BOOK-KEEPING & ACCOUNTANCY

STANDARD XII

The Coordination Committee formed by GR No. Abhyas - 2116/(Pra.Kra.43/16) SD - 4
Dated 25.4.2016 has given approval to prescribe this textbook in its meeting held on
30.01.2020 and it has been decided to implement it from the educational year 2020-21.

Book - Keeping and Accountancy

STANDARD XII

2020

Maharashtra State Bureau of Textbook Production and Curriculum Research, Pune - 411 004

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The Constitution of India

Preamble

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

JUSTICE, social, economic and political;

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

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

FRATERNITY assuring the dignity of the individual and the unity and integrity of the Nation;

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

NATIONAL ANTHEM

Jana-gana-mana-adhināyaka jaya hē
Bhārata-bhāgya-vidhātā,

Panjāba-Sindhu-Gujarāta-Marāthā
Drāvida-Utkala-Banga

Vindhya-Himāchala-Yamunā-Gangā
uchchala-jaladhi-taranga

Tava subha nāmē jāgē, tava subha āsisa māgē,
gāhē tava jaya-gāthā,

Jana-gana-mangala-dāyaka jaya hē
Bhārata-bhāgya-vidhātā,

Jaya hē, Jaya hē, Jaya hē,
Jaya jaya jaya, jaya hē.

PLEDGE

India is my country. All Indians are my brothers and sisters.

I love my country, and I am proud of its rich and varied heritage. I shall always strive to be worthy of it.

I shall give my parents, teachers and all elders respect, and treat everyone with courtesy.

To my country and my people, I pledge my devotion. In their well-being and prosperity alone lies my happiness.

PREFACE

We are happy in introducing the text book for Std. XII based on revised syllabus from the academic year 2020-21.

The Std. XI syllabus covers topics related to Sole Proprietorship firm and basic accounting concepts. The syllabus for Std. XII covers topics related to Partnership Firm, Not for Profit Organization, Accounting of Company Accounts-Issue of Shares, Financial Statement Analysis, Bills of Exchange and Computer in Accounting.

Due care has been taken to present the subject matter in a simple manner so that the students can easily understand the relating accounting concepts and contents. Similarly the students who do not have a commerce background but are going to pursue further education in commerce the text book will be of great help to understand the subject in a lucid manner. Various practical problems based on skill and application are included in the textbook. The exercises given at the end of each topic contains different types of questions to test conceptual clarity and accuracy and encourage the students to cultivate the skills and applications required for their future education. Also to make learning interesting additional information and activities for the students are given at the end of every chapter and also in QR code on the title page.

We would like to bring to your notice that the illustrations and exercise problems are designed comprehensively. While setting the question paper one is expected to modify the questions according to the marking scheme.

We are thankful to the subject committee members, study group members, translators, reviewers, quality reviewers and all those who have taken efforts in designing this text book.

We hope the text book will be well received by the academicians and students.

(Vivek Gosavi)
Director
Maharashtra State Bureau of Textbook
Production and Curriculum Research, Pune.

Pune
Date : 21 February 2020
Bharatiya Saur : 2 Phalguna 1941

Book-keeping and Accountancy

Competency Statement

Standard XIIth

Unit No.	Topic	Competency Statements
1	**Introduction to Partnership**	Students are able to • understand the meaning of Partnership. • know the important features of Partneship • understand the meaning of The Indian Partnership Act, 1932. • understand the importance of Partnership Deed. • understand the provisions applicable in absence of Partnership Deed • know how to maintain Capital Accounts of Partners • understand the meaning of Partnership Final Account • know the need and importance of Final Accounts • know the effects of adjustments in Final Accounts • know the meaning of Trading Account, Profit and Loss Account and Balancesheet • know how to find out financial results of the business
2	**Accounts of Not For Profit Concerns**	Students are able to • understand the meaning and features of Not for Profit Concerns • know the meaning of Receipts and Payments Account • understand the meaning of Income and Expenditure Account and its difference from Profit and Loss Account • understand the difference between Profit and Not for profit Organisations • learn to acquire the skills for preparing Income and Expenditure Account and Balancesheet of Not for profit concern
3	**Reconstitution of Partnership** **(Admission of Partner)**	Students are able to • understand the meaning and different ways of reconstitution • to understand the meaning and need of admission of partner • to learn the adjustments required on admission of a Partner • to calculate the new profit sharing ratio and sacrifice ratio • to know the methods of valuation of goodwill and treatment of goodwill • to learn the accounting treatment of accumulated profits/ losses • to make necessary adjustment for revaluation of assets and liabilities • to learn to adjust the capitals according to new profit sharing ratio
4	**Reconstitution of Partnership** **(Retirement of partner)**	Students are able to • understand the meaning of retirement of partners in partnership business • learn to calculate various ratios connected to retirement of partnership • understand the treatment of goodwill • know the effect of reserves, accumulated profit/ loss • learn the effect of revaluation of assets and liabilities • understand the adjustments to be made for remaining partners capital • to know the various modes of final payment to be made to retiring partners

5	**Reconstitution of Partnership (Death of a Partner)**	Students are able to • learn how to calculate various ratios • know how to calculate share of profit up to the date of death of a partner • learn how to calculate share of goodwill of deceased partner • know how to calculate amount due to deceased partner's executor • understand how to settle the account of an executor
6	**Dissolution of Partnership Firm**	Students are able to • understand the meaning and reasons of dissolution of partnership firm • know the effects of dissolution of partnership firm • learn various accounting treatment for settlement of accounts • learn accounting procedure under simple dissolution and insolvency of partner
7	**Bills of Exchange**	Students are able to • know the meaning of bill of exchange • understand the different concepts used in bills of exchange • Prepare a draft of bill of exchange and know the various types of bills of exchange • understand retaining, sending bill for collection, discounting, endorsing, honour, renewal and retiring of the bill • learn various accounting treatment of bills of exchange
8	**Company Accounts - Issue of shares**	Students are able to • learn the types of shares and share capital • understand the concept of public subsription and private placement • know the concept of under and over valuation of shares and accounting of shares issued at par, at premium and at discount • know the different accounting treatment for under and over subscription of shares as well as calls in arrears and calls in advance
9	**Analysis of Financial Statements**	Students are able to • understand the meaning, objectives and limitations of financial statement analysis • learn various tools for financial statements analysis • understand objectives and classification of Accounting ratios and Ratio Analysis
10	**Computer in Accounting**	Students are able to • understand the computarized Accounting and its components • understand features, importance and limitations of computarised accounting system • learn application of computerised accounting statements • learn various accounting packages

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1 Introduction to Partnership and Partnership Final Accounts

Content

Competency Statements

- *The students will be able to:*
- *Understand meaning of Partnership*
- *Know the important features of Partnership*
- *Understand the meaning of "The Indian Partnership Act, 1932."*
- *Know the importance of Partnership Deed.*
- *Understand the provisions applicable in absence of Partnership Deed.*
- *Know how to maintain Capital Accounts of Partner.*

Introduction :

The sole proprietorship has its limitations such as limited capital, limited managerial ability, unlimited liability, no stability, absence of specialization etc. Hence when a business is to be set up on a scale which needs more capital and involves more risk, two or more persons come together to run it. They agree to share the capital, the management, the risk & profits of business, such mutual relationship based on an agreement amongst these persons is termed as "Partnership". The persons who have entered into the partnership are individually known as "Partners" and collectively as a "Firm".

1.1 Meaning and Definition of Partnership :

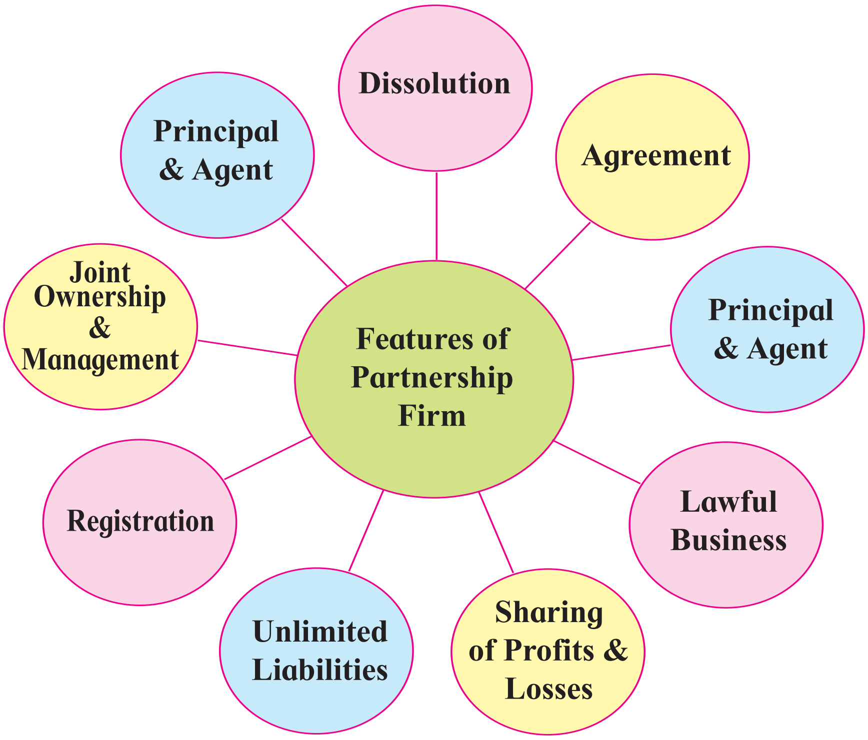
Partnership is an organization where there is an association of two or more persons coming together to carry on a business with a view to share Profit or Losses of a firm.

Definition :

Indian Partnership Act 1932 Section 4 defines the partnership as, "It is the relation between persons who have agreed to share the profits of a business carried on by all or anyone of them acting for all."

According to **Prof. Handy,** "Partnership is the relation existing between persons competent to make contract, who agree to carry on a lawful business in common with a view to earn private gain.

