Adjustment to be made for existing capital	**Adjustment to be made for TARGET capital**
4. Find the adjusted capital of them 5. Take total of their adjusted capital as total capital of new firm and find the share of new capital for each continuing partner (on the basis of new profit-sharing ratio and) 6. Find the deficiency or surplus capital of them	4. Find the adjusted capital of them 5. Find the share of new capital for each continuing partner (on the basis of Target/fixed capital and their New profit-sharing ratio) 6. Find the deficiency or surplus capital of them (by comparing between adjusted capital & share in new capital)

Partnership – Retirement and Death

The sum payable to the retiring/deceased partner includes:

(a) Balance in his capital/current account;
(b) Share in the gain/loss on revaluation of assets & liabilities;
(c) Share of goodwill;
(d) Share in the profits of current year; (from last Balance Sheet date to date of leaving).
(e) Share in the joint life policy;
(f) Interest on capital. Salary, etc. (if applicable) from last Balance Sheet date to date of leaving.

Following adjustments/treatments are needed on retirement/death of a partner:

(On the basis of calculated new profit-sharing ratio and gaining ratio.)
(a) Revaluation of assets and reassessment of liabilities.
(b) Distribution of accumulated profits (losses) and reserves.
(c) Treatment of goodwill (d) Capital adjustment (if any).

☺ ***How is the account of retiring partner settled?***

Retiring Partner's Capital A/c	Dr.	
To Cash A/c		(if paid in cash)

OR

Retiring Partner's Capital A/c	Dr.	
To Retiring Partner's Loan A/c		(if transferred to Loan)

☺ ***Circumstances in which gaining ratio are computed*** –

When a partner retires or dies; and
When there is a change in profit-sharing ratio.

The 'Gaining Ratio' is calculated to determine the amount of compensation to be paid by each of the gaining partner to the outgoing partner.

☺ ***How is the share of profit of a deceased partner calculated from the date of last balance sheet to the date of death? Write the accounting treatment on it.***

Share of profits = Average*/Actual*/Estimated* Profit x Periods*/12 x Share in Profit.
* Average/Actual Profit – Average of last few years profits of the firm or last year profits.
* Estimated Profits – Profits of the firm may ascertain on the basis of sales made by firm.
* Periods – Periods from last balance sheet date to date of death, in months.

Profit & Loss Suspense A/c Dr. xxxxx --------
To Deceased Partner's Capital A/c -------- xxxxx

One Mark Questions

Reconstitution of Partnership: Change in profit-sharing ratio

Understanding

[1] In the case of downward revaluation of an asset, Revaluation Account is _____.
(Debited)

[2] In case of upward revaluation of a liability, Revaluation Account is _____. (Debited) `

[3] At the time of admission of a partner new profit-sharing ratio is used for sharing future _____' (Profits)

[4] At the time of admission, if claim of Workmen Compensation is more than the Workmen Compensation Reserve, the amount of Workmen Compensation Reserve and the claim is transferred to _____ account.(Provision for workmen compensation liability)

[5] At the time of admission, if the book value and the market value of investment is same Investment Fluctuation Reserve is transferred to _____ account of the old partners in their _____ ratio.(capitals , old)

[6] For the distribution of revaluation profit in case firm is following Fixed Capital Accounts method is transferred to _____ accounts (current)

[7] An amount previously written off as bad debt is promised to be paid by the debtor. The promised amount will not be credited to _____ Account. (debtors)

[8] The newly admitted partner brings his / her share of capital for which he will get _____ in firm. (Profit share)

Application

[9] Balance sheet prepared after the new Partnership Deed, the assets and liabilities are shown at _____ if Revaluation Account is prepared.(Revised values)

[10] In valuation of Goodwill, the Weighted Average Profit Method is preferred over average method when profits are _____. (Trends)

Multiple Choice Questions

1. Any change in the relationship of existing partners which results in an end of the existing agreement and enforces making of new agreement is called:
(a) Revaluation of partnership (b) Reconstitution of partnership
(c) Realisation of partnership (d) None of the above

2. The ratio in which a partner surrenders his share in favour of a partner is known as:
(a) New profit-sharing ratio (b) Sacrificing Ratio
(c) Gaining Ratio (d) Capital Ratio

3. The ratio in which a partner receives a rise in his share of profits is known as:

(a) New Ratio (b) Sacrificing Ratio (c) Capital Ratio (d) Gaining Ratio

4. Reserves and accumulated profits are transferred to partners ' capital accounts at the time of reconstitution in:

(a) Old profit-sharing ratio (b) Sacrificing Ratio
(c) Gaining ratio (d) New profit-sharing ratio

5. Increase and decrease in the value of assets and liabilities are recorded through:

(a) Partners' Capital Account (b) Revaluation Account
(c) Profit and Loss Appropriation a/c (d) Balance Sheet

6. In which of the following case, revaluation account is debited?

(a) Increase in value of asset (b) Decrease in value of asset
(c) Decrease in value of liability (d) No change in value of assets

7. In which of the following cases, revaluation account is credited?

(a) Decrease in value of liability (b) Increase in value of liability
(c) Decrease in value of asset (d) No change in value of liability

8. Partner's capital account is credited when there is

(a) Profit on revaluation (b) transfer of general reserve
(c) transfer of accumulated profits (d) All of the above

9. Sacrificing ratio is the difference between :

(a) New ratio and old ratio (b) Old ratio and new ratio
(c) New ratio and gaining ratio (d) Old ratio and gaining ratio

10. A and B are partners in a firm sharing profits in the ratio of 3 : 2. They decided to share future profits equally. Calculate A's gain or sacrifice

(a) 2/10 (sacrifice) (b) 5/10 (gain) (c) 1/10 (Gain) (d) 1/10 (sacrifice)

11. In case of change in profit-sharing ratio, the gaining partner must compensate the sacrificing partners by paying the proportional amount of

(a) capital (b) cash (c) goodwill (d) none of the above

12. In case of change in profit-sharing ratio, the accumulated profits are distributed to the partners in

(a) new ratio (b) old ratio (c) sacrificing ratio (d) equal ratio

13 X, Y and Z are partners sharing profits and losses in the ratio of 5:3:2.They decide to share the future profits in the ratio of 3:2:1. Workmen compensation reserve appearing in the balance sheet on the date if no information is available for the same will be:

(a) Distributed among the partners in old profit sharing ratio
(b) Distributed among the partners in new profit sharing ratio
(c) Distributed among the partners in capital ratio
(d)Carried forward to new balance sheet without any adjustment

14. A, B and C were are partners in a firm sharing profits in the ratio of 3:4:1. They decided to share profits equally w.e.f from 1 .4.2019. On that date the profit and loss account showed the credit balance of 96,000. instead of closing the profit and loss account, it was decided to record an adjustment entry reflecting the change in profit sharing ratio. In the journal entry:

(a) Dr. A by 4,000; Dr. B by 16,000; Cr C by 20,000
(b) Cr. A by 4,000; Cr. B by 16,000; Dr C by 20,000
(c) Cr. A by 16,000; Cr. B by 4,000; Dr C by 20,000
(d) Dr. A by 16,000; Dr. B by 4,000; Cr C by 20,000

15. U V and W are partners sharing profits in the ration of 2:3:5. They also decide to record the effect of the following revaluations and reassessments without affecting the book values of assets and liabilities by passing a single adjustment entry:

	Book Value (Rs)	Revised Value (Rs)
Land and Building	3,00,000	3,50,000
Furniture	1,50,000	1,00,000
Sundry Creditors	60,000	20,000

Outstanding Salaries	10,000	15,000

The single adjustment entry will
(a) Dr. W and Cr. U by 10,500
(b) Dr. U and Cr. W by Rs. 10,500
(c) Dr. V and Cr. U by Rs. 10,500
(d) Dr. W and Cr. V by Rs. 10,500

16 X and Y shared profits and losses in the ratio of 3:2. With effect from 1st April 2019 they agreed to share profit equally. The Goodwill of the firm was valued at Rs. 60,000. The adjustment entry will be

(a) Debit Y and credit X with Rs. 6,000
(b) Debit X and credit Y with Rs. 6000
(c) Debit X and credit Y with Rs. 600
(d) Debit bi and credit X with Rs. 600

17 Sacrificing Ratio :

(a) New Ratio – Old Ratio (b) Old Ratio – Gaining Ratio
(c) Old Ratio – New Ratio (d) Gaining Ratio – Old Ratio

18. X Y and Z are partners sharing profit and losses in the ratio of 5: 3 :2. From 1st April 2018 they decided to share profit and losses equally .The partnership Deed provide that in the event of any change in the profit sharing ratio the Goodwill should be valued at 2 years purchase of the average profit of the the preceding five years the profit and loss of the preceding years and 31st March, are

Year	2013-14	2014-15	2015-16	2016-17	2017-18
Profit	70,000	85,000	45,000	35,000	10,000(loss)

Adjustment entry will be
(a) Dr. Y's Capital a/c Rs.3000, Z's Capital a/c 12,000, Cr. X's Capital a/c Rs 15,000.
(b) Dr. Y's Capital a/c Rs.12,000, Z's Capital a/c 3,000, Cr. X's Capital a/c Rs 15,000.
(c) Dr. Z's Capital a/c Rs.3000, X's Capital a/c 12,000, Cr. Y's Capital a/c Rs 15,000.
(d) Dr. Y's Capital a/c Rs.15,000, Cr. Z's Capital a/c 12,000, and X's Capital a/c Rs 3,000.

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

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

Case -1 If there is no additional information.
Case 2. If the market value of investments is Rs. 2,00,000.
Case 3. If the market value of investments is Rs. 1,91,000.
Case 4. If the market value of investments is Rs.2,18,000.
Case 5. If the market value of investments is Rs.1,73,000.
What will the amount credited to partner's Capital a/c

Ans. Case-1 (A) A 8,000 B, 6000 C,4000
(B) A 6,000 B, 6000 C,6000
(C) A 10,000 B, 4000 C,4000
(D) A 8,000 B, 4000 C,6000

Case -2 (A) A 10,000 B, 6000 C,4000
(B) A 6,000 B, 6000 C,6000
(C) A 8,000 B, 6,000 C,4000
(D) A 8,000 B, 4000 C,6000

Case-3 (A) A 4,000 B, 2000 C,3000
(B) A 4,000 B, 3,000 C,2,000
(C) A 3,000 B, 2000 C,4000
(D) A 2,000 B, 3000 C,4000

Case-4 (A) A 6,000 B, 6000 C,6000

(B) A 4,000 B, 6000 C,8000
(C) A 4,000 B, 2000 C,3000
(D) A 8,000 B, 6000 C,4000

Case-5 (A) A 4,000 B, 2000 C,3000
(B) A 4,000 B, 3000 C,2000
(C) A 4,000 B, 2000 C,3000
(D) A 4,000 B, 3000 C,5000

20. Match the following items

(i)	Goodwill which is acquired by making a payment	(a)	Inherent goodwill
(ii)	Goodwill location which arises from favourable	(b)	Purchased goodwill
(iii)	Goodwill which arises due to efficiency of management		

21. Match the following items

(i)	If goodwill is valued at Rs. 1,20,000 at 4 years purchase of super profit; normal is 10% and average profits are Rs. 50,000, capital employed will be	(a)	Rs. 8,00,000
(ii)		(b)	Rs. 2,00,000
		(c)	Rs. 5,00,000

22. Match the following items

(i)	General reserve will be distributed in	(a)	Sacrificing/Gaining Ratio
(ii)	Advertisement Suspense will be debited to partner's a/cs in	(b)	Old ratio
(iii)	Goodwill value will be adjusted in	(c)	New ratio

23. Match the following items

(i)	Ratio in which Partners share profit and loss before reconstitution of firm	(a)	New profit sharing ratio
(ii)	Ratio in which Partners surrender their share of profit in favour of other partner's	(b)	Gaining ratio
(iii)	Ratio in which all the Partners share the future profit and losses	(c)	Sacrificing ratio
(iv)	Ratio in which Partners acquire the share from other	(d)	Old ratio

24. Match the following items

(i)	Old ratio – New ratio	(a)	Gaining ratio
(ii)	Goodwill	(b)	Fixed Assets
(iii)	General reserve	(c)	Credit Balance
(iv)	New ratio- Old ratio	(d)	Sacrificing Ratio

25. Match the following items

(i)	Revaluation A/C is opened	(a)	At the time of retirement
(ii)	Sacrificing ratio	(b)	At the time of death
(iii)	Valuation of goodwill	(c)	At the time of Admission

		(d)	At the time of reconstitution of partnership firm

26. Which of the following is NOT true in relation to goodwill ?
(A) It is an intangible asset (B) It is fictitious assets
(C) It has a realisable value (D) None of the above

27. When Goodwill is not purchased goodwill account can:
(A) Never be raised in the book (B) Be raised in the book
(C) Be partially raised in the books (D) Be raised as per the agreement of the partners.

28. The goodwill of the firm is NOT affected by;
(A) Location of the firm (B) Reputation of firm
(C) Better customer service (D) None of the above

29. The profit earned by a business over the last 5 years are as follows:
Rs. 12000 Rs. 13000 Rs. 14000 Rs.18000 and 2000 (loss) based on 2 years purchase of the last 5 years profits, value of goodwill will be .
(A) Rs. 23,600 (B) 22,000 (C) Rs. 1,10,000 (D) Rs.1,18,000.

30. The average profit of a business over the last 5 years amounted to Rs. 60,000. The normal commercial yield on capital invested in such a business is deemed to be 10% p.a. The net capital invested in the business is Rs.5,00,000. Amount of goodwill, if it is based on 3 years purchase of last 5 years super profit will be:
(A) 1,00,000 (B) 1,80,000 (C) 30,000 (D) 1,50,000

31.The following question consist of two statements, one labelled as the 'Assertion (A)' and the other as 'Reason (R)'. You are to examine these two statements carefully and select the answers using the code given below:
(a) Both A and R are individually true and R is the correct explanation of A
(b) Both A and R are individually true but R is not the correct explanation of A
(c) A is true but R is false
(d) A is false but R is true

Assertion (A): In order to compensate a partner for contributing capital to the firm in excess of the profit-sharing ratio, firm pays such interest on partner's capital.
Reason (R): Interest on capital is treated a charge against profit.

32. The profits for the previous three years are given below:
2018-2019 Rs.23,000 (including an abnormal gain of Rs.8,000)
2019-2020 Rs.40,000 (after charging an abnormal loss of Rs.12,000)
2020-2021 Rs.38,000 (after writing off bad debts amounting to Rs.6,000)
The amount of goodwill at two years purchase of the average profits of the last three years will be _____.
(a) Rs.65,000 (b) Rs.70,000 (c) Rs. 68,000 (d) Rs.35,000

33. A and B are partners sharing profits in the ratio of 2 : 3. Their Balance Sheet shows machinery at Rs. 4,00,000; stock at Rs.80,000 and Debtors at Rs.3,20,000. C is admitted and new profit sharing ratio is agreed at 6 : 9 : 5. Machinery is revalued at Rs.3,40,000 and a provision is made for doubtful debts @ 2.5%. A's share in loss on revaluation amounted to Rs.20,000. Revalued value of stock will be:
(a) Rs.98,000 (b) Rs. 1,00,000 (c) Rs. 60,000 (d) Rs.62,000

34. Gagandeep, a partner advanced a loan of Rs.60,000 to the firm on 30th November 2020. The firm incurred a loss of Rs.15,000 during the year ending 31st March, 2021. In the absence of partnership deed interest a loan allowed to Gagandeep will be
(a) Rs.3,600 (b) Rs.900 (c) Rs. 1,200 (d) Rs. 1,800

35.Vikas and Yogesh were in partnership sharing profits and losses in the ratio of 2 : 1. They admitted Kunal as a new partner. Kunal brought Rs.1,00,000 as his share of goodwill premium,

which was entirely credited to Vikas's capital account. On the date of admission, goodwill of the firm was valued at Rs.5,00,000. The new profit sharing ratio of Vikas, Yogesh and Kunal will be:

(a) 7 : 5 : 3 (b) 7 : 3 : 5 (c) 5 : 7 : 3 (d) 3 : 5 : 7

36. P, Q and R are partners in a firm. Net profit before appropriations is Rs. 7,87,000. Total interest on capital and salary to the partners amounted to Rs.40,000 and Rs. 75,000 respectively. P and Q are entitled to receive a commission @ 6% each on net profit after taking into consideration interest on capital salaries and all commission. Calculate commission payable to P and Q.

(a) Rs.18,000 each (b) Rs. 40,320 each (c) Rs.36,000 each (d) Rs.24,000 each

37. Charvi and Vaanya were partner sharing Profit and Losses in 3 : 2 with affect from 1st April 2021, they decided to share future profits equally. On that date, following journal entry was passed by the firm:

Date	Particular	Lf	Debit Amt.	Debit Amt.
	Charvi's Current A/c Dr. To Vaanya's Current A/c		30,000	 30,000

Which of the following balance was existing in the books of the firm on the date of reconstitution?

(a) Contingency Reserve Rs. 3,00,000

(b) Profit and Loss (Dr.) Balance Rs. 3,00,000

(c) Profit and Loss (Cr.) Balance Rs. 3,00,000

(d) Advertisement Suspense Account Rs.2,00,000.

38. The following question consist of two statements, one labelled as the 'Assertion (A) 'and the other as 'Reason (R)'. You are to examine these two statements carefully and select the answers using the code given below:

(a) Both A and R are individually true and R is the correct explanation of A

(b) Both A and R are individually true but R is not the correct explanation of A

(c) A is true but R is false

(d) A is false but R is true.

Assertion (A): It is necessary to show the true position of the firm at the time of admission of a new partner. Reason (R): The gain or loss on revaluation which is transferred to all the partner's capital account in new profit-sharing ratio.

CASE STUDY QUESTIONS

Read the following paragraph and answer the following Question from 1 to 5.

39.Any changes in the relations of partnership will result in the reconstitution of the partnership firm. All the reserves and surplus will be distributed among the partners into existing profit-sharing ratio. when it is decided by the partners to make changes in the existing ratio, a separate account is opened, which is known as profit and loss adjustment or revolution account to make the revaluation of assets and reassessment of liabilities

With a motive to calculate actual economic benefits.

Q.1 The Need of revaluation of assets and liabilities:

(A) Assets and Liabilities should appear at revised values

(B)Any profit and loss an account of change in values belong to old partners

(C) All unrecorded assets and liabilities get recorded

(D) None of Above

Q.2 Revaluation Account is a:

(A) Real Account (B) Nominal Account

(C) Personal Account (D) None of the Above

Q.3Any change in the relationship of existing partners which results in an end of the existing agreement and enforces making of new agreement is called:

(a) Revaluation of partnership

(b) Reconstitution of partnership

(c) Realization of partnership

(d) None of the above

Q.4 In case of change in profit-sharing ratio, the accumulated profits are distributed to the partners in

(a) new ratio
(b) old ratio
(c) sacrificing ratio
(d) equal ratio

Q.5 Increase and decrease in the value of assets and liabilities are recorded through:

(a) Partners' Capital Account
(b) Revaluation Account
(c) Profit and Loss Appropriation
(d) Balance Sheet

Read the following paragraph and answer the following Question from 1 to 3.

Bhavya and Naman were partner in a firm carrying on a tiffin service in Hyderabad. Bhavya noticed that a lot of food is left at the end of the day. To avoid wastage, she suggested that it can be distributed to the needy. Naman wanted that It should be mixed with the food being served the next day. Naman then give a personal that if his share in the profit increased, he will not mind free distribution of leftover food. Bhavya happily agreed. So they decided to change their profit sharing ratio 1:2 with immediate effect. On that date revaluation of assets and reassessment of liability was carried out that resulted into a gain of Rs. 18,000. On that day at the Goodwill of the firm was valued at Rs. 1,20,000.

Based on the above information you are required to answer the following questions.

Q.1 sacrificing ratio equal to:

(A) Old ratio minus new ratio
(B)New share minus old share
(C) Old share plus new share
(D) Old share

Q.2 sacrificing /gain of Bhavya and Naman will be

(A) Bhavya sacrifice 1/6 , Naman gains 1/6
(B) Bhavya gains 1/6 , Naman sacrifice 1/6
(C) Only Bhavya gains 1/6
(D) Only Naman sacrifice 1/6

Q.3 at the time of change in profit sharing ratio gaining partner capital account is..... ….and sacrificing partner is..... For the adjustment of goodwill

(A) Credited debited
(B) Debited credited
(C) Increased or decreased
(D) Decreased or increased

Q.4 Pass the journal entry for adjustment of Goodwill.

(A) Naman's Capital a/c Dr. 1,20,000
To Bhavya's Capital a/c 1,20,000
(B) Bhavya's Capital a/c Dr. 60,000
To Naman's Capital a/c 60,000
(C) Naman's Capital a/c Dr. 20,000
To Bhavya's Capital a/c 20,000
(D) Naman's Capital a/c Dr. 1,00,000
To Bhavya's Capital a/c 1,00,000

Reconstitution of Partnership: Admission of a Partner

(01)For which of the following situations, the old profit-sharing ratio of partners is used at the time of admission of a new partner?

a. When new partner brings only a part of his share of goodwill.
b. When new partner is not able to bring his share of goodwill.
c. When, at the time of admission, goodwill already appears in the balance sheet.
d. When new partner brings his share of goodwill in cash.

(02) Arun and Vijay are partners in a firm sharing profits and losses in the ratio of 5:1.

Balance Sheet (Extract)

liabilities	Rs.	Assets	Rs.
		Machinery	40,000

If value of machinery in the balance sheet is undervalued by 20%, then at what value will machinery be shown in new balance sheet:
(a) 44,000 (b) 48,000 (c) 32,000 (d) 50,000

(03) A and B are partners in a firm having a capital of ₹ 54,000 and ₹ 36,000 respectively. They admitted C for 1/3rd share in the profits C brought proportionate amount of capital. The Capital brought in by C would be:
a) ₹ 90,000 b) ₹ 45,000 c) ₹ 5,400 d) ₹ 36,00

(04) Sun and Star were partners in a firm sharing profit in the ratio of 2 : 1. Moon as admitted as a new partner in the firm. New profit sharing ratio was 3 : 3 : 2. Moon brought the following assets towards his share of Goodwill and Capital:

Machinery : 2,00,000
Furniture : 1,20,000
Stock : 80,000
Cash : 50,000

If his capital is considered as Rs. 3,80,000 the Goodwill of the firm will be:
a. 70,0000 b. 2,80,000 c. 4,50,000 d. 1,40,000

(05) Sacrificing ratio is used to distribute……in case admission of partner.
a. Reserves b. Goodwill c. revaluation profit d. Balance in profit and loss account

(06) A and B are in partnership sharing profits and losses in the ratio of 3:2. They admit C into partnership with 1/5th share which he acquires equally from A and B. Accountant has calculated new profit sharing ratio as 5:3:2. Is accountant correct?

(07) Can employee provident fund be distributed among old partner in their old ratio at the time of admission of partner.
a. It can be distributed
b. It can't be distributed
c. Can be distributed if tax is paid
d. None of the above

(08)Analyses the transaction and identify the effect on the revaluation account.
Two month's salaries @ Rs. 6000 per month was outstanding.
a. Revaluation account is debited by Rs. 12000
b. Revaluation account is credited by Rs. 12000
c. Revaluation account is debited by Rs.6000
d. Revaluation account is credited by Rs. 6000

(09) Assertion (A): At the time of admission, if profit sharing ratio among old partner does not change then sacrificing ration will be old profit-sharing ratio.
Reason (R) : Old profit ratio plus new profit sharing ratio is sacrificing ratio:
(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
(b) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A)
(c) Assertion (A) is false, but Reason (R) is true

(d) Assertion (A) is true, but Reason (R) is false

(10) X and Y share profits in the ratio of 3:2. Z was admitted as a partner who sets 1/5 share. New profit-sharing ratio, if Z acquires 3/20 from X and 1/20 from Y would be

(a) 9 : 7 : 4 (b) 8 : 8 : 4 (c) 6 : 10 : 4 (d) 10 : 6 : 4

(11) A and B share profits and losses in the ratio of 3 : 1, C is admitted into partnership for 1/4 share. The sacrificing ratio of A and B is:

(a) equal (b) 3 : 1 (c) 2 : 1 (d) 3 : 2.

(12) At the time of admission of a new partner, general reserve appearing in the old balance sheet is transferred to:

(a) all partner's capital account
(b) new partner's capital account
(c) old partner's capital account
(d) none of the above

(13) Asha and Nisha are partner's sharing profit in the ratio of 2:1. Asha's son Ashish was admitted for 1/4 share of which 1/8 was gifted by Asha to her son. The remaining was contributed by Nisha. Goodwill of the firm in valued at Rs. 40,000. How much of the goodwill will be credited to the old partner's capital account.

(a) Rs. 2,500 each
(b) Rs. 5,000 each
(c) Rs. 20,000 each
(d) None of the above

(14) A, B and C are partner's in a firm. If D is admitted as a new partner:

(a) old firm is dissolved
(b) old firm and old partnership is dissolved
(c) old partnership is reconstituted
(d) None of the above.

(15) On the admission of a new partner increase in the value of assets is debited to

(a) Profit and Loss Adjustment account
(b) Assets account
(c) Old partner's capital account
(d) None of the above

(16) At the time of admission of a partner, undistributed profits appearing in the balance sheet of the old firm is transferred to the capital account of:

(a) old partners in old profit sharing ratio
(b) old partners in new profit sharing ratio
(c) all the partner in the new profit sharing ratio.

(17) A, B and C are partners sharing profits in the ratio of 3:2:1. They agree to admit D into the firm. A, B and C agreed to give1/3rd,1/6th,1/9th share of their profit. The share of Profit of D will be:

(a)1/10 (b)11/54
(c)12/54 (d)13/54

(18) A and B are in partnership sharing profits in the ratio of 3:2. they take C as a new Partner. Goodwill of the firm is valued at Rs3,00,000 and C brings Rs30,000 as his Share of goodwill In cash which is entirely credited to the Capital Account of A. New Profit sharing ratio will be:

(a)3:2:1 (b)6:3:1
(c)5:4:1 (d)4:5:1

(19) A and B are partners sharing profit in the ratio of 3 : 2. They admit C as a partner by giving him 1/3 share in future profits. The new ratio will be

(A) 12 : 8 : 5 (B) 8: 12 : 5
(C) 5 : 5 : 12 (D) None of the Above

(20) A and B are partners sharing profits and losses in the ratio of 7 : 5. They agree to admit C, their manager, into partnership who is to get 1/6th share in the profits. He acquires this share as 1/24th from A and 1/8th from B, The new profit sharing ratio will be :

(A) 13 : 7 : 4 (B) 7 : 13 : 4
(C) 7 : 5 : 6 (D) 5 : 7 : 6

(21) A and B are partners in a business sharing profits and losses in the ratio of 7 : 3 respectively. They admit C as a new partner. A sacrificed 1/7th share of his profit and B sacrificed 1/3rd of his share in favour of C. The new profit-sharing ratio of A, B and C will be

(A) 3 : 1 : 1 (B) 2 : 1 : 1
(C) 2 : 2 : 1 (D) None of the above

(22) X and Y are partners sharing profits and losses in the ratio of 3 : 2. They admit Z into partnership with 1/5th share in profits which he acquires equally from A and Y. Z brings in ₹40,000 as goodwill in cash. Goodwill amount will be credited to :

(A) X ₹20,000; Y ₹20,000 (B) X ₹25,000; Y ₹15,000
(C) X ₹24,000; T ₹16,000 (D) X ₹4,000; Y ₹4,000

(23) When a new partner does not bring his share of goodwill in cash, the amount is debited to :

(A) Cash A/c (B) Premium A/c
(C) Current A/c of the new partner (D) Capital A/cs of the old partners

(24) If at the time of admission, some profit and loss account balance appears in the books, it will be transferred to:

(A) Profit & Loss Adjustment Account
(B) All partners' Capital Accounts
(C) Old partners' Capital Accounts
(D) Revaluation Account

(25)In the absence of an express agreement as to who will contribute to new partners' share of profit, it is implied that the old partners will contribute:

(A) Equally
(B) In the ratio of their capitals
(C) In their old profit-sharing ratio
(D) In the gaining ratio

(26) A, B, C and D are partners. A and B share 2/3rd of profits equally and C and D share remaining profits in the ratio of 3 : 2. Find the profit sharing ratio of A, B, C and D.

(A) 5 : 5 : 3 : 2
(B) 7 : 7 : 6 : 4
(C) 2.5 : 2.5 : 8 : 6
(D) 3 : 9 : 8 : 3

(27) Sacrificing ratio is used to distribute in case of admission of a partner :

(A) Reserves
(B) Goodwill
(C) Revaluation Profit
(D) Balance in Profit and Loss Account

(28) X and Y are partners in a firm with capital of ₹1,80,000 and ₹2,00,000. Z was admitted for 1/3rd share in profits and brings ₹3,40,000 as capital, calculate the amount of goodwill:

(A) ₹2,40,000
(B) ₹1,00,000
(C) ₹1,50,000
(D) ₹3,00,000

(29) Assertion (A): Profit or loss on revaluation account is not transferred to incoming partners' capital Account

Reason (R) : Profit or loss on revaluation at the time of admission of a Partner belongs to Pre-Admission period hence belong to old partners: Give Answer

(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of

Assertion (A)

(b) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A)

(c) Assertion (A) is false, but Reason (R) is true

(d) Assertion (A) is true, but Reason (R) is false

(30) Assertion (A): Increase in the value of assets is debited to Revaluation Account
Reason (R) : Revaluation account is credited on increase in the value of Plant and Machinery:

(31) At the time of admission of a partner, who decides the share of profit of the new partner out of the firm's profit ?

a. Old partner
b. New Partner
c. Sacrificing partner
d. None of the above

(32) Amit and Beena were partners in a firm sharing profits and losses in the ratio of 3 : 1. Chaman was admitted as a new partner for 1/6 th share in the profits. Chaman acquired 2/5 th of his share from Amit. How much share did Chaman acquire from Beena ?

a. 1/10
b. 2/10
c. 3/5
d. None of the above

(33) Vinay and Naman are partners sharing profit in the ratio of 4:1. Their capitals were Rs 90,000 and Rs. 70,000 respectively. They admitted Prateek for 1/3 share in the profits. Prateek brought ` 1,00,000 as his capital. The value of firm's goodwill will be:

a. 40,000
b. 60,000
c. 1,00,000
d. 2,60,000

(34) The ratio in which the partners share the gain or loss on revaluation of assets and liabilities is

a. Sacrificing Ration
b. Old Profit Sharing Ratio
c. New Profit Sharing Ratio
d. Gaining Ratio

Read the following hypothetical text and answer the given questions: Amit and Mahesh were partners in a fast-food corner sharing profits and losses in ratio 3:2. They sold fast food items across the counter and did home delivery too. Their initial fixed capital contribution was ₹1,20,000 and ₹80,000 respectively. At the end of first year their profit was ₹ 1,20,000 before allowing the remuneration of ₹.3,000 per quarter to Amit and ₹.2,000 per half year to Mahesh. Such a promising performance for first year was encouraging, therefore, they decided to expand the area of operations. For this purpose, they needed a delivery van, a few Scotties and an additional person to support. Six months into the accounting year they decided to admit Sundaram as a new partner and offered him 20% as a share of profits along with monthly remuneration of ₹ 2,500. Sundaram was asked to introduce ₹1,30,000 for capital and ₹.70,000 for premium for goodwill. Besides this Sundaram was required to provide Rs.1,00,000 as loan for two years. Sundaram readily accepted the offer. The terms of the offer were duly executed and he was admitted as a partner

(35) Remuneration will be transferred to _____ of Amit and Mahesh at the end of the accounting period.

a. Capital account. b. Loan account.
c. Current account. d. None of the above.

(36) Upon the admission of Sundaram the sacrifice for providing his share of profits would be done:

(a) by Amit only.

(b) by Mahesh only.
(c) by Amit and Mahesh equally.
(d) by Amit and Mahesh in the ratio of 3:2

(37) Sundaram will be entitled to a remuneration of _____at the end of the year.

Sterling enterprises is a partnership business with Ryan, Williams and Sania as partners engaged in production and sales of electrical items and equipment. Their capital contributions were Rs.50,00,000, Rs.50,00,000 and Rs.80,00,000 respectively with the profit the sharing ratio of 5:5:8. As they are now looking forward to expanding their business, it was decided that they would bring in sufficient cash to double their respective capitals. This was duly followed by Ryan and Williams but due to unavoidable reasons Sania could not do so and ultimately it was agreed that to bridge the shortfall in the required capital a new partner should be admitted who would bring in the amount that Sania could not bring and that the new partner would get share of profits equal to half of Sania's share which would be sacrificed by Sania only. Consequent to this agreement Ejaz was admitted and he brought in the required capital and Rs.30,00,000 as premium for goodwill. Based on the above information you are required to answer the following questions.

(38) What will be the new profit-sharing ratio of Ryan, Williams, Sania and Ejaz?
(a) 1:1:1:1 (b) 5:5:8:8
(c) 5:5:4:4 (d) None of the above

(39) What is the amount of capital brought in by the new partner Ejaz?
(a) Rs.50,00,000
(b) Rs.80,00,000
(c) Rs.40,00,000
(d) Rs.30,00,000

(40) What is the value of the goodwill of the firm?
(a) Rs.1,35,00,000
(b) Rs.30,00,000
(c) Rs.1,50,00,000
(d) Cannot be determined from the given data.