Features of Partnership Firm



1) **Agreement :-** Partnership is a result of agreement between partners. It could be written or oral. A written agreement is preferred so that it can be used as a proof in the court of law & such written agreement is known as "Partnership Deed."
2) **Number of Partners :-** Minimum two partners are needed to start partnership firm and the maximum number of partners are fifty according to companies Act 2013 (Amended in 2014)
3) **Lawful business :-** Business undertaken by partnership should be lawful. It cannot undertake business which is not allowed by state. The definition of Partnership also does not permit any illegal business.
4) **Sharing of Profit and losses :-** The purpose of partnership is to earn maximum profits. Partners have to share profits & losses according to the ratio given in the agreement. If the agreement is silent about the ratio then profit and loss sharing will be equal.
5) **Unlimited Liability :-** The liability of partners is unlimited joint and several that is, partners are liable till the last rupee in their pocket. If assets of business is not sufficient to pay liabilities, then personal property of partners can be used. If anyone of the partner is declared in solvent then his liability will be borne by the solvent partner.
6) **Registrations :-** Registration of partnership firm is compulsory only in the state of Maharashtra with effect from 1st April 2005. According to Indian Partnership Act, 1932, registration of partnership firm is optional it means a firm may or may not be registered. Registration of firm merely certifies its existence and it is a process of entering the name of Partnership Firm in the register of Registrar.
7) **Joint Ownership & Management :-** Each partner is joint owner of the property of the firm, so no partner can use property for personal use. All partners have equal rights in managing the firm. So all partners are jointly responsible for the management of firm.
8) **Principal and Agent :-** Each partner works in two fold capacities i.e. principal and Agent. A partner acts as a principal of the firm with outsiders and with other partners he acts as an agent.

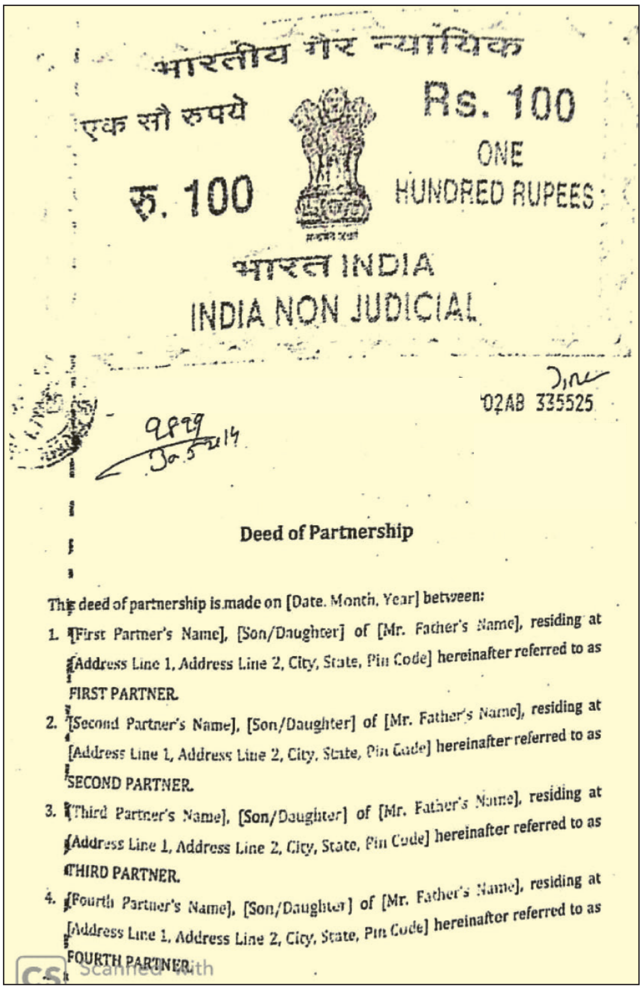
9) **Dissolution :-** A partnership firm can be dissolved through agreement between the partner. If a partner wants to close the firm he can dissolve the firm by giving fourteen days notice. The firm can also be dissolved if a partner dies or retires, becomes insolvent or insane.

PARTNERSHIP DEED

The document containing the partnership agreement among partners is called Partnership Deed. It contains the terms and conditions which are agreed upon by all the partners. An agreement may be written or oral but when it's written, it's called a deed.

The Partnership Act doesn't make it compulsory to have a written agreement. However, in case of dispute among the partners, it is always in the best course to have a written agreement duly signed (by all the respective partners) and registered under the Act. Partnership Deed contains the rules and regulation framed for the internal Management of the firm. It is also an Article of Partnership.

Partnership Deed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Deed of Partnership

This deed of partnership is made on [Date. Month. Year] between:

1. [First Partner's Name], [Son/Daughter] of [Mr. Father's Name], residing at [Address Line 1, Address Line 2, City, State, Pin Code] hereinafter referred to as FIRST PARTNER.
2. [Second Partner's Name], [Son/Daughter] of [Mr. Father's Name], residing at [Address Line 1, Address Line 2, City, State, Pin Code] hereinafter referred to as SECOND PARTNER.
3. [Third Partner's Name], [Son/Daughter] of [Mr. Father's Name], residing at [Address Line 1, Address Line 2, City, State, Pin Code] hereinafter referred to as THIRD PARTNER.
4. [Fourth Partner's Name], [Son/Daughter] of [Mr. Father's Name], residing at [Address Line 1, Address Line 2, City, State, Pin Code] hereinafter referred to as FOURTH PARTNER.

Contents of the Partnership Deed

1) Name and address of the firm and its main business.
2) Name and address of all partners and duration of the partnership.
3) Capital contribution of all the partners
4) Ratio in which profits (and losses) are to be shared.
5) Rights, duties and liabilities of the partners.
6) Provisions related to admission, retirement, death etc. of a partner.
7) Rate of interest on capital, loan, drawings etc.
8) Salaries, commission, etc. if payable to any partners.
9) Settlement of accounts on dissolution of the firm.
10) Method of settlement of disputes among the partners.
11) Any other matter relating to the conduct of business.

Importance of Partnership Deed

Partnership deed is a very important document because it is the written agreement which contains all the terms and conditions of the partnership business. It forms the basis of mutual relationship among the partner. Moreover, partnership deed regulates the rights, duties and liabilities of all the partners as well as of firm. So by having partnership deed partners disputes in future may be avoided.

Hence it is always in favour, to have a written agreement i.e. partnership deed duly signed by all the partners and registered under the Indian Partnership Act 1932.

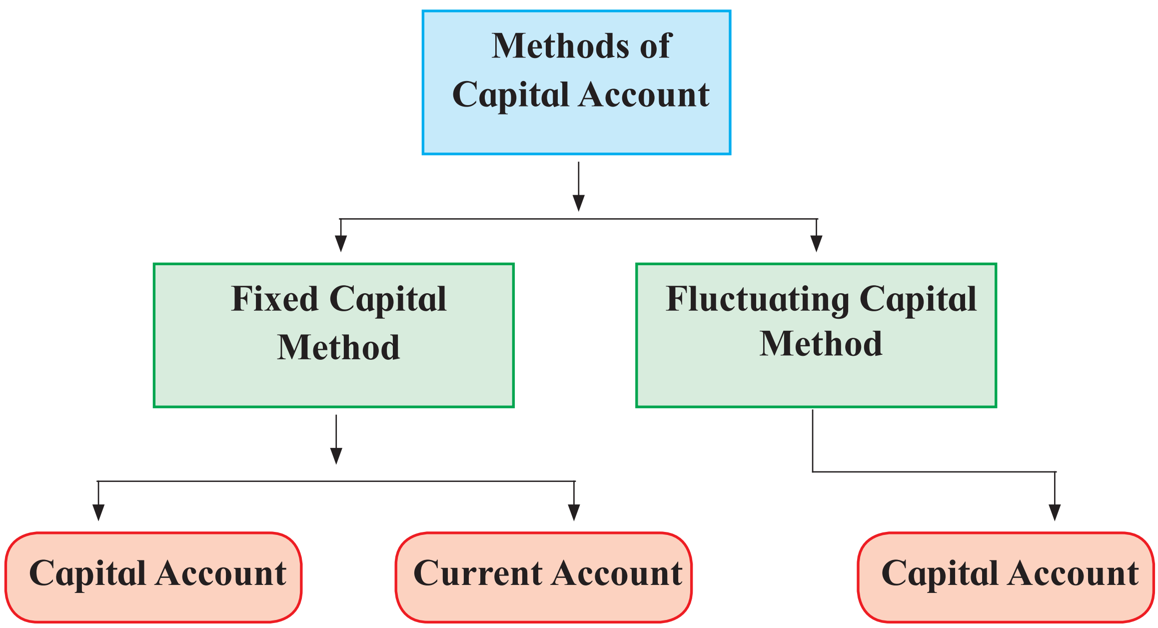
1.2 Provision of the Indian Partnership act 1932:

At the time of formation of partnership firm, a document is prepared called as partnership deed and all terms and conditions are mentioned into the deed, but if the partnership deed is silent about any point then this issue is solved as per the provisions in Partnership Act 1932 section no 12 and 17 are made applicable to determine the following issues.

1) **Distribution of profit :** If the partnership deed is silent about the profit sharing ratio, then the profit and losses are distributed among the partners is equal ratio.
2) **Interest on drawings :** As per the provision of Indian Partnership Act 1932, if the date of drawing is not given then average of six month's interest is charged on drawings.
3) **Interest on partner's loan :** If the partner provides additional amount to the business as loan, but rate of interest on loan is not given then 6% p.a. interest is allowed.
4) **Interest on capital :** If the partnership deed is silent about interest on capital then interest is not allowed.
5) **Salary or commission to Partners :** As per the provision made in the Indian Partnership Act 1932 no salary, commission, allowance or any remuneration is to be given to any of the partners for any extra work done for the firm, However, if any provision is made in partnership deed, then partners are entitled to get commission or salary as per the agreement.
6) **Admission of a new partner :** As per the provisions of the Indian Partnership Act 1932, no outside person can be admitted into the firm as a partner without the consent of other partners.

1.3 Methods of Capital Accounts

Amount in cash or kind brought in by the partner to manage business activities is termed as Capital. Partners maintain and operate some methods of the Capital Accounts. The two methods of Capital Accounts are discussed below.



Fixed Capital Method:

In this method amount of capital of a partner remains the same at the end of that financial year. There is no addition or subtraction from capital during the year. When this method is adopted partner's open a new account in name of partner's Current Account and all the related to capital adjustments are solved through Partner's Current Account. For example, Drawings. Interest on Drawings, Interest on Capital, Partner's Salary, Commission, Brokerage, Share of Profit and Losses are recorded in to Current Account.

Proforma of Fixed Capital Method

Partner's Capital Account

Dr. **Cr.**

Particulars	X Amount (₹)	Y Amount (₹)	Particulars	X Amount (₹)	Y Amount (₹)
To Balance c/d	XXX	XXX	By Balance b/d By Cash/Bank A/c [Additional capital] By Assets A/c [Capital in kind]	XXX XXX XXX	XXX XXX XXX
Total	XXX	XXX		XXX	XXX
			By Balance b/d	XXX	XXX

Journal Entries

1) When additional capital is introduced by a partners

Cash / Bank A/c .... Dr.