(41) When the balance sheet is prepared after the new partnership agreement, the assets and liabilities are recorded at:
(A) Historical cost (B) Current cost
(C) Realisable value (D) Revalued figures

(42) X and Y are partners sharing profits in the ratio 5:3. They admitted Z for 1/5th profits, for which he paid ₹60,000 against capital and ₹30,000 against goodwill. Find the capital balance for each partner taking Z's capital as base capital.
(A) ₹1,50,000; ₹60,000 and ₹60,000
(B) ₹1,50,000; ₹60,000 and ₹90,000
(C) ₹1,50,000; ₹90,000 and ₹60,000
(D) ₹1,50,000; ₹90,000 and ₹90,000

(43) A and B are partners sharing profits in the ratio of 2 : 3. Their Balance Sheet shows Machinery at ₹2,00,000; Stock at ₹80,000 and Debtors at ₹1,60,000. C is admitted and new profit sharing ratio is agreed at 6 : 9 : 5. Machinery is revalued at ₹1,40,000 and a provision is made for doubtful debts @5%. A's share in loss on revaluation amount to ₹20,000. Revalued value of Stock will be:
(A) ₹62,000
(B) ₹1,00,000
(C) ₹60,000
(D) ₹98,000

(44) A and B are in partnership sharing profits in the ratio of 3 : 2. They take C as a new partner. Goodwill of the firm is valued at ₹3,00,000 and C brings ₹30,000 as his share of goodwill in cash which is entirely credited to the Capital Account of A. New profit sharing ratio will be :

(A) 3 : 2 : 1
(B) 6 : 3 : 1
(C) 5 : 4 : 1
(D) 4 : 5 : 1

ANSWER KEY

Reconstitution of Partnership: Change in Profit-sharing Ratio

Ans. I.(b), 2. (b) 3. (d), 4. (a) 5. (b) 6. (b), 7. (a), 8. (d), 9.. (b), 10. (d), 11.(c), 12. (b) 13,(a)
14(b)15 (b) 16 (a)17(c) 18(a)
19. Case -1(A) Case-2 (C) Case-3(B) Case-4(D) Case-5 (B)
20.(i) b (ii) a (iii) a
21.(i) b .
22.(i) b (ii) b (iii) a .
23(i) d(ii) C (iii) a (iv) b
24.(i) d (ii) b (iii) c (iv) a ,
25 (i) d (ii) c (iii) d
26.(B) 27 A 28.D 29.B 30.C
31. (c) A is true but R is false
32. (b) Rs.70,000
33. (a) Rs.98,000 34. (c) Rs. 1,200 35. (a) 7 : 5 : 3
36. (c) Rs.36,000 each 37. (b) Profit and Loss (Dr.) Balance Rs. 3,00,000
38. (c) A is true but R is false

CASE STUDY QUESTIONS

39. (1)(B)Any profit and loss an account of change in values belong to old partners
(2)(B) Nominal Account
(3) (b) Reconstitution of partnership
(4) (c) sacrificing ratio
(5) (b) Revaluation Account

40.(1) (A) Old ratio minus new ratio
(2)(A) Bhavya sacrifice 1/6 , Naman gains 1/6.
(3)(B) Debited credited
(4)(C) Naman's Capital a/c Dr. 20,000
To Bhavya's Capital a/c 20,000

Reconstitution of Partnership: Admission of a Partner

1	Ans. C. Hint. As per AS-26 Existing Goodwill has to be written off and will not be shown in the books. Only purchased goodwill can be shown.
2	Ans. D. 40,000 x 100/80, Value of Machinery is shown at 80% thus now brought to 100%
3	Ans. B , C brought Capital for 1/3rd Profit , Existing Capital of A and B would be considered as 2/3. Actual Capial = 54000+36000= 90,000 which is 2/3, So Total Cap- 90,000*3/2 135000, So C share in Cap = 45,000
4	Ans a.70,000 As Value of all Assets is 4,50,000 out of which 3,80,000 is Capital
5	Ans. B. Goodwill. is always adjusted in gaining and sacrificing share
6	Ans. C. Both the above, because existing partner earned reputation.
7	Ans. B. It can't be shared as it belong to employees.
8	Ans. A. Revaluation account will be debited as there is increase in the liability
9	Ans. D. Asser5tiion is correct whereas reason is wrong as sacrificing ratio= Old Share- New Share

10	Ans. A. X & Y old share= 3/5 , 2/5 New share X= 3/5 – 3/20= 12/20 -3 /20 = 9/20 Y= 2/5 – 1/20= 8/20 – 1/20= 7/20 Z = 1/5 = 4/20, Hence New Share= 9 : 7 : 4
11	Ans. B Sacrficing ratio is always equal to old share if new ratio is not given
12	Ans. C , It is undistributred profit and thus belong to old partner.
13	Ans. C Rs. 20,000 each as both Asha and Nisha surrenders equal share in favor of Ashish.
14	Ans. C. Firm get reconstituted during admission, retirement and death of partner. It dissolved only when partner discontinue their business.
15	Ans. B. Assets A/c, As increase in assets is always debited as per rules of Dr/Cr
16	Ans. A. it belongs to old partners in old profit sharing ratio
17	Ans. D. Share suurendered byA= 3/6 *1/3= 3/18, B= 2/6 *1/6= 2/36 or 1/18, C =1/6 * 1/9 =1/54 D's Share= 3/18 + 1/18+ 1/54 = 9+ 3+ 1 /54 = 13/54
18	Ans.C. C brings 30,000share as Goodwill which is 1/10 of Goodwill, So he get 1/10th share in the profit. Entire share is credited to A's Capital it means only A is having sacrifice. So, A's New Share = 3/5 – 1/ 10 =6/10 – 1/10 = 5/10 , B = 2/5 =4/10 , C = 1/10, New Share = 5 : 4: 1
19	Ans. D. : Let the profit be Rs. 1 , 1/3rd will be given to C, Remaining Share = 2/3 taken by A and B in their old ratio A's new share= 2/3 * 3/5 = 6/15, B's new share = 2/3 * 2 /5 =4/15 C'sshare =1/3 = 5/15
20	Ans. A C share = 1/6 of which 1/24th share given by A and 1/8th by B 1/24 + 1/8 = 1/24 +3/24 = 4/24 = 1/6 Check New Share = Old Share- Surrendered Share A, = 7/12 – 1/24 = 14/24- 1/24 =13 /24 B = 5/12 – 1/8 = 10/24 – 3/24 = 7/24 New Ratio : A, B and C = 13 : 7 : 4
21	Ans : Share of C = Share Surrendered by A + Share Surrendered by B Share Suurendered by A = 7/10 * 1/7= 7 /70 and B = 3/10 * 1/ 3 = 3/30 C Share = 7/70 +3/30= 21 +21/210 = 42/210 = 2/10 , New Share A= 7/10 – 7/70 = 49-7/70= 42/70 B = 3/10-3/30= 9-3 /30= 6/30 A : B : C = 42/70 , 6/30 , 2/10 = 6/10, 3/15 , 1/5 = 18: 6 : 6/30= 3: 1: 1
22	
23	Ans . C. Current Account is debited keep capital balance intact.
24	Ans. C.
25	Ans. C. Basic Assumption
26	Ans. A. Let the profit be Rs. 1 Here A and B share 2/3rd profits equally i.e A =1/3 and B= 1/3 Remaining 1/3rd shared by C and D in 3/5 and 2/5th share C = 1/3 * 3/ 5 =3/15 , D= 1/3 * 2 / 5 = 2/15 Share of A B C and D = 1/3 , 1/3, 3/15 , 2/15 = 5/15, 5/15 , 3/15, 2/15 = 5 : 5 : 3 : 2
27	Ans. C

28	Ans. : C Amount to brought over capital known as Goodwill For 1/3rd share Z is required to bring 1/3rd share of total capital Existing Capital of X and Y = 1,80,000+ 2,00,000 =3,80,000 is equal to = 2/3 So total Capital = 3,80,000 * 3/2 = 5,70,000 Capital of Z = 5,70,000 -3,80,000 = 1,90,000 Whereas Z brings total = 3,40,000 So 1,90,000 for capital Remaining 1,50,000 for Goodwill
29	Ans.: A. Reason as above
30	Ans. :D . As Increase in the value of assets is credited to Revaluation A/c
31	Ans. A. It decided by old partner mutually
32	Ans. : C. Remaining 3/5
33	Ans.: a. Total Capital as per Prateek Capital = 1,00,000 *3/1 = 3,00,000 Actual Capital = 90,000+70,000+1,00,000 =2,60,000 Goodwill = 3,00,000 -2,60,000 = 40,000
34	Ans. B
35	1. Ans. C. 2. Ans. D. 3..(Rs. 15,000)
36	1. What will be the new profit-sharing ratio of Ryan, Williams, Sania and Ejaz? Ans. C. 2. What is the amount of capital brought in by the new partner Ejaz? Ans. (b) Rs.80,00,000 3. What is the value of the goodwill of the firm? Ans. (a) Rs.1,35,00,000
37	Ans. D. Revalued Figures
38	Ans. : C Z brings 60,000 as Capital for 1/5th share in profit, total capital on the basis of Z capital will be = 60,000 * 5/1 = 3,00,000 Capital of X and Y = 3,00,000 – Z Capital 60,000= 2,40,000 in the ratio of X and Y = 5 : 3 X new Capital = 2,40,000 * 5/ 8 = 1,50,000 and Y Capital = 2,40,000 * 3/8 = 90,000
39	Ans.: Answer: D Total Loss on Revaluation is 68,000 whereas A share in Loss =20,000 – 2/5 Total Loss= 20,000 * 5/2 = 50,000 Revaluation Effect – Loss on Machinery 60,000 + Provision 8,000 =68,000 Gain must be Rs. 18000 in stock to bring loss upto 50,000 Stock will have revised value 80,000 +18,000 = 98,000
40	Ans .A 3.Dr Investment fluctuation reserve 18000 Cr. Investment a/c9000,A's capital a/c 4000, B's capital 3000, C's capital 2000

Accounting for Partnership firms – Retirement and death of a partner-

- Effect of retirement / death of a partner on change in profit sharing ratio, treatment of goodwill (AS 26), treatment for revaluation of assets and reassessment of liabilities, adjustment of accumulated profits and reserves, adjustment of capital a/c and preparation of capital, current a/c balance sheet. Preparation of loan account of the retiring partner.
- Calculation of deceased partner's share of profit till the date of death. Preparation of deceased partner's capital account and his executor's account.

T. L. O.:-

- Explain the effect of retirement / death of a partner on change in profit sharing ratio.
- Develop the understanding of accounting treatment of goodwill, revaluation of assets and re-assessment of liabilities and adjustment of accumulated profits and reserves on retirement / death of a partner and capital adjustment.
- Develop the skill of calculation of deceased partner's share till the time of his death and prepare deceased partner's executor's account.
- Discuss the preparation of the capital accounts of the remaining partners and the balance sheet of the firm after retirement / death of a partner.

RETIREMENT AND DEATH OF A PARTNER

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

(a) With the consent of all the partners

(b) As per the terms of the partnership agreement

(c) 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 treatment required while retiring a partner.

(a) Calculation of a new ratio and gaining/sacrificing ratio (in some cases) ratio.

(b) Treatment of goodwill.

(c) Adjustment of revaluation of assets and reassessment of liabilities.

(d) Adjustment of undistributed reserves and profits and losses A/c.

(e) Capital adjustments and preparation of new 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

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 or Current A/c Dr (in Gaining Ratio)

To Retiring or Deceased Partner's Capital A/c (With the Share of Goodwill)

The existing goodwill (if any) will be written off by Debiting All Partners' Capital account in their Old Ratio and Crediting the Goodwill A/c.

Old Partners' Capital A/c or **C**urrent 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).

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 A/c 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 A/c in Old Profit Sharing Ratio**)**

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

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 A/c (in Old Ratio)
(Being undistributed profits transferred to All Partners' Capital A/c in Old Profit Sharing 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
To Advertisement Suspense A/c
To Deferred Revenue A/c
(Being undistributed losses are transferred to All Partners' Capital A/c in Old Profit Sharing Ratio)

Multiple Choice Questions (1 Marks):

Q.1	P, Q and R are partners sharing profits in the ratio of 8:5:3. P retires. Q takes 3/16th share from P and R takes 5/16th share from P. What will be the new profit sharing ratio? a) 1:1 b) 10:6 c) 9:7 d) 5:3	1
Q.2.	X, Y and Z are partners sharing profits and losses in the ratio of 4:3:2. Y retires and surrenders 1/9th of his share in favour of X and the remaining in favour of Z. The new profit-sharing ratio will be: a) 1:8 b) 13:14 c) 8:1 d) 14:13	1
Q.3.	Gaining ratio is used to distribute ---------- in case of retirement of a partner. a) Goodwill b) Revaluation Profit or Loss c) Profit and Loss Account (Credit Balance) d) Both b and c	1
Q.4.	X, Y and Z are partners in a firm. Y retires and his claim including his capital and his share of goodwill is R. 1,20,000. He is paid partly in cash and partly in kind. A vehicle at Rs. 60,000 unrecorded in the books of the firm and the balance in cash is given to him to settle his account. The amount of cash to be paid to Y will be: a) Rs. 80,000 b) Rs. 60,000 c) Rs. 40,000 d) Rs. 30,000	1
Q.5.	At the time of retirement of a partner, share of retiring partner's goodwill will be credited to ---------- Capital Account(s). a) Remaining Partner(s) b) Retiring Partner's c) Both Sacrificing and Gaining Partner(s) d) Gaining Partner(s)	1
Q.6.	A and B were partners. They shared profits as A- ½; B- 1/3 and carried to reserve 1/6. B died. The balance of reserve on the date of death was Rs. 30,000. B's share of reserve will be: a) Rs. 10,000 b) Rs. 8,000 c) Rs. 12,000 d) Rs. 9,000	1
Q.7.	If goodwill is already appearing in the books of accounts at the time of retirement, then it should be written off in ----------. a) New Ratio b) Gaining Ratio c) Sacrificing Ratio d) Old Ratio	1

Q.8.	As per Section 37 of the Indian Partnership Act, 1932, interest @ ---------- is payable to the retiring partner if full or part of his dues remain unpaid. a) 9% p.m. b) 12% p.m. c) 6% p.m. d) None of the above	1
Q.9.	"Retiring partner is not liable for firm's acts after his retirement". Is the statement True or False?	1
Q.10.	A, B and C were partners. Their partnership deed provided that they were to share profits as; A 26 per cent; B 34 per cent; C 40 per cent ; and that if a partner retires, his capital should remain in the business for a stated period at a fixed rate of interest, but that the retiring partner's share should be credited with an amount for Goodwill, based upon one and a half year's average profits, for the five years prior to his death, but be subject to deduction of 5 per cent from the book debts. C retired, and the profits of the firm for five years were agreed at Rs. 20,000; Rs. 30,000; Rs. 15,000 (loss); Rs. 5,000 (loss); and Rs. 45,000 respectively. Book Debts stood at Rs. 90,000.The share of Goodwill to be credited to C's Account will be: a) Rs. 2,700 b) Rs. 6,300 c) Rs. 7,200 d) Rs. 3,600	1
Q.11.	When the balance sheet is prepared after retirement (subsequent to preparation of Revaluation Account), ---------- values are shown in it. a) Historical b) Realisable c) Market d) Revalued	1
Q.12.	On retirement of a partner, debtors of Rs. 34,000 were shown in the Balance sheet. Out of this Rs. 4,000 became bad. One debtor became insolvent. 70% were recovered from him out of Rs. 10,000. Full amount is expected from the balance debtors. On account of this item loss in revaluation account will be: a) Rs. 10,200 b) Rs. 3,000 c) Rs. 7,000 d) Rs. 4,000	1
Q.13.	If at the time of retirement, there is some unrecorded asset, it will be ---------- to ---------- Account. a) Debited, Revaluation b) Credited, Revaluation c) Debited, Goodwill d) Credited, Partners' Capital	1
Q.14.	Anil, Bimal and Chetan are partners sharing their profits and losses in the ratio of 4:3:2. On 1.7.2013, Chetan retired and on that date the capitals of Anil, Bimal and Chetan after all necessary adjustments stood at Rs. 75,000, Rs. 65,000 and Rs. 45,000 respectively. Anil and Bimal continued to carry the business for 6 months without settling Chetan's account. During the period of six months ending 31st December,2013, a profit of Rs. 50,000 is earned by the firm. Keeping Chetan's interest in mind, the amount payable to Chetan will be: a) Rs. 1,350 b) Rs. 13,362 c) Rs. 12,162 d) Rs. 1,362	1

Q.15.	X,Y and Z were partners in a firm sharing profits in ratio of 3:4:1 X retired and new profit sharing ratio between Y and Z will be 5 :4 .On X's retirement the goodwill of the firm was valued at ₹54,000 .journal entry will be: A) Y's capital Dr. 24,000 Z's capital Dr. 30,000 To X's capital 54,000 B) Y's capital Dr. 15,000 Z's capital Dr. 12,,000 To X's capital 27000 C) Y's capital Dr. 12,000 Z's capital Dr. 15,000 To X's capital 27,000 D) X's capitals a/c Dr. 27,000 To Y's capitals 12,000 To Z's capitals 15,000	1
Q.16.	Retiring partner is compensated for parting with the firm's future profits in favour of remaining partners. The remaining partners contribute to such compensation amount in: a) Gaining Ratio b) Sacrificing Ratio c) Capital Ratio d) Profit Sharing Ratio	1
Q.17.	As per section ---------- of the Indian Partnership Act, a retiring partner becomes entitled to profits after retirement if his dues remain unpaid a) Section 73 b) Section 26 c) Section 4 d) Section 37	1
Q.18.	At the time of retirement, amount remaining in Investment Fluctuation Reserve after meeting the fall in value of Investment is: a) Credited in Sacrificing Ratio b) Credited in New Profit Sharing Ratio c) Credited in Old Profit Sharing Ratio d) Credited in Gaining Ratio	1
Q.19.	P, Q and R were partners in a firm in the ratio of 5:4:3. They admit S for 1/7 share. It is agreed that Q would retain his original share. ---------- will be the sacrificing ratio between P and R. a) 5:4 b) 1:1 c) 5:3 d) 4:3	1
Q.20.	Gaining Ratio is calculated by deducting a) Sacrificed profit share from new profit share of the partner. b) Sacrificed profit share from old profit share of the partner. c) New profit share from old profit share of the partner. d) Old profit share from new profit share of the partner.	1
Q.21.	Match the following with respect to the treatment of goodwill:	1

i.	Change in Profit Sharing Ratio	A	Gaining Partners Capital A/c Dr. To Retiring Partners Capital A/c
ii.	Admission of a Partner	B	Gaining Partners Capital A/c Dr. To Sacrificing Partners Capital A/c
iii.	Retirement of a Partner	C	Premium for Goodwill A/c Dr. To Sacrificing Partners Capital A/c

	a) i- C, ii-A, iii-B b) i- A, ii-B, iii-C c) i- B, ii-A, iii-C d) i- B, ii-C, iii-A	
Q.22.	B and C were partners sharing profits in the ratio 2 : 2 : 1, having capital accounts as Rs. 50,000, Rs. 50,000 and Rs. 25,000, respectively. B retired. On that date, balance in General Reserve was Rs. 15,000. If firm's Goodwill is valued at Rs. 30,000 and Gain (profit) on Revaluation is Rs. 7,050, amount payable to B will be: a) Rs. 50,820 b) Rs. 70,820 c) Rs. 8,820 d) Rs. 9,000	1
Q.23.	A , B and C were partners, B retired from the firm. On the date of his retirement Stock, Sundry Debtors and Provisions for Doubtful Debts were Rs.50,000, Rs.45,000 and Rs.4,500 respectively. The partners decided to reduce the value of stock to 90%. The journal entry passed will be …….. Dr. Rs. 5,000 To ……. Rs.5,000	1
Q.24.	State the true statement out of the following: a) Goodwill at the time of retirement of a partner is credited to continuing Partners' Capital Accounts in their sacrificing ratio. b) Goodwill at the time of retirement of a partner is credited to continuing Partners' Capital Accounts in their gaining ratio. c) Goodwill at the time of retirement of a partner is debited to continuing Partners' Capital Accounts in their sacrificing ratio. d) Goodwill at the time of retirement of a partner to the extent of retiring partner's share is debited to continuing Partners' Capital Accounts in their gaining ratio.	1
Q.25.	Match the following with respect to the treatment of goodwill: i. Change in Profit Sharing Ratio — A. Gaining Partners Capital A/c Dr. To Retiring Partners Capital A/c ii. Admission of a Partner — B. Gaining Partners Capital A/c Dr. To Sacrificing Partners Capital A/c iii. Retirement of a Partner — C. Premium for Goodwill A/c Dr. To Sacrificing Partners Capital A/c a) i- C, ii-A, iii-B b) i- A, ii-B, iii-C c) i- B, ii-A, iii-C d) i- B, ii-C, iii-A	1
Q.26.	Karan, Aman and Girish were Partners with capitals of Rs. 3,00,000; Rs.2,50,000 and Rs.2,00,000 respectively as on 31st March, 2018. Aman died, partners decided to pay the entire amount to Aman's Executor but they only had Rs.50,000 cash and rest of the amount was to be brought in by Karan and Girish in such a way that their future capital will be equal. Calculate the amount to be brought in by Karan and Girish. a) Rs.50,000 by Karan and Rs.1,50,000 by Girish b) Rs.50,000 by Girish and Rs.1,50,000 by Karan c) Rs.25,000 by Karan and Rs.1,25,000 by Girish d) Rs.25,000 by Girish and Rs.1,25,000 by Karan	1
Q.27.	Giriija, Yatin and Zubin were partners sharing profits in the ratio 5 : 3 : 2. Zubin died on 1st August, 2022. Amount due to Zubin's executor after all adjustments was ₹ 90,300. The executor was paid ₹ 10,300 in cash immediately and the balance in two equal annual instalments with interest @ 6% p.a. starting from 31st March, 2024. Accounts are closed on 31st March each year. Prepare Zubin's Executors Account till he is finally paid.	3

Q.28.	Mohan, Girdhari and Shyam were partners in a firm sharing profits and losses in the ratio of 4:3:2. On 31st March, 2022, Girdhari retired. After making all adjustments on account of reserves, revaluation of assets and reassessment of liabilities, the balance in Girdhari's Capital Account stood at Rs.5,00,000. Mohan and Shyam agreed to pay Girdhari Rs.5,90,000 in full settlement of his claim. Calculate the value of goodwill of the firm and pass the necessary journal entry for the treatment of goodwill on Girdhari's retirement without raising goodwill account.	3
Q.29.	P, Q and R were partners in a firm sharing profits in 2: 2: 1 ratio. The Partnership Deed provided that on the death of a partner his executors will be entitled to the following: a. Interest on Capital @ 12% p.a. b. Interest on Drawings @ 18% pa c. Salary of Rs.12,000 p.a. d. Share in the profit of the firm (up to the date of death) on the basis of previous year's profit. P died on 31st May, 2016. His capital was Rs.80,000. He had withdrawn Rs.15,000 and interest on his drawings was calculated as Rs.1,200. Profit of the firm for the previous year ended 31st March, 2016 was Rs.30,000. Prepare P's Capital Account to be rendered to his executors.	4

Answer Key:

1. a 2. b 3. a 4. a 5. b 6. c 7. d 8. d 9. False 10. c 11. d 12. c 13. b
14. c 15.c 16. a 17.d 18.c 19.c 20.d

21. d Reason: - Gaining ratio means increase in share. Thus, new profit share will be higher than the old profit share. Therefore, Gaining Ratio = New Ratio – Old Ratio.

22. b

Reason: Amount payable to B will be Rs. 70,820 calculated as follows:

Balance in Capital Account	Rs. 50,000
Share of General Reserve	Rs. 6,000
Share of Revaluation Gain (Profit)	Rs. 2,820
Share of Goodwill	Rs. 12,000
Total	Rs. 70,820

23. Fill in the Blank Revaluation A/c, Stock A/c

24. d

Reason: Goodwill is the amount paid by the gaining partner or partners to the sacrificing partner or partners. The retiring partner sacrifices his share in favour of all or some of the partners who compensate him by paying goodwill. The share of Goodwill of the retiring partner share is debited to Gaining Partners in their gaining ratio and crediting Retiring Partner's Capital Account.

25. d i- B, ii-C, iii-A

26. a

29. Final payment to Executor = 69,400.

Three / Four Marks Questions

☺ **A & B were partners sharing profits in 2:1. They agreed to admit C as a new partner for ¼ shares. Find out the new profit-sharing ratio between A, B and C.**

Let's Firm's profits be 1, C acquired ¼ from this; than remains profits (1 – ¼ = ¾) will be shared by A & B in their old proportion.

A's new share will be = 2/3 of ¾ = 6/12 and B's new share will be = 1/3 of ¾ = 3/12

A's share = 6/12; B's share = 3/12 and C's share = ¼ x 3/3 = 3/12

Thus, New Ratio between A, B and C will be 6:3:3 OR 2:1:1.

- New Profit-sharing Ratio – When new partner gets/acquire his share from the partners':

☺ **A & B were partners sharing profits in 3:2. They agreed to admit C as a new partner for ¼ shares, which he takes from A & B in 2:1 ratio (2/12th from A & 1/12th from B OR A surrendered**

2/12th shares and B surrendered 1/12th share). Find out the new profit-sharing ratio between A, B and C.

⇨ C will takes 2/3rd of ¼= 2/12th (2/3 X ¼) from A & 1/3rd of ¼ = 1/12th from B.

A's new share = Old share – Sacrificing share = 3/5 – 2/12 = 26/60

B's new share = 2/5 – 1/12 = 19/60 and C's share = ¼ X 15/15 = 15/60.

Hence, new profit-sharing ratio between A, B & C will be 26:19:15.

When goodwill A/c raise in the books of accounts of the firm – EXCEPTIONAL CASE

⇨ A Firm purchased a business of Mr. Vijay Kumar for the purchase price of ₹ 120000 and takes over the assets and liabilities having book value of ₹ 250000 and ₹ 140000 respectively. Pass necessary journal entry to record the above transaction.

Journal

Date	Particulars	L F	Dr Amount	Cr Amount
1	Assets A/c Dr. Goodwill A/c Dr. To Liabilities A/c To Bank A/c (Being business purchased)		250000 10000 - -------- ---------	---------- ---------- 140000 120000

In the next year goodwill A/c shall be written-off.

 # Hidden OR Inferred Goodwill: Some times the value of goodwill is not given clearly in the question. This hidden goodwill is calculated with reference to the total existing capital (including the new partner) of the firm; needed capital of the new firm (to be ascertained on the basis of new partner's capital & his share in profits).

Goodwill = Needed capital of the firm – Existing capital (including new partner's capital) of the firm.

⇨ A and B are partners with capital of ₹ 13000 and ₹ 9000 respectively. They admit C as partner with 1/5th share in the profit of the firm. C brings ₹ 8000 as his capital. Give journal entries to record goodwill.

- Goodwill = {(8000 X 5/1) – (13000 + 9000 + 8000)}= 40000 – 30000 = ₹ 10000.

Journal

Date	Particulars	L F	Dr Amount	Cr Amount
1	Cash A/c Dr. To C's Capital A/c (Being share of capital brought in cash)		8000 ---------	---------- 8000
2	C's Current / Capital A/c Dr. To A's Capital A/c To B's Capital A/c (Being share of goodwill adjusted in sacrificing ratio)		2000 --------- ---------	---------- 1000 1000

Sacrificing Ratio between A & B is 1:1.

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

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

On the above date –

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

(b) D admitted as a new partner for 1/4th share in firm's profit/loss
(c) C retires from the firm OR B dies

Solution: Journal entries

Date	Particulars		L.F.	Dr.	Cr.
	General Reserve A/c	Dr.		30,000	
	Workmen's Compensation Fund A/c	Dr.		15,000	
1	Investment Fluctuation Fund A/c	Dr.		9,000	
	To A/s Capital A/c				27,000
	To B's Capital A/c				18,000
	To C's Capital A/c				9,000
	(Being accumulated profits transferred in 3:2:1 ratio)				
	A's Capital A/c	Dr.		10,500	
2	B's Capital A/c	Dr.		7,000	
	C's Capital A/c	Dr.		3,500	
	To Profit & Loss A/c (Dr. bal.)				6,000
	To Profit & Loss Suspense A/c				3,000
	To Goodwill A/c				12,000
	(Being accumulated loss transferred & g/w W/Off)				

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

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

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

On the above date –
(a) A, B and C agree to share future profits & losses in the ratio of 5:3:2 ratio
(b) D admitted as a new partner for 1/4th share in firm's profit/loss
(c) C retires from the firm OR B dies

Solution: **Journal entries**

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

Balance Sheet (After Reconstitution)

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

Investment Fluctuation Fund (up to amount of loss)	6,000	Investments	1,00,000

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

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

- There was a claim for workmen's compensation for ₹ 18,000 and market value of Investments at ₹ 88,000. On the above date –

(a) A, B and C agree to share future profits & losses in the ratio of 5:3:2 ratio
(b) D admitted as a new partner for 1/4th share in firm's profit/loss
(c) C retires from the firm OR B dies

Solution: **Journal entries**

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

Revaluation Account

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

Balance Sheet (After Reconstitution)

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

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

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

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

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

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

On the above date –

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

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

(c) C retires from the firm OR B dies

Solution: **Journal entries**

Date	Particulars		L.F.	Dr.	Cr.
	Creditor A/c	Dr.		35,000	
	To Furniture A/c				30,000
1	To Revaluation A/c				5,000
	(Being creditor settled by taken of furniture and gain)				
	Revaluation A/c	Dr.		27,000	
	To Stock A/c				4,000
	To Bad Debt A/c				5,000
	To Provision for doubtful debts A/c				4,500
2	To Plant & Machinery A/c				10,000
	To Provision for Outstanding Bill A/c				3,500
	(Being assets & liabilities revalued)				
	Building A/c	Dr.		40,000	
3	To Revaluation A/c				40,000
	(Being asset revalued)				
	Revaluation A/c {(40,000 + 5,000) – 27,000}	Dr.		18,000	
4	To A/s Capital A/c				9,000
	To B's Capital A/c				6,000
	To C's Capital A/c				3,000
	(Being gain on revaluation transferred in 3:2:1 ratio)				

Revaluation Account

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

	45,000		45,000

Balance Sheet (After Reconstitution)

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

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

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

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

On the above date –

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

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

(c) C retires from the firm OR B dies

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

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

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

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

On the above date –

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

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

(c) C retires from the firm OR B dies

Solution: **Journal entries**

Date	Particulars		L.F.	Dr.	Cr.
	Cash A/c (10,000 – 2,000)	Dr.		8,000	
	Revaluation A/c (2,000 + 2,000)	Dr.		4,000	
1	To Stock A/c (10,000 + 2,000)				12,000
	(Being 1/3rd of stock taken by A for cash at 20% less and remaining valued at 10% less)				
2	C's Capital A/c	Dr.		12,000	
	To Furniture A/c (2/3rd of 15,000)				10,000
	To Revaluation A/c				2,000

	(Being furniture taken by C at more than the book value)			
3	Provision for doubtful debts A/c Dr.		1,000	
	Cash A/c (bad debt recovery) Dr.		1,000	
	To Revaluation A/c			2,000
	(Being asset revalued)			

Revaluation Account

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

Balance Sheet (After Reconstitution)

Liabilities	Amt. in ₹	Assets		Amt. in ₹
		Debtors	50,000	47,000
		Less: Prov. for Doubtful Debts	(3,000)	
		Stock	30,000	16,000
		Less: 1/3rd Taken by A for cash	(10,000)	
		Less: Depreciated (10% of 20,000)	(4,000)	
		Furniture	15,000	5,000
		Less: 2/3rd Taken by C	(10,000)	

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

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

- All debtors are good

On the above date –

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

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

(c) C retires from the firm OR B dies

Solution: **Journal entries**

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

Revaluation Account

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

Balance Sheet (After Reconstitution)

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

Accounting treatment of valued goodwill

(a) Change in profit-sharing ratio

(b) Admission of a new partner

(c) Retirement / Death of a partner

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

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

Solution: Journal entry

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

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

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

OR

Bimal's Sacrificing share = 2/6 – 3/10 = (20 – 18) / 60 = 2/60 (Sacrifice)
Champak's Gaining share = 2/10 – 1/6 = (12 – 10) / 60 = + 2/60 (Gainer)
Therefore, adjustment entry will be passed between Bimal and Champak's capital account for 2/60th of 1,20,000 i.e. for ₹ 4,000.

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

There may be two circumstances for the accounting treatment of goodwill:
(a) When new partner brought in cash for his/her share of goodwill
(b) When new partner unable to brought in cash for his/her share of goodwill

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

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

Solution: Journal entries

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

Example: (2) X and Y are partners in a firm sharing profit/loss in the ratio of 2:1. They agree to admit Z as a new partner for 1/4th share. Z brought in ₹ 3,00,000 for share of capital and necessary amount of cash for share of goodwill. Goodwill valued at ₹ 1,20,000.
X and Y withdraw 40% of premium for goodwill from the firm.
Pass necessary Journal entries for the above in books of the firm

Solution: Journal entries

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

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

The new profit-sharing ratio between X, Y and Z will be 3:3:2.

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

Solution: **Journal entries**

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

Capital Account

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

Working: When, there is share has been changed between old partner due to change in profit-sharing ratio then there is need to find their sacrificing or gaining ratio of old partners.

In the Old profit-sharing ratio – X's share was 2/3rd (i.e. 66.67%) whereas, in the new profit-sharing ratio – X's share is 3/8th (i.e. 37.5%). Therefore, X is sacrifice due to change in ratio.

Similarly, in the old profit-sharing ratio – Y's share was 1/3rd (i.e. 33.33%) whereas, in the new profit-sharing ratio – Y's share is 3/8th (i.e. 37.5%). Therefore, Y is gainer due to change in ratio.

X's Sacrificing share = 2/3 – 3/8 = (16 – 9) / 24 = 7/24th share

Y's Gaining share = 3/8 – 1/3 = (9 – 8) / 24 = 1/24th share

Hence, X's capital account will be credited with 7/24th of valued goodwill i.e. for ₹ 35,000 and Y's capital account will be debited with 1/24th of valued goodwill i.e. for ₹ 5,000.

Treatment of Hidden Goodwill

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

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

Solution: **Journal entries**

Date	Particulars	L.F.	Dr.	Cr.

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

Working: Hidden Goodwill = Total Capital of New Firm – Total Capital of Existing Firm

Total Capital of New Firm to be calculated on the basis of new partner's share of capital and share.

Z brought in capital ₹ 3,00,000 for 1/4th share therefore, total capital of a new firm – 4 times of 3,00,000 i.e. = 3,00,000 x 4 = ₹ 12,00,000.

Total Capital of Existing Firm = Total capital of X and Y + Share of capital of Z
= (3,20,000 + 2,80,000) + 3,00,000 = ₹ 9,00,000.

Goodwill of the firm (Hidden Goodwill) = 12,00,000 – 9,00,000 = ₹ 3,00,000.

Hence, Z will be brought in cash for Premium for goodwill = 1/4th of 3,00,000 = ₹ 75,000.

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

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

On admission of Z, goodwill valued at ₹ 1,20,000.

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

Solution: **Journal entries**

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

Capital Account

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

Current Account

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

<u>Accounting Treatment of Goodwill on Retirement / Death of a partner</u>

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

Solution: **Journal entries**

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

Capital Account

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

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

Calculation of share of profits of Deceased Partner and Accounting treatment

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

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

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

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

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

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

Solution: **Journal Entry**

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

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

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

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

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

= 37,500.

Example: (2) Dinakar, Navita and Vani were partners sharing profits and losses in the ratio of 3:2:1. Navita died on 30th June, 2017. Her share of profit for the intervening period was based on the sales during that period, which were ₹ 6,00,000. The rate of profit during the past years had been 10% on sales. The firm closed its books on 31st March every year.

Calculate Navita's share of profit. (CBSE 2019)

Solution: Share of profits of Navita = Average Profits x Intervening periods x shares of Navita

Estimated profits of the firm for the year 2017-18 = 10% of 6,00,000 = ₹ 60,000.

Intervening periods = 3 months (from 1st April to 30th June 2017); Navita's share = 2/6.

Navita's share of profits = 60,000 x 3/12 x 2/6; = ₹ 5,000.

Example: X, Y and Z were partners in a firm sharing profits and losses in the ratio of 2:2:1. The firm closes its books on 31st March every year. Y died on 24th June, 2018. On Y's death goodwill of the firm was valued at ₹ 1,20,000.

Y's share in the profits of the firm till the date of death from the last Balance Sheet was to be calculated on the basis of sales. Sales during the year 2017-18 was ₹ 15,00,000 and profit earned during the year was ₹ 3,00,000. Sales from 1st April, 2018 to 24th June, 2018 were ₹ 2,00,000. The total amount payable to Y's executors on his death was ₹ 1,75,000. This amount was paid to them on 15-7-2018.

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Pass the necessary journal entries for the above transactions in the books of the firm.

Solution: **Journal Entry**

Date	Particulars	L.F.	Dr.	Cr.
2018 June 24	Profit and Loss Suspense A/c Dr. To Bijay's Capital A/c (Being share of profit allowed on the death of Y)		3,726	3,726
June 24	X's Capital A/c Dr. Z's Capital A/c Dr. To Y's Capital A/c (Being share of goodwill of Y adjusted in gaining ratio)		24,000 24,000	48,000

	Y's Capital A/c Dr.		1,75,000	
June	To Y's Executors A/c			1,75,000
24	(Being payable amount transferred to his executor account)			
	Y's Executors A/c Dr.		1,75,000	
July	To Bank A/c			1,75,000
15	(Being due amount of partner Y was paid to his Executor)			

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

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

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

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

Example: (1) A, B and C are partners in a firm sharing profit and losses in the ratio of 3:2:1. They agree to share future profit/loss in the ratio of 6:5:4. Who will sacrifice and for which share?
Example: (2) A, B and C are partners sharing profits/losses in equal ratio. A sacrifice 1/5th of his share in favour to B and C sacrifice 1/6th of his share in favour to A. Find the new profit-sharing ratio between A, B and C.
Example: (3) X and Y are partners in a firm sharing profits/losses in the ratio of 3:2. They agree to admit Z as a new partner. New profit-sharing ratio between X, Y and Z is 5:3:2.
Who will sacrifice between X and Y and for which share, on admission of Z?
Example: (4) X, Y Z are partners sharing profits/losses in 3:2:1 ratio. Z retires from the firm. X and Y agree to share future profits/losses in the ratio of 2:1. Who will gain and for which share, on retirement of Z.
Example: (5) A, B and C are partners sharing profits/losses in the ratio of 3:2:1. They agree to share future profits/losses in the ratio of 4:3:2. There was a gain on revaluation of assets and reassessment of liabilities for ₹ 15,000. Pass necessary adjustment Journal entry for the above, if, they are agreed that the book value of assets and liabilities should not be affected for gain on revaluation.

Question for 6 and 8 marks asked by CBSE in the previous years

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

Balance Sheet (Before Reconstitution)

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

	3,47,000		3,47,000

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

1. Plant & Machinery valued at ₹ 90,000; Furniture depreciated by 10%.
2. Stock was overvalued by ₹ 2,000.
3. Provision for doubtful debts to be created by 10%.
4. Investment valued at ₹ 42,000.
5. There was a claim for workmen Compensation for ₹ 6,000.
6. Goodwill valued at ₹ 60,000.

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

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

Solution: **Journal Entry**

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

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

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

OR

Revaluation Account

Particulars	Amt. in ₹	Particulars	Amt. in ₹
Plant & Machinery	10,000	A's Capital A/c	11,500
Furniture	4,000	B's Capital A/c	6,900
Stock	2,000	C's Capital A/c	4,600
Provision for Doubtful Debts	4,000		
Provision for Investment Fluctuation	3,000		
	23,000		23,000

Capital Account

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

Balance Sheet (After Reconstitution)

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

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

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

On the above date, Z admitted for ¼ shares in the following terms:

1. Z brought in cash ₹ 2,50,000 share of capital and necessary amount in cash for share of goodwill.
2. Goodwill valued at ₹ 90,000.
3. Plant & Machinery valued at ₹ 1,30,000 and furniture depreciated by 10%.
4. Stock was undervalued by ₹ 5,000.
5. There is claim for workmen compensation of ₹ 9,000.
6. Building appreciated by ₹ 26,000.
7. A creditor of ₹ 2,000 not likely to claim.

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

Solution: **Journal Entry**

Date	Particulars	L.F.	Dr.	Cr.
2019	General Reserve A/c Dr.		12,000	
March	Workmen's Compensation Reserve A/c (15,000 – 9,000) Dr.		6,000	
31	Investment Fluctuation Fund Dr.		6,000	
	To X's Capital A/c			16,000
	To Y's Capital A/c			8,000
	(Being balance of accumulated profits transferred in 2:1)			

	X's Capital A/c Dr.		40,000	
	Y's Capital A/c Dr.		20,000	
	To Goodwill A/c			60,000
	(Being existing goodwill written off in 2:1 ratio)			
	Cash A/c Dr.		2,72,500	
	To Z's Capital A/c			2,50,000
	To Premium for Goodwill A/c			22,500
	(Being cash brought in by Z for share of capital & premium)			
	Premium for Goodwill A/c Dr.		22,500	
	To X's Capital A/c			15,000
	To Y's Capital A/c			7,500
	Being premium of goodwill transferred in sacrificing ratio)			
	Revaluation A/c Dr.		15,000	
	To Furniture A/c			5,000
	To Plant & Machinery A/c			10,000
	(Being loss on revaluation)			
	Stock A/c Dr.		5,000	
	Building A/c Dr.		26,000	
	Creditor A/c Dr.		2,000	
	To Revaluation A/c			33,000
	(Being gain on revaluation)			
	Revaluation A/c Dr.		18,000	
	To X's Capital A/c			12,000
	To Y's Capital A/c			6,000
	(Being gain on revaluation transferred in 2:1 ratio)			

OR

Revaluation Account

Particulars	Amt. in ₹	Particulars	Amt. in ₹
Furniture A/c	5,000	Stock A/c	5,000
Plant & Machinery A/c	10,000	Building A/c	26,000
Capital A/cs:	18,000	Creditor A/c	2,000
X : 12,000			
Y : 6,000			
	33,000		33,000

Capital Account

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

Balance Sheet (After Reconstitution)

Liabilities	Amt. in ₹	Assets	Amt. in ₹
Capital A/cs:	8,54,500	Plant & Machinery	1,30,000
X : 3,23,000		Furniture	45,000
Y : 2,81,500		Building	2,26,000
Z : 2,50,000		Stock	65,000
Creditors	43,000	Debtors	40,000

Workmen's Compensation Fund	9,000	Investment	50,000
Outstanding Expenses	9,000	Bank	50,000
		Cash (37,000 + 2,50,000 + 22,500)	3,09,500
	9,15,500		9,15,500

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

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

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

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

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

Solution: **Journal entries**

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

OR

Revaluation Account

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

Capital Accounts

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

Balance Sheet (After reconstitution)

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

Do your-self

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

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

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

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

(4) Aif, Tee and Bee were partners in a firm sharing profits in the ratio of 3:2:1. The firm closes its books on 31st March every year. Tee died on 31st May, 2019. It was agreed that the deceased partner's executors will be entitled to: (i) His capital, which was ₹ 8,00,000. (ii) His share of profit till the date of death to be calculated on the basis of average profits of last 3 years. The average profits for last three years were ₹ 72,000. (iii) His share of goodwill. Goodwill of the firm was valued at ₹ 1,08,000. (iv) ₹ 40,000 was paid to his executor immediately and the balance was paid in two equal half-yearly instalments along with interest @ 6% p.a. from the date of death. Prepare Tee's Capital Account to be presented to his executors on the date of death

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

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

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

(8) X, Y Z were partners in a firm sharing profits & losses in the ratio of 3:2:1. Their books are closed on March 31st, every year. Z retired from the firm on September 30th, 2019. The claims of Z to be settled on the following terms:

a. Goodwill valued at ₹ 1,20,000.

b. There is gain on revaluation of assets & liabilities 12,000.

c. Z's share of capital i.e. 6,00,000.

d. His share of profit up to his date of retirement on the basis of previous year profits. The profit of the previous year was 90,000.

e. Amount payable to Z was transferred to his loan account.

Pass necessary Journal entries and show the workings clearly.

Partnership – Dissolution of Firm

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

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

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

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

1. **Dissolution by Agreement**: with the Consent of all partners OR accordance with a Contract between the partners.
2. **Compulsory Dissolution**: when all or all, except one partner, become insolvent OR business becomes illegal OR some event has taken place which makes it unlawful for the partners to carry on the business.

3. **On the happening of certain Contingencies**: expiry of the term OR completion of venture OR term of death of a partner OR adjudication of a partner as an insolvent.
4. **Dissolution by Notice**: partnership at will – when any one of the partner gives a notice.
5. **Dissolution by Court**: At the suit of a partner, the court may order for dissolution of the firm – when a partner becomes insane OR a partner becomes permanently incapable of performing his duties as a partner OR a partner is guilty of misconduct which is likely to adversely affect the firm OR any ground, the court regards for dissolution of the firm.

Following steps to be taken for the closing of books of accounts for Partnership Firm:

(A) Closing of books

(a) Closing all assets Accounts (Except cash/bank and Profit & Loss Dr., Partner's Current A/c, Partner's Loan A/c Dr. balance) by transferring to 'Realization Account.
Profit & Loss A/c (Dr.), Partner's Current Accounts and Partner's Loan A/c (Dr.) closed by transferring to Partner's Capital A/cs

(b) Closing all third-party liabilities (Creditors, Bank Loan, Bank overdraft, Partner's Mr./Mrs. /Brother/Sister's Loan A/c) by transferring to "Realization Account".

First Party Liability – Partner's Capital and their other claims
Second Party Liability – Partner's Loan A/c
Third Party Liabilities - Creditors, Bank Loan, Bank overdraft, Partner's Mr./Mrs. /Brother/Sister's Loan A/c, outstanding expenses, received in advance etc.

(c) Partners' Capital Account and Partner's Loan Account (Cr.) will not to be closed at this time, it will be closed after payment to them BUT before to pay them, third party liabilities should be settled

What are the sequence to settle the liabilities of the firm on dissolution?
(1) Third party liabilities to be settled at the first
(2) Second party liability i.e. Partner's Loan A/c (Cr.) to be settled after first party
(3) At the last, Partners claims i.e. credit balance of capital will be settled.

(B) Realizing Assets by
(a) Sale of assets in the market either directly by the firm OR through Broker
(b) Taken over by a partner, to partly settle their claim
(c) Taken over by a creditor, to partly settle their claim

(C) Payment to all the liabilities
(a) Third party (including realization expense and Brokerage commission)
(b) Second party
(c) Claim of the partners for their balance of capital

Once, partners' claim is settled then all the books become closed and the accounting process for dissolution of the firm become end.

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

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

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

REALIZATION ACCOUNT

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

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

Accounting Treatment on Dissolution

	Transaction	Journal Entry
1	To Transfer of Assets (Except Cash & Bank balance and Profit & Los A/c Dr.)	Realization A/c Dr. To Land& Building A/c To Machinery A/c To Debtors A/c etc.
2	To Transfer of Liabilities (Except Capitals, Partner's Loan and Profit & Loss A/c Cr.)	Creditors A/c Dr. Bank Loan A/c Dr. Provision for Doubtful Debts Dr. Partner's Mrs./Mr. Loan A/c Dr. To Realization A/c

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

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

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

One Mark Questions

Q.1.	New ratio is not to be calculated on: a. Admission of a partner b. retirement of a partner c. death of a partner d. dissolution of a partnership
Q.2.	At the time of dissolution of partnership an unrecorded asset taken by X a partner is debited to: a. X capital account b. realisation account c. cash account d. none of the above
Q.3.	On firm's dissolution which of the following account is prepared at the last? a. Realisation account b. partners capital account c. cash account partners d. loan account
Q.4.	On dissolution of a firm fictitious assets are transferred to: a. credit side of partners capital account b. debit side of realisation account c. debit side of partners capital account d. credit side of realisation account
Q.5.	On dissolution of a firm in which ratio profit and loss on realisation is distributed among the partners: a. capital ratio b. profit sharing ratio c. equally d. in the ratio of amount due to each partner.
Q.6.	On dissolution of the firm amount received from sale of unrecorded asset is credited to : a. partner's capital account: b. profit and loss account c. cash account d. realisation account
Q.7.	Realisation account is a : a. personal account b. real account c. nominal account d. none of the above.
Q.8.	At the time of firm's dissolution credit balance of profit and loss account is credited to : a. realisation account b. partners capital account c. cash account d. profit and loss account.
Q.9.	On dissolution of a firm Goodwill appearing in the balance sheet is transferred to:

	a. capital account of partners b. cash account c. debit side of realisation account d. credit side of realisation account.
Q.10.	On dissolution the balance of partners capital account appearing on the credit side of the balance sheet is transferred to : a. debit side of realisation account b. credit side of realisation account c. debit side of partners capital account d. credit side of partners capital account.
Q.11.	AB and C are partners. The firm had given a loan of Rs20,000 to B. They decided to dissolve the firm. In the event of dissolution, the loan will be settled by transferring it to the: a. debit side of realisation account b. transferring it to the credit side of realisation account c. transfer it to the debit side of B's capital account d. B paying A and C privately.
Q.12.	In case of dissolution, total creditors of the firm were Rs40,000; creditors worth Rs10000 were given a piece of furniture costing Rs8000 in full and final settlement. Remaining creditors allowed a discount of 10%. What will be the amount with which cash will be credited in the realisation account for payment to creditors: a. 28,000 b. 27,000 c. 20,000 d. 25,000
Q.13.	In case of dissolution A one of the partner was paid only RS5000 for his loan to the firm which amounted to Rs5500. Rs 500 will be recorded in which account and on which side: a. Realisation account credit side correct b. Realisation account debit side c. loan account debit side d. A's capital account credit side.
Q.14.	Section 41 of partnership act 1932 deals with dissolution of a firm a. by mutual agreement b. compulsory dissolution correct c. by notice d. by order of court.
Q.15.	Settlement of accounts in case of dissolution of partnership is dealt with which section of partnership act 1932? a. Section 45 b. section 46 c. section 47 d. section 48
Q.16.	In case of dissolution of partnership there was no workmen compensation fund and firm had to pay Rs3000 as compensation to workers where will be this Rs3000 recorded in the books of accounts? a. debit side of realisation account b. credit side of realisation account c. debit side ofpartners capital account d. credit side of partners capital account.
Q.17.	Court may order dissolution of partnership firm a. when a partner has become of unsound mind b. when a partner is permanently incapacitated c. when a partner is found guilty of misconduct

	d. all of the above.
Q.18.	Which of the following is paid first in case of dissolution of partnership firm? a. Realisation expenses b. External liabilities c. Secured loan d. Partner's loan
Q.19.	At the time of dissolution total assets are worth Rs3,00,000 and external liabilities are worth Rs1,20,000. If assets realised 120% and realisation expenses paid were Rs4,000, then profit/loss on realisation will be: a. Profit Rs60,000 b. Loss Rs60,000 c. Loss Rs56,000 d. Profit Rs56,000
Q.20.	When realisation expenses are to be borne by a partner, actual realisation expense is credited to: a. Partners capital a/c b. Cash a/c c. Realisation a/c d. None of the above
Q.21.	In which condition a partnership firm is deemed to be dissolved? a. On a partner's admission b. On retirement of a partner c. On expiry of the period of partnership d. On loss in partnership
Q.22.	FILL IN THE BLANKS: 1. At the time of admission partnership firm is dissolved if business is _____. 2. All the accounts are settled among partners and creditors at the time of _____of a business. 3. First of all_____ of the firms will be settled out of sources of the business. 4. Admission of a partner is termination of _____and not a dissolution of _____ . 5. Court may also dissolve a firm, if a partner _____a suit, that one of the partners is of_____ mind. 6. Partners are liable to settle the account of accounts payable even from their _____sources, if they are solvent. 7. _____of partner will be paid off, before the settlement of partner's capital. 8. If all partners mutually decide for the dissolution, it will be dissolution of the_____
Q.23.	Match the following:

Account opened to find profit/loss on sale of Assets and settlement of liabilities.	Realisation profit
Credit balance in the realisation account.	Realisation
Conversion of assets into cash on dissolution of firm.	Realisation a/c
Liability likely to arise in future on happening of certain events.	Contingent liability
Expenses incurred on dissolution of a firm.	Realisation expenses

Q.24.	Assertion (A) : Dissolution expenses paid by the firm on behalf of a partner is recorded on the debit side of realisation account. Reason (R) : Such expenses are a Non-business expense. (A) Both Assertion (A) and Reason (R) are True and Reason (R) is correct explanation of Assertion. (B) Both Assertion (A) and Reason (R) are True and Reason (R) is not correct explanation of Assertion.

(C) Assertion (A) is true, Reason (R) is false.
(D) Assertion (A) is false, Reason (R) is true.

Q.25. Assertion (A) : A firm is dissolved compulsorily when all the partners or all but one partner, become insolvent.
Reason (R) : Dissolution of partnership and dissolution of firm both are the same.
(A) Both Assertion (A) and Reason (R) are True and Reason (R) is correct explanation of Assertion.
(B) Both Assertion (A) and Reason (R) are True and Reason (R) is not correct explanation of Assertion.
(C) Assertion (A) is true, Reason (R) is false.
(D) Assertion (A) is false, Reason (R) is true.

Q.26. Assertion (A) : On dissolution of firm, partners loan is transferred to realisation account.
Reason (R) : Partners loan is an internal liability.
(A) Both Assertion (A) and Reason (R) are True and Reason (R) is correct explanation of Assertion.
(B) Both Assertion (A) and Reason (R) are True and Reason (R) is not correct explanation of Assertion.
(C) Assertion (A) is true, Reason (R) is false.
(D) Assertion (A) is false, Reason (R) is true.

Q.27. Assertion (A) : Realisation account is prepared at the time of dissolution of partnership.
Reason (R) : Realisation account records the cash release from sale of assets and amount paid to external liabilities.
(A) Both Assertion (A) and Reason (R) are True and Reason (R) is correct explanation of Assertion.
(B) Both Assertion (A) and Reason (R) are True and Reason (R) is not correct explanation of Assertion.
(C) Assertion (A) is true, Reason (R) is false.
(D) Assertion (A) is false, Reason (R) is true.

Q.28. On the basis of the following case, answer the question number 1 to 4:
Ravi, Rakesh and Raman were partners in a firm sharing in 2:2:1. On 31st March 2021, they decided to dissolve the firm. On the date following was their position:

Balance Sheet(as on 31.3.2021)

Liabilities	`	Assets	`
Creditors	50,000	Cash at bank	20,000
Ravi 1,10,000		S. Debtors 1,50,000	
Rakesh 90,000		Less: Provision 10,000	1,40,000
Raman 70,000	2,70,000	Stock	60,000
		Fixed Assets	1,00,000
	3,20,000		3,20,000

The assets and liabilities of settled as follows:
(i) One of the creditors for `20,000 agreed to accept half of the stock in full settlement. Balance of the creditors were paid at a discount of 5%.
(ii) Remaining half of the stock was sold in the market at a profit of $33\frac{1}{3}$%.
(iii) All other assets realised at rupees `2,00,000.
(iv) Raman was appointed to look after all the dissolution procedure and hence, he was allowed a remuneration of 15% on the cash realised to from sale of assets.

1. What is the amount paid to creditors at the time of dissolution?
(A) `48,500
(B) `30,000
(C) `58,500
(D) `28,500

2. State the amount realised from sale of stock.
   (A) `33,333
   (B) `40,000
   (C) `30,000
   (D) `33,000
3. What is the amount of remuneration payable to Raman?
   (A) `36,000
   (B) `30,000
   (C) `6,000
   (D) `37,500
4. What is the amount of gain or loss on realisation?
   (A) `76,000 Gain
   (B) `76,000 Loss
   (C) `74,500 Gain
   (D) `74,500 Loss

Q.29. On the basis of the following case, answer the question number 5 to 8:
X and Y were partners in a firm in equal ratio. Following was their balance sheet as on 31st March 2021:

Balance Sheet
(as on 31.3.2021)

Liabilities		`	Assets	`
Provision for DD		5,000	Cash at Bank	15,000
Creditors		45,000	S. Debtors	80,000
Mrs. Y's Loan		25,000	Stock	50,000
Capitals:			Machinery	75,000
X	1,00,000		Profit & Loss A/C	20,000
Y	65,000	1,65,000		
		2,40,000		2,40,000

They dissolve the firm on the above date and following agreements were decided upon:
(i) X took over a part of the stock at `18,000 being 10% less than its book value. Balance of the stock was taken over by Y at 75% of its book value less `2,500.
(ii) One of the creditors of `20,000 agreed to accept a part of machine at an agreed valuation of `25,000 being 25% more than its book value. Balance of the creditors were paid in full.
(iii) Balance of the machine and the debtors were realised at `1,00,000.

1. State the amount at which stock was taken over by Y:
   (A) `30,000
   (B) `22,500
   (C) `20,000
   (D) `24,000
2. What is the book value of the machine which was taken over by one of the creditors?
   (A) `20,000
   (B) `25,000
   (C) `31,500
   (D) None of the above
3. State the treatment of balance in profit and loss account appears on the asset side.
   (A) Transfer to the credit side of partners' capital account
   (B) Transfer to the debit side of partners' capital account
   (C) Transfer to the credit side of realisation account
   (D) Transferred to the debit side of realisation account
4. State the total amount paid to various external liabilities at the time of dissolution.
   (A) `25,000

	(B) `55,000 (C) `50,000 (D) `20,000

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

Fill in the blanks:

1. Discontinued; 2. Dissolution; 3.liabilities; 4. Agreement,firm ; 5.files, unsound; 6. personal ; 7. Loan 8. Firm

24. (D)Assertion (A) is false, Reason (R) is true.
25. (C)Assertion (A) is true, Reason (R) is false.
26. (D)Assertion (A) is false, Reason (R) is true.
27. (D)Assertion (A) is false, Reason (R) is true.
28. 1. (D) 28,500 2. (B) 40,000 3. (A) 36,000 4. (D) 74,500 Loss
29. 1. (C)20,000 2. (A) 20,000 3. (B)Transfer to the debit side of partners' capital account
4. (C) 55,000

An illustration for the placement of Balance Sheet items into its respective ledgers to close the books of accounts on dissolution of a partnership firm.

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

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

Realization Account

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

Capital Account

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

**** Bank Account will be opened with ₹ 60,000 & to be closed while settled the capitals of partners.**
**** Rohit's Loan Account will be opened with ₹ 20,000 to be closed after payment, after the payment to third party liabilities.**

Three / Four / Six Marks Questions

Question: From the following information of a dissolved firm, pass necessary journal entries:

(a) Realization expense incurred ₹ 12,000. OR Realization expense incurred ₹ 12,000 paid by firm.
(b) Realization expense incurred ₹ 9,000 paid a partner 'Rakesh'.
(c) All partners are agreed that realization expense to be occurred ₹ 15,000 and the process of dissolution to be accomplished by a partner Raghav for which consent amount for expense to be transferred into his capital account.

(d) Realization expense to be borne by a partner Raghav for which ₹ 15,000 already transferred to his capital account. Actual expense incurred ₹ 13,000 paid by partner.
(e) Realization expense to be borne by a partner Raghav for which ₹ 15,000 already transferred to his capital account. Actual expense incurred ₹ 13,000 paid by the firm.
(f) Realization expense ₹ 14,000 paid a partner Manoj privately.

Solution: **Journal Entries**

Date	Particulars		Dr. Amount	Cr. Amount
(a)	Realization A/c	Dr.	12,000	
	To Bank A/c			12,000
	(Being dissolution expense paid)			
	Realization A/c	Dr.	9,000	
(b)	To Rakesh's Capital A/c			9,000
	(Being dissolution expense paid by partner)			
	Realization A/c	Dr.	15,000	
(c)	To Raghav's Capital A/c			15,000
	(Being realization expense to be borne by partner)			
(d)	**NO Entry**			
	Raghav's Capital A/c	Dr.	13,000	
(e)	To Bank A/c			13,000
	(Being expense was borne by partner & paid by firm)			
(f)	**NO Entry**			

Question: Make necessary Journal entries for a dissolved firm, from the following information:
(a) A creditor of ₹ 15,000 took over stock (book value ₹ 18,000) in their full settlement.
(b) A creditor of ₹ 15,000 took over stock (book value ₹ 18,000) at ₹ 13,000.
(c) A creditor of ₹ 15,000 took over stock (book value ₹ 18,000) at ₹ 16,000.
(d) Out of the total creditors ₹ 45,000; of which one creditor of ₹ 15,000 took over stock (book value ₹ 18,000) in their full settlement.

Solution: **Journal Entries**

Date	Particulars		Dr. Amount	Cr. Amount
(a)	**No Entry**			
(b)	Realization A/c	Dr.	2,000	
	To Bank A/c			2,000
	(Being remaining claim of creditor paid)			
(c)	Bank A/c	Dr.	1,000	
	To Realization A/c			1,000
	(Being received from creditor for asset taken at the value exceed to his claim)			
	Realization A/c	**Dr.**	30,000	
(d)	**To Bank A/c**			30,000
	(Being remaining creditors paid)			

Question: P and Q were partners in a firm sharing profits in the ratio of **3:2.** On 31.03.2021 their Balance Sheet was as follows:

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

The firm was dissolved on 01.04.2021 and the assets & liabilities were settled as follows:

(a) Creditors agreed to take over Land & Building at a valuation of their full claim.
(b) Stock was taken over by Q at ₹ 50,000 **for cash**.
(c) Bad debts proved ₹ 5,000.
(d) Goodwill was found valueless.
(e) Workmen compensation claim was ₹ 80,000.

Pass necessary Journal Entries for dissolution of the firm.

Solution: **Journals**

Date	Particulars	LF	Dr.(₹)	Cr.(₹)
2021 Ap. 01	Creditors A/c Dr. Workmen Compensation Fund Dr. To **Realization A**/c (Being liabilities transferred)		50,000 80,000 -------	-------- -------- 1,30,000
	Realization A/c Dr. To Goodwill To Land & Building To Stock To Debtors (Being assets transferred)		2,60,000 ------- ------- ------- -------	-------- 80,000 80,000 60,000 40,000
	Bank A/c (50,000 + 35,000) Dr. **To Realization A/c** (Being realized from assets)		**85,000** ---------	-------- **85,000**
	Realization A/c Dr. To Bank A/c (being Workmen compensation claims paid off)		80,000 --------	-------- 80,000
	P's Capital A/c Dr. Q's Capital A/c Dr. To Realization A/c (Being loss on dissolution transferred)		75,000 50,000 -------	--------- --------- 1,25,000
	P's Capital A/c Dr. Q's Capital A/c Dr. To Bank A/c (Being balance of partner's capital paid off)		5,000 20,000 ---------	-------- -------- 25,000

Question: You are to prepare necessary ledgers on the dissolution of firm from the above case.

Realization Account

Particulars	Amt. in Rs	Particulars	Amt. in Rs
Goodwill	80,000	Creditors	50,000
Land & Building	80,000	Workmen Compensation Fund	80,000
Stock	60,000	**Bank A/c:**	85,000
Debtors	40,000	Stock 50,000	
Bank A/c:	80,000	Debtors 35,000	
WCC 80,000		**Capital A/cs**: (3:2) LOSS	1,25,000
		P 75,000	
		Q 50,000	
	3,40,000		3,40,000

Capital Account

Particulars	P	Q	Particulars	P	Q
Realization A/c	75,000	50,000	Balance b/d	80,000	70,000
Bank A/c	**5,000**	**20,000**			
	80,000	70,000		80,000	70,000

Bank Account

Particulars	Amt. in Rs	Particulars	Amt. in Rs
Balance b/d	20,000	Realization A/c	80,000
Realization A/c (50,000 + 35,000)	**85,000**	**Capital A/cs**:	**25,000**
		P 5,000	
		Q 20,000	
	1,05,000		1,05,000

01. In case of dissolution, pass Journal entries for the following circumstances: (any four) (4)
   (a) Furniture of ₹ 90,000 was sold for ₹ 80,000 by auction and auctioneer's commission amounted to ₹ 5,000.
   (b) A partner, Deeraj's Loan A/c of ₹ 25,000 was paid.
   (c) A bill receivable of ₹ 6,000 under discount was dishonoured as the acceptor had become insolvent and hence the bill had to be met by the firm.
   (d) Out of the Stock of ₹ 1,20,000; Kiran (a partner) took over 1/3 of the stock at a discount of 25% and 50% of remaining stock was took over by a Creditor of ₹ 30,000 in full settlement of his claim. Balance amount of stock realized at ₹ 25,000.
   (e) A creditor of ₹ 25,000 took over an unrecorded asset (valued at ₹ 45,000) at ₹ 30,000.

Solution:

(a)	Bank A/c (80,000 – 5,000)	Dr.	75,000	
	To Realization A/c			75,000
(b)	Deeraj's Loan A/c	Dr.	25,000	
	To Bank A/c			25,000
(c)	Realization A/c	Dr.	6,000	
	To Bank A/c			6,000
(d)	Kiran's Capital A/c	Dr.	30,000	
	Bank A?c	Dr.	25,000	
	To Realization A/c			55,000
(e)	Bank A/c (30,000 – 25,000)	Dr.	5,000	
	To Realization A/c			5,000

02. Satyam and Shivam were partners in a firm sharing profits and losses in the ratio of 3:2. On 31st March, 2019 they decide to dissolve the firm. On that date, they furnished the following balance of their firm:
   Creditors: ₹ 45,000 and Debtors: ₹ 60,000; Workmen's Compensation Fund: ₹ 40,000; Satyam's Current A/c (Cr.): 65,000 and Shivam Current A/c (Dr.): 20,000; Stock: ₹ 85,000; Furniture: ₹ 1,00,000; Machinery: ₹ 1,30,000. The balance of Capitals- Satyam: ₹ 2,00,000 & Shivam: ₹ 1,00,000 and bank balance ₹ 55,000.
   Additional Information:
   (a) Satyam took over ₹ 25,000 of the stock at ₹ 20,000 for cash and remaining stock was sold for ₹ 55,000. Furniture realized at ₹ 80,000.
   (b) An unrecorded Investment was sold for ₹ 20,000. Machinery was sold at a ₹ 1,00,000.
   (c) Debtors realized at ₹ 55,000. There was an outstanding bill for legal charges of ₹ 15,000 which were paid.
   You are required to prepare Realization Account, Partners Capital Account and Bank Account from the above information.

Solution:

Realization Account

Particulars		Amt. in Rs	Particulars		Amt. in Rs
Debtors		60,000	Creditors		45,000
Stock		85,000	WCF		40,000
Furniture		1,00,000	**Bank A/c:**		3,30,000
Machinery		1,30,000	Stock	75,000	
Bank A/c:		60,000	Furniture	80,000	
Creditors	45,000		U/R Investment	20,000	

O/s Legal Charges	15,000		Machinery	1,00,000	
			Debtors	55,000	
			Capital A/cs:		20,000
			Satyam	12,000	
			Shivam	8,000	
		4,35,000			4,35,000

Capital Account

Particulars	Satyam	Shivam	Particulars	Satyam	Shivam
Current A/c		20,000	Balance b/d	2,00,000	1,00,000
Realization A/c	12,000	8,000	Current A/c	65,000	
Bank A/c	2,53,000	72,000			
	2,65,000	1,00,000		2,65,000	1,00,000

Bank Account

Particulars	Amt. in Rs	Particulars	Amt. in Rs
Balance b/d	55,000	Realization A/c	60,000
Realization A/c	3,30,000	Satyam's Capital A/c	2,53,000
		Shivam's Capital A/c	72,000
	3,85,000		3,85,000

03. In case of dissolution of a firm, pass necessary Journal entries for the following: (6)

(a) An outstanding bill for repairs and renewal ₹ 3,000. There was a balance of Employees Provident Fund of ₹ 25,000 and a contingent liability for ₹ 2,000.

(b) Akash a partner agrees to pay off his wife loan ₹ 10,000.

(c) General Reserve of ₹ 12,000; Profit & Loss Account (Cr.) of ₹ 9,000 given on the liabilities side of balance sheet. There were three partners A, B and C sharing profits in 3:2:1 ratio.

(d) Profit & Loss Suspense Account of ₹ 1,000; Profit & Loss Account (Dr.) of ₹ 9,000 given on the assets side of balance sheet. There were two partners X and Y, sharing profit in 2:3 ratios.

(e) Chetan, a partner has Current Account (Dr.) of ₹ 6,000 and Ravi, a partner has Current Account (Cr.) of ₹ 4,000.

Solution:

(a)	Realization A/c	Dr.	30,000	
	To Bank A/c			30,000
(b)	Realization A/c	Dr.	10,000	
	To Akash's Capital A/c			10,000
(c)	General Reserve A/c	Dr.	12,000	
	Profit & Loss A/c	Dr.	9,000	
	To A's Capital A/c			10,500
	To B's Capital A/c			7,000
	To C's Capital A/c			3,500
(d)	Chetan's Capital A/c	Dr.	6,000	
	To Chetan's Current A/c			6,000
	Ravi's Current A/c	Dr.	4,000	
	To Ravi's Capital A/c			4,000

XXXX

Accounting for Companies – Share Capital

Meaning of Company

Company - A joint stock company is an artificial person, created by law, having separate entity distinct from its members with a perpetual succession and a common seal.

Characteristics or Features of a Company

(i) Artificial person
(ii) Voluntary association
(iii) Created by law
(iv) Capital divisible into transferable shares
(v) Limited liability
(vi) Perpetual succession
(vii) Common seal
(viii) Separate legal entity from its members (ix) May sue or be sued

Kinds of Companies

Private company is one which by its Articles of Association:

(i) Restricts the right to transfer its shares, if any.
(ii) Except in One Person Company, limits the number of its members excluding its present and past employee members to 200; If any share is held jointly by two or more persons, they shall be treated as a single member.
(iii) Prohibits any invitation to the public to subscribe for any securities of the company.
(iv) The minimum number of members required to form a private company is two.

The name of a private company ends with the words, 'Private Limited '.

Public company- As per Section 2 (7) of Companies Act, 2013, public company is a company which

(i) is not a private company.
(ii) has a minimum paid-up capital as may be prescribed.
(iii) is a private company, which is a subsidiary of a public company.
(iv) A Public Company must have a minimum of 7 members and there is no restriction on the maximum number though.
(v) A public limited company should have at least 3 directors but not more than 15 directors.

The name of a public company ends with the word, 'Limited'.

One-person company is a company which has only one person as a member. It is a company incorporated as a private company which has only one member. Rule 3 of the Companies (Incorporation) **Rules, 2014 provides that:**

(i) Only a natural person being an Indian citizen and resident in India can form one-person company or can be nominee for the sole member of one-person company.
(ii) One person can form only one 'one-person company' or become nominee of one such company.
(iii) It cannot be formed for charitable purpose.
(iv) It cannot carry out non-banking financial investment activities including investment in securities of anybody corporate.
(v) Its paid-up share capital is not more than Rs 50 lakhs.
(vi) Its average annual turnover should not exceed Rs 2 crores.

Share

According to Section 2 (84) of the Companies Act, 2013, share means a share in the share capital of a company and includes stock. The capital of company is divided into a number of equal units. Each unit is called a share. A company may divide its capital into share of Rs. 100, Rs. 50, Rs. 10, Rs. 5 or even Rs.1 each.

Types of Shares

Preference shares: According to Section 43 (b) of the Companies Act, 2013, preference shares are

the shares which carry the following two preferential rights:

(i) Preferential right of dividend.

(ii) Return of capital on the winding up of the company before that of equity shares. Holders of preference shares are called preference shareholders.

Equity shares: According to Section 43(a) of the Companies Act 2013, equity share is that share which is not a preference share. Equity shares are the most commonly issued class of shares which carry the maximum 'risks and rewards' of the business.

The risks being losing part or all of the value of shares if the business incurs losses, the rewards being payment of higher dividends and appreciation in the market value.

Share Capital- It is that part of the capital of a company, which is represented by the total nominal value of shares, which it has issued.

Types OR Classes of Preference Shares

(a) With Reference to Dividend:

1. **Cumulative Preference shares**: Cumulative preference shares are those preference shares, the holders of which are entitled to receive arrears of dividend before any dividend is paid on equity shares.

2. **Non-cumulative Preference shares:** Non-cumulative preference shares are those preference share, the holders of which do not have the right to receive arrear of divided. If no dividend is declared in any year due to any reason. Such shareholders get nothing, nor they can claim unpaid dividend in any subsequent years.

(b) With Reference to Participation

1. **Participating preference shares:** Such shares, in addition to the fixed preference dividend, carry a right to participate in the surplus profit, if any, after providing dividend at a stipulated rate to equity shareholders.

2. **Non-Participating preference shares:** Such shares get only a fixed rate of dividend every year and do not have a right to participate in the surplus profit.

(c) With Reference to Convertibility

1. **Convertible preference shares:** are those preference shares which have the right/option to be converted into equity shares.

2. **Non-convertible preference shares:** are those preference shares which do not have the right/option to be converted into Equity shares.

(d) With Reference to Redemption

1. **Redeemable preference shares:** are those preference shares the amount of which can be redeemed by the company at the time specified for their repayment or earlier.

2. **Irredeemable preference shares:** are those preference shares the amount of which cannot be refunded by the company unless the company is wound up. Now a company cannot issue irredeemable preference shares.

Issue of shares:

Shares may be issued in any of the following ways:

1. For Cash: By Private Placement of shares

2. For Cash : By Public Subscription of shares

3. For consideration other than cash.

Private Placement of shares- When a company, rather than issuing shares to general public, issues its shares to its promoters, their friends, relatives, shareholders of group companies mutual funds, NRIs, financial institutions like LIC, UTI, etc. Such shares cannot be resold by their holders within a period of 3 years, called lock-in period.

Sweat Equity shares- Sweat shares are issued by a company to its employees or directors at a price lower than market price, or for consideration other than cash for intellectual property or know-how. Such shares cannot be resold by their holders within a period of 3 years, called lock-in period**.**

Employees Stock Option Plan(ESOP)- Employees stock option plan means the option (right and not an obligation) given to the whole time directors, officers and employees right to purchase or subscribe

at a future date, the securities offered by the Company at a pre-determined price, which usually is lower than the market price. The employees may or may not exercise the option. Lock in period in this case is one year from the date of allotment.

Kinds of Share Capital

(i) **Authorised share capital**: According to Section 2(8) of Companies Act, 2013, 'authorised capital' or 'nominal capital' means such capital as is authorised by the memorandum of a company to be the maximum amount of share capital of a company.

(ii) **Issued capital:** According to Section 2(50) of the Companies Act, 2013, issued capital means such capital as the company issues from time to time for subscription.

(iii) **Subscribed capital**: According to Section 2(86) of the Companies Act, 2013, 'subscribed capital' means such part of the capital which is for the time being subscribed by the members of a company.

(a) **Subscribed and fully paid-up:** Shares are said to be 'subscribed and fully paid-up' when the entire nominal (face) value is called and also paid-up by the shareholders.

(b) **Subscribed but not fully paid-up:** Shares are said to be 'subscribed but not fully paid up' when

- the company has called-up the entire nominal (face) value of the share but has not received it.
- the company has not called-up the entire nominal (face) value of share.

(iv) **Called-up capital:** According to Section 2(15) of the Companies Act, 2013, 'called-up capital' means such part of the capital, which has been called for payment. Thus, it means the amount of nominal (face) value called-up by the company to be paid by the shareholders towards the share capital.