To Partners Capital A/c

(Being additional capital introduced into the business)

2) When capital amount is brought in by a Partner in form of Assets

Assets A/c .... Dr.

To Partners Capital A/c

(Being additional capital brought in kind)

Partner's Current Accounts:

When fixed capital method is adopted by the partnership firm, a new separate account is opened i.e. 'Partner's Current Account'. In this account all adjustments related to capital are recorded. Partner's Current Account may show debit or credit balance.

1) Drawings made by the partner in the current accounting year
2) Goods or any assets taken over by the partner.
3) Interest on partners capital allowed by the firm.
4) Interest on partners drawings charged by the firm.
5) Salary, Commission etc. payable to the partner.
6) Distribution of Profit or Loss of the firm.

Partner's Current Account:

Dr. **Cr.**

Particulars	X Amount (₹)	Y Amount (₹)	Particulars	X Amount (₹)	Y Amount (₹)
To Balance b/d (Dr. Bal)	XXX	XXX	By Balance b/d (Cr. Bal)	XXX	XXX
To Drawing A/c	XXX	XXX	By Interest on Capital A/c	XXX	XXX
To Interest on Drawing	XXX	XXX	By Salaries A/c	XXX	XXX
To Profit and Loss A/c (Share in loss)	XXX	XXX	By Commission A/c	XXX	XXX
			By Profit and Loss A/c (Share in Net profit)	XXX	XXX
To Balance c/d	XXX	XXX	By Balance c/d	XXX	XXX
	XXX	XXX		XXX	XXX
To Balance b/d	XXX	XXX	By Balance b/d	XXX	XXX

1) Interest allowed on partner's capital

a) Interest on Capital A/c ....Dr. XXX

To Partners Capital A/c/ Current Account XXX

(Being interest due on capital)

b) Profit and Loss A/C ....Dr XXX

To interest on Capital A/C XXX

(Being interest on Capital transferred to profit and loss account)

2) Salary or Commission allowed to partners

a) Salary or Commission in Partner A/c...................................Dr. XXX

To Partners Current A/c / Capital Account XXX

(Being Salary or Commission due for payment)

b) Profit and Loss A/C ....Dr XXX

To Salaries/ Commission A/C ..../ZXXX

(Being Salary/ Commission transferred to Profit and Loss A/C)

3) Cash or Goods taken over by the partners for their personal use.

a) Drawing A/c..Dr. XXX

To Cash or Goods A/C XXX

(Being cash or goods withdrawn for personal use)

b) Partners Current A/c / Capital A/c..Dr XXX

To Drawing A/c XXX

(Being balance on account transferred to current A/c)

4) Interest charged on drawing of the partners

a) Partners Current A/c / Capital A/c..Dr. XXX

To Interest on Drawing account XXX

(Being interest charged on Drawing)

b) Interest on Drawings A/C .... Dr XXX

To Profit and Loss A/C XXX

(Being interest on Drawings transferred to profit and loss account)

5) Transfer of Net Profit

Profit and loss A/c ....Dr. XXX

To Partners Current A/c / Capital A/c XXX

(Being profit transferred to Partner's Current / Capital Account)

6) Distribution of Net loss :

Partners Current A/c / Capital A/c ....Dr. XXX

To Profit and Loss A/c XXX

(Being loss adjusted to Partners Current / Capital Account)

Effects in Profit and Loss Account

Dr. **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Interest on Capital To Salary to Partner To Commission to Partner		XXX XXX XXX	By Interest on Drawings		XXX
		XXX			XXX

Fluctuating capital method :

In this method, amount of capital balance changes every year. It is called as fluctuating capital method. In this method the partner's current account is not opened. Hence all adjustments are solved through Capital Account. Following are the general adjustment related to capital.

1) Initial or Opening Balance of capital
2) Additional Capital brought in by the partners in Cash or in kind.
3) Salary / Commission payable to partner
4) Interest payable on capital balance to partner
5) Drawings made during the year and interest payable on drawings by the partner
6) Withdrawal of part of the capital by the partner
7) Division and transfer of net disposable profit or net adjustable loss of the firm.

Proforma of Fluctuating Capital Method.

Capital Account

Dr. **Cr.**

Particulars	X Amount (₹)	X Amount (₹)	Particulars	X Amount (₹)	X Amount (₹)
To Balance b/d (Dr. Bal)	XXX	XXX	By Balance b/d (Cr.Bal)	XXX	XXX
To Drawing A/c	XXX	XXX	By Cash A/c	XXX	XXX
To Interest on Drawing	XXX	XXX	[Addition made]		
To Profit and Loss A/c	XXX	XXX	By Interest on capital A/c	XXX	XXX
(Share in loss)			By Salaries A/c	XXX	XXX
To Balance c/d	XXX	XXX	By Profit and Loss	XXX	XXX
			(Net Profit)		
	XXX	XXX		XXX	XXX
			By Balance b/d	XXX	XXX

Examples

1) Anand and Bharat are partners sharing profits and losses in the ratio 2 : 3. On 1.4.2019 the capital balance are Anand ₹ 60,000 and Bharat ₹ 30,000 their drawings are ₹ 12,000 and ₹ 10,000 respectively. As per the agreement partners are allowed 10% interest on capital and interest on Drawings is to be charged at 12% p.a. Anand gets salary of ₹ 2,500 per month and Bharat is entitled to get commission @ 3% on net sales which is ₹ 5,00,000. The firm's profit is ₹ 60,000. Prepare partners capital account for the year ended 31st March 2019 under :

1) Fixed Capital Method 2) Fluctuating Capital Method

Solution : 1) Fixed Capital Method

Dr. **Partner's Capital A/cs** **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Balance c/d	60,000	30,000	By Balance b/d	60,000	30,000
	60,000	**30,000**		**60,000**	**30,000**
			By Balance b/d	60,000	30,000

Dr. **Partner's Current A/cs** **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Drawing A/c	12,000	10,000	By Interest on capital A/c	6,000	3,000
To Interest in Drawing	720	600	By Salaries A/c	30,000	–
To Balance c/d	47,280	43,400	By Commission A/c	–	15,000
			By Profit and Loss A/c	24,000	36,000
	60,000	**54,000**		**60,000**	**54,000**

2) Fluctuating Capital Method

Dr. **Partner's Capital A/cs** **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Drawing A/c	12,000	10,000	By Balance b/d	60,000	30,000
To Interest in Drawing A/c	720	600	By Interest on capital A/c	6,000	3,000
To Balance c/d	1,07,280	73,400	By Salaries A/c	30,000	–
			By Commission A/c	–	15,000
			By Profit and Loss A/c	24,000	36,000
	1,20,000	**84,000**		**1,20,000**	**84,000**

1) Interest on Capital

Anand $60{,}000 \times \frac{10}{100}$ = ₹ 6,000

Bharat $30{,}000 \times \frac{10}{100}$ = ₹ 3,000

2) Interest on Drawings

Anand 12,000 $\times \frac{12}{100} \times \frac{6}{12}$ = ₹ 720

Bharat 10,000 $\times \frac{12}{100} \times \frac{6}{12}$ = ₹ 600

(Interest on Drawing always to be taken for 6 months In case date on Drawings in not mentioned)

3) Anand = 2500 x 12 = ₹ 30,000

4) Commission to Anand = 5,00,000 $\times \frac{3}{100}$ = ₹15,000

5) Distribution of Profit ₹ 60,000 2:3

Anand = 60,000 $\times \frac{2}{5}$ = ₹ 24,000

Bharat = 60,000 $\times \frac{3}{5}$ = ₹ 36,000

2) Karan and Kiran are partners in M/s Mehta Enterprises. They have started business of ready made garments on 1st April 2019 on which date they contribute ₹ 5,00,000 each as their initial capitals. Karan has withdrawn ₹ 20,000 and Kiran has withdrawn ₹ 15,000 for their personal use. Interest on capital is allowed @ 12% and interest on drawing is charged @ 3% p.a. Karan is entitled to get salary, ₹ 1800 per month, Kiran is allowed to get commission @ 5% on net sales. During the year net sales is ₹ 2,50,000 and net profit earned during the year is ₹ 60,000. Prepare partners capital accounts under i) Fixed capital Method ii) Fluctuating Capital Method

Solution :

In the books of M/s Mehta Enterprises

1) Fixed Capital Method

Dr. **Partner's Capital A/cs** **Cr.**

Particulars	Kiran (₹)	Kiran (₹)	Particulars	Kiran (₹)	Kiran (₹)
To Balance c/d	5,00,000	5,00,000	By Cash/Bank A/c	5,00,000	5,00,000
	5,00,000	**5,00,000**		**5,00,000**	**5,00,000**

Dr. **Partner's Current Accounts** **Cr.**

Particulars	Kiran (₹)	Kiran (₹)	Particulars	Kiran (₹)	Kiran
To Drawing A/c	20,000	15,000	By Interest on Capital A/c	60,000	60,000
To Interest on Drawing	300	225	By Salaries A/c	21,600	-
To Balance c/d	91,300	87,275	By Commission A/c	-	12,500
			By Profit and Loss A/c	30,000	30,000
	1,11,600	**1,02,500**		**1,11,600**	**1,02,500**

2) Fluctuating Capital Method

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

Particulars	Kiran (₹)	Kiran (₹)	Particulars	Kiran (₹)	Kiran (₹)
To Drawing A/c	20,000	15,000	By Cash/Bank A/c	5,00,000	5,00,000
To Interest on Drawing	300	225	By Interest on capital A/c	60,000	60,000
			By Salaries A/c	21,600	-
To Balance c/d	5,91,300	5,87,275	By Commission A/c	-	12,500
			By Profit and Loss A/c	30,000	30,000
	6,11,600	**6,02,500**		**6,11,600**	**6,02,500**
			By Balance b/d	5,91,300	5,87,275

1) Interest on capital is calculated as follows :

Karan : On Opening balance i.e. ₹ 5,00,000 for 1 year

$$12\% \text{ p.a. interest} = ₹\ 5,00,000 \times 1\text{years}\ \frac{12}{100} = ₹\ 60,000$$

Kiran : On Opening balance i.e. ₹ 5,00,000 for 1 year

$$12\% \text{ p.a. interest} = 5,00,000 \times 1\text{years} \times \frac{12}{100} = ₹\ 60,000$$

2) Interest on Drawing is charged @3%

Karan : $20,000\% \times \frac{2}{12} \times \frac{3}{100} = ₹\ 300$

Kiran : $15,000 \times \frac{2}{12} \times \frac{3}{100} = ₹\ 225$

3) Commission paid to Karan = 2,50,000 $\times \frac{5}{100}$ = ₹ 12,500

4) Profit of ₹ 60,000 is distributed equally between Karan and Kiran

Karan = 60,000 $\times \frac{1}{2}$ = ₹ 30,000

Kiran = 60,000 $\times \frac{1}{2}$ = ₹ 30,000

3) Mr. Amey and Mr. Ashish are partners in a partnership firm titled as M/s. Anand Enterprises sharing profit and losses in the ratio 3 : 2 respectively. On 1st April 2018 their capital balance were: Mr. Amey ₹ 1,00,000 and Mr. Ashish ₹ 50,000. Their drawing during the year were : Mr. Amey : ₹ 20,000 and Mr. Ashish ₹ 25,000. As per partnership deed 10% p.a. interest is allowed on capital and 12% p.a. interest is charged on drawing Mr. Amey gets salary ₹ 3000 p.m. and Mr. Ashish is entitled to get commission @ 5% on net sales which is ₹ 4,00,000. The divisible profit is ₹ 90,000. Prepare partners capital Accounts for the year ending 31st March 2019 under

1) Fixed capital method 2) Fluctuating Capital Method.