(v) **Paid-up share capital:** According to Section 2(64) of the Companies Act, 2013, 'paid-up share capital' or 'share capital paid-up' means the amount that the shareholder has paid and the company has received against the amount 'called up' against the shares towards share capital.

(vi) **Reserve Capital:** It is that portion of uncalled share capital which shall not be capable of being called up except in the event and for the purpose of the company being wound up.

Capital Reserve: 'Capital reserve' is the reserve which is not free for distribution as dividend. It is mandatory to create capital reserve in case of capital profits earned by the company. Reserves which are created out of capital profits are not readily available for distribution as dividend among the shareholders, e.g. premium on issue of shares of debentures, profits on re-issue of shares, profits prior to incorporation, premium on redemption of debentures.

Minimum Subscription: It is the amount stated in the prospectus as the minimum amount that must be subscribed. Unless the sum payable on application for the sum so stated (minimum subscription) has been paid to and received by the company by cheque or other instruments, security cannot be allotted. It must be 90% of the issued capital.

Accounting Treatment of Issue of Shares

1**. Terms of Issue of Shares**

(i) **Issue of shares at par:** When shares are issued at their face value, the shares are said to have been issued at par. i.e. issue price and face value are same.

(ii) **Issue of shares at premium:** When shares are issued at a value that is higher than the face value of the shares, the shares are said to have been issued at premium, i.e. issue price is more than face value.

2. **Utilisation of Securities Premium Reserve:** Section 52 (2) of the Companies Act, 2013 restrict the use of the amount received as premium on securities for the following purposes:

(i) In purchasing its own shares (buy back) (Section 77A).

(ii) Issuing fully paid bonus shares to the members (Section 78).

(iii) Writing-off preliminary expenses of the company (Section 78).

(iv) Writing-off the expenses of, or the commission paid or discount allowed on any issue of securities or debentures of the company (Section 78).

(v) Providing for the premium payable on the redemption of any redeemable preference shares or of any debentures of the company (Section 78).

3. Accounting Treatment for Issue of Shares for Cash

(i) On Receipt of Application money

Bank A/c Dr. (With application money received)
To Share Application A/c (Number of shares applied x Application money per share)

(ii) On Acceptance of Application

Share Application A/c Dr. (with application money due on shares allotted)
To Share Capital A/c (Number of shares allotted x Application money per share)

(iii) On Making Allotment Money Due

(a) At par

Share Allotment A/c Dr. (With allotment money due)
To Share Capital A/c (Number of shares allotted x Allotment money per share)

(b) At Premium

Share Allotment A/C Dr. (With Total Amount due)
To Share Capital A/c (with allotment money due)
To Securities Premium Reserve A/c (with premium money due)

(iv) **On Receipt of Allotment Money**

Bank A/c Dr. (With allotment money received)
To Share Allotment A/c

(v) On making First Call

Share First Call A/c Dr. (with first call amount due)
To Share capital A/c (Number of shares allotted x First Call money per share)

(vi) On receipt of the First call money

Bank A/c Dr. (With amount received for first call)
To Share First Call A/c

(v) On making Second and Final Call

Share Second and Final Call A/c Dr. (with Second and Final call amount due)
To Share capital A/c (Number of shares allotted x Second and Final Call money per share)

(vi) On receipt of the Second and Final call money

Bank A/c Dr. (With amount received for Second and Final call)
To Share Second and Final Call A/c

4. **Full Subscription of Shares:** When the number of shares applied for, is equal to the number of shares offered for subscription, the shares are said to be fully subscribed.

5. **Over-Subscription of Shares:** When the number of shares applied for, is more than the number of shares offered for subscription, the shares are said to be oversubscribed. Allotment of shares cannot be made to all the applicants in full.

In case of over-subscription, following three alternatives are available

(i) Rejection of applications
(ii) Partial or pro-rata allotment
(iii) Combination of pro-rata allotment and rejection

Journal entry in case of Over Subscription:

In case of cover subscription, ii entry will be as follows:

Share Application A/c Dr. (with application money received)
To Share Capital A/c (with application money due on issued shares)
To Share Allotment A/c (with excess application money related to shares allotted on pro-rata basis)
To Bank A/c (with money to be returned for rejected applications)

6. **Under Subscription of Shares:** When the number of shares applied for, is less than the number of shares offered to the public, the shares are said to be under-subscribed.

7**. Issue of Shares for Consideration other than Cash**

I. Issue of Shares to Vendors

In this regard, the purchase of assets and issue of shares are to be treated as two separate transactions.

(i) (a) When Assets are Purchased

Assets A/c (Individually) Dr
To Vendor
(Being assets purchased from————-)

(b) When running business is purchased

Sundry Assets A/c Dr
Goodwill A/c* Dr
To Sundry Liabilities A/c To Vendor
To Capital Reserve A/c*
(Being business purchased from vendor for purchase consideration of Rs——-)
NOTE 'Vendor' is credited with purchase consideration payable to him
*Either goodwill or capital Reserve will come.

(ii) On Issue of Shares

(a) At Par

Vendor A/c Dr
To Share Capital A/c
(Being….shares issued to….@...)

(b) At Premium

Vendor A/c…….. Dr
To Share Capital A/c
To Securities Premium Reserve A/c
(Being …..Shares issued to …..@... including securities premium reserve…)

II. Issue of Shares to Promoters

Formation Expenses/ Incorporation Exp. Dr
To Share Capital A/c
(Being … share of Rs … each issued to promoters of the company)

III. Issue of Shares to Underwriters

(i) **Making Underwriting Expenses Due**

Underwriting Expenses A/c Dr
To Underwriters A/c
(Being underwriting commission due)

(ii) **Issuing Shares to Underwriters**

Underwriters A/c Dr
To Share Capital A/c
(Being …shares issued @…….per share to underwriters)

8. **Calls-in-arrears:** When one or more shareholders fail to pay their dues at the time of allotment or call, it is technically called calls-in-arrears.

Table F of the Companies Act, 2013, provides for the payment of interest on calls-in-arrears at a rate not exceeding 10% per annum.

9. **Calls-in-advance**: The part of the whole amount received from the shareholders before the call is made, is called calls-in-advance. This amount is shown on the liabilities side of the balance sheet as a separate item under the head 'share capital' but is not added to the amount of paid-up capital. Table F

of the Companies Act, 2013, provides for the payment of interest on calls-in-advance at a rate not exceeding 12% per annum.

Note: Interest on calls-in-arrears and interest on calls-in-advance are not in syllabus.

10. Forfeiture of Shares

Forfeiture of shares means cancellation of shares and seizure of the amount already received from defaulting shareholders.

(i) **Forfeiture of Shares Originally Issued at Par**

Share Capital A/c Dr (Called-up money)
To Forfeited Shares A/c (Paid-up money)
To Share Unpaid Calls A/c (Unpaid money or calls-in-arrears)
(Being forfeiture of…….shares for non-payment of call of….per share)

(ii) **Forfeiture of Shares Originally Issued at Premium and Premium was Received**

Share Capital A/c Dr (Called-up money)
To Forfeited Shares A/c (Paid-up money)
To Share Allotment A/c (Unpaid money excluding premium)
To Share Unpaid Calls A/c (Unpaid money or calls-in-arrears)
(Being forfeiture of … shares for non-payment of allotment and call of_ per share)

(iii) **Forfeiture of Shares Originally Issued at Premium and Premium was not Received**

Share Capital A/c Dr (Called-up money)
Securities Premium Reserve A/c Dr (Unpaid premium)
To Forfeited Shares A/c (Paid-up money)
To Share Allotment A/c (Unpaid money including premium)
To Share Unpaid Calls A/c (Unpaid money or calls-in-arrears)
(Being forfeiture of …… shares for non-payment of allotment and call of ……per share)

11. Re-issue of Shares

The directors can either cancel or re-issue the forfeited shares. Shares forfeited can be re-issued at par, at premium or at a discount (shown as a loss to be debited in share forfeited A/c)

In case, they are re-issued at par, accounting entry will be

Bank A/c Dr
To Share Capital A/c
(Being …..shares reissued at….)

Maximum Permissible Discount:

In case, shares are re-issued at a discount, the amount of discount allowed on the re-issue of forfeited shares must not exceed the amount forfeited on re-issued shares.

The discount allowed on re-issue of forfeited shares should be debited to the 'share forfeiture account'. The journal entry will be

Bank A/c Dr [With the amount received on re-issue]
*Share Forfeiture A/c Dr [With the discount allowed on re-issue]
To Share Capital A/c [With the amount credited as paid-up]
(Being ….shares reissued at ….)
*It is calculated as Number of Shares Re-issued x (Paid-up Value – Re-issue Price Per Share)

If the forfeited shares are re-issued at a price higher than that paid-up, the excess is credited to securities premium reserve account. The journal entry will be

Bank A/c Dr
To Share Capital A/c
To Securities Premium Reserve A/c

(Being ….. shares issued …..)

Transfer of Balance in Forfeited Share Account

Forfeited Shares A/c Dr
To Capital Reserve A/c
(Being balance of share forfeiture account transferred to capital reserve account)

One Marks Questions

	Accounting for Companies- Issue of Shares	
Q.	**Questions**	Marks
	Pawan Ltd. was registered with a Capital of Rs. 5,00,000 divided into shares of Rs. 10 each. It purchased a Building from Y for Rs. 2,00,000 and issued fully paid shares to Y for purchase consideration. It invited applications for the balance 30,000 shares payable as under: Rs. 3 per share on Application; Rs. 3 per share on Allotment; Rs. 2 per share on First Call, and Rs. 2 on Final Call. Ashok, who had been allotted 500 shares, failed to pay both the Calls. His shares were forfeited and reissued at Rs. 9 per share to Hari, as fully paid up. **Give answers to the following questions on the basis of above information:**	
1	What will be the nominal capital in the above case: A. 50,000 B. 5,00,000 C. 50,00,000 D. none of these	1
2	In the entry for Purchase of Building, Goodwill A/c will be debited by: A. 10,000 B. 1,00,000 C. 50,000 D. none of these	1
3	What will be the entry for Issue of shares to Y Ltd.?	1
4	What amount will be received at the time of First Call? A. 60,000 B. 90,000 C. 59,000 D. 54,000	1
5	What amount will be debited to Calls in Arrears A/c at the time of Final Call? A. 500 B. 1,000 C. 2,000 D. 5,000	1
6	What amount will be debited to the bank account at the time of Reissue? A. 5,000 B.4,500 C. 10,000 D. none of these.	1
7	What amount will be transferred to the Share Forfeiture A/C at the time of Forfeiture of shares? A. 5,000 B. 30,000 C. 50,000 D. 3,000	1
8	What amount will be debited in Share Forfeiture A/c at the time of Reissue of forfeited shares? A. 1,000 B.500 C. 50,000 D. none of these.	1
	X Ltd. invited applications for 20,000 shares of Rs. 10 each payable as under: Rs. 3 per share on application, Rs.3 per share on Allotment, Rs. 2 per share on First Call; and Rs. 2 per share on Final Call. Final Call was not made by the company. An applicant who had been allotted 100 shares failed to pay Allotment and First Call money due from him. His shares were forfeited after the First Call and 70 shares were re-issued at 8.50 per share. **Give answers to the following questions on the basis of above information:**	

9	What will be the Subscribed and fully paid up Capital? A. 2,00,000 B. 20,000 C. 1,60,000 D. none of these.	1
10	What will be the Subscribed but not fully paid up Capital? A. 2,00,000 B. 1,90,900 C. 1,59,760 D. 1,59,200.	1
11	What will be the balance in Share Forfeiture A/c after the reissue? A. 90 B. 300 C. 210 D. none of these.	1
12	What amount will be transferred to the Capital Reserve account? A. 210 B. 140 C. 540 D. 560	1
13	Which account will be used in the journal entry of Reissue of shares? A. Share Forfeiture A/c B. Capital Reserve A/c C. Securities Premium Reserve A/c D. All of these.	1
14	XYZ Ltd. forfeited 200 equity shares of Rs. 10 each on which the company has called Rs. 9 per share, for the non-payment of allotment money of Rs. 4 per share. On forfeiture, the amount debited to share capital A/c will be: (a) Rs.1,000 (b) Rs. 800 (c) Rs. 200 (d) Rs. 1,800	1
15	Black Ltd. had issued 5,000 equity shares of Rs. 10 each at par. The application money was Rs. 3 per share and the public applied for 7,500 shares. Pro rata allotment was made. Sohan applied for 450 shares. The amount carried forward towards the sum due on allotment will be: (a) Rs. 1,350 (b) Rs. 900 (c) Rs. 450 (d) Rs. 4,500	1
16	On a share of Rs. 20 issued at a premium of Rs. 3, full nominal amount has been called-up and Rs. 16 is received, share capital A/c will be credited by: (a) Rs. 20 (b) Rs. 23 (c) Rs. 16 (d) Rs. 3	1
17	**Assertion:** Call-in-advance account has a nil balance. **Reason:** Calls-in-advance is credited in the entry when it is received and debited in the entry when is supposed to be received. (a) Assertion is true but reason is false. (b) Reason is true but Assertion is false. (c) Both the Assertion and Reason are true. (d) Both the Assertion and Reason are false.	1
18	**Assertion:** X ltd. forfeited 2,000 equity shares of ` 10 each on which it had received ` 10,000. The company can reissue these forfeited shares at ` 4 per share. **Reason:** Forfeited shares cannot be issued at discount more than the amount received on these shares. (a) Assertion and reason both are incorrect. (b) Assertion and reason both are correct. (c) Assertion is correct but the reason is incorrect. (d) Assertion is incorrect but the reason is correct.	1
19	Which of the following statement relates to Reserve Capital‘? (a) It is a part of uncalled capital of the company. (b) It cannot be used in the lifetime of the company. (c) It is called only on the liquidation of the company. (d) All of the above.	1
20.	The Earth Ltd. invited applications for 35,000 shares of Rs. 10 each and received applications for 40,000 shares along with the application money Rs. 4 per share. Which of the following alternatives can be followed?	1

	(1) Refund of excess application money and full allotment to the rest of the applicants. (2) Not to allot any share to some applicants, Full allotment to some applicants and pro rata allotment to rest of the applicants. (3) Not to allot any shares to some applicants and pro rata allotment to rest of the applicants. (4) Make pro rata allotment to all the applicants and adjust the excess amount received towards call money. (a) Only (1) (b) Both (1) and (3) (c) Only (2) (d) All of the above.	
	3- and 4-marks questions	
21.	A Ltd. makes an issue of 10,000 equity shares of Rs.100 each at a premium of 5%, payable as follows: On application and allotment- Rs.50 On first call- Rs.30 On second & Final call- Rs.25 Members holding 400 shares did not pay the second call and the shares are duly forfeited, 300 of which are re-issued as fully paid at Rs.80 per share. Pass journal entries for forfeiture and reissue of forfeited shares. **Answer:** A. Equity Share capital A/c Dr. 40,000 To Calls in arrears A/c 10,000 To Share Forfeiture A/c 30,000 (Being shares forfeited for non-payment of second and final call) B. Bank A/c Dr. 24,000 Share Forfeiture A/c Dr. 6,000 To Equity Share capital A/c 30,000 (Being 300 Shares reissued at Rs. 80 per share as fully paid up) C. Share Forfeiture A/c Dr. 18,000 To Capital reserve A/c 18,000 (Being balance of share forfeiture of reissued shares transferred to capital reserve)	3
22	Sajag Ltd. has an authorised capital of Rs. 20,00,000 divided into equity shares of Rs. 10 each. The company invited applications for issuing 60,000 shares. Applications for 58,000 shares were received. All calls were made and were duly received except the final call of Rs. 3 per share on 2,000 shares. These shares were forfeited. (i) Present the share capital in the Balance Sheet of the company as per Schedule - III of the Companies Act, 2013. (ii) Also prepare 'Notes to Accounts' for the same. **Answer:** Share Capital = Rs. 5,74,000	3
23	NK Ltd., a truck manufacturing company, is registered with an authorised capital of Rs. 1,00,00,000 divided into equity shares of Rs. 100 each. The subscribed and paid up capital of the company is Rs. 50,00,000. The company decided to open technical schools in the Jhalawar district of Rajasthan to train the specially abled children of the area. It is planning to provide them employment in its various production units and industries in the neighborhood area. To meet the capital expenditure requirements of the project, the company offered 20,000 shares to the public for subscription. The shares were fully subscribed and paid.	3

	Present the share capital in the Balance Sheet of the company as per the provisions of Schedule III of the Companies Act, 2013. **Answer:** Share Capital = Rs. 70,00,000.	
24	Prakhar Ltd. forfeited 2,000 shares of Rs.10 each, fully called up, on which they had received only Rs.14,000. 50 of the forfeited shares were reissued for Rs. 9 per share fully paid up. Pass necessary journal entries for forfeiture and re-issue of shares. Also prepare share forfeited account. **Answer:** (1) Share Capital A/c Dr. 20,000 To Forfeited Shares A/c 14,000 To Calls in arrear A/c 6,000 (2,000 shares of Rs. 10 each forfeited for non payment of Rs.6,000) (2) Bank A/c Dr. 450 Forfeited Shares A/c Dr. 50 To Share Capital A/c 500 (50 of the forfeited shares reissued for Rs. 9 per share) (3) Forfeited Shares A/c Dr. 300 To Capital Reserve A/c 300 (Gain on reissue of shares transferred to capital reserve A/c) (4) Balance in Share Forfeited A/c = 13,650.	4
25	X Ltd. was formed with a capital of Rs. 10,00,000 divided into shares of Rs. 10 each. It offered 90% shares. 40% amount was payable on application, 20% on allotment and balance on final call. The applicants paid Rs. 3,60,000 on application and Rs. 1,69,000 on allotment. Final call had not been made as yet. Calculate the following from the above mentioned details : (i) Authorised Capital; (ii) Issued Capital; (iii) Subscribed Capital; (iv) Called-up Capital; (v) Paid-up Capital; (vi) Calls-in-Arrears. **Answer:** (i) Authorised Capital = 10,00,000 (ii) Issued Capital = 90,000 Shares @ 10 each 9,00,000 (iii) Subscribed Capital= 90,000 Shares @ 10 each 9,00,000 (iv) Called-up Capital= 90,000 Shares @ 6 each 5,40,000 (v) Paid-up Capital= Application money 3,60,000 Add: Allotment money 1,69,000 5,29,000 (vi) Calls-in-Arrears= 11,000	4
26	Pass necessary Journal Entries for the following transactions in the books of Rajan Ltd. : Rajan Ltd. purchased a running business from Vikas Ltd. for a sum of Rs. 2,50,000 payable as Rs. 2,20,000 in fully paid equity shares of Rs. 10 each and balance by a bank draft. The assets and liabilities consisted of the following : Plant and Machinery Rs. 90,000; Building Rs. 90,000; Sundry Debtors Rs. 30,000; Stock Rs. 50,000; Cash Rs. 20,000; Sundry Creditors Rs. 20,000. **Answer:** (1) Plant & Machinery A/c Dr. 90,000 Building A/c Dr. 90,000	4

Sundry Debtors A/c Dr. 30,000
Stock A/c Dr. 50,000
Cash A/c Dr. 20,000
To Sundry Creditors A/c 20,000
To Vikas Ltd. 2,50,000
To Capital Reserve A/c 10,000
(Being business purchased)

(2) Vikas Ltd. Dr. 2,50,000
To Equity Share Capital A/c 2,20,000
To Bank A/c 30,000
(Being shares issued and draft given)

6 marks questions

27 Fill in the blank spaces in the Journal Entries given below : 6

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
	Share Capital A/c Dr. _____2_____ Dr. To Share Forfeiture A/c To Share Allotment A/c To Share First Call A/c (Being 1,000 shares of Rs.10 each Rs. 8 called-up issued at a premium of Rs. 2 per share forfeited for non-payment of allotment of Rs. 5 per share including premium and first call of Rs. 2 per share)		1 --------3-----	 3,000 ---4----- ----5----
	Bank A/c Dr. To Share Capital A/c To_____7_____ (Being 700 shares re-issued @ Rs. 14 per share fully paid-up)		9,800	 ----6----- ----8-----
	Share Forfeiture A/c Dr. To Capital Reserve A/c (Being gain on re-issue of forfeited shares transferred to capital reserve)		-----9----	 ----10----

Answer:
1. 8,000
2. Securities Premium Reserve A/c
3. 2,000
4. 5,000
5. 2,000
6. 7,000
7. Securities Premium Reserve A/c
8. 2,800
9. 2,100
10. 2,100

28 ZX Limited invited applications for issuing 5,00,000 Equity shares of Rs. 10 each payable at a premium of Rs.10 each payable with Final call. Amount per share was payable as follows : 6
On Application Rs. 2
On Allotment Rs. 3
On First Call Rs. 2
On Second & Final Call Balance

Applications for 8,00,000 shares were received. Applications for 50,000 shares were rejected and the application money was refunded. Allotment was made to the remaining applicants as follows :

Category	Number of Shares Applied	Number of Shares Allotted
I	2,00,000	1,50,000
II	5,50,000	3,50,000

Excess application money received with applications was adjusted against amount due on allotment. Balance, if any, was adjusted towards future calls. Govind, a shareholder belonging to category I, to whom 1,500 shares were allotted, paid his entire share money with allotment. Manohar belonging to category II, who had applied for 11,000 shares failed to pay 'Second & Final Call money'. Assuming that the company maintains "Calls in Advance Account" and "Calls in Arrears Account", pass necessary Journal entries for the above transactions in the books of ZX Limited.

Answer:

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
	Bank Account Dr. To Equity Share Application Account (Application money received)		16,00,000	 16,00,000
	Equity Share Application Account Dr. To Equity Share Capital Account To Equity Share Allotment Account To Bank Account (Application money transferred to Equity share Capital Account, Equity Share Allotment Account and remaining amount refunded)		16,00,000	 10,00,000 5,00,000 1,00,000
	Equity Share Allotment Account Dr. To Equity Share Capital Account (Allotment money due on 5,00,000 equity shares @ Rs. 3 each)		15,00,000	 15,00,000
	Bank A/c Dr. To Equity Share Allotment A/c To Calls in Advance A/c (Allotment money received along with Calls in Advance on 1,500 Shares)		10,22,500	 10,00,000 22,500
	Equity Share First Call Account Dr. To Equity Share Capital Account (First Call money due on 5,00,000 equity shares @ Rs. 2 each)		10,00,000	 10,00,000
	Bank A/c Dr. Calls in Advance A/c Dr. To Equity Share First Call A/ct (First call money received)		9,97,000 3,000	 10,00,000
	Equity Share Final Call A/c Dr. To Equity Share Capital A/c To Securities Premium Reserve A/c (Final Call money due on 5,00,000 equity shares @ Rs.13 each including premium of Rs. 10 each.)		65,00,000	 15,00,000 50,00,000
	Bank A/c Dr. Calls in Advance A/c Dr. Call in Arrears A/c Dr. To Equity Share Final call A/c (Final call money received)		63,89,500 19,500 91,000	 65,00,000

Answers to Objective Type Questions:

1. B. 5,00,000

2. D. none of these

3. Y Ltd. Dr. 2,00,000

To Equity Share Capital A/c 2,00,000

(Being Equity shares issued for purchase of Building)

4. C. 59,000

5. B. 1,000

6. B.4,500

7. D. 3,000

8. B.500

9. D. none of these.

10. C. 1,59,760

11. A. 90

12. A. 210

13. C. Securities Premium Reserve A/c

14. Answer/Explanation: (d) Rs. 1,800

Reason: Called up value = no of shares issued *called up value of share = 200*9= Rs. 1,800

15. Answer/Explanation: (c) 450

Amount adjusted will be:

Applied shares=450; allotted shares=300 Excess paid to be adjusted on allotment = (450-300)*3=450

16. Answer/Explanation: (a) Rs. 20

If the full amount has been called, share capital will be credited by the nominal amount since Securities Premium Reserve is credited separately.

17. Answer/Explanation: (c) Both the Assertion and Reason are true.

Since calls-in-advance is credited when it is received and debited when it is due so (c) option is correct.

18. Answer/Explanation: (d) Assertion is incorrect but the reason is correct.

19. Answer/Explanation: (d) All of the above.

All the above given points are features of Reserve Capital.

20. Answer/Explanation: (d) All of the above.

Since all these options can be used by the company individually or in combination.

(Issue of Debentures)

Debentures: It is an acknowledgment of debt of a company, issued to raise loan capital under the terms & conditions i.e. rate of interest, maturity periods etc. It is a charged against assets of the company.

Accounting Treatment of Debentures

ISSUE	Redemption	
	At Par	At 4% Premium
Issue At Par (Face Value ₹ 100)	(1) Bank A/c Dr. 100 To _% Deb. Appl. & Allot A/c 100	(1) Bank A/c Dr. 100 To _% Deb. Appl. & Allot A/c 100
	(2) Deb. Appl. & Allot A/c Dr. 100 To _% Debenture A/c 100	(2) Deb. Appl. & Allot A/c Dr. 100 ***Loss on Issue A/c Dr. 4*** ***To Premium on Redemption 4*** To _% Debenture A/c 100
	(1) _% Debenture A/c Dr. 100 To Debenture Holders A/c 100	(1) _% Debenture A/c Dr. 100 ***Premium on Redemption A/c Dr. 4*** To Debenture Holders A/c 104
	(2) Debenture Holders A/c Dr. 100 To Bank A/c 100	(2) Denture Holders A/c Dr. 104 To Bank A/c 104
Issue At 5% Premium	(1) Bank A/c Dr. 105 To _% Deb. Appl. & Allot A/c 105	(1) Bank A/c Dr. 105 To _% Deb. Appl. & Allot A/c 105
	(2) Deb. Appl. & Allot A/c Dr. 105 ***To securities Premium A/c 5*** To _% Debenture A/c 100	(2) Deb. Appl. & Allot A/c Dr. 105 ***Loss on Issue A/c Dr. 4*** ***To Premium on Redemption 4*** ***To securities Premium A/c 5*** To _% Debenture A/c 100
	(1) _% Debenture A/c Dr. 100 To Debenture Holders A/c 100	(1) _% Debenture A/c Dr. 100 ***Premium on Redemption A/c Dr. 4*** To Debenture Holders A/c 104
	(2) Denture Holders A/c Dr. 100 To Bank A/c 100	(2) Denture Holders A/c Dr. 104 To Bank A/c 104
Issue At 3% Discount	(1) Bank A/c Dr. 97 To _% Deb. Appl. & Allot A/c 97	(1) Bank A/c Dr. 97 To _% Deb. Appl. & Allot A/c 97
	(2) Deb. Appl. & Allot A/c Dr. 97 ***Discount on Issue A/c Dr. 3*** To _% Debenture A/c 100	(2) Deb. Appl. & Allot A/c Dr. 97 ***Loss on Issue A/c Dr. 7*** (Discount 3 + Prem. On Red. 4) ***To Premium on Redemption 4*** To _% Debenture A/c 100
	(1) _% Debenture A/c Dr. 100 To Debenture Holders A/c 100	(1) _% Debenture A/c Dr. 100 ***Premium on Redemption A/c Dr. 4*** To Debenture Holders A/c 104
	(2) Denture Holders A/c Dr. 100 To Bank A/c 100	(2) Denture Holders A/c Dr. 104 To Bank A/c 104

When a company called all face value along with application: Following entries has to pass:

	ON ISSUE		ON REDEMPTION
1	Bank A/c Dr. To Debenture Application & Allotment A/c	1	Debenture A/c Dr. To Debenture holders A/c
2	Debenture Application & Allotment A/c Dr. To Debenture A/c	2	Debenture holders A/c Dr. To Bank A/c

Types of Debentures

Secured Debentures: Secured debentures refer to those debentures where a charge is created on the assets of the company for the purpose of payment in case of default.

Irredeemable Debentures: These debentures are repayable on the winding-up of a company or on the expiry of a long period.

Convertible Debentures: Debentures which are convertible into equity shares or in any other security either at the option of the company or the debenture holders are called convertible debentures.

Non-Convertible Debentures: The debentures which cannot be converted into shares or in any other securities are called non- convertible debentures.

Zero Coupon Rate Debentures: These debentures do not carry a specific rate of interest.

Bearer Debentures: Bearer debentures are the debentures which can be transferred by way of delivery and the company does not keep any record of the debentures.

Debentures issued as Collateral Security:

Issue of debentures by a company against to Bank Loan as security, other than the primary security is called issue of debentures as collateral security.

If the company wants to make necessary journal entry to do so:

Debenture Suspense A/c Dr.

To ---% Debenture A/c

One Marks Questions

	Rose bond Ltd. is in the business of manufacturing electrical water pumps. It decided to install some Godrej refrigerators and microwave ovens in the company for providing facilities to its employees as the company is located in the remote area. It named its welfare scheme as "Employees Relief." On 1st April 2021 the purchase price of electrical appliances was paid by issuing 6% debentures. Debentures of Rs. 20,00,000 were issued at a premium of 10% for this purpose. In another case, the company agreed to issue 9% debentures of 100 each at Rs 120 to the vendors for the purchase of machinery worth Rs 1,25,000. Read the above information carefully and answer the following questions.	
1	Which of the following will be debited by Rs. 22,00,000 for issue of debentures for the purchase of electrical appliances for Rose Bind Ltd. (a) 6% Debentures A/c (b) Rose Bond Ltd. (c) Godrej Ltd. (d) Both (a) and (b) **Ans. (c)**	
2	The number of 9% debentures issued by the company would be : (a) 1,250 (b) 1,200 (c) 1,041 (d) 2,080 **Ans. (c)**	
	Fashionable Fabrics Ltd. has decided to start a new showroom. The Finance Manager of the company has estimated the capital requirements at Rs. 12,50,000 . The company has arranged Rs. 5,00,000 from the internal sources to start the showroom. It has also decided to call the unpaid amount of Rs 3 per share on its 10,000 equity shares. The requirement of the remaining capital was fulfilled by raising a loan from Bank of India payable after five years. 8% debentures of Rs 100 each were issued for 1.5 times more amount than that of loan as collateral security. The management raised the following questions:	
3.	What is meant by 'Issue of debentures as collateral security'? **Ans.** Issue of Debentures as collateral security means issuing debentures as an additional security that may be offered against the loan in addition to principle security.	
4.	What will be the total requirement of the loan raised by the company ? **Ans.** The company's total requirements for the loan will be calculated as follows: = Total Funds Requirements –(Funds arranged from the internal sources+ unpaid calls, called-up now) = Rs. 12,50,000 –(Rs 5,00,000+ Rs 30,000)	

= Rs. 12,50,000 – Rs. 5,30,000 = Rs 7,20,000.

5. What will be the total number of debentures issued by the company?
Ans. Debentures issued as collateral security are of nominal value, 10,800, 8% debentures of Rs 100 each of Rs. 10,80,000.

6. Is the company liable to paythe interest on these debentures?
Ans. No, the company is not liable to pay the interest on these debentures because debentures are issued as collateral security.

7. How debentures will be shown in the financial statements of the company when company has recorded the issue of debentures by passing a journal entry in the books of company?
Ans. The debentures issued as collateral security will be shown as follows in the financial statements of the company (in notes to accounts under sub head Long-term Borrowings)

	Rs.	Rs.
Loan from Bank Of India	7,20,000	
8% debentures	10,80,000	
Less : Debentures Suspense Account	10,80,000	Nil
(Issued as collateral security)		**7,20,000**

8. How will you classify the loan raised as per the schedule III of the Company Act, 2013?
Ans. The loan raised by the company will be shown as Long-term Borrowings under head Non-current Liabilities in the Balance Sheet.

On 1st April, 2021 Bhawani Ltd. issued 5,000, 10% Debentures of Rs 100 each at a discount of 10% redeemable at 5% premium after 5 years. On the same date Bhawani Ltd.entered into the following transactions also.
It purchased business of Swami Ltd. by taking over sundry assets of Rs 4,50,000 and sundry liabilities of Rs. 70,000 for the purchase consideration of Rs. 4,80,000. It paid the purchase consideration by issuing 10% Debentures at 4% discount.
Bhawani Ltd. borrowed a loan of Rs. 80,000 from SBI for 5 years and issued 10% Debentures of Rs. 1,00,000 to bank as a collateral security.
The interest on debentures is paid half yearly on 30th September and 31St March every year. The company has sufficient balance in its Securities Premium Reserve Account at the year end and it has decided to write off loss on issue of debentures from Securities Premium Reserve Account.
Read above information and answer the following questions:

9. State the circumstances when debentures are issued for consideration other than cash.
Ans. Issue of debentures for purchase of assets to the vendor, (ii) Issue of debentures for purchase of business of a company, (iii) Issue of sweat equity

10. Is Bhawani Ltd. correct in issuing debentures at a discount?
Ans. Bhawani Ltd. can easily issue debentures at discount as the Companies Act 2013 does not restrict issue of debentures at discount. However, it cannot issue shares at discount as section 53 of the Companies Act, 2013 lays down some restrictions on the issue of shares at discount.

11. Pass journal entry for the takeover of business of Swami Ltd. by Bhawani Ltd.
Ans.

Date	Particulars	L.F.	Dr.	Cr.
April 1	Sundry Assets A/c Dr.		4,50,000	
	Goodwill A/c (Balancing figure) Dr.		1,00,000	
	To Sundry Liabilities A/c			70,000
	To swami Ltd.			4,80,000
	(Being assets and liabilities of Swami Ltd. taken over for a consideration of Rs 4,80,000)			

12. How will you write off the loss on issue of debentures?
Ans. 'Loss on issue of debentures' will be written off from the Securities Premium Reserve the company has sufficient balance in securities premium reserve account.

13. Which journal entry will be passed to write off 'discount/loss on issue of debentures'?
Ans.

Date	Particulars	LF	Dr.	Cr.
	Securities Premium Reserve A/c Dr. To Loss on issue of Debentures A/c (Being loss on issue of debentures written off from securities premium reserve i.e., Rs. 75,000+ Rs. 20,000= Rs. 95,000)		95,000	 95,000

14. Calculate the interest on the debentures that will be due on 30th September, 2021.
Ans.
Working notes:
Interest will be charged on: = 50,000
5,000, 10% debentures of Rs. 100 each issued for cash for the year
5,000, 10% debentures of Rs. 100 each issued for consideration
Other than cash for the year = 50,000
Total Interest for the year = 1,00,000
Total interest for the half year(6 months) = Rs. 50,000

On 1st April 2021, Shiksha ltd. issued 3,000, 12% Debentures of Rs. 100 each at par redeemable at a premium of 7%. The debentures were to be redeemed at the end of the third year.
On the basis of the above information, resolve the following issues.

15. Can the company write off the 'Loss on Issue of Debentures' over the period of 3 years?
Ans. No, because according to Accounting Standard 16, Borrowing cost requires that the loss on issue of debentures be written off in the same year in which it is incurred.

16. From which source, the loss on issue of debentures will be written off?
Ans. In the absence of any information about Securities Premium Reserve, loss on issue of debentures is written off from Statement of Profit and Loss.

17. How will you prepare the Loss on issue of Debentures Account?
Ans.

Date	Particulars	Amount	Date	Particulars	Amount
2021 April 1	To premium on redemption of debentures A/c	21,000	2022 Mar. 31	By statement of Profit and loss	21,000
		21,000			**21,000**

18. Under which sub-head and head, the amount of 'Premium Payable on Redemption of Debentures' is shown in the balance sheet?
Ans. Premium Payable on redemption of debentures is shown as' other non-current liability' under Non-current Liability in Equity and liabilities part of Balance Sheet.

19. Q Debenture holders are:
a) Owners of the company
b) Debtors of the company
c) Creditors of the company
d) Promoters of the company
Ans. c)

20. Debentures represent the:
a) Long term borrowing of the company
b) The investment of equity share holder
c) Directors share in a company
d) Short term borrowing of the company

	Ans. a)	
21.	Zero coupon bonds are issued: a) At zero interest rate b) With specified rate of interest c) Without specified rate of interest d) None of these **Ans. c)**	
22.	Interest payable on debenture is: a) An appropriation of profit of the company b) A charge against profit of the company c) Transferred to sinking fund investment account d) Transferred to general reserve **Ans. b)**	
23.	Debenture holder is entitled to: a) Fixed dividend b) Share in profits c) Voting rights in the company d) Interest at the fixed rate **Ans. d)**	
24.	O On liquidation of company, principal amount of debentures is returned: a) First of all b) Last of all c) Before equity capital d) After equity capital **Ans. c)**	
25.	Which of the following is not a characteristic of bearer debentures? a) They are treated as negotiable instruments. b) Their transfer requires a deed of transfer. c) They are transferable by mere delivery. d) The interest on it is paid to the holder irrespective of identify. **Ans. b)**	
26.	Which of the following statements is false? a) At maturity, debenture holders get back their money b) Debentures can be forfeited for non-payment of call money c) In company's balance sheet, debentures are shown under the head long term borrowings d) Interest on debentures is a charge against profits **Ans. b)**	
27.	Which of the followings statements is false a) A company can issue redeemable debentures b) A company can issue debentures with voting rights c) A company can issue convertible debentures d) A company can buy its own debentures and shares **Ans. b)**	
28.	The debentures whose principal amount is not repayable by the company during its life time, but the payment is made only at the time of liquidation of the company, such debentures are called: a) Bearer debentures b) Redeemable debentures c) Irredeemable debentures d) Non-convertible debentures **Ans. c)**	

29.	Debentures application account is in the nature of a) Real account b) Personal account c) Nominal account d) None of the above **Ans. b)**	
30.	Discount on issue of debentures is in the nature of a) Revenue loss b) Capital loss c) Deferred revenue expenditure d) None of the above **Ans. b)**	
31.	Premium received on issue of debentures may be utilized for a) For writing off discount allowed on issue of shares b) For writing off premium allowed on redemption of debentures c) For writing off preliminary expenses d) All of the above **Ans. d)**	
32.	A' Limited purchase the assets from 'B' Limited for Rs.5,40,000. 'A' Limited issued 10% debentures of Rs. 100 each at 10% discount against the payment. The number of debentures received by 'B' Limited will be: a) Rs.54000 b) Rs. 5400 c) Rs. 60000 d) None of the above **Ans. d)**	
33.	A' Limited purchase the assets from 'B' Limited for Rs.5,40,000 . 'A' Limited issued 10% debentures of Rs.100 each at 20% primium against the payment. The number of debentures received by 'B' Limited will be a) Rs. 4500 b) Rs. 5400 c) Rs. 45000 d) Rs. 6000 **Ans. a)**	
34.	'A' Limited purchase the assets for 'B' Limited for Rs.8,10,000 . 'A' Limited issued 10% debentures of Rs. 100 each at 10% discount against the payment. The number of debentures received by 'B' Limited will be a) Rs. 8100 b) Rs. 9000 c) Rs. 90000 d) Rs. None of the above **Ans. b)**	
35.	Debentures of a company can be issued: a) For cash b) For consideration other cash than cash c) As a collateral security d) Any of the above **Ans. d)**	
36.	On issue of debentures as a collateral security, which account I created? a) Debentures accounts b) Bank loan account c) Debentures holding accounts	

	d) Debentures suspense account **Ans. a)**	
37.	Debentures issued as collateral security will be debited to: a) Bank account b) Debentures suspense account c) Debentures account d) Bank loan accounts **Ans. b)**	
38.	When debentures of Rs.1,00,000 are issued as collateral security against a loan of Rs. 1,50,000, the entry for issue of debentures will be: a) Credit debentures Rs. 1,50,000 and debit bank A/c Rs.1,50,000 b) Debit debentures suspense A/c Rs.1,00,000 and credit bank A/c Rs. 1,00,000 c) Debit debentures suspense A/c Rs. 1,00,000 and credit debentures A/c Rs. 1,00,000 d) Debit cash A/c Rs. 1,50,000 and Credit Bank A/c Rs. 1,50,000 **Ans. c)**	
39.	Interest on debentures issued as a collateral security is paid on: a) Nominal value of debentures b) No interest is paid c) Face value of debentures d) Paid up value of debentures **Ans. b)**	
40.	When debentures are to redeemed at premium an extra entry has to be made at the time of issue of debentures, which A/c should be created in this entry? a) Loss on issue of debentures A/c b) Debentures redemption premium A/c c) Bank A/c d) Debentures holder's A/c **Ans. a)**	
41.	Premium on redemption of debentures account is: a) Personal account b) Real account c) Nominal account d) All of the above **Ans. a)**	
42.	. X Ltd. Acquired assets of Rs.20 lakhs and took over creditors of Rs.20 thousand from X Ltd. Issued 8% debentures of Rs.200 each at a discount of Rs.10% as purchase consideration. Number of debentures issued will be: a) Rs. 11000 b) Rs. 9000 c) Rs. 10000 d) Rs. 10100 **Ans. a)**	
43.	X Ltd. Purchase a building for Rs. 60,00,000 payable as 20% in cash and balance by allotment of 8% debentures of Rs.500 each at a premium of 20% number of debentures issued will be: a) Rs. 9600 b) Rs. 12000 c) Rs.8000 d) Rs.10000 **Ans. b)**	

44.	Sunrise Ltd. Purchase a building for Rs. 5,00,000 payable as 15% in cash and balance by allotment of 9% debentures o Rs.100 each at a premium of 25% number of debentures issued will be: a) Rs. 4250 b) Rs. 4000 c) Rs. 5000 d) Rs.3400 **Ans. d)**	
45.	If vendors are issued of Rs. 80,000 in consideration of net assets of Rs. 100,000 the balance of Rs.20,000 will be credited to: a) Statement of profit & loss b) Goodwill account c) General reserve account d) Capital reserve account **Ans. d)**	
46.	If vendors are issued debentures of Rs. 4,40,000 in consideration of assets of Rs. 5,00,000 and liabilities of Rs.1,00,000 the balance of Rs. 40,000 will be debited to: a) General reserve account b) Capital reserve account c) Goodwill account d) Statement of profit & loss **Ans. c)**	
47.	A Ltd. Issued 1,000 10% debentures of Rs.100 each at a premium of 5%. What will be the total amount of interest for one year? a) Rs.10,500 b) Rs.42,000 c) Rs.40,000 d) Rs.25,000 **Ans. b)**	
48.	On 1st april 2021 sunrise limited issued 5,000 8% debentures of Rs.100 each at a discount of 5%. What will be the total amount of interest for the year ending 31st march 2022? a) Rs. 38,000 b) Rs. 42,000 c) Rs. 40,000 d) Rs. 25,000 **Ans. c)**	
49.	Globe Ltd issue 20,000 9% debentures of Rs.100 each at a distance of 5% redeemable at the end of 5 years at a premium of 6%. For what amount loss on issue of debentures account will be debited? a) Rs. 1,00,000 b) Rs. 1,20,000 c) Rs. 2,80,000 d) Rs. 2,20,000 **Ans. d)**	
50.	Issued 5000 12% debentures of Rs.100 each at discount of 2% redeemable at a premium of 5% in such case: a) Loss on issue will be credited by Rs.10,000 b) Loss on issue will be debited by Rs.35,000 c) Premium on redemption will be debited by Rs.25,000 d) Premium n redemption will be credited by Rs.35,000 **Ans. b)**	

51.	Issued 4,000 12% debentures of Rs.100 each at premium of 4% redeemable at a premium of 10% in such case: a) Loss on issue will be debited by Rs. 24,000 b) Loss on issue will be debited by Rs. 56,000 c) Loss on issue will be debited Rs.40,000 d) Premium on redemption will be credited by Rs.24,000 **Ans. c)**	
52.	When debentures are to redeemed at a premium an extra entry has to be made at the time of issue of debentures which A/c should be debited in this entry? a) Loss on issues of debentures A/c b) Debenture redemption premium A/c c) Bank A/c d) Debentures holder's A/c **Ans. a)**	
53.	Issued 10,000 8% debentures of Rs.100 each at a premium of 3% redeemable at a premium of 5% in such case a) Loss on issue will be debited by Rs.20,000 b) Loss on issue will be debited by Rs. 80,000 c) Loss on issue will be debited by Rs. 50,000 d) Premium on redemption will be credited by Rs.20,000 **Ans. c)**	
54.	Which of the following statement is false? a) Debenture is a form of public borrowing . b) It is customary to prefix debentures with the agreed rate of interest . c) Debenture interest is charge against profits d) The issue price and redemption value of debentures cannot differ. **Ans. d)**	
55.	The principal amount of debentures will be repaid by the company either at the end of a specified period or by installments during the life time of the company. Such types of debentures are called: a) Redeemable debentures b) Irredeemable debentures c) Convertible debentures d) Bearer debentures **Ans. a)**	

Three / Four Marks Questions

1. From the following information of X Ltd, make necessary journal entries for the issue of debentures:
   (a) 6,000; 10% debentures of ₹ 100 each issued at discount of 10% to be redeemed after two years at 5% premium.
   (b) 10,000; 15% debentures of ₹ 50 each issued at 20% premium to be redeemed after three years at par.
   (c) 12,000; 20% debentures of ₹ 10 each issued to be redeemed after 18 months at 10% premium.

Solution: Journal entries in the books of X Ltd

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(a) 1	Bank A/c (6,000 x 90) Dr. To 10% Debentures Appl. & Allot. A/c (Being application money received for debentures)		5,40,000	 5,40,000

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(a) 2	10% Debentures Appl. & Allot. A/c Dr. Loss on Issue of debenture A/c (60,000 + 30,000) Dr.		5,40,000 90,000	

	To 10% Debenture A/c (6,000 x 100) To Premium on Redemption A/c (Being 10% debentures issued)			6,00,000 30,000
(b) 1	Bank A/c (10,000 x 60) Dr. To 15% Debentures Appl. & Allot. A/c (Being application money received for debentures)		6,00,000	 6,00,000
(b) 2	15% Debentures Appl. & Allot. A/c Dr. To 15% Debenture A/c (10,000 x 50) To Securities Premium Reserve A/c (10,000 x 10) (Being 15% debentures issued)		6,00,000	 5,00,000 1,00,000
(c) 1	Bank A/c (12,000 x 10) Dr. To 20% Debentures Appl. & Allot. A/c (Being application money received for debentures)		1,20,000	 1,20,000
(c) 2	20% Debentures Appl. & Allot. A/c Dr. Loss on Issue of Debenture A/c (12,000 x1) Dr. To 20% Debenture A/c (12,000 x10) To Premium on Redemption A/c (12,000 x1) (Being 20% debentures issued)		1,20,000 12,000	 1,20,000 12,000

2. State the meaning for issue of debentures as collateral security. Show the journal entry, if the company wants to take into accounts for this issue of debentures.

Solution: **<u>Issue of Debentures as Collateral Securities</u>**: Issue of debentures by a company as secondary security other than the primary security against the bank loan is called, issue of debentures as 'Collateral Security'.

<u>When record the issue of such debentures in the books of company</u> –
Debenture Suspense A/c Dr. xxxx ------ (Shown on the Assets side)
To Debentures A/c ------ xxxx (Shown on the Liabilities side)
(being issue of debentures as collateral security)

3. Maneesh Ltd took over assets of ₹ 9,40,000 and liabilities of ₹ 1,40,000 0f Ram Ltd at an agreed value of Rs 7,80,000. Maneesh Ltd paid to Ram Ltd by issue of 9% Debentures of ₹ 100 each at a premium of 20%. Pass necessary journal entries to record the above transactions in the books of Maneesh Ltd.

Solution: **Journals**

Date	Particulars	₹ (Dr.)	₹ (Cr.)
1	Assets A/c Dr. To Liabilities A/c To Ram Ltd. A/c **To Capital Reserve A/c** (being business purchased)	9,40,000 -------- -------- --------	------- 1,40,000 7,80,000 **20,000**
2	Ram Ltd. Dr. To 9% Debenture A/c To Securities Premium A/c (Being 6,500, 9% debentures of ₹ 100 each issued at 20% premium for purchase consideration)	7,80,000 --------- ---------	-------- 6,50,000 1,30,000

<u>Workings</u>: Amount to be paid to Y Ltd. 7,80,000

No. of debentures to be issued = ---------- = ---------- = 6,500 Debentures.
Face Value of Deb. + Premium 120

4. Maneesh Ltd took over assets of ₹ 9,40,000 and liabilities of ₹ 1,40,000 0f Ram Ltd at an agreed value of ₹ 9,00,000. Maneesh Ltd paid to Ram Ltd by issue of 9% Debentures of ₹ 100 each at a premium of 20%. Pass necessary journal entries to record the above transactions in the books of Maneesh Ltd.

Solution: **Journals**

Date	Particulars	₹ (Dr.)	₹ (Cr.)

1	Assets A/c	Dr.	9,40,000	-------
	Goodwill A/c	**Dr.**	**1,00,000**	-------
	To Liabilities A/c		--------	1,40,000
	To Ram Ltd. A/c		--------	9,00,000
	(being business purchased)			
2	Ram Ltd.	Dr.	9,00,000	--------
	To 9% Debenture A/c		---------	7,50,000
	To Securities Premium A/c		---------	1,50,000
	(Being 7,500, 9% debentures of ₹ 100 each issued at 20% premium for purchase consideration)			

Workings: Amount to be paid to Y Ltd. 9,00,000

No. of debentures to be issued = ---------- = ---------- = 7,500 Debentures.

Face Value of Deb. + Premium 120

5. AB Ltd issued 12,000; 15% debentures of ₹ 100 each at 5% discount, to be redeemed after three years at 10% premium.

There was a balance of securities premium reserve ₹ 1,50,000.

You are required to pass necessary journal entries for the issue of debentures and writing off of loss on issue of debenture account.

Solution: **Journal Entries**

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
1	Bank A/c (12,000 x 95)	Dr.		11,40,000	
	To 15% Debentures Appl. & Allot. A/c				11,40,000
	(Being application money received for debentures)				
2	15% Debentures Appl. & Allot. A/c	Dr.		11,40,000	
	Loss on issue of debenture A/c (60,000 + 1,20,000)	Dr.		1,80,000	
	To 15% Debenture A/c (12,000 x 100)				12,00,000
	To Premium on redemption A/c (12,000 x 5)				60,000
	(Being 15% debentures issued)				
3	Securities Premium Reserve A/c	Dr.		1,50,000	
	Statement of Profit & Loss A/c	Dr.		30,000	
	To Loss on issue of debenture A/c				1,80,000
	(Bing loss issue of debentures written off)				

ANALYSIS OF FINANCIAL STATEMENTS

(A) Financial Statements of a Company

(01) List the items which are shown under heading 'Current Liabilities & Provision' as per the Companies Act 2013.

Ans.: (a) Short term borrowings (b) Trade payables (c) Other current liabilities (d) Short term provisions.

(02) List the major headings on the assets/liabilities side of the Balance Sheet of a company as per the Companies Act 2013

Ans.:

EQUITY & LIABILITIES
(1) Shareholders' Funds (2) Non – current liabilities (3) Current liabilities
ASSETS
(1) Non-Current Assets (2) Current Assets

(03) State any three items which are shown under the heading 'Reserves & Surplus' in the Balance Sheet of a company as per the Companies Act, 2013.

Ans.: (i) Capital Reserve
(ii) **Securities Premium** (Reserve)
(iii) Capital Redemption Reserve.
(iv) Debenture Redemption Reserve
(v) Revaluation Reserve
(vi) Share Options Outstanding Account
(vii) Other reserves (a) General/Tax/Subsidy Reserve/Amalgamation Reserve
(viii) Surplus i.e., balance in Statement of Profit and Loss.
In case the final balance of the Statement of profit and loss shows a debit balance the same should be shown as deduction from the totals of reserves.

(04) State the major headings under which the following items will be put as per the Companies Act 12013:

Ans.:

S.N.	Name of item	Sub-Head	Major Head
01	Sundry Creditor	Trade Payables	Current Liabilities
02	**Provision for Tax**	**Short-term Provision**	**Current Liabilities**
03	**Unclaimed Dividend**	**Short-term Provision**	**Current Liabilities**
04	Loose Tools	Inventories	Current Assets
05	**Securities Premium**	**Reserve & Surplus**	**Share holder's Fund**
06	**Goodwill**	**Fixed Assets**	**Non-current Assets**
07	Long-term Investment	Non-current Investments	Non-current Assets
08	**Unpaid Dividend**	**Other Current Liabilities**	**Current Liabilities**
09	Motor Car	Fixed Assets	Non-current Assets
10	**Discount on issue**	**Other Long-term Liabilities**	**Non-current Laibilities**

Expected Questions:

(05) List the items which are presented under the major head "Current Assets" as per the Companies Act 2013.

Solution:

The items which are presented under the major head „Current Assets" as per the Companies Act 2013, are given below:

(a) Current investments (b) Inventories (c) Trade receivables (d) Cash and cash equivalents
(e) Short-term loans and advances. (f) Other current assets.

(06) List the different items which are presented under the major head. „Non-current Assets" as per the Companies Act 2013.

Solution:

Non-Current Assets

(a) Fixed Assets

(i) Tangible assets

(ii) Intangible assets

(b) Non-current investments

(c) Long term loans and advances

(d) Other non-current assets.

(07) Under what heads and sub-heads the following items will appear in the Balance sheet of a company:

(i) Computer Software

(ii) Share Forfeiture Account

(iii) Security deposit for telephones

(iv) Employees Earned leave payable on retirement

(v) Proposed dividend

(vi) Profit & Loss Account (Dr.)

Solution:

S.N.	Name of item	Sub-Head	Major Head
01	Computer Software	Fixed Assets	Non-current Assets
02	Share Forfeiture Account	Share Capital	Shareholder's Fund
03	Security deposit for telephones	Long-term loans & advances	Non-current Assets
04	Employees Earned leave payable on retirement	Long-term provisions	Non-current Liabilities
05	Proposed Dividend	Short-term Provision	Current Liabilities
06	Profit & Loss Account (Dr.)	Reserve & Surplus	Shareholders Fund

(B) Financial Statement Analysis: Objectives and Limitations

(01) Briefly explain the interest of investors and management in the analysis of financial statements.

Ans.: Investors are interested in analyzing financial statements to assess the safety of their investment & ensuring of returns regularly. Management is interested in analyzing financial statements to know the performance of business as a whole (profitability) and short-term & long-term solvency position of the business firm.

(02) Explain the meaning of analysis of financial statements.

Ans.: Analysis of financial statements is a systematic process for the critical examination of financial information contained in the financial statements in order to understand and make decisions regarding the operations in the firm. OR

Analysis of financial statements is a systematic process of identifying the financial strengths and weaknesses of the firm by establishing relationship between the items of the Balance Sheet and Income Statement.

(03) Explain briefly any three limitations of analysis of financial statements.

Ans.: (a) Limitations of Financial Statements: as influence of accounting concepts, disclosure of only monetary facts etc.

(b) Not Free from Bias: personal judgment & discretion of the account and management.

I Ignores Price level Changes: fails to disclose current worth of the enterprise as the financial statements are merely historical facts.

(d) Window Dressing: manipulation of accounts to conceal vital facts and presentation of the financial statements so as to show a position better than what it actually is.

(04) What is the importance of Financial Statement Analysis?

Ans.: (a) Assessing the Profitability (b) Judging the Efficiency (c) Judging the Liquidity

(05) State one limitation of Financial Statement Analysis.

Ans.: As the answer of question no. 03.

(06) State the significance of Analysis of Financial Statements to the 'Lenders/Creditors/Managers'.

Ans.: As the answer of question no. 01.

(07) What is Horizontal Analysis? / What is Vertical Analysis?

Ans.: Horizontal analysis shows comparison of financial data for several years against a chosen year. Example – Comparative financial statements.
Vertical analysis is made to review and analyze the financial statements of one particular year only. Example – Ratio Analysis

(08) State how qualitative aspects are ignored in Financial Statement Analysis?

Ans.: Financial statements produces the performance & position of a firm in monetary terms only and excluded the things which cannot be expressed or recorded in monetary terms like quality of management, quality of labour force, public relations etc.

(09) State one objective of Financial Statement Analysis.

Ans.: As the answer of question no. 04.

(10) How is 'window dressing' a limitation of Financial Statement Analysis?

Ans.: As the answer of question no. 03 (d).

Expected Questions:

(11) What is Intra-firm Analysis?

Ans.: A comparison of financial variables of a firm over a period of time. In other words, comparison of one year of performance with previous years' performance is called intra-firm comparison.

(12) What is Inter-firm Analysis?

Ans.: It analyses and compares financial variables of two or more firms to determine the competitive position of these firms.

One Mark Questions

1	Which category of ratios measures how well the facilities at the disposal of the concern are being utilized?
2	**Assertion (A):** Proposed dividend for the current year is a contingent liability. **Reason (R):** Proposed dividend for the current year is not recorded in the books of account. (a) Both A & R are true & R is the correct explanation of A. (b) Both A & R are true & R is not the correct explanation of A. (c) A is true but R is false. (d) R is true but A is false.
	Case Study: Following are the information of some items of Ajay Ltd. for the year 2022:

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
Preliminary Expenses	2,40,000	Motor Vehicles	4,75,000
Goodwill	30,000	Stock in trade	1,40,000
Discount on issue of Debentures	20,000	Provision for tax	1,35,000
10% Debentures	2,00,000	Cash at bank	1,20,000
Bills receivable	16,000	Loose tools	12,000

Based on the above information you are required to answer the following questions.
(Q. 3 to Q.6)

3	Which of the following items is shown under the head 'Current Assets' while preparing company's Balance Sheet as per Schedule III of Company Act 2013? (a) Motor Vehicles, Stock in trade, Provision for tax, Cash at bank, Loose tools

(b) Bills receivable, Stock in trade, Provision for tax, Cash at bank, Loose tools
(c) Bills receivable, Stock in trade, Cash at bank, Loose tools
(d) Stock in trade, Provision for tax, Cash at bank, Loose tools, Preliminary Expenses.

4 Which of the following items is shown under the head 'Non-Current Assets 'while preparing company's Balance Sheet as per Schedule III of Company Act 2013?
(a) Motor Vehicles, Stock in trade, Goodwill, Cash at bank, Loose tools
(b) Bills receivable, Goodwill, Motor Vehicles, Loose tools
(c) Goodwill, Motor Vehicles, Loose tools
(d) Goodwill, Motor Vehicles

5 Loose tools are shown under the sub head _____ of the Balance Sheet as per Revised Schedule III of Companies Act, 2013.
(a) Fixed Assets (b) Other Current Assets
(c) Inventories (d) Stocks

6 Goodwill is shown under the sub head _____ of the Balance Sheet as per Revised Schedule III of Companies Act, 2013.
(a) Fixed Assets (b) Non-Current Assets
(c) Intangible Assets (d) Tangible Assets

7 Which of the following is not a limitation of analysis of financial statements?
(a) Window Dressing (b) Price level changes ignored
(c) Subjectivity (d) Intra-firm comparison possible

8 Financial Analysis becomes useless because it _____.
(a) Measures the profitability (b) Measures the solvency
(c) Lacks qualitative analysis (d) Makes a comparative study

Case Study: Following are the information of some items of Bahadur Ltd. for the year 2022:

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
Preliminary Expenses	2,40,000	Motor Vehicles	4,75,000
Goodwill	30,000	Stock in trade	1,40,000
Discount on issue of Debentures	20,000	Provision for tax	1,35,000
		Cash at bank	1,20,000
10% Debentures	2,00,000	Loose tools	12,000
Bills receivable	16,000		

Based on the above information you are required to answer the following questions. (Q.9 to Q.12)

9 How much amount is shown under the head 'Current Assets' while preparing company's Balance Sheet as per Schedule III of Company Act 2013?
(a) Rs. 8,82,000
(b) Rs. 4,23,000
(c) Rs. 2,88,000
(d) Rs. 6,47,000.

10 How much amount is related to the sub head 'Reserves & Surplus' of the Balance Sheet as per Revised Schedule III of Companies Act, 2013.
(a) Rs. 2,60,000 (b) Rs. 3,95,000
(c) Rs. 20,000 (d) Rs. 2,40,000

11	How much amount is shown under the head 'Non-Current Assets' while preparing company's Balance Sheet as per Schedule III of Company Act 2013? a) Rs. 8,82,000 (b) Rs. 5,33,000 (c) Rs. 5,17,000 (d) Rs. 5,05,000
12	How much amount is shown under the Sub-head 'Inventories' while preparing company's Balance Sheet as per Schedule III of Company Act 2013? (a) Rs. 1,50,000 (b) Rs. 1,52,000 (c) Rs. 2,88,000 (d) Rs. 3,47,000
13	Assertion (A): Horizontal analysis is also known as static analysis. Reason (R): Static analysis is made to review & analyse the financial statements of one year only. (a) Both A& R are true & R is the correct explanation of A. (b) Both A& R are true & R is not the correct explanation of A. (c) A is true but R is false. (d) R is true but A is false.
14	Which analysis is considered as dynamic? (a) Horizontal Analysis (b) Vertical Analysis (c) Internal Analysis (d) External Analysis
15	Sale of services is a part of _____ . (a) Other income (b) Other expenses (c) Finance of cost (d) Revenue from operations
16	Balance sheet of a company is required to be prepared as per the format given in (A) Schedule III Part II (B) Schedule III Part I (C) Schedule III Part III (D) Schedule II Part I.
17	Which of the following is not required to be prepared under the Companies Act (A) Statement of Profit and Loss (B) Balance Sheet (C) Report of Director's and Auditor's (D) Funds Flow Statement
18	As per Companies Act, the Balance Sheet of a company is required to be presented in …… (a) Horizontal Form (b) Vertical Form (c) Either Horizontal or Vertical Form (d) Neither of the above
19	Analysis of Financial Statement is significant (a) For creditors (b) For Managers (c) For employees (d) All the above

Answers to Objective Type Questions:

1. Activity Ratios or Turnover Ratios
2. (b) Both A& R are true & R is not the correct explanation of A.

Hint: Because it is subject to the approval by the shareholders, who may reduce the amount of dividend to be paid.

3. (c) Bills receivable, Stock in trade, Cash at bank, Loose tools
4. (d) Goodwill, Motor Vehicles
5. (c) Inventories
6. (a) Fixed Assets
7. (d) Intra-firm comparison possible
8. (c) Lacks qualitative analysis
9. (c) Rs. 2,88,000

10. Rs. 2,60,000
11. Rs. 5,05,000.
12. Rs. 1,52,000.
13. (d) R is true but A is false.
Hint: Horizontal analysis is known as dynamic analysis.
14. (a) Horizontal Analysis
15. (d) Revenue from operations
16. (B) Schedule III Part I
17. (C) Report of Director's and Auditor's
18. (b) Vertical Form
19. (d) All the above

Analysis of Financial Statements

CASH FLOW ANALYSIS

Cash flow analysis is the study of the changes in the financial position of a business enterprise during a given period on the basis of cash.
In other words, it studies the changes in the cash position of a business enterprise between two balance-sheet dates.
Its main aim is to maintain an adequate cash flow for the business, and to provide the basis for cash flow management.
Cash flow analysis is a method of analyzing the financing, investing, and operating activities of a company. The primary document used in cash flow analysis is the cash flow statement.

RATIO ANALYSIS

Accounting ratio shows the relationship between two accounting figures.
Ratio analysis is the process of computing and presenting the relationships between the items in the financial statement.
It is an important tool of financial analysis, because it helps to study the financial performance and position of a concern.
Ratios show strengths and weaknesses of the business.
Ratio Analysis has been widely used as a tool for analyzing the performance of the company over the years.
Trend of the ratios indicates whether the company is moving in the right direction or not.

♫ Current ratio is 2:1. State whether ratio will improve, decline or no change if a creditor of ₹ 5,000 has been paid.
Ans. & Hints: Assumed as the Current Assets is ₹ 20,000 & Current Liabilities ₹ 10,000. Payment to creditor of Rs 5,000 will reduce the current assets and current liabilities too. Therefore, the proportion between them will be 15,000 : 5,000. Thus, the new Current ratio will be 3:1. Hence, Current Ratio will be Improve.

HINTS

(1) Only Numerator increased or only Denominator decreased than ratio will improve.
(2) Only Numerator decreased or only Denominator increased than ratio will decline.
(3) Numerator and Denominator increased with same figures, ratio will decline.
(4) Numerator and Denominator decreased with same figures, ratio will improve.

Current Assets are *Numerator* & Current Liabilities are *Denominator* in Current Ratio.

Ratios Analysis: Formulas & Significance

Current Ratio: Current Assets Current Liabilities	This ratio shows short-term financial position of the firm. Higher the ratio shows greater short-term solvency but a very higher ratio shows idleness of working capital. Standard (ideal) ratio is 2:1.
Liquid/Quick Ratio: Quick Assets Current Liabilities	This ratio is based on those current assets which are highly liquid. Higher the Liquid/Quick/Acid-Test ratio better the short-term financial position of the firm. Standard ratio is 1:1.
Debt-Equity Ratio: Long-term Debt Equity/Shareholders Fund	This ratio judges the long-term financial position & soundness of long-term financial policies of the firm. Lower the ratio provides higher degree of protection to lender. Standard Ratio – 2:1. **Equity = Paid-up sh.capital+Pref.Sh.Cap.+Reserves – Fict.Assets**
Total Asset to Debt Ratio: Total Assets Lon-Term Debts	This ratio measures the safety margin available to the suppliers of long-term debts.
Proprietary Ratio Shareholder Funds **X 100** Total Assets	This ratio shows the extent to which the total assets have been financed by the proprietor. Higher the ratio, greater the satisfaction for lenders and creditors. Standard Ratio – 2:1.
Stock Turnover Ratio: Cost of Goods Sold Average Stock	This ratio measures how fast the stock is moving through the firm and generating sales. Higher the ratio, the more efficient management of inventories and vice-versa. It is expressed in times.
Receivable Turnover ratio: Net Credit Sales Average Accts Receivables	This ratio indicates economy and efficiency in the collection of amount due from debtors. Higher the ratio, better it is since it indicates that debts are being collected more quickly.
Payable Turnover Ratio: Net Credit Purchases Average Payable	It indicates the number of times the creditors are turned over in relation to purchases. A higher turnover ratio or shorter payment period shows the availability of less credit or yearly payments.
Working Capital Turnover: COGS / Net Sales Net working Capital COGS=Cost of Goods Sold	This ratio shows the number of times the working capital has been employed in the process of carrying on of business. Higher the ratio, better the efficiency in the utilization of working capital. If, COGS & Net Sales both are given than COGS should be used.
Fixed Assets Turnover: Net Sales Net Fixed Assets	A higher ratio indicates efficient utilization of fixed assets and vice-versa. Net Fixed Assets = Fixed Assets – Depreciation.
Gross Profit Ratio; Gross Profit **X 100** Net Sales	This ratio indicates the relationship between gross profits and net sales. Higher ratio shows low cost of goods sold.
Operating Ratio: **COGS + Operating Exp.** **X 100** **Net Sales**	This ratio is calculated to judge the operational efficiency of the business. A decline in the ratio, is better because it would leave a high margin, which means more profits.
Net Profit Ratio: Net Profit **X 100** Net Sales	It indicates overall efficiency of the business. Higher the ratio, better the business.
Return on Investment: (Capital Employed) PBIT & D **X 100** Capital Employed	It judges the overall performance of the business. It measures, how efficiently the sources entrusted to the business are used. Capital Employed = Share Capital + Reserves + Long-Term Loans – Fictitious Assets – Non-operating Assets. OR = Fixed Assets + Investments + Working Capital.

(01) The Current Ratio of a company is 3:1. State with reason whether the payment of Rs 20,000 to the creditors will increase, decrease or not change the ratio.

Ans.: The Current Ratio will increase due to payment to the creditors, current assets and current liabilities will be reduced by the same amount.

(02) Quick Ratio of a company is 3:1. State with reason whether the ratio will improve, decline or not change on payment of dividend by the company.

Ans.: Quick Ratio will improve as both liquid assets and current liabilities will decrease by the same amount.

(03) The Stock Turnover Ratio of a company is 3 times. State, giving reason, whether the ratio improves, decline or does not change because of increase in the value of closing stock by Rs 5,000.

Ans.: Stock Turnover Ratio will decline because the amount of average stock will increase but cost of goods sold will remain same.

(04) The GP Ratio of a company is 50%. State with reason whether the decrease in rent received by Rs 15,000 will increase, decrease or not change the ratio.

Ans.: Decrease in rent received will not change the gross profit ratio because rent received neither effects the gross profit or the net sales.

(05) The Quick ratio of a company is 1:1. State giving reasons, (for any four) which of the following would improve, reduce or not change the ratio?

(a) Purchase of machinery for cash
(b) Purchase of goods on credit
(c) Sale of furniture at cost
(d) Sale of goods at a profit
(e) Redemption of debentures at a premium

(a) Decrease. As Quick assets decreased but current liabilities remain unchanged.
(b) Decrease. As current liabilities increased but quick assets remain unchanged.
(c) Improve. As Quick assets increased but current liabilities remain unchanged.
(d) Improve. As Quick assets increased but current liabilities remain unchanged.
(e) Decrease. As Quick assets decreased but current liabilities remain unchanged.

(06) The Debt-Equity ratio of a company is 0.8:1. State whether the long-term loan obtained by the company will improve, decline or not change the ratio.

Ans.: Debt-Equity Ratio will improve as the long-term debts will increase but total shareholders' funds remain unchanged.

(07) What will be the operating profit ratio, if operating ratio is 83.64%?

Ans.: Operating Profit Ratio = 100 – 83.64 = **16.36 %**

(08) OM Ltd has Current Ratio is 3.5:1 and Quick Ratio is 2:1. If the excess of Current Assets over the Quick Assets as represented by Stock is ₹ 1,50,000.
Calculate Current Assets and Current Liabilities.

Ans.:

Let's Current Liabilities be X, therefore, Current Assets = 3.5X and Quick Assets = 2X
Stock = Current Assets – Quick Assets;
1,50,000 = 3.5X – 2X; 1.5X = 1,50,000; X = 1,00,000
Current Assets = 3.5 X 1,00,000 = 3,50,000; Current Liabilities = 1,00,000.

(09) (a) A business has a Current ratio of 3:1 and a Quick ratio of 1.2:1. If the Working capital is ₹ 1,80,000, calculate the total current liabilities value of stock.

Ans.:

Let's Current Liabilities be X, therefore, Current Assets = 3X and Quick Assets = 1.2X
Working Capital = Current Assets – Current Liabilities
1,80,000 = 3X – X; 2X = 1,80,000; X = 90,000 i.e. current liabilities
Current Assets = 2,70,000; Quick Assets = 1,08,000; Stock = Current Asset – Quick Assets
Stock = 2,70,000 – 1,08,000 = 1,62,000.

(b) From the given information calculate the Stock turnover ratio: Sales ₹ 2,00,000; GP 25% on cost; Stock at the beginning is 1/3 of the stock at the end which was 30% of Sales.

Ans.:

Cost = X; Gross Profit = 25% on X; GP = X/4

Sales = Cost + Gross Profit; 2,00,000 = X + X/4; 2,00,000 = 5X/4; 5X = 8,00,000; X(Cost) =1,60,000.

Stock at the end = 30% on Sales; = 60,000; Opening Stock = 1/3 of 60,000 = 20,000

Average Stock = (60,000 + 20,000) / 2 = 40,000

Stock Turnover Ratio = Cost of goods sold / Average Stock

STR = 1,60,000 / 40,000 = 4 Times.

(10) Assuming that the debt-Equity ratio is 2. State giving reasons whether this ratio would increase, decrease or remain unchanged in the following cases (Any four):

(a) Purchase of fixed asset on a credit of 2 months.
(b) Purchase of fixed asset on a long-term deferred payment basis.
(c) Issue of new shares for cash.
(d) Issue of bonus shares.
(e) Sale of fixed asset at a loss of ₹ 3,000.

Solution:

(a) No change. Neither equity nor the debts are affected.
(b) Increase. As the debts are increasing.
(c) Decrease. As Shareholders' Funds will increase.
(d) No change. Neither the total long-term debt nor the total shareholders' funds are affected.
(e) No change. Shareholders' funds are decreased by loss but LT debts remain unchanged.

(11) (a) Net profit after interest but before Tax ₹ 1,40,000. 15% long term debts ₹ 4,00,000, Share holders funds ₹ 2,40,000; Tax Rate 50%. Calculate Return on Capital Employed (Investment)

ROI = Net Profits before Interest, Tax & Dividend / Capital Employed X 100

NPBI&T = 1,40,000 + 60,000 = 2,00,000

Capital Employed = Shareholders' funds + Lon-term Debts + Reserve & Surplus

= 2,40,000 + 4,00,000 + (1,40,000 – 70,000 Tax) = 6,40,000 + 70,000 = 7,10,000.

Return on Investment = 2,00,000 / 7,10,000 X 100; = 28.17 %.

(b) Opening Stock ₹ 60,000; Closing Stock ₹ 1,00,000; Stock turn over ratio 8 times; Selling price 25% above cost. Calculate the Gross Profit Ratio.