In the books of M/s. Anand Enterprises

1) Under Fixed Capital Method

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

Particulars	Amey Amt. (₹)	Ashish Amt. (₹)	Particulars	Raj Amt. (₹)	Ravi Amt. (₹)
To Balance c/d	1,00,000	50,000	By Balance b/d	1,00,000	50,000
	1,00,000	**50,000**		**1,00,000**	**50,000**

Dr. **Partner's Current Accounts** Cr.

Particulars	Amey Amt. (₹)	Ravi Amt. (₹)	Particulars	Amey Amt. (₹)	Ashish Amt. (₹)
To Drawing A/c	20,000	25,000	By Interest on Capital A/c	10,000	5,000
To Interest on Drawing A/c	1,200	1,500	By Salaries A/c	36,000	-
To Balance c/d	78,800	34,500	By Commission A/c	-	20,000
			By Profit and Loss A/c	54,000	36,000
	1,00,000	**61,000**		**1,00,000**	**61,000**
			By Balance b/d	78,800	34,500

2) Under Fluctuating Capital Method

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

Particulars	Amey Amt. (₹)	Ashish Amt. (₹)	Particulars	Amey Amt. (₹)	Ashish Amt. (₹)
To Drawing A/c	20,000	25,000	By Cash/Bank A/c	1,00,000	50,000
To Interest on Drawing A/c	1,200	1,500	By Interest on capital A/c	10,000	5,000
			By Salaries A/c	36,000	--------
To Balance c/d	1,78,800	84,500	By Commission A/c	--------	20,000
			By Profit and Loss A/c	54,000	36,000
	2,00,000	**1,11,000**		**2,00,000**	**1,11,000**
			By Balance b/d	1,78,800	84,500

1) Interest on capital :

Mr. Amey $= 1,00,000 \times 1 \text{ Year} \times \frac{10}{100} = ₹\ 10,000$

Mr. Ashish $= 50000 \times 1 \text{ Year} \times \frac{10}{100} = ₹\ 5,000$

2) Interest on Drawings :

Interest on Drawing is calculated for the average. Period of 6 months as date of drawing is not given.

Mr. Amey $= 20,000 \times \frac{6}{12} \times \frac{12}{100} = ₹\ 1200$

Mr. Ashish $= 25,000 \times \frac{6}{12} \times \frac{12}{100} = ₹\ 1500$

3) Distribution of profit

Mr. Amey $= \frac{3}{5} \times 90{,}000$ = ₹ 54,000

Mr. Ashish $= \frac{2}{5} \times 90{,}000$ = ₹ 36,000

4) Sun and Moon were partners with capital of ₹ 10,00,000 and ₹ 5,00,000 respectively. They agree to share profits in the ratio 3 : 2. Show how the following transactions will be recorded in the capital accounts of the partners in both the cases when i) Capitals are fluctuatin and ii) Capitals are fixed. They also introduced additional capital of ₹ 2,25,000 and ₹ 1,50,000

Particulars	Sun (₹)	Moon (₹)
Interest on Capital	5 %	5 %
Drawing A/c (during 2016)	22,500	15,000
Interest on Drawings	1,350	900
Salaries	15,000	–
Commission	7,500	5,250
Share in Loss for the year 2016	45,000	30,000

Solution :

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

Particulars	Sun (₹)	Moon (₹)	Particulars	Sun (₹)	Moon (₹)
To Drawing A/c	22,500	15,000	By Balance b/d	10,00,000	5,00,000
To Interest on Drawing	1350	900	By Cash/Bank A/c	2,25,000	1,50,000
To Profit & Loss A/c	45,000	30,000	By Interest on Capital A/c	55,625	28,750
(Loss)			By Salaries A/c	15,000	–
To Balance c/d	12,34,275	6,38,050	By Commission A/c	7,500	5,200
	13,03,125	**6,83,950**		**13,03,125**	**6,83,950**

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

Particulars	Sun (₹)	Moon (₹)	Particulars	Sun (₹)	Moon (₹)
To Balance c/d	12,25,000	6,50,000	By Balance b/d	10,00,000	5,00,000
			By Bank	2,25,000	1,50,000
			(Additional Capital)		
	12,25,000	**6,50,000**		**12,25,000**	**6,50,000**

Partner's Current Accounts

Dr. **Cr.**

Particulars	Son (₹)	Moon (₹)	Particulars	Son (₹)	Moon (₹)
To Drawing	22,500	15,000	By Interest on capital	55,625	28,750
To Interest on Drawing	1350	900	By Partner's Salaries A/c	15,000	–
To Profit & Loss A/c	45,000	30,000	By Commission A/c	7,500	5,250
To Balance c/d	9,275	–	By Balance b/d	–	11,900
	78,125	**45,900**		**78,125**	**45,900**

Calculation of Interest on Capitals

Sun: 5% on ₹ 10,00,000 for one year will be

$$= \frac{10,00,000 \times 5}{100} = ₹\ 50,000$$

5% of ₹ 2,25,000 for 6 months will be

$$= \frac{2,25,000 \times 5}{100 \times 12} \times \frac{5}{100} \times \frac{6}{12} = ₹\ 5,625$$

Total will be 50,000 + 5,625 = 55,625

Moon: 5% on 5,00,000 for one year will be

$$\frac{5,00,000 \times 5}{100} = ₹\ 25,000$$

5% of ₹ 1,50,000 for 6 months will be

$$= \frac{1,50,000 \times 5 \times 6}{100 \times 12} = ₹\ 3,750$$

Total will be 25,000 + 3,750 = ₹ 28,750

Note :

1. **Current Account balance may appear in either side i.e. Debit or Credit side**
2. **In the absence of any instruction the Capital Account should be prepared by Fluctuating capital methods**
3. **Interest on loan of partners is treated as liability so it is credited to partners current account. But when there is no current account and partners are maintaining Fluctuating capital method than interest on loan of partner is credited to Pratners Capital A/c**

Partnership Final Accounts

Contents -

2.1 Introduction and necessity of preparation of Final Accounts. 2.2 Preparation of Trading Account, Profit and Loss Account and Balance Sheet with following adjustments.

a) Closing Stock
b) Outstanding expenses
c) Prepaid expenses
d) Income received in advance
e) Income receivable
f) Bad debts
g) Provision for doubtful debts
h) Reserve for discount on Debtors and Creditors
i) Depreciation
j) Interest on capital, drawings and loan.
k) Interest on Investments and loans given
l) Goods destroyed by fire/accident (Insured & Uninsured)
m) Goods stolen
n) Goods distributed as free samples
o) Goods withdrawn by partners
p) Unrecorded purchases and sales
q) Capital expenditure included in revenue expenses and vice versa
r) Bills Receivable dishonoured
s) Bills Payable dishonoured
t) Deferred expenses
u) Capital receipts included in revenue receipts and vice versa
v) Commission to working partners on the basis of Gross Profit, Net Profit/Sales etc.

Competency Statements -

The students will be able to :

- Understand the meaning of Final Accounts.
- Know the need and importance of Final Accounts.
- Know the effects of adjustments in Final Accounts.
- Know the meaning of Trading Account, Profit and Loss Account and Balance Sheet.
- Know how to find out financial results of the business.

2.1 Introduction :

As per the sole proprietary concern we will also prepare the Final Account of partnership firm, the income statement and position statement. Final Account is the last stage of accounting procedure. Generally following steps are followed in the accounting.

Various Steps in Accounting :

Preparation of Journal/Subsidiary Books.

Preparation of Ledger.

Preparation of Trial Balance considering adjustments.

Preparation of Final Accounts which consist of

a) Trading A/c b) Profit and Loss A/c c) Balance Sheet

As per Income Tax Act, 1961 financial year starts on 1st April and ends on 31st March every year.

Necessity of Preparation of Final Accounts :

Final account is prepared for the following various purposes.

1. To find out the Gross Profit or Gross Loss incurred during the year.
2. To find out the Net Profit or Net Loss of the business.
3. To know the financial position of the business at the end of every year.
4. To find out the amount of debtors and creditors.
5. To prepare various accounts for future planning.
6. To find the sources and application of fund.
7. To find out the value of goodwill for the purpose of reconstruction of firm.
8. To calculate various taxes of firm like income tax, etc.

2.2 Preparation of Partnership Final Accounts:

Trial Balance and adjustments are important in preparation of Final Account. The list of debit and credit balances of all ledger account is called as "Trial Balance". The Final Account is prepared at the end of every financial year.

Trading Account shows the Gross Profit or Gross Loss and Profit and Loss Account shows the Net Profit or Net Loss of the firm. The Balance Sheet shows the financial position of the business in the form of assets and liabilities at the end of year.

Trading Account :

Trading Account is a Nominal Account. Trading Account is opened in the trading organization for the purpose to find out the Gross Profit or Gross Loss incurred during the year. In the debit side of this account all direct expenses are recorded and in the credit side of account all direct incomes of the firm's are recorded. If the trading account's credit side is more than debit side then account shows the Gross Profit and vice versa. The Gross Profit or Loss is transferred to Profit and Loss Account.