Gross Profit Ratio = Gross Profit / Net Sales X 100; Gross Profit = Sales – Cost of goods sold

Stock Turnover Ratio = Cost of goods sold / Average Stock

Average Stock = Opening stock + Closing stock / 2; = 60,000 + 1,00,000 / 2 = 80,000

8 = Cost of goods sold / 80,000; Cost of goods sold = 6,40,000

Selling price 25% above cost, therefore Gross profit = 25% of 6,40,000 = 1,60,000

Selling Price = 6,40,000 + 1,60,000 = 8,00,000.

Cash Flow Statement

Cash flow statement is a part of financial statements which is required to prepare by companies as per Accounting Standard – 3 and provisions of the Companies Act.

The statement of cash flow shows inflows and outflows of the cash and cash equivalents of an enterprise over a period of time from various activities of an enterprise.

This information is useful in providing users of financial statements with a basis to assess the ability of the enterprise to generate cash and cash equivalents and the needs of the enterprise to utilize those cash flows.

Cash Flow Statement to be prepared as per AS-3:

(A) Cash Flow from Operating Activities
(B) Cash Flow from Investing Activities
(C) Cash Flow from Financing Activities

Cash Flow – Cash flow from business activities either inwards the business or outwards from the business.

Flow of cash towards the business from its activities is called – Inflow of Cash.
Flow of cash outwards from the busines with its activities is called – Outflow of cash.

Cash flow statement shows inflows (receipts) and outflows (payments) of cash and cash equivalents of an enterprise during a specified period of time.

Objectives:

(A) To provide information about cash flow from operating, investing and financing activities during a specific period.
(B) To provides the information about the direction of flow of cash from one activity to another.
(C) To enables the users to assess the ability of the enterprise to generate cash and cash equivalents.

1. **Operating Activity** is the principal revenue producing activity of the enterprise,
2. **Financing Activity** is that activity which changes the size & composition of owner's capital & borrowing of the enterprise
3. **Investing Activity** include the acquisition and disposal of long-term assets.

Cash Flow from **Operating Activity** has four important sections as –

(a) Net profit before tax & dividend
(b) Adjustments for Non-Cash and Non-Operating charges, losses / Incomes, gains
(c) Adjustments for changes in Working Capital
(d) Tax paid during an accounting period

Sample Format for Cash Flow from Operating Activity

Statement showing computation of Cash Flow from Operating Activities (Indirect Method)			
	Note No.		----------
Net Profits before Tax & Dividend	**(1)**		
Adjustment for Non-Cash & Non-Operating Items:	**(2)**	---------	
Add: Depreciation		---------	
Add: Transfer to General Reserve		---------	
Add: Goodwill Written Off		--------	
Add: Loss on sale of Fixed Asset		(-------)	---------
Less: Gain on sale of Fixed Asset			----------
Operating Profit before change in working capital			---------
Adjustment for working capital changes:	**(3)**	---------	
Add: Increase in Current Liabilities (Inflow)		---------	
Add: Decrease in Current Assets (Inflow)		(--------)	
Less: Increase in Current Assets (Outflow)		(--------)	
Less: Decrease in Current Liabilities (Outflow)			----------
			(--------)
Less: Income Tax Paid	**(4)**		----------
Net Cash flow From Operating Activities			

(1) Net Profit before tax and dividend

Net Profit (Difference of two years Reserves & Surplus) + provided Tax + Provided Dividend

(2) Adjustments for Non-Cash and Non-Operating charges, losses / Incomes, gains

- **Add**: Those non-cash & non-operating items which is charged while preparing statement of profit & loss account but for which there was no flow of cash –
  - >> Depreciation on fixed tangible assets
  - >> Amortization on fixed Intangible assets
  - >> Loss on sale of fixed assets
  - >> Interest paid on borrowings
  - >> Transfer to General Reserve
- **Less**: Those non-cash & non-operating incomes, gains which were taken into account while preparing statement of profit & loss account but for which there was no flow of cash –
  - >> Gain on sale of fixed assets
  - >> Interest, Dividend received on Investments

(3) <u>Adjustments for changes in Working Capital</u>

Working Capital = Current Asset – Current Liabilities

Flow of cash due to change in working capital is not counted while preparing statement of profit & loss account, therefore, cash flow due to changes in working capital during an accounting period must be considered while preparing Cash Flow from Operating Activity.

<u>** The balance Creditors at the beginning of year was ₹ 22,000 and at the end of year ₹ 12,000.</u>

>>> ₹ 10,000 paid to creditors during an accounting year is called "Out Flow of Cash"

Therefore, if Current Liabilities has been decreased are called – out flow of cash; and Current Liabilities has been increased are called – In Flow of Cash

<u>** The balance of Stock at the beginning of year was ₹ 45,000 and at the end of year ₹ 20,000.</u>

>>> ₹ 25,000 decrease in stock due to sale and amount of cash received is called "In-Flow"

Therefore, if Current Assets has been decreased are called – In-Flow of Cash; and Current Assets has been increased are called – Out-Flow of Cash.

Changes in Working Capital	Current Assets	Current Liabilities
Increase	Out-Flow of Cash	In-Flow of Cash
Decrease	In-Flow of Cash	Out-Flow of Cash

(4) Tax paid during an accounting period

<u>Cash Flow from Financing Activities</u>

(1) Issue of shares ---------- : In-Flow of Cash
(2) Issue of Debentures ---------- : In-Flow of Cash
(3) Borrowing long term Loans ---------- : In-Flow of Cash
(4) Interest paid on Debentures, Loans ---------- : Out-Flow of Cash
(5) Dividend paid to shareholders ---------- : Out-Flow of Cash
(6) Redemption / Re-Payment of Debentures / Loans - : Out-Flow of Cash

<u>Cash Flow from Investing Activities</u>

(1) Purchase of Fixed Assets---------- : Out-Flow of Cash
(2) Investment made to outside ---------- : Out-Flow of Cash
(3) Investment Sold ---------- : In-Flow of Cash
(4) Old Fixed Asset (Tangible) Sold ---------- : In-Flow of Cash
(5) Interest, Dividend received ---------- : In-Flow of Cash

<u>Cash Flow Statement</u>

(A)	**Cash Flow from Operating Activities**	XXXX
(B)	**Cash Flow from Financing Activities**	XXXX
(C)	**Cash Flow from Investing Activities**	<u>XXXX</u>
	Cash Inflow during year from business activities	**XXXX**
	Add: Opening Cash & Cash Equivalents	<u>XXXX</u>
	Closing Cash & Cash Equivalents	**<u>XXXX</u>**

One Mark Questions

Question 1. Issue of shares in consideration of purchase of plant and machinery results into :

(a) Inflow of Cash (b) Outflow of Cash
(c) Neither Inflow nor Outflow (d) None of these

Answer: (c) Neither Inflow nor Outflow

Question 2. Under which type of activity will you classify 'sale of shares of another company' while preparing the cash flow statement?

Answer: 'Sale of shares of another company' will be classified under Investing Activity while preparing the cash flow statement.

Question 3.

If net profit is ₹ 50,000 after writing off goodwill ₹ 10,000 then the cash flow from operating activities will be:

(a) ₹ 60,000 (b) ₹ 40,000 (c) ₹ 50,000 (d) ₹ 30,000

Answer: (a) ₹ 60,000

Question 4.

If net profit is ₹ 35,000 after writing off good will ₹ 6,000 and loss on sale of furniture ₹ 1,000, cash flow from operating activities will be :

(a) ₹ 35,000 (b) ₹ 42,000 (c) ₹ 29,000 (d) ₹ 28,000

Answer: (b) ₹ 42,000

Question 6.

Cash from operating activities will decrease due to :

(a) Increase in Current Assets (b) Decrease in Current Liabilities
(c) Neither of the two (d) Both (a) and (b)

Answer: (d) Both (a) and (b)

Question 8.

While calculating operating profit which will be added to net profit:

(a) Interest received (b) Profit on sale of Asset
(c) Increase in General Reserve (d) Refund of Tax

Answer: (c) Increase in General Reserve

Question 9.

While calculating cash flow from operating netivities which will be deducted ?

(a) Increase in Creditors (b) Increase in Debtors
(c) Decrease in Debtors (d) Decrease in Prepaid Expenses

Answer: (b) Increase in Debtors

Question 10.

While calculating cash flow from operating activities, which will be added ?

(a) Increase in Stock (b) Increase in Creditors
(c) Decrease in Bills Payable (d) Increase in Debtors

Answer: (b) Increase in Creditors

Question 11.

An example of Cash Flow from Investing Activities :

(a) Cash Sales (b) Issue of Shares
(c) Payment of cash for purchase of machinery (d) Payment of Dividend

Answer: (c) Payment of cash for purchase of machinery

Question 12.

An example of Cash Flows from Financing Activity is :

(a) Sale of goods (b) Sale of Investment
(c) Cash receipts from issue of shares (d) Interest received

Answer: (c) Cash receipts from issue of shares

Question 13.

How will you treat payment of 'Interest of Debentures' while preparing a Cash Flow Statement ?

(a) Cash Flow from Operating Activities (b) Cash Flow from Investing Activities
(c) Cash Flow from Financing Activities (d) Cash Equivalents

Answer: (c) Cash Flow from Financing Activities

Question 14.
Where will you show purchase of goodwill in Cash Flow Statement:
(a) Cash Flow from Operating Activities (b) Cash Flow from Investing Activities
(c) Cash Flow from Financing Activities (d) Cash Equivalent
Answer: (b) Cash Flow from Investing Activities
Question 15.
Interest received by a finance company is classified under which kind of activity while preparing a Cash Flow Statement ?
(a) Cash Flow from Operating Activities (b) Investing Activities
(c) Financing Activities (d) Cash Equivalent
Answer: (a) Cash Flow from Operating Activities
Question 16.
Which of the following item is considered as cash equivalents:
(a) Bank Overdraft (b) Bills Receivable
(c) Debtors (d) Short-term Investment
Answer: (a) Bank Overdraft
Question 17.
Which of the following item is not considered as cash equivalents ?
(a) Bank Overdraft (b) Commercial Papers
(c) Treasury Bills (d) Investment
Answer: (d) Investment
Question 18.
Cash payment to employees is a Cash Flow from:
(a) Operating Activities (b) Investing Activities
(c) Finance Activities (d) All the above
Answer: (a) Operating Activities
Question 19.
Which of the following is not a Cash in Flow ?
(a) Sale of Fixed Asset (b) Purchase of Fixed Asset
(c) Issue of Debentures (d) Sale of Goods for Cash
Answer: (b) Purchase of Fixed Asset
Question 20.
In cash flow statement, the item of 'Interest' is shown in:
(a) Operating Activities (b) Investing Activities
(c) Financial Activities (d) In both (d) & (c)
Answer: (d) In both (d) & (c)
Question 21.
Which of the following is not a Cash Outflow:
(a) Increase in Creditors (b) Increase in Debtors
(c) Increase in Stock (d) Increase in prepaid expenses
Answer: (a) Increase in Creditors
Question 22.
Cash from operation is equal to :
(a) Net Profit + Increase in Current Assets
(b) Net Profit + Decrease in Current Liabilities
(c) Operating Profit + Adjustment of Current Assets and Current Liabilities
(d) All of the above
Answer: (b) Net Profit + Decrease in Current Liabilities
Question 23. Income tax refund is a cash of:
(a) Source (b) Application (c) Both (a) & (b) (d) None of these
Answer: (a) Source
Question 24. Cash Flow Statement in based upon:
(a) Cash basis of accounting (b) Accrual basis of accounting
(c) (a) and (b) both (d) None of these

Answer: (a) Cash basis of accounting
Question 25.
Cash Flow Statement is related to:
(a) AS-3 (b) AS-6 (c) AS-9 (d) AS-12
Answer: (b) AS-6
Question 26.
Cash Flow Statement is prepared from:
(a) Balance Sheet (b) Profit & Loss Account
(c) Additional Information (d) All of these
Answer: (d) All of these
Question 27.
Following Is included in Cash Flow from Operating Activities:
(a) Royalties, Fees, Commission (b) Purchase of Debentures
(c) Purchase of Machinery (d) issue of Shares
Answer: (a) Royalties, Fees, Commission
Question 28.
Following are included in cash equivalent:
(a) Treasury Bill (b) Trade Bill
(c) Bank Deposits of Short Maturity Period (d) All of above
Answer: (d) All of above
Question 29.
Claims received from Insurance Companies are treated as:
(a) Cash Flow from Operating Activities (b) Cash Flow from Investing Activities
(c) Cash Flow from Financing Activities (d) None of these
Answer: (a) Cash Flow from Operating Activities
Question 30.
Which activity comes under 'Operating Activities' ?
(a) Purchase of Land (b) Issue of Debentures
(c) Proceeds from Issuance of Equity Shares (d) Cash Sales
Answer: (d) Cash Sales
Question 31.
Which of the following is not a cash inflow ?
(a) Decrease in Debtors (b) Issue of Debentures
(c) Decrease in Creditors (d) None of these
Answer: (c) Decrease in Creditors
Question 32.
Which one of following is not a non-cash item ?
(a) Cash Sales (b) Goodwill written off
(c) Depreciation (d) Provision of Bad Debts
Answer: (a) Cash Sales
Question 33.
Cash flow statement according to AS-3 is mandatory to:
(a) All enterprises (b) Companies listed on a stock exchange
(c) Enterprises having turnover expending 50 Rs crore (d) (b) & (c) both
Answer: (d) (b) & (c) both
Question 34.
Decrease in Current Asset is…….in operating profit
(a) Subtracted (b) Added (c) Divided (d) Multiplied
Answer: (b) Added
Question 35.
Following are true about cash equivalent:
(a) More Liquid Short-term Investment (b) Minimum risk
(c) Maturity of 3 months or less than 3 months (d) All the above
Answer: (d) All the above

Question 36.
Which of the following activity comes under Financial Activities ?
(a) Receipts from issuance of Equity Shares (b) Cash Sales
(c) Bank Overdraft (d) Purchase of Debentures
Answer: (a) Receipts from issuance of Equity Shares
Question 37.
An analysis of cash flow is useful for..—------planning.
(a) Short-term (b) Long-term
(c) Medium-term (d) Very Long-period
Answer: (a) Short-term
Question 38.
Which calculating cash flow from operating activities which is added net profit ?
(a) Increase in Stock (b) Decrease in Stock
(c) Increase in Debtors (d) Decrease in Creditors
Answer: (b) Decrease in Stock
Question 39.
Which of the following is not the source of Cash?
(a) Purchase of Fixed Assets (b) Funds from Operations
(c) Issue of Debentures (d) Sale of Fixed Assets
Answer: (a) Purchase of Fixed Assets
Question 40.
While calculating profit from operating activities, which will be added back to net profit:
(a) Goodwill Written off (b) Depreciation
(c) Loss on Sale of Fixed Assets (d) All the Above
Answer: (d) All the Above
Question 41.
Profit during the year ₹ 20,000. During the year, there was increase in stock by ₹ 9,000 and decrease in debentures of ₹ 5,000. What is the amount of cash from operating activities ?
(a) ₹ 6,000 (b) ₹ 16,000 (c) ₹ 24,000 (d) ₹ 34,000
Answer: (b) ₹ 16,000
Question 42. Given:
Net Profit during the year ₹ 1,00,000
Debtors in the beginning the year of ₹ 30,000
Debtors at the end of the year ₹ 36,000
What is the amount of cash from operating activities ?
(a) ₹ 30,000 (b) ₹ 94,000 (c) ₹ 1,06,000 (d) ₹ 1,66,000
Answer: (b) ₹ 94,000
Question 43.
Net Profit during the year ₹ 30,000. Creditors in the beginning ₹ 24,000 and
Creditors at the end ₹ 16,000
What is the amount of cash from operating activities :
(a) ₹ 30,000 (b) ₹ 34,000 (c) ₹ 22,000 (d) ₹ 40,000
Answer: (c) ₹ 22,000
Question 44.
Redemption of Debentures/Preference shares results into:
(a) Source of fund (b) Use Or application of fund
(c) No flow of fund (d) No flow of cash
Answer: (b) Use Or application of fund
Question 45. Which of the following is not an example of cash outflows?
(a) Repayment of loans (b) Decrease in creditors
(c) Issue of debentures (d) None of these
Answer: (c) Issue of debentures

Three/Four/Six Marks Questions

Question (1) X Ltd, made a profit of ₹ 1,00,000 after considering the following items:

(a) Depreciation on fixed assets ₹ 20,000
(b) (b) Writing off preliminary expenses ₹ 10,000.
(c) Loss on sale of furniture ₹ 1,000.
(d) Provision for taxation ₹ 1,60,000.
(e) Transfer to General Reserve ₹ 14,000.
(f) Profit on sale of machinery ₹ 6,000.

Items		31/03/2007 (₹)	31/03/2008 (₹)
Debtors	Out-flow	24,000	30,000
Creditors	In-flow	20,000	30,000
Bills Receivable	In-Flow	20,000	17,000
Bills Payable	Out-flow	16,000	12,000
Prepaid Expenses	Out-flow	400	600

Solution: **Calculation of Cash Flow from Operating Activities**

Particulars			(₹)
Net Profit before Tax		**2,74,000**	
Net Profit	1,00,000		
Provision for Taxation	1,60,000		
Transfer to General Reserve	40,000		
Adjustment for:			
Add: Depreciation on Fixed Assets		20,000	
Witting off Preliminary Expenses		10,000	
Loss on Sale of Furniture		1,000	
Less: Profit on Sale of Machinery		(6,000)	
Operating Profit before Working Capital Changes		**2,99,000**	
Add: Increase in Creditors (Inflow of cash)			
Decrease in Bills Receivable (Inflow)		10,000	
Less: Increase in Debtors (Outflow)		3,000	
Decrease in Bills Payable (Outflow)		(6,000)	
Increase in Prepaid Expenses (Outflow)		(4,000)	
Net Cash Flow from Operating Activities		(200)	**3,01,800**
		3,01,800	

Net Flow of Cash = Inflow of Cash – Outflow of Cash

Question (2) From the following summarized balance sheets of a company, calculate cash flow from operating activities:

Particulars	**31.3.2019 (₹)**	**31.3.2020 (₹)**
I. Equity and Liabilities		
Share holder's funds:		
Equity Share Capital	1,00,000	1,00,000
Reserves & Surplus (Profit & Loss Balance)	30,000	60,000
Non Current Liabilities:		
6% Debentures	**60,000**	80,000
Current Liabilities:		
Creditors	30,000	35,000
Bills Payable	30,000	10,000
Other Current Liabilities	40,000	45,000
Total	**2,90,000**	**3,30,000**
II. Assets		
Non Current Assets: Fixed assets	1,50,000	1,90,000
Non Current Investments	40,000	30,000
Current Assets		
Stock	40,000	30,000
Debtors	40,000	45,000
Cash	20,000	35,000
Total	**2,90,000**	**3,30,000**

Additional Informations:

(1) A piece of machinery costing ₹ 5,000, on which depreciation of ₹ 2,000 had been charged was sold for ₹ 1,000. Depreciation charged during the year was ₹ 17,000.

(2) New debentures have been issued on 1st August, 2019**.**

Solution: **Calculation of Cash Flow from Operating Activities**

Particulars				(₹)
(A) Cash Flow from Operating Activities:			30,000	
Net Profit before Tax & Dividend				
Net Profit		30,000		
Adjustment for: (Non-Cash / Non-Operating)				
Add: Interest on Debenture @ 6%	4,400			
Loss on sale of Machinery	2,000			
Depreciation	17,000		23,400	
Operating Profit before Working Capital Changes			53,400	
Add:				
Increase in Creditors	5,000			
Increase in other liabilities	5,000			
Decrease in Stock	10,000	20,000		
Less:				
Decrease Bills Payable	20,000			
Increase in Debtors	5,000	(25,000)	(5,000)	
			48,400	
Less: Tax paid during year			NIL	
Net Cash Flow from Operating Activities				**48,400**
(B) **Cash Flow from Investing Activities:**				
(1) Investments sold			10,000	
(2) Machinery purchased			(60,000)	
(3) Old Machinery sold			1,000	
(C) **Cash Flow from Financing Activities:**				**(49,000)**
(1) Issue of Debentures			20,000	
(2) Interest paid on debentures			(4,400)	**15,600**
Cash Flow / Used from/in business activities during the year				**15,000**
Add: Opening Cash & Cash Equivalents				**20,000**
Closing Cash & Cash Equivalents				**35,000**

Balance of Debenture ₹ 60,000 become increase on 1st August 2019, therefore interest to be claculated on 60,000 for the period of 04 months and on ₹ 80,000 interest to be claculated for 08 months. (1,200 + 3,200 = 4,400)

Machinery Account

Particulars	Amt. in ₹	Particulars	Amt. in ₹
To Balance b/d (3,000 + 1,47,000)	1,50,000	**Bank A/c *investing: Inflow***	1,000
To Bank A/c *investing: outflow*	60,000	Loss on sale A/c *Operating:add*	2,000
(Balancing figure as purchase)		Depreciation A/c *Operating: add*	17,000
		By Balance c/d	1,90,000
	2,10,000		2,10,000

Bank A/c Dr. 1,000
Loss on sale A/c Dr. 2,000
To Machinery A/c 3,000

Sale and Purchase of Non-Current Fixed (Tangible) Assets

Case (A): AB Ltd had the following balance as at 31st March, 2019 and as at 31st March, 2020 as under –

	(Amt. in ₹)	Amt. in ₹
Machinery A/c	1,50,000	1,90,000

** A piece of machinery costing ₹ 5,000 (depreciation thereon ₹ 2,000) sold at ₹ 1,000.

** Depreciation made on Machinery during the year was ₹ 17,000.

You are required to show the above information in the Cash Flow Statement.

Solution: **Cash Flow Statement**

		Amount	Amount in ₹
(A) Cash Flow from Operating Activities:			
Net Profit before Tax & Dividend		**XXXX**	
Add: Non-Cash/Operating charges		**19,000**	
(1) Loss on sale of machinery	**2,000**		
(2) Depreciation	**17,000**		
(B) Cash Flow from Financing Activities:			
(C) Cash Flow from Investing Activites:			
(1) Sale of machinery			**1,000**
(2) Purchase of machinery			**(60,000)**

Machinery Account

Particulars	Amt. in ₹	Particulars	Amt. in ₹
To *Balance b/d* (3,000 + 1,47,000)	*1,50,000*	**Bank A/c *investing: Inflow***	**1,000**
To Bank A/c *investing: outflow*	**60,000**	**Loss on sale A/c**	**2,000**
(Balancing figure as purchase)		*Operating:add*	17,000
		Depreciation A/c *Operating: add*	*1,90,000*
		By *Balance c/d*	
	2,10,000		2,10,000

Bank A/c Dr. 1,000
Loss on sale A/c Dr. 2,000
To Machinery A/c **3,000**

Case (B): AB Ltd had the following balance as at 31st March, 2019 and as at 31st March, 2020 as under –

Machinery A/c	1,50,000	1,90,000
Provision for Depreciation A/c	30,000	35,000

** A piece of machinery costing ₹ 5,000 (**depreciation thereon ₹ 2,000**) sold at ₹ 1,000.
*** Depreciation on Machinery made during the year **₹ 7,000.**

Solution: **Machinery Account**

Particulars	Amt in ₹	Particulars	Amt in ₹
To *Balance b/d* (**Original Cost**)	*1,50,000*	Provision for Depreciation A/c	2,000
To Bank A/c *investing: outflow*	**45,000**	**Bank A/c *investing: Inflow***	**1,000**
(Balancing figure as purchase)		**Loss on sale A/c**	**2,000**
		Operating:add	*1,90,000*
		By *Balance c/d* (Original Cost)	
	1,95,000		1,95,000

Provision for Depreciation Account

Particulars	Amt in ₹	Particulars	Amt in ₹
Machinery A/c	2,000	Balance b/d	**30,000**
		Depreciation A/c	**7,000**
		(Depreciation of the year as balancing figure)	
Balance c/d	**35,000**		
	37,000		37,000

1. Sale of Machinery by ₹ 1,000 is an OUT FLOW of cash Under Investing Activities
2. Purchase of Machinery by ₹ 45,000 is an Out-Flow of Cash under Investing Activities
3. Depreciation on Machinery for the year ₹ 7,000 is non-cash charged, Add to Operating Activities for adjustment

4. Loss on sale of asset by ₹ 2,000 is non-operating charges, Add to Operating Activities for Adjustment

Que. From the following information of Nova Ltd, calculate the **cash flow from Investing activities**:

Particulars	31.03.2019 (₹)	31.03.2018 (₹)
Machinery (At Cost)	5,00,000	3,00,000
Accumulated Depreciation on Machinery	1,00,000	80,000
Goodwill	1,50,000	1,00,000
Land	70,000	1,00,000

Additional Information: During the year, a machine costing ₹ 50,000 on which the accumulated depreciation was ₹ 35,000, was sold for ₹ 12,000.

Solution: **Machinery Account**

Particulars	Amount in ₹	Particulars	Amount in ₹
Balance b/d	**3,00,000**	Provision for Depreciation A/c	**35,000**
Bank A/c (Purchase as balancing figure)	**2,50,000**	Bank A/c	12,000
		Loss on sale A/c	3,000
		Balance c/d	**5,00,000**
	5,50,000		5,50,000

Provision for Depreciation Account

Particulars	Amount in ₹	Particulars	Amount in ₹
Machinery A/c (transfer entry for accu. dep. on sold asset)	**35,000**	Balance b/d	**80,000**
Balance c/d	**1,00,000**	Depreciation A/c (depreciation of the current year as balancing figure)	**55,000**
	1,35,000		1,35,000

Cash Flow from Investing Activity

(1)	Sale of Machinery	12,000
(2)	Purchase of Machinery	(2,50,000)
(3)	Purchase of Goodwill	(50,000)
(4)	Sale of Land	30,000

Que. The profit of Jova Ltd for the year ended 31st March, 2019 after appropriation was ₹ 2,50,000.

Additional Information:

S. No.	Particulars	Amount (₹)
1.	Depreciation on Machinery	20,000
2.	Goodwill written off	9,000
3.	Loss on sale of Furniture	2,000
4.	Transfer to General Reserve	22,500

The following was the position of Current Assets and Current Liabilities as at 31st March 2018 and 2019:

Particulars	31.03.2018 (₹)	31.03.2019 (₹)
Income received in advance	8,000	----------
Inventories	12,000	8,000

Calculate the Cash flow from operating activities.

Solution: **Cash Flow from Operating Activities**

Particulars			Amount in ₹
Net profit before Tax & Dividend:			2,72,500
Net Profit		2,50,000	
Add: Transfer to General Reserve		22,500	
Add: Depreciation on Machinery	20,000		
Add: Written-off Goodwill	9,000		
Add: Loss on Sale of Machinery	2,000	31,000	31,000
Cash flow before changes in working Capital			3,03,500
Adjustment for Changes in Working-Capital			
Add: Decrease in Inventories	4,000		

Less: Increase in Income received in advance	(8,000)(4,000)	(4,000)
Net Cash Generated (Flow) from Operating Activities during the year		**2,99,500**

Question: Adjustment of Provision for Tax and Dividend in Cash Flow Statement

Case A:

Particulars	31.03.2019	31.03.2020
Provision for Tax	22,000	30,000

Adjustment: ……

Solution:

(1) Tax paid during year for the provided amount of tax in the previous year i.e. 2018-19 ₹ 22,000.

Therefore, it is a case of Out-Flow of Cash under operating activity, it will be subtracted at the end step.

(2) ₹ 30,000 provided tax in the year 2019-20 (current year) is charged to statement of profit & loss Account BUT no flow of cash as it was not paid in the current year and it will be paid in the year 2020-21.

Therefore, it is Non-Cash charge and added back to Net Profit for making Net Profit before Tax & Dividend.

Case B:

Particulars	31.03.2019	31.03.2020
Provision for Tax	22,000	30,000

Adjustment: Tax paid during year 2019-20 ₹ 35,000 **OR** Provision for Tax made in the year 2019-20 ₹ 43,000.

Provision for Tax Account

Particulars	₹	Particulars	₹
To Bank A/c	35,000	By Balance b/d	22,000
		By Statement of Profit & Loss A/c (Provided tax in the year 2019-20 as balancing figure)	43,000
To Balance c/d	30,000		
	65,000		65,000

(1) ₹ 43,000 added back to Net Profit to make it as Net Profit before Tax under Operating Activity

(2) ₹ 35,000 paid Tax, it is an Out Flow of Cash. Therefore, it will be subtracted at the end under Operating Activity.

Proposed Dividend As per AS-4, Contingencies and Events Occurring after the Balance Sheet Date, Proposed dividend is shown in the Notes to Accounts. It will be shown as contingent liability since it becomes a liability after it is declared (approved) by the shareholders. It will be accounted in the books of account after it is declared (approved) by the shareholders in the Annual General Meeting.

Since, previous year's Proposed Dividend will be declared (approved) in the current year; previous year's Proposed Dividend will be accounted as dividend payable. Also, declared dividend is paid within 30 days of its declaration therefore; it will be paid within the same financial year.

Briefly, proposed dividend of previous year after declaration (approved) by the shareholders will be debited to surplus i.e., Balance in Statement of Profit and Loss.

While preparing cash flow statement, previous year's proposed dividend will be added to Net Profit under operating activities and will be shown under financial activity as out-flow of cash.

Question: (9) From the following information, how do you show the calculated amount of dividend and Tax into the Cash Flow Statement?

Particulars	(2019-20)	(2020-21)
Proposed Dividend	**30,000**	
Provision for Tax	50,000	70,000

Adjustment: Interim dividend paid ₹ 20,000.

Solution: ₹ 50,000 also paid in the year 2020-21 which is out-flow of cash under Financing activities.
Provision for Tax: ₹ 50,000 tax paid in the year 2020-21 and ₹ 70,000 provision for tax charged in statement of profit & loss account in the year 2020-21 which is non-cash charge. Therefore, 70,000 added to Net Profit and at the end of Cash Flow from Operating Activities - ₹ 50,000 subtracted.
Proposed Dividend: ₹ 30,000 will be charged in the year of 2020-21 of statement of profit & loss. It is a non-operating charged And dividend will be paid at the approved amount which also ₹ 30,000 in the year 2020-21.

Cash Flow Statement

(A)	**Cash Flow from Operating**		
	a. Net Profit	XXX	XXX
	Add: Non-Cash charge		
	Provision for Tax 2020-21		70,000
	Add: Non-Operating charge		
	Proposed Dividend (30,000 + 20,000)	50,000	
		1,20,000	
	Less: Tax paid	(50,000)	
(B)	**Cash Flow from Financing**		
	Payment of Dividend (30,000 + 20,000)		(50,000)
(C)	**Cash Flow from Investing**		

******Remember ----------**

S.N.	Particulars	Trading and Manufacturing Enterprises	**Bank, Financing Enterprises**
1	**Interest Paid: Out-Flow**	Financing	**Operating**
2	**Dividend Paid: Out-Flow**	**Financing**	**Financing**
3	**Interest Received: In-Flow**	Investing	**Operating**
4	**Dividend Received: In-Flow**	Investing	**Operating**

KENDRIYA VIDYALAYA SANGATHAN, RAIPUR REGION
BLUE PRINT
Model Paper 2022-23
CLASS: XII
SUBJECT: ACCOUNTANCY (055)

S.No.	Name of unit	1 mark	3 marks	4 marks	6 marks	TOTAL
1.	Accounting for Partnership Firms	11	3	1	2	36
2.	Accounting for Companies	5	1	1	2	24
3.	Analysis of Financial Statements	2	2	1	0	12
4.	Cash Flow Statement	2	0	0	1	8
					TOTAL	80
	INTERNAL CHOICE	7	2	1	2	

KENDRIYA VIDYALAYA SANGATHAN, RAIPUR REGION
Model Paper 2022-23
CLASS: XII
SUBJECT: ACCOUNTANCY (055)

TIME: 3 Hours **Max Marks: 80**

General Instructions:

1. This question paper contains 34 questions. All questions are compulsory.
2. This question paper is divided into two parts, Part A and B.
3. Part – A is compulsory for all candidates.
4. Part- B has two options i.e. (i) Analysis of Financial Statements and (ii) Computerised Accounting. Students must attempt only one of the given options.
5. Question nos. **1 to 16** and **27 to 30** carry **1** marks each.
6. Question nos. **17 to 20, 31 and 32** carry **3** marks each.
7. Question nos. **21, 22 and 33** carry **4** marks each.
8. Question nos. **23 to 26 and 34** carry **6** marks each.
9. There is no overall choice. However, an internal choice has been provided in **7** questions of one mark, **2** questions of three marks, **1** question of four marks and **2** questions of six marks.

PART A- ACCOUNTING FOR PARTNERSHIP FIRMS AND COMPANY ACCOUNTS

1.	B and C were partners sharing profits in the ratio of 3:2. They admitted D as a new partner for 1/5th share in the profits. D brought ₹.15,000 as goodwill which was distributed between B and C as ₹.10,000 and ₹.5,000 respectively. Find out the new ratio of B, C and D. (a) 3:2:1 (b) 6:4:3 (c) 5:4:3 (d) 7:5:3.	1
2.	A, B and C are partners in the ratio of 5 : 3 : 2. Before B's salary of ₹. 17,000 firm's profit is ₹. 97,000. How much in total B will receive from the firm? (A) ₹. 17,000 (B) ₹. 40,000 (C) ₹. 24,000 (D) ₹. 41,000	1
3.	Amount of money not received out of called up capital is : a) Added to share capital b) Subtracted from share capital c) Shown as current liabilities d) Shown as current asset OR	12

T Ltd had allotted 20,000 shares to the applicants of 24,000 shares on pro rata basis. The amount payable on application is ₹. 2. Manoranjan applied for 450 shares. The number of shares allotted and the amount carried forward for adjustment against allotment money due from him is:

a) 150 shares,₹.375
b) 375 shares,₹.150
c) 400 shares,₹.100
d) 300 shares,₹.300

4. Under ---------- Method, goodwill is the excess of capitalized value of business over actual capital employed. 1

OR

Which of the following statement is false regarding Purchased Goodwill?
a) It arises on purchase of a business or any assets
b) As per Accounting Standard 26 (Intangible Assets), it is not recorded in the books of accounts because consideration in money or money‘s worth has not been paid for it.
c) It is shown in the Balance Sheet as an asset.
d) It is amortized (i.e. depreciated) over its useful economic life.

5. On dissolution of a firm fictitious assets are transferred to: 1

a. credit side of partners capital account
b. debit side of realisation account
c. debit side of partners capital account
d. credit side of realisation account

6. A company forfeited 4,000 shares of ₹.10 each on which application money of ₹. 3 has been paid. Out of these 2,000 shares were reissued as fully paid up and ₹ 2,000 has been transferred to capital reserve. Calculate the rate at which these shares were reissued. 1

a. ₹10 Per share
b. ₹ 9 Per share
c. ₹11 Per share
d. ₹8 Per share

OR

Interest payable on debentures is:

a) An appropriation of profits of the company
b) A charge against profits of the company
c) Transferred to sinking fund investment account
d) Transferred to general reserve.