J. R. Batliboi :

"The Trading Account indicates the results of buying and selling of goods while preparing this account, the general establishment charges are ignored and only the transactions related to goods are included."

Trading Account for the year ended...

Dr. **Cr.**

Particulars	Amt. (₹)	Amt. (₹)	Particulars	Amt. (₹)	Amt. (₹)
To Opening Stock		xxx	By Sales	xxx	
To Purchases	xxx		Less : Return Inward	xxx	xxx
Less : Return Outward	xxx	xxx			
To Carriage Inward		xxx	By Goods lost by fire		xxx
To Freight		xxx	By Goods lost by theft		xxx
To Dock Charges		xxx	By Goods distributed		
To Custom Duty		xxx	as free samples		xxx
To Wages Productive		xxx	By Goods lost in Accident		xxx
Manufacturing Wages		xxx	By Goods withdrawn by		
To Wages & Salaries		xxx	Partners		xxx
To Import Duty		xxx	By Closing Stock		xxx
To Coal/Coke/Gas/			By Gross Loss c/d		xxx
Motive Power/Oil/					
Water /Grease		xxx			
To Royalty on					
Purchase/Production		xxx			
To Primary Packing					
Charges		xxx			
To Factory Lighting &					
Heating		xxx			
To Factory Rent & Rates		xxx			
To Factory Insurance		xxx			
To Works Manager's Salary		xxx			
To Gross Profit c/d		xxx			
		xxx			xxx

In the case of combined term of wages and salaries following treatment should be given :

a) When the item Wages and Salaries is given in which Wages are appearing first, it should be transferred to Trading A/c debit side.

b) When the item Salaries and Wages is given in which Salaries appear first, it should be transferred to Profit and Loss A/c – Debit side.

Profit and Loss Account :

Profit and Loss Account is the type of Nominal Account. Profit and Loss account is a main account of income statement. It is prepared to ascertain the Net Profit earned or Net Loss suffered by a business concern during the accounting year. All indirect expenses are to be recorded to the debit side where as all indirect incomes are to be recorded to the credit side of this account. The credit balance on this account shows Net Profit which is to be transferred to Capital Accounts credit side or added in capital. The debit balance of this account shows, Net Loss which is to be transferred to Capital Account debit side or deducted from Capital.

R.N. Carter, "A Profit and Loss Account is an Account into which all gains and losses are considered in order to ascertain the excess of gain over the losses or vice versa."

Pro-forma of Profit and Loss Account for year ended

Dr. **Cr.**

Particulars	Amt. ₹	Amt. ₹	Particulars	Amt. ₹	Amt. ₹
To Salaries		xxx	By Gross Profit b/d		xxx
To Salaries & Wages		xxx	By Commission Received		xxx
To Rent & Rates		xxx	By Discount Received/ Earned		xxx
To Insurance		xxx	By Interest Received		xxx
To Electricity/Lighting		xxx	By Dividend Received		xxx
To Telephone, Postage		xxx	By Rent Received		xxx
To Printing & Stationery		xxx	By Sundry/Miscellaneous Receipts		xxx
To Travelling Expenses of Salesman		xxx	By Profit on Sale of Asset		xxx
To Depreciation on Assets		xxx	By Net Loss transferred		xxx
To Loading Charges		xxx	to Partners' Capital A/c /		
To Audit Fees		xxx	Current A/c		
To Entertainmen Exp.		xxx			
To Repairs / Renewals / Maintenance		xxx			
To Interest on Loan		xxx			
To Sundry/Miscellaneous Expenses		xxx			
To Conveyance		xxx			
To Loss by Fire		xxx			
To Loss by Theft		xxx			
To Loss in Accident		xxx			
To Goods distributed as free sample		xxx			
To Commission Allowed/ Given		xxx			
To Discount allowed		xxx			
To Allowances		xxx			
To Advertisement		xxx			
To Carriage Outward		xxx			
To Sale Charges		xxx			
To Bad Debts		xxx			
To Export Duty		xxx			
To Taxes		xxx			
To General Expenses		xxx			
To Trade Expenses		xxx			
To Legal Charges		xxx			
To Professional Charges		xxx			
To Bank Charges		xxx			
To Solicitor's Fees		xxx			
To Secondary Packing Charges		xxx			
To Loss on sale of Fixed Assets		xxx			
To Net Profit transferred to		xxx			
Partners' Capital A/c/ Current A/c		xxx			
		xxx			xxx

Balance Sheet :

Balance Sheet is a statement showing financial position of the firm on a particular day. All liabilities are recorded to its left hand side where as all Assets are recorded to its right hand side. The Balance Sheet is not an account but a statement showing the financial position of a firms, as on a given date in the form of Assets and liabilities.

A. Palmer defines Balance Sheet as :

"The Balance Sheet is, a statement on a particular date showing on one side the traders property and possessions and on the other side the liabilities".

Proforma of Balance Sheet is given below

Balance Sheet as on ....

Liabilities	Amt. ₹	Amt. ₹	Assets	Amt. ₹	Amt. ₹
Capital Accounts :			Goodwill	xxx	
A	xxx		Land and Building	xxx	
B	xxx		Less : Depreciation	xxx	xxx
C	xxx	xxx	Plant & Machinery	xxx	
Partners Current A/c			Less : Depreciation	xxx	xxx
(Credit Balance)	xxx	xxx	Furniture & Fixtures	xxx	
General Reserve		xxx	Less : Depreciation	xxx	xxx
Profit & Loss A/c		xxx	Equipment	xxx	
Loan on Mortgage		xxx	Less : Depreciation	xxx	xxx
Bank Loan		xxx	Delivery/Motor Van	xxx	
Loan from Partners		xxx	Less : Depreciation	xxx	xxx
Bills Payable		xxx	Leasehold / Freehold	xxx	
Bank Overdraft		xxx	Premises		
Sundry Creditors	xxx		Less : Depreciation	xxx	xxx
Add/Less : Any other			Patents	xxx	
adjustment			Less : Depreciation	xxx	xxx
Less : Provision for	xxx	xxx	Loose Tools	xxx	
Discount on Creditors			Less : Depreciation	xxx	xxx
Outstanding Expenses		xxx	Investments	xxx	
Income received in		xxx	Stores & Spare Parts	xxx	
Advance		xxx	Less : Depreciation	xxx	xxx
Provision for Taxes		xxx	Prepaid Expenses		xxx
			Outstanding Incomes		xxx
			Loans and Advances		xxx
			Closing Stock		xxx
			Sundry Debtors	xxx	
			+ Any adjustments		
			Less : Bad Debts(New)	xxx	
			Less : Provision for Discount	xxx	xxx
			on Debtors		
			Insurance Claim Receivable		xxx
			Bills Receivable		xxx
			Cash in Hand		xxx
			Cash at Bank		xxx
			Partners Current A/c		
			(Credit Balance)		xxx

Notes :

1) Every item in the Trial Balance must be shown only one time and in just one part of the Final Accounts, excluding silent/ hidden adjustments.
2) Every adjustment must have two effects in Final Accounts i.e. debit and credit.
3) We have already studied this topic in XI standard as "Final Account of Proprietary Concern." Most of the theory part, explanation of journal entries, and effects of journal entries are similar. To avoid repetition common explanation is not given in the XII standard. But explanation and Journal Entries of new adjustments are given. For common references / explanation teachers and students can refer textbook of standard XI. First topic in this book i.e Introduction to Partnership is also correlated with Partnership Final Account. Students can refer topic no.1.

Adjustments :

	Adjustment	1st Effect	2nd Effect
1.	Closing Stock	Balance Sheet Asset side	Trading A/c credit side
2.	Outstanding Expenses	Add to the particular Expenses on the debit side of Trading/Profit and Loss A/c	Balance Sheet Liability Side
3.	Prepaid Expenses	Deduct from the particular expenses on the debit side of Trading/Profit and Loss A/c	Balance Sheet Asset Side
4.	Income received in advance (Pre-received Income)	Deduct from the particular income on the credit side of Profit and Loss A/c	Balance Sheet Liability Side
5.	Income receivable	Add to the particular income on the credit side of Profit and Loss A/c	Balance Sheet Asset Side
6.	Bad debts (Additional or New Bad debts)	Show to the debit side of Profit and Loss A/c (add to old bad debts if any)	Deduct from Sundry Debtors in Balance Sheet Asset Side
7.	Provision for Doubtful Debts (Reserve for Doubtful debts, new R.D.D.)	Show to the debit side of Profit and Loss A/c	Deduct from Sundry Debtors in Balance Sheet Asset Side
8.	Reserve for discount on Debtors	Show to the debit side of Profit and Loss A/c (Add to discount allowed)	Deduct from Sundry Debtors Balance Sheet Asset Side
9.	Depreciation	Show on the debit side of the Profit and Loss A/c	Less from the particular asset in Balance Sheet Asset Side
10.	i) Interest on capital	Show to the Debit Side of Profit and Loss A/c	Partners Capital/Current A/c Credit Side or add to Capitals/ Current Account

	ii) Interest on Drawings	Show to the Debit Side of partners Capital/Current A/c or less from Capital/ Current Account	Show to the Credit Side of Profit and Loss A/c
	iii) Interest on loan taken	Show to the Debit Side of Profit and Loss A/c	Add to loan taken in the Balance Sheet Liability Side
11.	Interest on investment and on loan given	Show to the Credit Side of Profit and Loss A/c	Balance Sheet Asset Side
12.	i) Insured goods destroyed by fire/accident	Trading A/c Credit Side (gross amount)	1. Balance Sheet Asset Side (Claim amount) 2. Profit and Loss A/c Debit side (Amount of Loss)
	ii) Uninsured goods destroyed by fire/ accident	Profit and Loss A/c Debit Side	Show to the Credit Side of Trading A/c
13.	Goods stolen	Profit and Loss A/c Debit Side	Show to the Credit Side of Trading A/c
14.	Goods distributed as free samples	Profit and Loss A/c Debit Side (Add in Advertisement if any)	Show to the Credit Side of Trading A/c
15.	Goods withdrawn by Partners for personal use	Show to the Credit Side of Trading A/c or deduct from Purchases A/c	Partners Capital/Current A/c Debit Side
16.	i) Unrecorded Purchases	Add to Purchases on the Debit Side of Trading A/c	Add to Creditors on the Liability Side of Balance Sheet
	ii) Unrecorded Sales	Add to Debtors on the Asset Side of the Balance Sheet	Add to Sales on the credit Side of Trading A/c
17.	i) Capital Expenditure included in Revenue Expenditure	Deduct from that particular Revenue Expenses on the Debit Side of Trading or Profit and Loss A/c	Add to that particular asset in Balance Sheet Asset Side
	ii) Revenue Expenditure included in Capital Expenditure	Add to that particular Revenue Expenditure	Deducted from that particular Asset in Balance Sheet
18.	Bills Receivable dishonored	Add the amount of bill dishonored to Sundry Debtors in the Balance Sheet Asset Side	Deduct the amount of bill dishonored from Bills Receivable.
19.	Bills Payable Dishonored	Add the amount of bill dishonored to Sundry Creditors in the Balance Sheet	Deduct the amount of bill dishonored from Bills Payable
20.	Deferred Expenses of Advertisement paid for 5 years	Advertisement Expenses related to current year debited to Profit and Loss A/c	Remaining amount of Advertisement is shown on asset side of the Balance Sheet as prepaid Advertisement

21.	Revenue Receipts included in Capital Receipts e.g. sale of goods included in sale of Furniture	Add to sales on the credit side of Trading A/c.	Less to Furniture on the Asset Side of the Balance Sheet
22.	Commission to partners as percentage of Gross Profit/sales.	Show to the Debit Side of Profit and Loss A/c	Show to the Credit Side of Partners Capital/Current A/c or Add to Partners Capital A/c.

Hidden Adjustment Given in Trial Balance

Sr. No.	Adjustment Given in Trial Balance	Trading and Profit and Loss A/c	Balance Sheet
1.	Salaries/Rent Paid (For 10 months)	Add the amount of Salaries/ Rent for 2 months to Salaries/ Rent respectively	Show separately the amount of Salaries/Rent for 2 months on the Liabilities Side of the Balance Sheet
2.	Insurance premium paid for 1 year ending 30th June, 2019 (Accounting year ends on 31st March 2019)	Deduct the proportionate amount of Insurance Premium for 3 months from insurance on the Debit Side of Profit and Loss A/c	Show separately the amount of prepaid insurance on the Assets Side of the Balance Sheet
3.	Advertisement expenses (for 4 years)	Show 1/4th amount of Advertisement expenses on the Debit Side of Profit and Loss A/c	Show the remaining i.e. 3/4th of Advertisement expenses (not written off) on the Assets Side of the Balance Sheet
4.	Rent received (for 11 months)	Add the proportionate amount of Rent for one month to Rent received on Credit Side of Profit and Loss A/c	Show the same amount on the Assets Side of the Balance Sheet
5.	10% Loan (Borrowed on 1st Jan. 2018)(Accounting year ends on 31st March 2018)	Show the amount of Interest Receivable on investment for 3 months on the Credit Side of the Profit and Loss A/c	Add the amount of Interest Receivable on investment on the Assets Side of the Balance Sheet
6.	16% Investment (Purchased on 1st Jan. 2019) (Accounting year ends on 31st March 2019)	Show the amount of Interest Receivable on Investment for 3 months on the Credit Side of the Profit and Loss A/c	Add the amount of Interest Receivable on Investment on the Assets Side of the Balance Sheet
7.	10% Government Bonds	Show the amount of Interest Receivable on the Credit Side of Profit and Loss Account	Add the amount of Interest Receivable to Government Bonds on the Assets Side of the Balance Sheet or show seperately in Balance Sheet Asset Side.

Important Points :

1) Each item from Trial Balance will be included only once in the Final Accounts i.e. either in Trading or in Profit & Loss A/c or in Balance Sheet or in working section.
2) Each adjustment has two effects for the similar amount.
3) Debit balances of Trial Balance will appear on the debit side of Trading Account or Profit & Loss A/c or on the asset side of the Balance Sheet.
4) Credit balances of Trial Balance will appear on the credit side of Trading Account or Profit & Loss A/c or Capital Account or on the Liabilities Side of the Balance Sheet.
5) If Salaries and Wages are given as separate items, Wages are shown on the debit side of Trading Account while salaries are shown on the debit side of Profit and Loss A/c. If the item is "Wages and Salaries", it is shown on the debit side of Trading A/c and if the items is "Salaries & Wages", it is shown on the debit side of Profit & Loss A/c.
6) If the Trial Balance contains only "Trade Expenses", the item will be shown on the debit side of Profit & Loss A/c. If the Trial Balance contains "Trade Expenses" and also other items like "Sundry Expenses" or "Office Expenses" or "General Expenses" or "Miscellaneous Expenses", the item "Trade Expenses" is shown on the debit side of Trading A/c while the other items of expenses are shown on the debit side of Profit &Loss A/c.
7) The adjustment for Bad Debts and Provision for Bad and Doubtful Debts should be effected after other adjustments for Debtors are given effect to. Such adjustments can be unrecorded sales, drawings included in Debtors, drawings treated as sales, etc.
8) Reserve for Discount on Debtors should be given effect after the adjustments for Bad Debts and Provision for Bad and Doubtful Debts.
9) Reserve for Discount on Creditors should be given effect after making all the other adjustments concerning Creditors.
10) Hidden / Self-explanatory adjustments are to be given effect even if there is no special instruction in the problem in this respect.
11) Closing Stock should be taken at "Cost or Market Price, whichever is less."
12) If a manager or a partner is allowed commission at a certain percentage on Net Profit, such commission should be calculated in the following manner depending upon how the commission is quoted :
    a) If it is on Net Profit before charging such commission :

    $$\text{Commission Amount} = \frac{\text{Rate of Commission} \times \text{Net Profit}}{100}$$

    b) If it is on Net Profit after charging such commission :

    $$\text{Commission Amount} = \frac{\text{Rate of Commission} \times \text{Net Profit}}{100 + \text{Rate of Commission}}$$

13) When the date of drawings are not given Interest on drawings should be calculated on average basis or for six months

    $$\text{Drawings} \times \frac{\text{Rate}}{100} \times \frac{6}{12}$$

14) If a partner introduces capital in the middle of the accounting year, then interest on capital should be calculated on proportionate time period only. (This complication is not expected at your Std. XII level).

Treatment of some important Items appearing in Trial Balance only :

i)	Any outstanding expenses	Liability Side of Balance Sheet
ii)	Any Prepaid Expenses	Asset Side of Balance Sheet
iii)	Any outstanding income	Asset Side of Balance Sheet
iv)	Income Received in Advance	Liability Side of Balance Sheet
v)	Depreciation	Debit Side of Profit & Loss A/c
vi)	Loss on Sale of any Asset	Debit Side of Profit & Loss A/c
vii)	Goods withdrawn by partner	Debit Side of Capital/Current A/c
viii)	General Reserve / Reserve Fund	Liability Side of Balance Sheet
ix)	Deposit from Public	Liability Side of Balance Sheet
x)	Goods distributed as free samples	Debit side of Profit & Loss A/C
xi)	Suspense Account: a) If it is on Debit Side b) If it is on Credit Side	Show the same figure on Asset Side Show the same figure on Liability Side
xii)	Bank for Collection of Bills	Asset Side of Balance Sheet

Steps for solving problem :

1) Prepare the necessary accounts, including the working notes.
2) Place some mark on Trial Balance items for external as well as internal adjustments.
3) Go through Trial Balance items and give only one accounting effect sequentially.
4) Go through Adjustments and give two accounting effects.
5) Close Ledgers in the working notes, except capital.
6) Find Gross Profit, Net Profit and transfer it to individual capital accounts.
7) Find the closing balance in capital and transfer it to Balance Sheet.
8) Tally the Balance Sheet.

Illustrations

1. **Daya and Kshama are Partners sharing Profits and Losses in the ratio of 1:1 from the following Trial Balance and additional information prepare Trading and Profit and Loss account for the year ended 31st March 2019 and Balance Sheet as on that date.**

Trial Balance as on 31st March, 2019

Debit Balance	Amt. ₹	Credit Balance	Amt. ₹
Stock (1/4/2018)	65,000	General Reserve	14,500
Bills Receivable	28,000	Capital:	
Wages and salaries	9,000	Daya	1,60,000
Sundry Debtors	1,32,500	Kshama	1,20,000
Bad debts	1,000	Creditors	98,000
Purchases	1,48,000	R.D.D.	1,800
Motor car	68,000	Sales	2,85,500
Machinery	1,14,800	Outstanding Wages	700
Audit Fees	1,200	Purchases Returns	4,000
Sales Return	2,000	Discount	1800
Discount	2,300		
Building	75,000		
Cash at Bank	12,000		
10% Investment	20,000		
Advertisement(Paid for 9 months)	4,500		
Royalties	3,000		
	6,86.300		**6,86.300**

Adjustment and Additional Information :

(1) Closing Stock ₹ 40,000.

(2) Depreciate Building and Machinery @ 5% and 3% respectively.

(3) Bills Receivable included dishonoured bill of ₹ 3000.

(4) Goods worth ₹ 1000 taken by Daya for personal use was not entered in the books of accounts.

(5) Write off ₹ 1800 as Bad debts and maintain R.D.D. at 5% on Sundry Debtors.

(6) Goods of ₹ 6000 were sold but no entry was made in the books of accounts.