7. Black Ltd. had issued 5,000 equity shares of ₹. 10 each at par. The application money was ₹. 3 per share and the public applied for 7,500 shares. Pro rata allotment was made. Sohan applied for 450 shares. The amount carried forward towards the sum due on allotment will be: 1

(a) ₹. 1,350
(b) ₹. 900
(c) ₹. 450
(d) ₹. 4,500

8. Anish and Kunal are partners in a firm sharing profits and losses equally 1

Balance Sheet (Extract)

Liabilities	₹.	***Assets***	₹.
		Machinery	60,000

If value of machinery in the balance sheet is overvalued by 20%, then at what value will machinery be shown in new balance sheet:

(a) ₹ 44,000 (b) ₹ 48,000 (c) ₹ 72,000 (d) ₹ 50,000

OR

Assertion: Goodwill is an intangible asset since it has no physical existence and cannot be seen or touched.
Reasoning: It is internally generated over a long period of time.
a) Both (A) and (R) are true and (R) is the correct explanation of (A).
b) Both (A) and (R) are true and (R) is not the correct explanation of (A).
c) (A)is true, but (R) is false

	d) (A)is false, but (R) is true	
9.	A, B and C are partners in a firm sharing profits and losses in the ratio of 2:2:1. On March, 31, 2019 C died. Accounts are closed on December 31st every year. The sales for the year 2018 were ₹. 6, 00,000 and the profits were ₹ 60,000. The sales for the period from January 1, 2019 to March 31st 2019 were ₹.2, 00,000. An amount of ₹___will be given to his executors as his share of profits till the date of death.	1
10.	At the time of retirement, amount remaining in Investment Fluctuation Reserve after meeting the fall in value of Investment is: a) Credited in Sacrificing Ratio b) Credited in New Profit Sharing Ratio c) Credited in Old Profit Sharing Ratio d) Credited in Gaining Ratio	1
11.	Which account is opened to transfer deceased partner's share of profit to his capital account a) P&L Adjustment account b) P&L Appropriation account c) P&L Suspense account d) None of the above	1
12.	Which of the following statement relates to Reserve Capital'? (a) It is a part of uncalled capital of the company. (b) It cannot be used in the lifetime of the company. (c) It is called only on the liquidation of the company. (d) All of the above.	1
13.	On 1st April 2022, P Ltd. issued 20,000 12% Debentures of ₹. 100 each at certain discount and redeemable at a premium of 7%. If there was a balance of ₹. 2,00,000 in Securities Premium Reserve and ₹. 40,000 were debited to Statement of Profit and Loss to write off the Loss on Issue of Debentures, then calculate the rate of discount at which these debentures were issued. (a) 5% (b) 7% (c) 10%(d) none of these.	1
14.	Partner's capital account is credited when there is a) Profit on revaluation b) transfer of general reserve c) transfer of accumulated profits d) All of the above OR In case of partnership the act of any partner is : a) Binding on all partners b) Binding on that partner only c) Binding on all partners except that particular partner d) None of the above.	1
	Rakesh and Vijay were partners with capitals of ₹. 1,20,000 and ₹. 1,60,000 respectively. On 1st April, 2010 they admitted Neeraj as a partner. Rakesh and Vijay surrendered half of their respective shares in favour of Neeraj. Neeraj brings his capital ₹. 2,00,000 and his share of goodwill in cash. Goodwill of the firm is valued at ₹. 3,60,000 on admission of Neeraj. On that date the creditors of Rakesh and Vijay were ₹. 60,000 and Bank Overdraft was ₹. 15,000. Their assets apart from cash included Stock ₹. 10,000; Debtors ₹. 40,000; Plant ₹. 80,000 and Building ₹. 2,00,000. On the basis of above information, answer questions 15 and 16.	
15.	What would be the amount of cash balance in firm before admission of Neeraj? (A) ₹. 25,000 (B) ₹. 1,00,000 (C) ₹. 3,55,000 (D) ₹. 75,000	1
16.	Neeraj would bring ₹. …….. as his share of goodwill. (A) ₹. 3,60,000 (B) ₹. 90,000 (C) ₹. 50,000 (D) ₹. 80,000	1

17.	Dinakar, Navita and Vani were partners sharing profits and losses in the ratio of 3:2:1. Navita died on 30th June, 2017. Her share of profit for the intervening period was based on the sales during that period, which were ₹ 6,00,000. The rate of profit during the past years had been 10% on sales. The firm closed its books on 31st March every year. Calculate Navita's share of profit.	3
18.	Jyoti and Riya started a partnership firm with capitals of ₹ 1,00,000 and ₹ 50,000 on 1st April 2019 for this. Jyoti expressed her willingness to admit Neema as a partner without capital. Riya agrees to this. The terms of partnership were as follows: (i) Jyoti, Riya and Neena will share profits in the ratio of 2:2:1. (ii) Interest on Capital will be provided @ 6% p.a. Due to shortage of Capital, Jyoti contributed ₹ 25,000 on 30th September 2019 and Riya contributed ₹ 10,000 on 1st January 2020 as additional Capital. The profit of the firm for the year ended 31st March 2020 was ₹ 1, 68,900. Prepare the Profit and Loss Appropriation account for the year ended 31st March 2020. OR Rakesh, Mukesh and Mahesh were partners sharing profits in the ratio of 3:3:2. The partnership provided for the following: (i) Salary of ₹ 2000 per quarter to Rakesh and Mukesh. (ii) Mahesh was entitled to a commission of ₹. 8,000. (iii) Mukesh was guaranteed a profit of ₹ 50,000 p.a. The profit of the firm for the year ended 31st March 2020 was ₹ 1,19,000 which was distributed among Rakesh, Mukesh and Mahesh in the ratio of 2:2:1 without taking into consideration the provisions of partnership deed. Pass necessary rectifying entry for the above adjustments in the books of the firm. Show your workings clearly	3
19.	Pass necessary Journal Entries for the issue of Debentures in the following cases : (i) ₹ 30,000, 12% Debentures of ₹ 100 each issued at a discount of 5% redeemable at par. (ii) ₹60,000, 12% Debentures of ₹ 100 each issued at a discount of 5% redeemable at ₹ 105 OR X Ltd purchased a Machinery of ₹ 3,00,000 from Y Ltd; immediately paid by Promissory Note of ₹ 30,000 and balance by issue of 9% Debenture of ₹ 100 each at 10% discount. Pass necessary Journal entries in the books of X Ltd. for the above transactions.	3
20.	Alka and Bela started business in partnership on 1st Jan 2020 and contributed ₹ 1,00,000 and ₹ 80,000 respectively for capital the term of partnership deed are as follows:- (i) Interest on capital and drawing @10% and 12% respectively. (ii) Alka to get a monthly salary of ₹ 2,000 and Bela to get commission of ₹10,000 p.a (iii) Profit and loss to be shared in the ratio of their capital. The profit for the year was ₹ 1, 30,030 before making the above adjustments. The drawings during the year were ₹ 20,000 and ₹ 16,000 of Alka and Bela respectively. Prepare Profit and Loss appropriation Account assuming capitals are fixed for the year ended 31-12-2020.	3
21.	The authorized capital of Mars Ltd. is ₹.50,00,000 divided into equity shares of ₹.10 each. The company invited applications for 2,00,000 shares. The issue was fully subscribed. All calls were made and were duly received except the final call of ₹.2 per share on 5,000 shares. 2,500 shares on which final call was not received were forfeited. Show how Share Capital will appear in the balance sheet of the company as per Schedule III of the Companies Act ,2013, also prepare Notes to Accounts.	4
22.	Ishu and Nishu are partners share profits and losses in the ratio of 3:2. They have decided to dissolve the firm. Assets and external liabilities have been transferred to Realisation A/c. Pass the Journal entries to effect the following: a) Ishu's loan Loan of ₹. 20,000 was settled at ₹. 18,000. b) Ishu was to bear all expenses of realisation for which she is given a commission of ₹600. c) Machinery worth ₹. 5,000 was taken over by Nishu at ₹4,700. d) Deferred Advertisement Expenditure A/c appeared in the books ₹10,000.	4

23. (A) C India Ltd. purchased machinery from B India Ltd. Payment to B India Ltd. was made as follows : 6

(i) By issuing 10,000 equity shares of ₹ 10 each at a premium of 20%.
(ii) By issuing 1000, 9% debentures of ₹ 100 each at a discount of 5%.
(iii) Balance by giving a bank draft of ₹ 37,000.
Pass necessary journal entries in the books of C India Ltd. for the purchase of machinery and payment to B India Ltd. (3 marks)

(B) On April 1, 2019 Z Ltd. issued, 10,000, 8% Debentures of ₹ 100 each at premium of 5%, to be redeemable at a premium of 10%, after 5 years. The entire amount was payable on application. The issue was oversubscribed to the extent of 10,000 debentures and the allotment was made proportionately to all the applicants. The securities premium amount has not been utilized for any other purpose during the year. Give journal entries for the issue of debenture. (3marks).

24. Vinay and Madan were partners sharing profits in the ratio of 2:1. On 1st April 2019, They admitted Sunil, a retired army officer who had lost his legs while servicing in army, as a new partner for 1/4 share in profits. Sunil will bring 60,000 for Goodwill and ₹ 50,000 as capital, At the time of admission of Sunil the Balance Sheet Vinay and Madan was as under :- 6

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital accounts		Plant	66,000
Vinay 7,0000		Furniture	30,000
Madan 60,000	1,30,000	Investment	40,000
		Stock	46,000
General Reserve	18,000	Debtors 38,000	
Bank Loan	18,000	Less PBD- 4,000	34,000
Creditors	72,000	Cash	22,000
Total	2,38,000	Total	2,38,000

It was decided to
(i) Reduce the value of stock by ₹.10, 000.
(ii) Plant to be valued at ₹ 80,000.
(iii) An amount of ₹.3,000 included in creditors was not payable.
(iv) Half of the investment were taken over by Vinay and remaining were valued at ₹.25,000.
Prepare revaluation account and partners' capital account.

OR

The balance sheet of Dhoni, Kohli and Ganguli who were sharing profit in the ratio of 3:3:4 respectively, as on 31st March 2020 was as under:-

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Accounts		Goodwill	18,000
Dhoni 10,000		Stock	14,500
Kohli 12,000		Machinery	9,000
Ganguli 4,000	26,000	Sundry Debtors	16,000
General Reserve	11,000	Land and Building	16,000
Employees provident fund	7,000	Bank	25,500
Loan	24,000	Advertisement	
Trade Creditors	30,000	suspense A/C	5,000
Workmen compensation reserve	6,000		
Total	1,04,000	Total	1,04,000

It was agreed that Dhoni shall retire on 1st April 2020 as per the following conditions:-
(a) Goodwill of the firm is to be valued at three years' purchase of the average of annual profits of the last four yeas. The profits for the preceding four years were ₹.30,000; ₹.80,000; ₹.12,000; ₹.14,000; no goodwill account is to be raised.
(b) Stock is agreed to be valued at ₹ 13,500.
(c) Land and Building are to be revalued at ₹ 24,000 and machinery at ₹ 60,000.

(d) Provision for doubtful debts at 5% on sundry debtors is to be created.
(e) An unclaimed liability included in creditors of ₹ 400 is to be written back.
Prepare Revaluation Account and Partners' capital account.

25. R Ltd has been registered with an authorized capital of ₹ 2,00,000 divided into 2000 shares of ₹ 100 each of which 1000 shares were offered for public subscription at a premium of ₹ 50 per share payable as under: Application- ₹ 30; Allotment ₹ 70(including premium); First call ₹ 20; final call ₹ 30. Applications were received for 2000 shares of which application for 500 shares were rejected. The rest of the applications were allotted 1000 shares on pro-rata basis. Excess application money was transferred to share allotment account. 6

All money was duly received except from Mohan, holder of 200 shares, who failed to pay allotment money and first call money. His shares were later on forfeited and re issued to Hari at ₹ 60 per share as ₹ 70 paid up. Final call is not yet made. Record journal entries.

OR

(a) N Ltd .issued 2,000 shares of Rs100 each. All the money was received except on 200 shares on which only Rs 90 were received. These shares were forfeited and out of the forfeited shares 100 shares were reissued at Rs 80 each as fully paid up. Pass necessary journal entries for the forfeiture and reissue of shares. (4marks)

(b) Complete the following Entries: (2 marks)

Date	Particulars	Debit	Credit
i	Share capital A/c Dr To calls- in – arrears A/c To Share Forfeiture A/c (Being the forfeiture of 1000 shares of Rs10 each ,Rs8 Called up, on which allotment money of Rs2 and First Call of Rs3 has not been received)	----------	 ---------- ----------
ii	Bank A/c Dr To Share Capital A/c To Securities Premium reserve A/c (Being reissue of 1000 forfeited shares fully paid up at Rs11 per share)	11,000	 10,000 1,000
Iii	Share Forfeiture A/c Dr To Capital reserve A/c (Being gain on forfeiture and reissue of shares transferred to Capital reserve Account)	----------	 ----------

26. A, B and C were partners. B died on 30th June, 2021. Under the partnership agreement the executor of B was entitled to: 6
(a) Amount standing to the credit of his capital a/c ₹. 30,000.
(b) Interst on his capital ₹. 375.
(c) His share of goodwill ₹. 21,000.
(d) His share of profit till the date of death ₹. 2,625.
B's executor was paid ₹. 20,400 on 1st July 2021 and the balance in four equal annual installments starting from 30th June, 2022 with interest as per Section 37 of Indian Partnership Act, 1932. Prepare B's Executor's account till it is finally paid.

Part – B
(Analysis of Financial statements)

27. Balance Sheet (Extract) 1

Equity and liabilities	31-3-2019(₹)	31-3-2020(₹)
10% Debentures	2,00,000	1,60,000

Additional Information:
Interest on debentures is paid on half yearly basis on 30th September and 31st March each year.
Debentures were redeemed on 30th September 2019.
How much amount (related to above information) will be shown in Financing Activity for Cash Flow Statement prepared on 31st March 2020?
a) Outflow ₹ 40,000.
b) Inflow ₹ 42,000.

c) Outflow ₹ 58,000.
d) Outflow ₹ 64,000

OR

Determining operating efficiency and profitability is an objective of financial analysis. T/F

28. What will be the Current ratio of a company whose Net Working Capital is Equal to current liability? 1

29. Which of the following transactions would result in neither cash inflow nor outflow of cash and cash equivalents? 1

a. Issue of share capital
b. Issue of bonus shares
c. Redemption of debentures
d. Trade receivables realized.

OR

Give an example of the activity which remains a financing activity for all types of organisations whether Financial organization or Non- financial organization.

30. Goods sold on credit will increase an ideal current ratio. T/F. 1

31. Classify the following items under major heads and Sub-head (if any) in the balance Sheet of a Company as per schedule III of the Companies act 2013. 3

(i) Loose Tools
(ii) Current maturities of Long term debts
(iii) Provision for Pension of employees
(iv) Unclaimed Dividend
(v) Marketable securities
(vi) Prepaid Insurance.

32. Briefly explain the significance of "Analysis of Financial Statements" to 3

(a) The Finance Manager
(b) To Trade Payables.

33. Calculate Total Assets to Debt Ratio from the following Information: 4

Capital Employed	₹ 40,00,000
Shareholder's Fund	₹ 24,00,000
Current Liabilities	₹ 4,80,000

OR

On the basis off the following information, calculate:
(i) Debt-Equity Ratio and
(ii) Working Capital Turnover Ratio.

Information:

Net Revenue from Operations	60,00,000
Cost of Revenue from Operations	45,00,000
Other Current Assets	11,00,000
Current Liabilities	4,00,000
Paid Up Share Capital	6,00,000
6% Debentures	3,00,000
9% Loan	1,00,000
Debenture Redemption reserve	2,00,000
Closing Inventory	1,00,000

34. Prepare a cash flow statement from the following balance sheet: 6

Particulars	Note No.	31.03.2020 (₹.)	31.03.2019 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a)Share Capital		6,00,000	5,00,000
(b) Reserve and Surplus	1	4,00,000	2,00,000
2. Current Liabilities			
Trade payables		2,80,000	1,80,000
Total		12,80,000	8,80,000

II. Assets			
1. Non current assets:			
(a)Fixed assets			
(i)Plant and machinery		5,00,000	3,00,000
2. Current assets:			
a)Inventories		1,00,000	1,50,000
b)Trade receivables		6,00,000	4,00,000
c)Cash and cash equivalents		80,000	30,000
Total		12,80,000	8,80,000

Notes to accounts:

Particulars	31-03-2020 (₹.)	31-03-2019 (₹.)
1. Reserve and Surplus:		
Surplus (Balance in statement of Profit and Loss)	4,00,000	2,00,000

Additional information:
i) An old machinery having book value of ₹ 50,000 was sold for ₹ 60,000.
ii) Depreciation provided on machinery during the year was Rs 30,000.

KENDRIYA VIDYALAYA SANGATHAN, RAIPUR REGION
Model Paper 2022-23
CLASS: XII (MARKING SCHEME)
SUBJECT: ACCOUNTANCY (055)

TIME: 3 Hours **Max – Marks: 80**

PART A- ACCOUNTING FOR NOT FOR PROFIT ORGANISATIONS, PARTNERSHIP FIRMS AND COMPANY ACCOUNTS

1.	(d) 7:5:3.	1
2.	(d) ₹. 41,000	1
3.	(b) Subtracted from share capital OR (b) 375 shares, ₹.150	1
4.	Capitalisation of average profit OR b) It is amortized (i.e. depreciated) over its useful economic life	1
5.	c) debit side of partners' capital account	1
6.	d) ₹ 8 Per share OR b) A charge against profits of the company	1
7.	Answer/Explanation: (c) 450 Amount adjusted will be: Applied shares=450; allotted shares=300 Excess paid to be adjusted on allotment = (450- 300)*3=450	1
8.	(d) ₹ 50,000 OR (b) Both (A) and (R) are true and (R) is not the correct explanation of (A).	1
9.	₹ 4,000.	1
10	c) Credited in Old Profit Sharing Ratio	1
11.	(c) P&L Suspense account	1
12.	(d) All of the above.	1
13.	(a) 5%.	1
14.	d) All of the above OR a) Binding on all partners	1
15.	a) 25,000	1
16.	(b) ₹. 90,000	1

17. Share of profits of Navita = Average Profits x Intervening periods x shares of Navita 3

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

18. IOC- Jyoti- 6,750; Riya- 5,150 3

Share of profit- Jyoti- 62,800; Riya- 62,800; Neena- 31,400.

OR

Ramesh Capital a/c	Dr.	9,600	
Mukesh Capital a/c	Dr.	800	
To Mahesh's Capital a/c			10,400

19. 3

(i) Bank A/c	Dr.	28,500	
To 12% Debentures Application and Allotment A/c			28,500
12% Debentures Application and Allotment A/c	Dr.	28,500	
Loss on Issue of debentures A/c	Dr.	1,500	
To 12% Debentures A/c		30,000	
(ii) Bank A/c	Dr.	57,000	
To 12% Debentures Application and Allotment A/c			57,000
12% Debentures Application and Allotment A/c	Dr.	57,000	
Loss on Issue of debentures A/c	Dr.	6,000	
To 12% Debentures A/c		60,000	
To Premium on Redemption of Debentures A/c		3,000	

OR

Journal Entries

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
1	Machinery A/c Dr.		3,00,000	
	To Promissory note A/c			30,000
	To Y Ltd.			2,70,000
2	Y Ltd. Dr.		2,70,000	
	Discount on Issue of Debentures A/c Dr.		30,000	
	To 9% Debentures A/c			3,00,000
3	Statement of Profit & Loss Dr.		30,000	
	To Discount on Issue of Debentures A/c			30,000

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

20. Int on drawings =(1200+960) 1 mark 3

Int on capital = (10,000+8,000) 1 mark

A's salary = 24,000 } ½ mark
B's commission = 10,000 }

Profit distributed to Alka ₹ 44,550 and Bela ₹ 35,640 ½ mark

21. An Extract of Balance Sheet of Mars Ltd — 4

Particulars	Note No.	Rs.
I. EQUITY AND LIABILITIES		
Shareholder's Funds	1	19,90,000

1 + 3

Note to Accounts

Particulars		Rs.
1. Share Capital		
Authorised Capital		
5,00,000 Equity Shares of Rs.10 each		50,00,000
Issued Capital		
2,00,000 Equity Shares of Rs.10 each		20,00,000
Subscribed Capital		
Subscribed and Fully paid-up		
1,95,000 Equity Shares of Rs.10 each		
19,50,000		
Subscribed but not Fully paid-up		
2,500 Shares of Rs.10 each	25,000	
Less: Calls-in-Arrears (2,500xRs.2)	5,000	
	20,000	19,90,000
Add: Forfeited Shares A/c (2,500xRs.8)	20,000	
40,000		

22. Journal Entries — 4

a) Ishu's Loan A/c …. Dr. 20,000
To Realisation A/c 2,000
To Bank/Cash A/c 18,000

b) Realisation A/c …. Dr. 600
To Ishu's Capital A/c 600

c) Nishu's Capital A/c …. Dr. 4,700
To Realisation A/c 4,700

d) Ishu's Capital A/c …. Dr. 6,000
Nishu's Capital A/c …. Dr. 4,000
To Deferred Adv. Exp. A/c 10,000

(1*4)=4 marks

23. — 6

A.

(i) Machinery A/c Dr. 2,52,000
To B Ltd. 2,52,000

(ii) B Ltd. Dr. 2,52,000
Loss on Issue of Debentures A/c Dr. 5,000
To Equity share Capital a/c 1,00,000
To 9% Debentures A/c 1,00,000
To Securities Premium Reserve A/c 20,000
To Bank A/c 37,000

(iii) Securities Premium Reserve A/c Dr. 5,000
To Loss on Issue of Debentures A/c 5,000

B.

(i) Bank A/c Dr. 21,00,000
To 8% Debentures Application and Allotment A/c 21,00,000

(ii) 8% Debentures Application and Allotment A/c Dr. 21,00,000
Loss on Issue of Debentures A/c Dr. 1,00,000
To 8% Debentures A/c 10,00,000
To Securities Premium Reserve A/c 50,000

To Premium on redemption of debentures A/c 1,00,000
To Bank a/c 10,50,000

(iii) Securities Premium Reserve A/c Dr. 50,000
Statement of profit & Loss Dr. 50,000
To Loss on Issue of Debentures A/c 1,00,000

24. 6

Partners' Capital Account

	Vinay	Madan	Sunil		Vinay	Madan	Sunil
To Investment	20,000			Bal b/d	70000	60000	
				G/R	12000	6000	
				G/W Prem	40000	20000	
To Bal c/d	1,10,000	90,000	50000	Rev.profit	8000	4000	
				cash			50000
	1,30,000	90,000	50000		1,30,000	90,000	50000

Revaluation Account

To Stock	10,000	By Plant	14,000
To partners' Capital Vinay- 8,000		By Creditors	3,000
Madan 4,000	12,000	By Investment	5,000
	22,000		22,000

Revaluation account -3 marks
Partners' capital account – 3 marks
OR
Profit on Revaluation account – 57,600
Dhoni's Loan a/c- 38,800
Kohli's Capital A/c- 2,914(Dr.)
Ganguli's Capital A/c- 15,886 (Dr.)

25. 6

Date	Particulars	Debit₹	Credit₹
(i)	Bank A/C Dr To Share application A/C (being application money received on 2,000 shares@30)	60,000	 60,000 (1/2 Mk)
(ii)	Share application A/C Dr To Share Capital A/C To Share allotment A/C To Bank A/C (being application money transferred to share capital , excess money transferred to share allotment and money returned on rejected on 500 shares)	60,000	 30,000 15,000 15,000 (1MK)
(iii)	Share allotment A/C Dr To Share Capital A/C To Securities Premium A/C (being allotment money made due)	70,000	 20,000 50,000 (1/2Mk)
(iv)	Bank A/C Dr Calls-in –arrears A/C Dr To Share allotment A/C (being allotment money received except on 200 shares)	44,000 11,000	 55,000 (1Mk)
(v)	Share first call A/C Dr To Share capital A/C (being first call money made due)	20,000	 20,000 (½ Mk)
(vi)	Bank A/C Dr Calls-in-arrears A/C Dr To Share first call A/C (being first call money received)	16,000 4,000	 20,000 (1Mk)
(vii)	Share capital A/C Dr	14,000	

	Securities Premium A/C Dr Calls-in- arrears A/C Share forfeited A/C (Being 200 shares forfeited)	10,000	 15,000 9,000 (1 ½ Mk)

OR

(a)

Date	Particulars	Debit (₹)	Credit (₹)
(i)	Share capital A/C Dr Calls-in- arrears A/C Share forfeited A/C (Being 200 shares forfeited)	20,000	 2,000 18,000 (1 Mk)
(ii)	Bank A/C Dr Share forfeited A/C Dr Share Capital A/C (being 100 shares being re-issued @80 as fully paid)	8,000 2,000	 10000 (1Mk)
(iii)	Share forfeited A/C Dr To Capital Reserve A/C (being gain on forfeiture and reissue tfd to capital reserve)	7,000	 7,000 (1 Mk)

Capital Reserve = 18,000 x 100/200 = 9,000(sh.ff credit)
Less: sh.ff Dr = 2,000
Capital Reserve = 7,000 (1Mk)

(b)

Date	Particulars	Debit₹	Credit₹
(i)	Share capital A/C Dr To Calls-in- arrears A/C To Share forfeited A/C (Being the forfeiture of 1000 shares of Rs10 each ,Rs8 Called up, on which allotment money of Rs2 and First Call of Rs3 has not been received)	8,000	 5,000 3,000 (1 Mk)
(ii)	Bank A/C Dr To Share Capital A/C To Securities Premium A/C (Being reissue of 1000 forfeited shares fully paid up at Rs11 per share)	11,000	 10,000 1,000
(iii)	Share forfeited A/C Dr To Capital Reserve A/C (Being gain on forfeiture and reissue of shares transferred to Capital reserve Account)	3,000	 3,000 (1 Mk)

26.	Amount transferred to B's executor's Loan A/c on 30 June, 2021= ₹. 60,000 Amount Paid on 01 July, 2021= ₹. 20,400 Amount Paid on 30 June, 2022= ₹. 12,400 Amount Paid on 30 June, 2023= ₹. 11,800 Amount Paid on 30 June, 2024= ₹. 11,200 Amount Paid on 30 June, 2025= ₹. 10,600.	6
27.	C. Outflow ₹ 58,000 OR True	1
28	2:1	1
29.	b. Issue of bonus shares OR Interest paid	1

30. False. 1

31. 3

Items	Major Heading	Sub-heading
(i) Loose Tools	Current Assets	Inventories
(ii) Current maturities of Long term debts	Current Liabilities	Other Current Liabilities
(iii) Provision for Pension of employees	Non-Current Liabilities	Long term Provisions
(iv) Unclaimed Dividend	Current Liabilities	Other Current Liabilities
(v) Marketable securities	Current assets	Cash and cash Equivalents
(vi) Prepaid Insurance.	Current assets	Other Current assets

32. Correct explanation 3

33. 4

Answer:
Total Assets to Debt Ratio = Total Assets / Debt or Long term Debts
Capital Employed = Shareholder's Funds + Long term Debts
40,00,000 = 24,00,000 = Long Term Debts
Long Term Debts = 16,00,000
Total Assets = Shareholder's Funds + Long term Debts + Current Liabilities
= 24,00,000 + 16,00,000 + 4,80,000
= 44,80,000
Total Assets to Debt Ratio =44,80,000 / 16,00,000 = 2.8.: 1.
OR
Debt-Equity ratio= 0.5 : 1
Working Capital turnover Ratio = 7.5 times.

34. 6

Cash Flow Statement

Particulars	Amount(₹)	Amount(₹)
I. **Cash flow from operating activities**:		
Net profit before tax (4,00,000-2,00,000)		2,00,000
Adjustment for non cash and non operating items:		
Depreciation	30,000	
Profit on sale of machinery	(10,000)	20,000
Operating profit before working capital changes		2,20,000
Change in current assets and current liabilities:		
Decrease in inventories	50,000	
Increase in trade receivable	(2,00,000)	
Increase in trade payables	1,00,000	(50,000)
Net cash inflow from operating activities		1,70,000
II. **Cash flow from investing activities**:		
Sale of plant	60,000	
Purchase of plant	(2,80,000)	
Net cash used in investing activities		(2,20,000)
III. **Cash flow from financing activities**:		
Issue of share capital	1,00,000	
Net cash inflow from financing activities		1,00,000
IV.Net increase in cash and cash equivalents		50,000
V. Opening cash and cash equivalents		30,000
VI. Closing cash and cash equivalents		80,000

Working Note

Plant and Machinery Account

Particulars	Amount	Particulars	Amount
To Balance b/d	3,00,000	By Bank A/c(Sale)	60,000
To Statement of P/L(Profit)	10,000	By Depreciation A/c	30,000
To Bank A/c(Purchase)	2,80,000	By Balance c/d	5,00,000

	5,90,000		5,90,000

Cash used in Operating Activities 2 Marks
Cash used in Investing Activities 2 Marks
Cash from Financing Activities 2 Marks

KENDRIYA VIDYALAYA SANGATHA, RAIPUR REGION
SAMPLE QUESTION PAPER 2022-23 **SET: II**
CLASS: XII
SUBJECT: ACCOUNTANCY (055)

Time Allowed: 03 Hours Max. Marks: 80

General Instructions:

(A) This question paper contains 34 questions. All questions are compulsory.
(B) This question paper is divided into two parts – A and B.
(C) Question 1 to 16 and 27 to 30 carries 1 mark each. Question 17 to 20 and 31 to 32 carries 3 marks each. Question 21, 22 and 33 carries 4 marks each. Question 23 to 26 and 34 carries 6 marks each.
(D) There is no overall choice. However, an internal choice has been provided in 7 questions of 1 mark, 2 questions of three marks, 1 question of four marks and 2 questions of six marks.
(E) One part of all questions should be attempted at one place.
(F) Before attempt to the questions, read carefully.

Part A: Accounting for Partnership Firms and Companies

Q.N.	Questions	M
01	Akash and Babita are partners in a firm sharing profits and losses in the ratio of 3:2. Chetna admitted for as a new partner. Chetna is unable to bring her share of goodwill in cash. Goodwill valued at ₹ 1,50,000. The new profit-sharing ratio between Akash, Babita and Chetna is 2:2:1. Which of the following journal entry is correct for the adjustment of valued goodwill? (a) Chetna's Capital A/c Dr. 1,50,000 To Akash's Capital A/c 90,000 To Babita's Capital A/c 60,000 (b) Chetna's Current A/c Dr. 1,50,000 To Akash's Capital A/c 90,000 To Babita's Capital A/c 60,000 (c) Chetna's Current A/c Dr. 30,000 To Akash's Capital A/c 18,000 To Babita's Capital A/c 12,000 (d) Chetna's Current A/c Dr. 30,000 To Akash's Capital A/c 30,000	1
02	(A) Assertion: Manager's commission provided to profit & loss appropriation A/c. (R) Reason: Manager's commission is a charge against to profits. (a) (A) is correct but (R) is wrong. (b) Both (A) and (R) are correct, but (R) is not the correct explanation of (A) (c) (A) is not correct and (R) is correct. (d) Both (A) and (R) are correct and (R) is the correct explanation of (A)	1
03	A share of ₹ 100 each, issued at ₹ 20 premium out of which ₹ 115 called (including premium) and paid. Directors of the company decides that the remaining to be called in the liquidation of company. The 'reserve capital' of the company is ₹ ------- (a) Zero (b) 15 (c) 20 (d) 5 OR While issuing ---------- type of debentures, company does not allow fixed rate of interest to its debenture holders. (a)Un-secured Debentures (b) Zero Coupon Debentures (c) Non-Redeemable Debentures (d) Secured Debentures	1

04	Aman, Balwant and Chirag are partners in a firm sharing profits and losses in the ratio of 2:2:1. On 1st April 2022, they agreed to share future profits and losses in equal proportion. On the above date, their balance sheet showed the following balances: Profit & Loss (Debit) ₹ 6,000 Workmen's Compensation Fund ₹ 30,000. Claim for workmen's compensation₹ 9,000 Partners have decided to make an adjustment entry for not to affect the book value of above balances. Which of the following adjustment entry is correct for accounting treatment? (a) Aman's Capital A/c Credited by 1,000 (b) Balwant's Capital A/c Credited by 1,000 (c) Chirag's Capital A/c Debited by 2,000 (d) All of the above OR X, Y and Z are partners in a firm sharing profits and losses in the ratio of 3:2:1 with fixed capitals of ₹ 5,00,000; ₹ 4,00,000 and ₹ 3,00,000 respectively. They were allowed interest on capital @ 5% p.a. For the year ending 31st March, 2022, profits of the firm were ₹ 48,000. Which of the following Journal entry is correct for the allocation of profits between partners? (a) Profit & Loss App. A/c Dr. 48,000 To X's Capital A/c 24,000 To Y's Capital A/c 16,000 To Y's Capital A/c 8,000 (b) Profit & Loss App. A/c Dr. 48,000 To X's Capital A/c 20,000 To Y's Capital A/c 16,000 To Z's Capital A/c 12,000 (c) Profit & Loss App. A/c Dr. 48,000 To X's Capital A/c 16,000 To Y's Capital A/c 16,000 To Z's Capital A/c 16,000 (d) None of the above	1
05	Anita and Babita are partners sharing profits and losses in the ratio of 2:1. The balance of their fixed capitals as on 31st March, 2022 were ₹ 3,20,000 and 1,80,000 respectively. Their drawings for the year were ₹ 30,000 and ₹ 20,000 respectively and profits for the year ended 31st March, 2022 ₹ 1,80,000. As per Partnership Deed, they are also allowed for interest on capital @ 10% p.a. The interest on capital for Anita and Babita will be --------- and -------- respectively. (a) ₹ 23,000 and ₹ 14,000 (b) ₹ 20,000 and ₹ 12,000 (c) ₹ 32,000 and 18,000 (d) ₹ 35,000 and 20,000	1
06	Diamond Tech Ltd issued 3,00,000, 12% debentures of ₹ 100 each at 10% discount and to be redeemed after 18 months at 15% premium. At the time of writing off loss on issue of debentures, the balance in securities premium reserve account ₹ 60,00,000. Which of the following amount to be debited to statement of profit & loss account? (a) 15,00,000 (b) 30,00,000 (c) 45,00,000 (d) 60,00,000 OR A FMCG company issued 1,00,000, 15% debentures of ₹ 100 each at certain rate of premium and were to be redeemed at 20% premium. The balance of securities premium reserve become nil after writing off loss on issue of debenture as well as charging ₹ 5,00,000 to statement of profit & loss account. At what rate of premium, these debentures were issued? (a) 5% (b) 10% (c) 15% (d) 20%	1
07	Aditi Ltd inviting to public to subscribe their savings towards the 2,00,000 shares of ₹ 10 each payable ₹ 4 on application per share, ₹ 5 on allotment per share and the balance in first & final call. Public had applied for certain number of shares and application money was received. Which of the following received application money, restrict to the company to proceed for allotment of shares, as per SEBI guidelines? (a) ₹ 6,80,000 (b) ₹ 7,40,000 (c) ₹ 18,00,000 (d) None of the above	1

08 Amar, Akber and Anthony are partners in a firm sharing profits & losses in their capital proportion. The balance of their fixed capital is ₹ 3,00,000; ₹ 2,00,000 and ₹ 1,00,000 respectively. Anthony decides to retire from the firm due to old age, on 31st March, 2022. On that date, the following balances are appeared in the firm's book: 1

General Reserve ₹ 45,000 and Workmen's Compensation Fund ₹ 60,000.
There is a claim for workmen's compensation ₹ 45,000.
Goodwill of the firm valued on the retirement of Anthony ₹ 1,20,000.
The amount to be paid to Anthony on his retirement is ₹ ----------. (fill in the blank)

OR

X, Y and Z are partners in a firm. They did not have any written agreement. The balance of their capitals as on 1st April, 2021 were ₹ 4,50,000; ₹ 3,20,000 and ₹ 1,30,000 respectively. Z was managed whole business on behalf of X and Y.
The profits of the firm for the year ending 31st March, 2022 ₹ 2,40,000.
At the time of allocation of profits, they have the following conflicts:

1. X has claimed for interest on capital @ 10% p.a.
2. Y has claimed for sharing of profits in their capital proportion.
3. Z has claimed for salary @ ₹ 5,000 per month.

The total amount will be credited to X's capital account ₹ ----------. (fill in the blank)

Read the following hypothetical situation, answer question No. 9 and 10.

P and Q are partners in a partnership firm with fixed capitals of ₹ 3,00,000 and ₹ 2,00,000 respectively. The firm allowed commission to P at 10% on net profit after charging such commission. Partners are also allowed interest on capital @ 10% p.a.