IN THE BOOKS OF DAYA AND KSHAMA

Trading, Profit and Loss Account for the year Ended 31st March 2019

Dr. **Cr.**

Particulars	Amt ₹	Amt ₹	Particulars	Amt ₹	Amt ₹
To Opening Stock		65,000	By Sales	2,85,500	
To Purchases	1,48,000		Add :Unrecorded Sales	6,000	
Less - Purchases Return	4,000	1,44,000		2,91,500	
To Royalties		3,000	Less : Sales Return	2,000	2,89,500
To wages and Salaries		9,000	By Goods take over by Daya for Personal Use		1,000
To Gross Profit c/d		1,09,500	By Closing Stock		40,000
		3,30,500			**3,30,500**
To Advertisement	4,500				
Add : o/s for 3 months	1,500	6,000	By Gross Profit b/d		1,09,500
To Audit fees		1,200	By Interest Accrued on Investment		2,000
To Depreciation on :					
Building	3,750		By Discount		1,800
Machinery	3,444	7,194			
To Bad debts (old)	1,000				
Add : New Bad Debts	1,800				
Add : New R.D.D.	6,985				
	9,785				
Less : R.D.D.(old)	1,800	7,985			
To Discount		2,300			
To Net Profit					
(Transferred to Capital A/c's)					
Daya	44,311				
Kshama	44,310	88,621			
		1,13,300			**1,13,300**

Balance Sheet as on 31st March, 2019

Liabilities	Amt. ₹	Amt. ₹	Assets	Amt. ₹	Amt. ₹
Capital : Daya	1,60,000		Building	75,000	
Add : Net Profit	44,311		Less : Depreciation 5%	3,750	71,250
Less: (Goods taken over by	1,000	2,03,311	Machinery	1,14,800	
Daya for personal use)			Less : Depreciation 3%	3,444	1,11,356
Capital Kshama	1,20,000		Bills Receivable	28,000	
Add : Net Profit	44,310	1,64,310	Less : Bills Receivable	3,000	25,000
General Reserve		14,500	Dishonoured		
O/s Advertisement Exp.		1,500	Motor Car		68,000
(3 months)			Cash at Bank		12,000
Creditors		98,000	Closing Stock		40,000
Outstanding Wages		700	Sundry Debtors	1,32,500	
			Add : Bills Receivable	3,000	
			Dishonoured		
				1,35,500	
			Add : Unrecorded Sales	6,000	
				1,41,500	
			Less : Bad debts (New)	1,800	
				1,39,700	
			Less : R.D.D. 5% (New)	6,985	1,32,715
			10% Investment	20,000	
			Add : Interest Accrued	2,000	22,000
		4,82,321			**4,82,321**

Working Notes :

(1) Adjustment No. 3, 5 and 6 are co-related with sundry Debtors. So, while calculating R.D.D. 5% on sundry Debtors, Amount of dishonour of Bills ₹ 3,000) and goods sold but not recorded (₹ 6000) will be added into the sundry Debtors, then new Bad Debts will be deducted and then Less R.D.D (New) 5% 6985 after 5% R.D.D should be calculated.

1st effect Sundry Debtors		1,32,500
Add : Bills dishonoured		3,000
Add : Unrecorded sales		6,000
		1,41,500
Less Bad debts (New)		1,800
		1,39,700
Less R.D.D (New) 5%		6,985
	₹	**1,32,715** (Shown on Assets side of Balance Sheet)

	₹
2nd Effect To Bad debts (Old)	1,000
Add Bad debts (New)	1,800
Add New R.D.D	6,985
	9,785
Less R.D.D. (Old)	1,800
	₹ 7,985 - (Shown on Debit side of Profit and Loss A/C)

2. **From the following Trial Balance and Adjustments given below you are required to prepare Trading and Profit and Loss Account for the year ended 31st March, 2019 and Balance Sheet as on that date in the books of Shilpa and Katrina.**

Trial Balance as on 31st March, 2019

Particulars	Debit ₹	Particulars	Credit ₹
Land and Building	37,800	Capital	
Furniture	17,250	Shilpa	45,000
Sundry Debtors	40,000	Katrina	45,000
Stock (1/4/2018)	65,000	Bills payable	17,500
Bad Debts	400	Bank Over draft	10,000
Printing and Stationary	4,000	Purchases Return	1,480
Wages	3,000	Sundry Creditors	22,000
Salaries	5,000	Bank Loan	15,000
Carriage Inward	4,000	Interest received	1,500
Sales Return	2,000	R.D.D	1,000
Drawings :		Sales	1,20,000
Shilpa	2,000		
Katrina	3,000		
Discount	2,030		
Advance Given to Shaharukh	10,000		
Cash in hand	20,000		
Cash at Bank	8,000		
Interest	1,000		
Commision	2,000		
Royalties	2,000		
Purchases	50,000		
	2,78,480		**2,78,480**

Adjustments

(1) The Stock in Hand was valued at ₹ 58,000 on 31st March, 2019.

(2) Outstanding Expenses : Royalties ₹ 1,500 and Wages ₹ 800.

(3) Salaries paid in advance to staff ₹ 2,000.

(4) Create a provision for Bad Debts ₹ 1,000 and Reserve for Doubtful Debts 3% on Sundry Debtors.

(5) Depreciate Land and Building by 5% and Furniture by 10%.

IN THE BOOKS OF SHILPA AND KATRINA

Trading and Profit and Loss Account for the year ended 31st March 2019

Dr. **Cr.**

Particulars	Amount ₹	Amount ₹	Particulars	Amount ₹	Amount ₹
To Opening Stock		65,000	By Sales	1,20,000	
To Purchase	50,000		Less : Sales Return	2,000	1,18,000
Less : Purchases Return	1,480	4,88,520	By Closing Stock		58,000
To Wages	3,000				
Add : O/s Wages	800	3,800			
To Royalties	2,000				
Add : O/s Royalties	1,500	3,500			
To Carriage Inward		4,000			
To Gross Profit c/d		51,180			
		1,76,000			**1,76,000**
To Salaries	5,000		By Gross Profit b/d		51,180
Less : Advance Salary	2,000	3,000	By Interest Received		1,500
To Bad debts (Old)	400				
Add : Bad Debts (New)	1,000				
Add : R.D.D. (New)	1,170				
	2,570				
Less - R.D.D. (Old)	1,000	1,570			
To Depreciation :					
Land and Building	1,890				
Furniture	1,725	3,615			
To Printing And Stationary		4,000			
To Discount		2,030			
To Interest		1,000			
To Commission		2,000			
To Net Profit					
(Transfered to Capital A/c)					
Shilpa	17,732				
Katrina	17,733	35,465			
		52,680			**52,680**

Balance Sheet as on 31st March, 2019

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital :			Land and Building	37,800	
Shilpa	45,000		Less : 5%Depreciation	1,890	35,910
Add : Net Profit	17,732		Furniture	17,250	
	62,732		Less :10% Depreciation	1,725	15,525
Less : Drawings	2,000	60,732	Sundry Debtors	40,000	
Katrina	45,000		Less : Bad debts	1,000	
Add : Net Profit	17,733			39,000	
	62,733		Less : R.D.D. 3%	1,170	37,830
Less : Drawings	3,000	59,733	Cash in Hand		20,000
Bills Payable		17,500	Cash at Bank		8,000
Outstanding Expenses :			Closing Stock		58,000
Wages	800		Advance Salary		2,000
Royalties	1500	2,300	Advance to Shaharukh		10,000
Bank Overdraft		10,000			
Sundry Creditors		22,000			
Bank Loan		15,000			
		1,87,265			**1,87,265**

3. Rucha and Juili are partners sharing Profits and Losses in their Capital Ratio. From the following Trial Balance and adjustments you are required to prepare Final Accounts.

Trial Balance as on 31st March, 2019

Particulars	Debit ₹	Particulars	Credit ₹
Purchases	48,000	Capital A/c	
Trade Expenses	3,000	Rucha	80,000
Salaries	4,500	Juili	40,000
Wages and Salaries	2,800	Sundry Creditors	22,000
Advertisement (2 Years)	4,000	Sales	1,48,000
Sales Returns	8,000	R.D.D.	1,200
Freehold Property	23,000	Bills Payable	12,000
Office Rent	5,000	Purchases Return	6,000
Motor Van	40,000		
Stock (1/4/2018)	89,500		
General Expenses	2,500		
Sundry Debtors	62,000		
Coal, Gas, Fuel	1,000		
Carriage Inward	800		
Carriage Outward	1,300		
Plant and Machinery	13,800		
	3,09,200		**3,09,200**

Adjustments :

(1) Closing Stock is valued at ₹ 88,000 (Cost Price) and ₹ 90,000 (Market Price)

(2) Rucha and Juili withdrawn from business ₹ 3000 and ₹ 2000 respectively for their personal use.

(3) Depreciate Motor Van by 5% and Plant and Machinery by 7%.

(4) Reserve for Doubtful Debts on Debtors @ 5% is to be created.

(5) Outstanding Wages ₹ 800.

(6) Goods of ₹ 6000 were purchased on credit but no entry was found in the Books of Account.

IN THE BOOKS OF RUCHA AND JUILI

Trading and Profit and Loss Account for the year ended 31st March 2019

Balance Sheet as on 31st March, 2019

Dr. **Cr.**

Particulars	Amount ₹	Amount ₹	Particulars	Amount ₹	Amount ₹
To Opening Stock		89,500	By Sales	1,48,000	
To Purchases	48,000		Add : Unrecorded	6,000	
Add : Unrecorded	6,000		Sales		
Purchases				1,54,000	
	54,000		Less : Sales Return	8,000	1,46,000
Less : Purchases Return	6,000	48,000	By Closing Stock		88,000
To Wages and Salaries	2,800		By Goods withdrawn		
Add : Outstanding Wages	800	3,600	by Partners :		
To Trade Expenses		3,000	Rucha	3,000	
To Coal, Gas Fuel		1,000	Juili	2,000	5,000
To Carriage Inward		800			
To Gross Profit c/d		93,100			
		2,39,000			**2,39,000**
To Salaries		4,500	By Gross Profit b/d		93,100
To Depreciation					
Motor Van	2,000				
Plant and Machinery	966	2,966			
To R.D.D. (New)	3,400				
Less : R.D.D. (Old)	1,200	2,200			
To Advertisement	4,000				
Less : Prepaid Advt.	2,000	2,000			
To Office Rent		5,000			
To General Expenses		2,500			
To Carriage Outword		1,300			
To Net Profit (Transferred to Capital A/c's)					
Rucha	48,423				
Juili	24,211	72,634			
		93,100			**93,100**

Balance Sheet as on 31st March, 2019

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capitals :			Motor Van	40,000	
Rucha	1,25,423		Less : Depreciation 5%	2,000	38,000
Juili	62,211	1,87,634	Plant and Machinery	13,800	
Outstanding Wages		800	Less : Depreciation 7%	966	12,834
Sundry Creditors	22,000		Debtors	62,000	
Add : Unrecorded	6,000	28,000	Add: Unrecorded Sales	6,000	
Purchases				68,000	
Bills Payable		12,000	Less : R.D.D. 5%	3,400	64,500
			Closing Stock		88,000
			Prepaid Advertisement		2,000
			Freehold Property		23,000
		2,28,434			**2,28,434**

Dr. **Partners Capital Account** **Cr.**

Particulars	Rucha ₹	Juili ₹	Particulars	Rucha ₹	Juili ₹
To Drawings	3,000	2,000	By Balance b/d	80,000	40,000
To Balance c/d	1,25,423	62,211	By Profit and Loss A/c	48,423	24,211
	1,28,423	**64,211**		**1,28,423**	**64,211**
			By Balance b/d	1,25,423	62,211

Working Notes :

(2) Advertisement Expenses are paid for 2 Years , so expenses of one year ₹ 2000 are prepaid. Prepaid Expenses (Advertisement) is treated as an Asset. The amount of prepaid should be deducted from total amount of Advertisement in Profit and Loss Account.