Profit & Loss Appropriation Account

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Interest on Capital A/c	50,000	By Profit & Loss A/c	1,10,000
P: 30,000			
Q: 20,000			
To P's Capital A/c	---------		
(Commission @ 10%)			
To Capital A/cs:			
(Share of profits transferred)			
P:	--------		
Q:	--------		
	1,10,000		1,10,000

09 P's commission will be: 1

(a) ₹ 11,000 (b) ₹ 10,000 (c) ₹ 6,000 (d) None of the above

10 Q's share of profit will be: 1

(a) ₹ 55,000 (b) ₹ 24,500 (c) ₹ 19,600 (d) ₹ 25,000

11 Choose the correct sequence of the following in the context of settlement of liabilities on dissolution of a firm: 1

(i) Payment of realization expense
(ii) Payment of partner's claim
(iii) Payment of partner's loan lent to the firm

(a) (i); (ii); (iii)	(b) (ii); (i); (iii)
(c) (iii); (i); (ii)	(d) (i); (iii); (ii)

12 A company forfeited 12,000 shares of ₹ 10 each for the non-payment of allotment ₹ 4 per share and first & final call money ₹ 2 per share. Out of the forfeited shares, only 9,000 shares were re-issued @ ₹ 7 per share fully paid. What is the maximum amount of discount that the company can allow at the time of re-issue of the remaining 3,000 shares? 1

(a) ₹ 9,000 (b) ₹ 10,000 (c) ₹ 12,000 (d) ₹ 15,000

13	As per Section 52 of the Companies Act 2013, Securities Premium Reserve cannot be utilized for ---- (a) Writing off capital losses (b) Issue of fully paid bonus shares (c) Writing off discount on issue of securities (d) Writing off preliminary expenses	1
14	A, B and C are partners in a firm sharing profit in ratio of 5:3:2. They agree to admit D as a new partner for 1/4th share. D brought in cash ₹ 45,000 for premium of goodwill and necessary amount of cash for his share of capital. On the date of D's admission, the balance of capitals of A, B and C (after distribution of accumulate profit/loss & writing off appeared goodwill, adjustment for goodwill premium and gain on revaluation of assets & reassessment of liabilities) ₹ 4,20,000; ₹ 3,00,000 and ₹ 1,80,000 respectively. The share of capital of D which he has to brought in cash is ₹ ----------. (fill in the blank)	1
15	A partner draws a fixed amount at the middle of each quarter. Interest on drawings is charged @ 10% p.a. At the end of year, interest on partner's drawings amounts to ₹ 5,000. Quarterly drawings of partner were: (a) ₹ 1,00,000 (b) ₹ 25,000 (c) ₹ 75,000 (d) ₹ 50,000 OR A partner withdrew ₹ 1,20,000 throughout the year. Interest on drawings was charged as ₹ 6,000. What is the rate of interest on drawings charged? (a) 5% (b) 6% (c) 8% (d) 10%	1
16	A dissolved firm provides the following information: Partner's Mrs Loan ₹ 25,000; Creditors ₹ 75,000; Partners capital ₹ 1,80,000 and cash balance ₹ 45,000. Amount realized from sale of assets ₹ 1,80,000. Loss on dissolution will be ₹ ----------. (fill in the blank)	1
17	Amar, Akber and Anthony are partners in a firm sharing profit in equal proportion. On 30th June, 2021, Akber died. His profit for the year of death to be calculated on the basis of sales turnover and profit of the firm. The profit for the year ending 2020-21 ₹ 1,20,000 and sales turnover for the same year was ₹ 4,80,000. The sales turnover from 1st April, 2021 to 30th June 2021 is ₹ 1,20,000. Find out the share of profit of deceased partner and pass necessary journal entry for it.	
18	Ajay and Balbir formed a partnership firm on 1st October, 2021 to share profits and losses in the capital proportion. Their fixed capitals are --- ₹ 1,80,000 and ₹ 1,20,000 respectively. Interest on capital allowed @ 10% p.a. Profit for the year ended 31st March, 2022 was ₹ 75,000. Ajay guaranteed that Balbir's share of profit after charging interest on capital, would not be less than ₹ 50,000 p.a. Prepare Profit and Loss Appropriation Account. OR Shubham, Mangalam and Murthy were partners in a firm. Their capitals were ₹ 3,00,000; ₹ 2,00,000 and ₹ 1,00,000 respectively as on 1st April, 2021. As per partnership deed, interest on capitals allowed @ 10% p.a. Profits of the firm, for the year ended 31st March, 2022 ₹ 45,000 distributed between partners without providing for interest on capitals. Pass an adjustment entry and show the workings clearly.	
19	AB Ltd take over the business of PK Ltd by taking over of assets of ₹ 9,80,000 and liabilities of ₹ 1,50,000. AB Ltd issued 80,000, 12% debentures of ₹ 10 each to PK Ltd which to be redeemed at 10% premium. Pass necessary journal entries in the books of AB Ltd. OR Royal Agro Ltd purchased the business of Ultra Agro Private Ltd by taking over the following: Sundry Assets ₹ 7,60,000 and Liabilities ₹ 3,20,000.	

	Royal Agro Ltd agreed to pay purchase consideration value by accepting a bill of ₹ 2,00,000 for three months and the balance by issue of 2,500 shares of ₹ 100 each at 10% premium. Pass necessary journal entries for the purchase of Ultra Agro Ltd and settlement of purchase consideration value. Show your working clearly.	
20	A, B and C are partners in a firm sharing profits and losses in the ratio of 5:3:2. On 1st April, 2022, they agree to share future profits / losses in equal ratio. For this purpose, goodwill valued by capitalization of super profit method. On the date of reconstitution, capital employed in the firm ₹ 3,60,000 and average profits of the firm ₹ 72,000. The normal rate of return in the similar line of business is 15%. Make necessary journal entry for the above information and show your working clearly.	
21	New arena Ltd was registered with an authorised capital of ₹ 5,00,00,000 divided in 5,00,000 shares of ₹ 100 each. The company issued 1,50,000 shares to public at 20% premium payable ₹ 40 per share on application (including premium); ₹ 70 per share on allotment. Public had applied for all issued number of shares. All dues on allotment was received except on 15,000 shares. These shares were forfeited and of which, 10,000 shares were re-issued at ₹ 12,00,000 fully paid. You are required to prepare the Balance Sheet of the company as per Schedule III of Companies Act, 2013, showing share capital balance and also prepare Notes to Accounts.	
22	Anamika, Animesh and Anjali were partners in a firm since 2018. On 31st March, 2022, due to suffering a loss from three years, they decide to dissolved the partnership firm. Anamika appointed as to accomplish the process of dissolution and for which an agreed amount ₹ 25,000 credited to her capital account. Anamika transferred all assets (excluding cash balance) and third party's liabilities to realization account. She observed the following information: (a) A creditor of ₹ 45,000 took over unrecorded furniture estimated value ₹ 60,000 at ₹ 50,000. (b) Anamika agree to settle his husband's loan of ₹ 30,000. (c) Realization expense ₹ 20,000 paid by firm. (d) Anjali took over stock (book value ₹ 32,000) at ₹ 27,000 for cash. Pass necessary journal entries for points (a) to (d).	
23	Golden Sky Ltd was registered with an authorised capital of 5,00,000 equity shares of ₹ 100 each. The company issued 2,00,000 shares for public subscription at 20% premium payable as under: On Application : ₹ 40 per share On Allotment : ₹ balance (including premium) Public had applied for 3,00,000 shares. Pro-rata allotment was made to 2,50,000 share applicants and remaining applicants were sent letter of regret. Mr. Rahul holding 15,000 shares failed to pay allotment money and his shares were forfeited. Out of these forfeited shares, 9,000 shares were re-issued at ₹ 80 per share fully paid. Pass necessary journal entries in the books of the Golden Sky Ltd. OR Pass necessary journal entries for forfeiture and re-issue of shares, from the following cases: (a) Akasha Air Ltd forfeited 9,000 shares of ₹ 10 each of Raghav, who had applied 12,000 shares for non-payment of allotment money ₹ 6 (including premium of ₹ 1 per share) and first & final call of ₹ 3 per share. Out of these forfeited shares, only 6,000 shares were re-issued at ₹ 75,000 fully paid. (b) Lotus Infra Ltd forfeited 6,000 shares of ₹ 100 each for the non-payment of allotment money ₹ 50 per share. First & final call of ₹ 30 was not yet made. Out of the forfeited shares, 4,000 shares were re-issued at ₹ 60 per share for ₹ 70 per share.	

24 Mamta and Ranjita were partners in a firm sharing profits and losses in the ratio of 2:1. Their balance sheet as on 31st March, 2022 was as follows:

Balance Sheet (as at 31.03.2022)

Liabilities	Amt. in ₹	Assets	Amt. in ₹
Capital Accounts:	6,00,000	Building	2,60,000
Mamta : 4,00,000		Machinery	1,80,000
Ranjita : 2,00,000		Stock	1,10,000
General Reserve	60,000	Debtors	1,40,000
Workmen's Compensation Fund	30,000	Cash in hand	75,000
Creditors	75,000		
	7,65,000		7,65,000

Sanjana was admitted for 1/4th share on the following terms:

(a) She will bring ₹ 2,00,000 as her share of capital and ₹ 30,000 as premium of goodwill.
(b) Building was appreciated to ₹ 3,00,000 and Machinery depreciated by ₹ 30,000.
(c) Make a provision for doubtful debtors for ₹ 19,000.
(d) Capitals of Mamta and Ranjita will be adjusted on the basis of Sanjana's share and her capital. In the case of surplus or deficit capitals of Mamta and Ranjita, adjustments to be made by brought in or withdraw through cash.

Prepare:

1. Revaluation Account
2. Partners' Capital Account.

OR

A, B and C were partners in a firm sharing profits in equal proportion. Their balance sheet stood at March 31st, 2022 as under:

Balance Sheet (as on 31.03.2022)

Liabilities	Amt. in ₹	Assets		Amt. in ₹
Creditors	30,000	Cash balance		10,000
Bank Loan	60,000	Stock		1,20,000
Capital A/cs:	3,00,000	Debtors	75,000	60,000
A 1,00,000		Less: Prov. for bad debts	(15,000)	
B 1,00,000		Buildings		1,85,000
C 1,00,000		Goodwill		15,000
	3,90,000			3,90,000

A retired on the above-mentioned date on the following terms:

(a) Building to be appreciated by ₹ 15,000.
(b) All debtors are good.
(c) Goodwill of the firm valued at 30,000.
(d) ₹ 50,000 was to be paid immediately to A and the balance in his capital account to be transferred to his Loan Account carrying interest @ 6% p.a.
(e) Remaining partners decided to maintain their capital in equal proportion and adjustment for deficit or surplus capital to be made by opening of their Current Account.

Prepare:

1. Revaluation Account
2. Capital Accounts of partners.

25 Mukund, Madhav and Gajodhar were partners in a firm sharing profits and losses in 3:2:1 ratio. Gajodhar died on 30th June, 2020. As per the terms of partnership deed, the executor's of Gahodhar is entitled for the following:

(a) Balance of capital of deceased partner on the last balance sheet i.e. ₹ 1,20,000.
(b) Share in valued goodwill i.e. ₹ 9,000.
(c) Share in General Reserve ₹ 12,000.

(d) Share in profits (from last balance sheet date to date of death) ₹ 6,000.
(e) Share in Gain on revaluation ₹ 3,000.

₹ 50,000 immediately paid to the executor's of Gajodhar and the balance to be paid in two equal instalments together with interest @ 10% p.a. Financial year followed by the firm.

Prepare:

1. Gajodhar's Capital Account
2. Executor's Account, till the payment of final instalment.

26 The Directors of Surya Ltd decided to enter into the production of health products as it has more demand in the market. The required amount of fund to be arranged from issue of shares as well as borrowing from market.

Therefore, the company issued 15,000; 5% debentures of ₹ 100 each for the meeting of necessary fund in its new project. The debenture was issued at 10% discount on 1st April, 2021 and to be redeemed after three year at 20% premium.

You are required to:

a. Pass necessary journal entries for the issue of debentures.
b. Pass necessary journal entries on March 31st 2022 assuming interest is payable on 30th September and 31st March every year.
c. Prepare – 'Loss on Issue of Debentures Account' assuming there was existing balance of Securities Premium Reserve Account of ₹ 3,50,000.

Part B: Analysis of Financial Statements

27 Financial statements are prepared on certain assumptions (pre-requisites) known as -------.

(a) Provision of Companies Act, 2013	(b) Accounting Standards
(c) Practices, based on fundamental truth	(d) Basis of Accounting

OR

Which one of the following is correct?

(i) Liquidity and Solvency Ratios is called financial ratio.
(ii) If operating ratio is 75% then operating profit ratio will be 25%.
(iii) Higher EPS will not be attracted for investments in the share capital.

(a) All are correct	(b) (i) and (iii) are correct
(c) Only (ii) and (iii) are correct	(d) Only (i) and (ii) are correct

28 A company provide the following:

Net profit after interest but before tax ₹ 20,00,000.

10% Debentures of ₹ 1,00,00,000.

Tax Rate: 40%

Which one of the following is correct Interest Coverage Ratio for company?

(a) 2 times (b) 3 times (c) 4 times (d) 2.5 times

29 Sale of old Machinery at ₹ 35,000 (gain on sale ₹ 5,000) will be recorded in Cash Flow Statement in which of the following manner?

(a) 35,000 added under operating activities as extraordinary item and 35,000 subtracted from operating activities also.	(b) 5,000 subtracted under operating activities as extraordinary item and 5,000 added to Investing activities also.
(c) 5,000 subtracted under operating activities as extraordinary item and 35,000 added to Investing activities also.	(d) 35,000 subtracted under operating activities and 35,000 added to Investing activities also.

OR

There was a balance in securities premium reserve account ₹ 3,00,000 and loss on issue of debenture ₹ 4,50,000. How would you deal this information while preparing cash flow statement?

(a) 3,00,000 added under operating activities as loss on issue of debentures written off.	(b) Added 4,50,000 under operating activities as loss on issue of debentures written off

(c) Added 7,50,000 under operating activities as loss on issue of debentures written off.	(d) 1,50,000 added under operating activities as loss on issue of debentures written off.	

30 From the following information, find the inflow of cash by sale of furniture:

	31st March, 2022	31st March, 2021
Furniture	₹ 3,00,000	₹ 4,00,000

Additional Information:

1. Depreciation for the year 2021-22 on furniture was ₹ 60,000
2. Purchase of furniture during the year 2021-22 ₹ 80,000.
3. Part of furniture sold at a loss of ₹ 15,000.

(a) ₹ 1,80,000 (b) ₹ 1,20,000 (c) ₹ 1,05,000 (d) 1,00,000

31 Classify the following items under Major heads and Sub-heads (if any) in the Balance Sheet of a Company as per schedule III of the Companies Act 2013:

(a) Share Forfeiture Account
(b) Securities Premium Reserve
(c) Computer Designs
(d) Provision for Tax
(e) Employees Provident Fund
(f) Income received in advance

32 Alfa Ltd and Gama Ltd following manipulation of data in accounting information to hide the vital information and to show good pictures about the company.
Identify the limitation of analysis of financial statements for true comparison between two firms' performance and position. Also explain in brief any two other limitations apart from the identified from the above information.

33 Calculate: (1) Return on Investment and (2) Inventory Turnover Ratio; from the following Net profit after interest but before Tax ₹ 1,40,000. 15% long term debts ₹ 4,00,000, Share holders funds ₹ 2,40,000; Tax Rate 50%.

Sales ₹ 2,00,000; GP 25% on cost; Stock at the beginning is 1/3 of the stock at the end which was 30% of Sales.

OR

Assuming that the debt-Equity ratio is 2. State giving reasons whether this ratio would increase, decrease or remain unchanged in the following cases

(f) Purchase of fixed asset on a credit of 2 months.
(g) Purchase of fixed asset on a long-term deferred payment basis.
(h) Issue of new shares for cash.
(i) Issue of bonus shares.

34 Read the following information of AB Ltd and answer the given questions on the basis of the same:

Balance Sheet (as on 31.03.2021)

Particulars	2021-22 (₹)	2020-21 (₹)
I Equity & Liabilities		
1. Shareholders' Funds		
(a) Share Capital	7,00,000	5,00,000
(b) Reserve & Surplus	4,20,000	2,50,000
2. Non-Current Liabilities		
Long-term Loan @ 10%	50,000	1,00,000
3. Current Liabilities		
(a) Trade Payables	45,000	50,000
(b) Other Current Liabilities	7,000	5,000
(c) Short-term Provisions	50,000	30,000
Total	12,72,000	9,35,000

II Assets:			
1. Non-Current Assets			
(a) Fixed Assets			
Tangible Assets		5,00,000	5,00,000
Intangible Assets		95,000	1,00,000
(b) Non-Current Investments		1,00,000	----------
2. Current Assets			
(a) Inventories		1,30,000	50,000
(b) Trade Receivables		1,20,000	80,000
(c) Cash & Cash Equivalents		3,27,000	2,05,000
Total		12,72,000	9,35,000

Notes to Accounts:

Particulars	31.03.2022	31.03.2021
1. Short-Term Provisions		
Provision for Tax	50,000	30,000
2. Fixed Assets		
(a) Tangible		
Equipments	2,30,000	2,00,000
Furniture	2,70,000	3,00,000
(b) Intangible		
Patents	95,000	1,00,000

Additional Information:

During the year equipment costing ₹ 80,000 was purchased. Loss on sale of equipment amounted to ₹ 5,000.

Depreciation charged on equipment and furniture ₹ 15,000 and ₹ 3,000 respectively.

Loan ₹ 50,000 was paid on 31st March, 2022.

Proposed Dividend for the year 2020-21 was ₹ 50,000.

You are required to:

1. Calculate Net Profit before tax and extraordinary items
2. Calculate Operating profit before changes in working capital
3. Calculate Cash flow from operating activities
4. Calculate Cash flow from Investing activities
5. Calculate Cash flow from Financing activities

KENDRIYA VIDYALAYA SANGATHA, RAIPUR REGION

MARKING SCHEME QUESTION PAPER 2022-23

CLASS: XII

SUBJECT: ACCOUNTANCY (055)

Time Allowed: 03 Hours Max. Marks: 80

General Instructions:

(G) This question paper contains 34 questions. All questions are compulsory.

(H) This question paper is divided into two parts – A and B.

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(J) There is no overall choice. However, an internal choice has been provided in 7 questions of 1 mark, 2 questions of three marks, 1 question of four marks and 2 questions of six marks.

Part A: Accounting for Partnership Firms and Companies		
01	**(d)** Chetna's Current A/c Dr. 30,000 To Akash's Capital A/c 30,000	1
02	**(A) is not correct and (R) is correct**.	1
03	**(d)**5 OR (b) Zero Coupon Debentures	1
04	**(d)** All of the above OR **(d)** None of the above	1
05	**(c)** ₹ 32,000 and 18,000	1
06	**(a)** 15,00,000 OR**(c)** 15%	1
07	**(a)**₹ 6,80,000	1
08	1,30,000 OR 80,000	1

09	P's commission will be: (a) ₹ 11,000 **(b)** ₹ 10,000 (c) ₹ 6,000 (d) None of the above	1
10	Q's share of profit will be: (a) ₹ 55,000 (b) ₹ 24,500 (c) ₹ 19,600 **(d)** ₹ 25,000	1
11	**(d)** (i); (iii); (ii)	1
12	**(c)** ₹ 12,000	1
13	**(e) Writing off capital losses**	1
14	3,00,000	1
15	**(b)** ₹ 25,000 OR (d) 10%	1
16	₹ 55,000	1
17	Share of profit of Akber = [Profit 2020-21 : Sales 2020-21 :: profit 2021-22 : Sales 2021-22] x 1/3 = [1,20,000 : 4,80,000 :: Profit for 3 months : 1,20,000] x 1/3 = [30,000] x 1/3 = ₹ 10,000. Profit & Loss Suspense A/c Dr. 10,000 To Akber's Capital A/c 10,000	2 + 1
18	**Profit & Loss App. Account**	½ x 6 = 3

Particulars		₹	Particulars	₹
Interest on capital:		15,000	Profit & Loss A/c	75,000
Ajay : 9,000				
Balbir : 6,000				
Partners' Current A/cs:				
Ajay :	36,000	35,000		
Less: Guarantee of profit	(1,000)			
Balbir :	24,000	25,000		
Add: Guarantee of profit	1,000			
		75,000		75,000

1
½
+
1
½

OR

Murthy's Capital A/c Dr. 7,500
To Shubham's Capital A/c 7,500

Working:	Shubham	Mangalam	Murthy
(A) Amount to be credited	22,500	15,000	7,500
(B) Amount wrongly credited	15,000	15,000	15,000
Adjustment to be made	7,500 (Cr.)	--------	7,500 (Dr.)

19	Sundry Assets A/c Dr. 9,80,000 Goodwill A/c Dr. 50,000 To Liabilities A/c 1,50,000 To PK Ltd {(80,000 x 10) + 80,000} 8,80,000 (Being business of PK Ltd purchased)	1 ½ + 1
	PK Ltd Dr. 8,80,000 Loss on Issue of Debenture A/c Dr. 80,000 To 12% Debenture A/c 8,00,000 To Premium on Redemption A/c 80,000 (Being debentures issued for the purchase consideration)	½
	OR	
	(a) Sundry Assets A/c Dr. 7,60,000 Goodwill A/c Dr. 35,000 To Liabilities 3,20,000 To Bills Payable A/c 2,00,000 To Ultra Agro Ltd 2,75,000 (Being business purchased by taking over of assets & liabilities)	1 X 3 = 3
	(b) Ultra Agro Ltd Dr. 2,75,000 To Share Capital A/c 2,50,000 To Securities Premium Reserve A/c 25,000 (Being issued 2,500 share @ ₹ 100 each at 10% premium for purchase consideration)	
	Working Note: Business Value of Ultra Agro Ltd = 7,60,000 – 3,20,000 = ₹ 4,40,000. *Purchase consideration value*: (1) Bills Payable 2,00,000 (2) Issued shares 2,500 @ ₹ 100 each at 10% premium 2,75,000 {(2,500 x 100) + (10% of 2,50,000)} **4,75,000** Purchase consideration value is more than the business value due to acquiring goodwill of Ultra Agro Ltd by paying ₹ 35,000 (i.e. 4,75,000 – 4,40,000	
20	B's Capital A/c Dr. 4,000 C's Capital A/c Dr. 16,000 To A's Capital A/c 20,000	1 + 2

SS of A = 5/10 – 1/3 = (15-10)/30 = 5/30; GS of B = 1/3 – 3/10 = (10-9)/30 = 1/30 = 3
GS of C = 1/3 – 2/10 = (10-6)/30 = 4/30
G/ w = (SP x 100) / 15; SP = 72,000 – 54,000 = 18,000;
g/w = (18,000 x 100) / 15 = 1,20,000.

21

Balance Sheet

Particulars	Notes to Accounts	Amt. in ₹
I Shareholders' Fund:		
1. Share Capital		1,46,50,000
2. Reserve & Surplus		35,00,000

1

Notes to Accounts:

Particulars	Amt. in ₹	Amt. in ₹
Authorised Capital:		5,00,00,000
5,00,000 shares of ₹ 100 each		
Issued Capital:		1,50,00,000
1,50,000 shares of ₹ 100 each at 20% premium		
Subscribed Capital:		1,50,00,000
1,50,000 shares of ₹ 100 each at 20% premium		
Paid up Capital:		
1,50,000 shares of ₹ 100 each at 20% premium	1,50,00,000	
Less: Share Forfeited (5,000 x 100)	(5,00,000)	1,45,00,000
Add: Share Forfeiture A/c (5,000 x 30)		1,50,000
		1,46,50,000
Reserve & Surplus:		
1. Securities Premium Reserve A/c (1,50,000 x 20) + 2,00,000		32,00,000
2. Capital Reserve		3,00,000
Share forfeiture amount on 10,000 shares 3,00,000		
Less: Adjusted for loss on re-issue NIL		**35,00,000**

1
1
1

22

(a) Bank A/c	Dr.	5,000	
To Realization A/c			5,000
(b) Realization A/c	Dr.	30,000	
To Anamika's Capital A/c			30,000
(c) Anamika's Capital A/c	Dr.	20,000	
To Bank A/c			20,000
(d) Bank A/c	Dr.	27,000	
To Realization A/c			27,000

1 X 4 = 4

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Journal entries

Date	Particulars		L.F.	Dr.₹	Cr. ₹
	Bank A/c (3,00,000 x 40)	Dr.		1,20,00,000	
1	To Share Application A/c				1,20,00,000
	(Being share application received)				
	Share Application A/c	Dr.		1,20,00,000	
2	To Share Capital A/c (2,00,000 x 40)				80,00,000
	To Share Allotment A/c (50,000 x 40)				20,00,000
	To Bank A/c (50,000 x 40)				20,00,000
	(Being appl. money tra., adj. and refunded)				
	Share Allotment A/c (2,00,000 x 80)	Dr.		1,60,00,000	
3	To Share Capital A/c (2,00,000 x 60)				1,20,00,000
	To Securities Premium Reserve A/c				40,00,000
	(Being share allotment money due)				
	Bank A/c (1,40,00,000 – 10,80,000)	Dr.		1,29,20,000	
4	Calls-in-arrears A/c	Dr.		10,80,000	
	To Share Allotment A/c				1,40,00,000
	(Being allot money received with exception)				
	Share Capital A/c (15,000 x 100)	Dr.		15,00,000	
5	Securities Premium Reserve A/c	Dr.		3,00,000	
	To Calls-in-arrears A/c				10,80,000
	To Share Forfeiture A/c				7,20,000
	(Being shares forfeited due to failed on allot)				
	Bank A/c (9,000 x 80)	Dr.		7,20,000	
6	Share Forfeiture A/c	Dr.		1,80,000	
	To Share Capital A/c (9,000 x 100)				9,00,000
	(Being forfeited shares re-issued)				

7	Share Forfeiture A/c Dr. To Capital Reserve A/c (Being balance transferred)		2,52,000	2,52,000

Calls-in-arrears on 15,000 shares:
Allotment due (15,000 x 80) 12,00,000
Less: Excess application money
[{(15,000 x 30) / 25} – 15,000] x 40 = (18,000 – 15,000) x 40 (1,20,000)
Due but not received on allotment **10,80,000**

Capital Reserve:
Share forfeiture amount on 15,000 shares 7,20,000
Share forfeiture amount on 9,000 shares = (7,20,000 x 9) / 15 = 4,32,000
Less: Adjusted loss on re-issue of shares (9,000 x 20) (1,80,000)
Share forfeiture A/c transferred to Capital Reserve **2,52,000**

OR

Journal entries

Date	Particulars	L.F.	Dr.₹	Cr. ₹
	Share Capital A/c (9,000 x 10) Dr.		90,000	
1	Securities Premium Reserve A/c (9,000 x 1) Dr.		9,000	
	To Calls-in-arrears A/c * (48,000 + 27,000)			75,000
	To Share Forfeiture A/c			24,000
	(Being shares forfeited due to non-payment of allot & calls)			
2	Bank A/c Dr.		75,000	
	To Share Capital A/c (6,000 x 10)			60,000
	To Securities Premium Reserve A/c			15,000
	(Being forfeited shares re-issued)			
3	Share Forfeiture A/c Dr.		16,000	
	To Capital Reserve A/c **			16,000
	(Being balance of share forfeited money transferred)			

* **Calls-in-arrears on allotment**:
Allotment due (9,000 x 6) 54,000
Less: Excess Application money [{12,000 – 9,000} x 2] (6,000) **48,000** *

** **Capital Reserve**
Share forfeited money on 9,000 shares 24,000
Share Forfeited money on 6,000 shares = (24,000 x 6) / 9 16,000
Less: Adjusted for loss on re-issue of shares NIL
Transferred to Capital Reserve = **16,000**

Journal entries

Date	Particulars	L.F.	Dr.₹	Cr. ₹
	Share Capital A/c (6,000 x 70) Dr.		4,20,000	
1	To Calls-in-arrears A/c (6,000 x 50)			3,00,000
	To Share Forfeiture A/c			1,20,000
	(Being shares forfeited due to non-payment of allot & calls)			
2	Bank A/c (4,000 x 60) Dr.		2,40,000	
	Share Forfeiture A/c Dr.		40,000	
	To Share Capital A/c (4,000 x 70)			2,80,000
	(Being forfeited shares re-issued)			
	Share Forfeiture A/c (4,000 x 10) Dr.		40,000	
	To Capital Reserve A/c			40,000
	(Being balance of share forfeited money transferred)			

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Revaluation Account

Particulars	₹	Particulars	₹
Machinery	30,000	Buildings	40,000
Provision for doubtful debts	19,000	Capital A/cs:	9,000
		Mamta 6,000	
		Ranjita 3,000	
	49,000		49,000

Capital Account

Particulars	Mamta	Ranjita	Sanjana	Particulars	Mamta	Ranjita	Sanjana
Revaluation A/c	6,000	3,000		Balance b/d	4,00,000	2,00,000	
Cash A/c	74,000	27,000		General Reserve	40,000	20,000	
Balance c/d	4,00,000	2,00,000	2,00,000	WCF	20,000	10,000	
				Cash A/c			2,00,000
				Premium of G/w	20,000	10,000	
	4,80,000	2,30,000	2,00,000		4,80,000	2,30,000	2,00,000

Total capital of the firm = 4 times of 2,00,000 = 8,00,000
Mamta&Ranjita's new capital = 8,00,000 – 2,00,000 = 6,00,000. It should be in 2:1 ratio.
Mamta adjusted capital 4,74,000 and Ranjita's adjusted capital 2,27,000
Mamta and Ranjit have excess capital of 74,000 and 27,000 respectively
Excess capital to be adjusted by cash.

OR

Revaluation Account

Particulars	₹	Particulars	₹
Capital A/cs:	30,000	Buildings	15,000
A 10,000		Provision for d/d	15,000
B 10,000			
C 10,000			
	30,000		30,0000

Capital Account

Particulars	A	B	C	Particulars	A	B	C
Goodwill A/c	5,000	5,000	5,000	Balance b/d	1,00,000	1,00,000	1,00,000
A's Capital A/c		5,000	5,000	B's Capital A/c	5,000		
Cash A/c	50,000			C's Capital A/c	5,000		
Balance c/d		1,50,000	1,50,000	Revaluation A/c	10,000	10,000	10,000
				Current A/c		50,000	50,0000
	1,20,000	1,60,000	1,60,000		1,20,000	1,60,000	1,60,000

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Gajodhar's Account

Particulars	₹	Particulars	₹
Cash A/c	50,000	Balance b/d	1,20,000
Gajodhar's Loan A/c	1,00,000	Mukund's Capital A/c	5,400
		Madhav's Capital A/c	3,600
		General Reserve	12,000
		Profit & Loss Suspense A/c	6,000
		Revaluation A/c	3,000
	1,50,000		1,50,000

Gajodhar' Loan A/c

Date	Particulars		Amt. in ₹	Date	Particulars		Amt. in ₹
2021 March 31	Balance c/d			2020June 30	Capital A/c		1,00,000
				2021 March 31	Interest (9 months)		7,500
			1,07,500				1,07,500
2021 June 30	Cash A/c		60,000	2021 April 01	Balance b/d		1,07,500
	(50,000 + 10,000)			2021 June 30	Interest (3 months)		2,500
2022 March 31	Balance c/d		53,750	2022 March 31	Interest (9 months)		3,750
			1,13,750				1,13,750
2022 June 30	Cash A/c		55,000	2022 April 01	Balance b/d		53,750
	(50,000 + 5,000)			2022 June 30	Interest (3 months)		1,250
			55,000				55,000

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(a) Journal Entries for Issue of Debentures

Date	Particulars		Dr. Amt.	Cr. Amt.
2021	Bank A/c (15,000 x 90)	Dr.	13,50,000	
Ap. 01	To 5% Deb. Appl. & Allot A/c			13,50,000
	(Being appl. Received for debentures)			
	5% Deb. App. & Allot. A/c	Dr.	13,50,000	
	Loss on issue of Debenture A/c	Dr.	4,50,000	

	To 5% Debenture A/c (15,000 x 100)			15,00,000
	To Premium on Redemption A/c			3,00,000
	(Being 5% Debentures allotted)			

(b) Journal entries for Interest on Debentures

Date	Particulars			Dr. Amt.	Cr. Amt.
2021	Interest on Debenture A/c	Dr.		37,500	
Sept 30	To Debenture holders A/c				37,500
	(Being interest due for six months)				
	Debenture holders A/c	Dr.		37,500	
	To Bank A/c				37,500
	(Being interest paid)				
2022	Interest on Debenture A/c	Dr.		37,500	
March	To Debenture holders A/c				37,500
31	(Being interest due for six months)				
	Debenture holders A/c	Dr.		37,500	
	To Bank A/c				37,500
	(Being interest paid)				
	Statement of Profit & Loss A/c	Dr.		75,000	
	To Interest on Debenture A/c				75,000
	(Being interest on debentures charged)				

(c) Loss on Issue of Debenture Account

Date	Particulars		Amt.	Date	Particulars		Amt.
2021	5% Debenture A/c		1,50,000	2022	Securities Premium Reserve A/c		3,00,000
Apr.	Premium on		3,00,000	March	Statement of Profit & Loss A/c		
01	Redemption			31			1,50,000
			4,50,000				4,50,000

Part B: Analysis of Financial Statements

27 **(c)** Practices, based on fundamental truth OR
(d) Only (i) and (ii) are correct

28 **(b)** 3 times

29 **(c)** 5,000 subtracted under operating activities as extraordinary item and 35,000 added to Investing activities also.
OR
(d) 1,50,000 added under operating activities as loss on issue of debentures written off.

30 (c) ₹ 1,05,000

31 Classify the following items under Major heads and Sub-heads (if any) in the Balance Sheet of a Company as per schedule III of the Companies Act 2013:
(g) Share Forfeiture Account
(h) Securities Premium Reserve
(i) Computer Designs
(j) Provision for Tax
(k) Employees Provident Fund
(l) Income received in advance

32 Window Dressing.
Two Other Limitations (Any two of the following, with suitable explanation) (a) Limitations of Accounting Data (b) Ignores Price-level Changes (c) Ignore Qualitative or Non-monetary Aspects (d) Forecasting

33 (1) Return on Investment
ROI = Net Profits before Interest, Tax & Dividend / Capital Employed X 100
NPBI&T = 1,40,000 + 60,000 = 2,00,000
Capital Employed = Shareholders' funds + Lon-term Debts + Reserve & Surplus
= 2,40,000 + 4,00,000 + (1,40,000 – 70,000 Tax) = 6,40,000 + 70,000 = 7,10,000.
Return on Investment = 2,00,000 / 7,10,000 X 100; = 28.17 %.
(2) Inventory Turnover Ratio:
Cost = X; Gross Profit = 25% on X; GP = X/4
Sales = Cost + Gross Profit; 2,00,000 = X + X/4; 2,00,000 = 5X/4; 5X = 8,00,000; X(Cost) =1,60,000.
Stock at the end = 30% on Sales; = 60,000; Opening Stock = 1/3 of 60,000 = 20,000
Average Stock = (60,000 + 20,000) / 2 = 40,000
Stock Turnover Ratio = Cost of goods sold / Average Stock
STR = 1,60,000 / 40,000 = 4 Times.
OR
(a) No change. Neither equity nor the debts are affected.
(b) Increase. As the debts are increasing.
(c) Decrease. As Shareholders' Funds will increase.
(d) No change. Neither the total long-term debt nor the total shareholders' funds are affected.

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6. Calculate Net Profit before tax and extraordinary items

Profits of 2021-22 as per Statement of Profit & Loss		1,70,000	
Add: Provision for Tax charged in 2021-22		50,000	
Add: Proposed Dividend for the year 2020-21	50,000		
Net Profit before tax & extraordinary items		**2,70,000**	

7. Calculate Operating profit before changes in working capital

Net profit before tax & extraordinary items			2,70,000
Add: Non-Cash and No-Operating Charges:			
(a) Amortization of Patents	5,000		
(b) Loss on sale of Equipment	5,000		
(c) Depreciation on Equipment & Furniture	18,000		
(d) Interest on Long-term Loan	10,000		38,000
Operating Profit before changes in Working Capital		**3,08,000**	

8. Calculate Cash flow from operating activities

Operating profit before changes in working capital			3,08,000
Add: Increase in other current liabilities		2,000	
Less: Decrease in Trade Payables	(5,000)		
Increase in Trade Receivables		(40,000)	
Increase in Inventories		(80,000)	(1,23,000)
			1,85,000
Less: Income Tax paid			(30,000)
Cash Flow from Operating Activities			**1,55,000**

9. Calculate Cash flow from Investing activities

a. Purchase of Equipment		(80,000)	
b. Investment made		(1,00,000)	
c. Sale of Equipment		30,000	
d. Sale of Furniture		27,000	
Cash Flow from Investing Activities			**(1,23,000)**

Equipment A/c

Balance b/d	2,00,000	Depreciation	15,000
Bank A/c	80,000	Bank A/c	30,000
		Statement of P&L A/c	5,000
		Balance c/d	2,30,000
	2,80,000		2,80,000

Furniture A/c

Balance b/d	3,00,000	Depreciation	3,000
		Bank A/c	27,000
		Balance c/d	2,70,000
	3,00,000		3,00,000

10. Calculate Cash flow from Financing activities

a. Issue of Share Capital		2,00,000	
b. Repayment of Long-term Loan		(50,000)	
c. Interest paid		(10,000)	
d. Dividend paid		(50,000)	
Cash Flow from Financing Activities			**90,000**