4. **From the following Trial Balance of Mr. Piyush and Mr. Arun. You are required to prepare Trading and Profit and Loss Account and Balance Sheet as on the date:**

Trial Balance as on 31st March, 2019

Particulars	Debit ₹	Particulars	Credit ₹
Stock (1/4/2018)	30,800	Capital Account	
Purchases Salaries	80,000	Piyush	80,000
Salaries	5,000	Arun	80,000
Wages	7,500	Sundry Creditors	20500
Carriage	3,000	Interest received on Fixed Deposit	1000
Royalties	2,500	Bank Overdraft	10,000
Freight	700	Sales	1,20,000
Printing and Stationery	1,050		
Sundry Debtors	43,000		
Furniture	20,200		
Lease hold property	25,000		
Investment	15,000		
Travelling Expenses	3,450		
Advertisement (For 3 years)	30,000		
Bad Debts	500		
Discount Allowed	1,800		
Cash in Hand	7,000		
Cash at Bank	20,000		
Fixed Deposits	15,000		
	3,11,500		**3,11,500**

Adjustments :

(1) Stock on hand on 31st March, 2019 was Cost Price ₹ 40,000 and Market price ₹ 35,000.

(2) Interest on Fixed Deposit ₹ 1200 is still receivable.

(3) Provide R.D.D. at 2.5% on Sundry Debtors.

(4) Depreciate Furniture by 5%.

(5) Goods of ₹ 8000 destroyed by fire and insurance company admited a claim of 6000 only.

IN THE BOOKS OF MR. PIYUSH AND MR. ARUN.

Trading and Profit and Loss Account for the year Ended 31st March 2019

Dr. **Cr.**

Particulars	Amount ₹	Amount ₹	Particulars	Amount ₹	Amount ₹
To Opening Stock		30,800	By Sales		1,20,000
To Purchases		80,000	By Goods destroyed by Fire		8000
To Wages		7,500			
To Carriage		3,000	By Closing Stock		35,000
To Royalties		2,500			
To Freight		700			
To Gross Profit c/d		38,500			
		1,63,000			**1,63,000**
To Discount		1,800	By Gross Profit b/d		38,500
To Salaries		5,000	By Interest on Fixed Deposit	1,000	
To Printing and Stationery		1,050			
To Bad Debts	500		Add : Interest Receivable	1,200	2200
Add : R.D.D. (New)	1,075	1,575			
To Loss by Fire		2,000			
To Depreciation on Furniture		1,010			
To Travelling Expenses		3,450			
To Advertisement	30,000				
Less : Prepaid Advt.	20,000	10,000			
To Net Profit (Transfered to Capital A/c's)					
Piyush	7,408				
Arun	7,407	14,815			
		40,700			**40,700**

Balance Sheet as on 31st March, 2019

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital Account:			Leasehold Property		25,000
Piyush	80,000		Investment		15,000
Add : Net profit	7,408	87,408	Fixed Deposit	15,000	
Arun	80,000		Add : Interest Receivable	1,200	16,200
Add : Net Profit	7407	87,407	Furniture	20,200	
Sundry Creditors		20,500	Less : Depreciation 5%	1010	19,190
Bank Overdraft		10,000	Sundry Debtors	43,000	
			Less : R.D.D. 2.5%	1075	41,925
			Insurance Claim		600
			Prepaid Advertisement		20,000
			Cash in Hand		7,000
			Cash at Bank		20,000
			Closing Stock		35,000
		2,05,315			**2,05,315**

5. **M/s Sudarshan Traders is a Partnership Firm in which, Ram and Krushna are partners sharing Profits and Losses in the ratio 3:2. From the following Trial Balance prepare Final Account for the year 2018-19:**

Trial Balance as on 31st March, 2019

Particulars	Debit ₹	Credit ₹
Opening Stock	36,000	
Capital A/C :		
Ram		1,60,000
Krushna		80,000
Current A/C :		
Ram		8,000
Krushna	4,000	
Purchases	1,00,000	
Sales		2,08,000
Sundry Debtors	1,73,500	
Sundry Creditors		41,800
Bills Receivable	47,000	
Bills Payable		21,000
Commission	2,800	
Wages	1,760	
Salaries	3,000	
Furniture	25,000	
Plant and Machinary	63,000	
R.D.D.		1,000
Investment	10,500	
Loans and Advances Given	35,240	
Insurance	2,500	
Bad debts	500	
12% Govt. Bonds (Purchased on 1.1.2019)	15,000	
	5,19,800	**5,19,800**

Adjustments :

(1) Stock on hand on 31 March 2019 was valued at ₹ 38000.

(2) Ram is allowed a Salary of ₹ 6000 and Krushna is allowed Commission at 3% on net sales.

(3) Interest on Partner's Capital is to be provided @ 5% p.a.

(4) Provide depreciation on Plant and Machinery 5%.

(5) ₹ 3000 from our customer is not recoverable.

(6) Prepaid Insurance ₹ 500.

Trading and Profit and Loss Account for the year ended 31st March 2019

Dr. **Cr.**

Particulars	Amount ₹	Amount ₹	Particulars	Amount ₹	Amount ₹
To Opening Stock		36,000	By Sales		2,08,000
To Purchases		1,00,000	By Closing Stock		38000
To Wages		1760			
To Gross Profit c/d		1,08,240			
		2,46,000			**2,46,000**
To Commission		2,800	By Gross Profit b/d		1,08,240
To Salaries		3,000	By Interest on Govt		450
To Insurance	2,500		Bonds Receivable		
Less : Prepaid	500	2,000			
To Ram's Salary		6,000			
To Commission to Krushna		6,240			
To Depreciation on :					
Plant and Machinery		3,150			
To Bad debts (Old)	500				
To R.D.D. (New)	3,000				
	3,500				
Less : R.D.D. (Old)	1,000	2,500			
To Interest on Capital					
(Pratners Current A/C)					
Ram	8,000				
Krushna	4,000	12,000			
Net Profit (Transfered					
Partners to Current Account)					
Ram	35,500				
Krushna	35,500	71,000			
		1,08,690			**1,08,690**

Balance Sheet as on 31st March, 2019

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital :			Sundry Debtors	1,73,500	
Ram	1,60,000		Less-Bad debts	3,000	1,70,500
Krushna	80,000	2,40,000	Bills Receivable		47,000
Current A/c :			Plant and Machinery	63,000	
Ram	57,500		Less : Depreciation	3,150	59,850
Krushna	41,740	99,240	Furniture		25,000
Creditors		41,800	Investment		10,500
Bills Payable		21,000	Loan and Advances		35,240
			Closing Stock		38,000
			Prepaid Insurance		500
			12% Govt. Bonds	15,000	
			Add : Interest Receivable	450	15,450
		4,02,040			**4,02,040**

Dr. **Partners Current Account** **Cr.**

Particulars	Ram Amt. ₹	Krushna Amt. ₹	Particulars	Ram Amt. ₹	Krushna Amt. ₹
To Balance b/d		4,000	By Balance b/d	8,000	-
					-
			By Profit and Loss A/c (Ram's Salary)	6,000	
			By Profit and Loss A/c (Commision)	-	6,240
To Balance c/d	57,500	41,740	By Profit and Loss A/c (Interest on capital)	8,000	4,000
			By Profit and Loss A/c	35,500	35,000
	57,500	**45,740**		**57,500**	**45,740**
			By Balance b/d	57,500	41,740

Working Notes :

(1) In this problem Current Account is given. So total Amount of fixed capital of Ram (₹1,60,000) and Krushna (₹ 80,000) = ₹ 2,40,000 should be directly shown on the liability side of Balance Sheet. Effect of adjustment related with capital. i.e. 5% interest on capital, 3% commission on net sales, partners should be reflected on current account which is separately prepared. Closing Balances of Current Account of partners will be shown on liability side of Balance sheet.

(2) Amount of Debtor (3000) which is not recoverable is to be treated as Bad debts (New) and it should be deducted from debtors on Assets side of Balance Sheet.

(3) 12% Govt. Bonds - are purchased on 1.1.2019, So Interest receivable is only for 3 months (i.e. 1.1.2019 To 31.3.2019) @ 12% p.a. on 15000. Which is treated as income.

$$\frac{15,000}{100} \times \frac{12}{100} \times \frac{3}{12} = \quad ₹\ 1,800$$

₹ 1,800 is for 12 months, we have to consider Interest for 3 months only.

$$\frac{1,800}{100} \times \frac{3}{12} = ₹\ 450$$

Interest on Govt Bonds @ 12% for 3 months is ₹ 450

6. From the following Trial Balance of Shreyas and Mrunal and adjustments you are required to prepare Trading and Profit and Loss Account for the year ended 31st March, 2019 and Balance Sheet as on that date:

Trial Balance as on 31st March, 2019 Particulars

Particulars	Debit ₹	Credit ₹
Capital Accounts :		
Sheyas		35,000
Mrunal		20,000
Purchases	37,800	
Sales		66,700
Bills Receivable	8,000	
Bills Payable		6,500
Commission	2,400	
Salaries	6,000	
Insurance (9 months)	9,000	
Prepaid Rent	3,000	
Sundry Creditors		48,900
Sundry Debtors	25,000	
Postage	1,700	
Freehold Premises	17,300	
Furniture	20,000	
Bad debts	500	
Cash in Hand	4,500	
Cash at Bank	16,000	
Carriage Inward	800	
Carriage Outward	1,700	
Stock (1/4/2018)	22,500	
Returns	1,200	1800
Wages	3,100	
Outstanding Wages		1600
Total	**1,80,500**	**1,80,500**

Adjustments :

(1) Closing Stock ₹ 30.000

(2) Outstanding Expenses - Salary ₹ 1200 and Commission ₹ 400.

(3) Depreciate Furniture @ 10%

(4) Provide for further Bad debts i ₹ 1200.

(5) Goods of ₹ 5000 destroyed by fire and insurance company admited a claim of ₹ 2000 only.

(6) Shreyas and Mrunal are sharing profits and losses in the ratio 2:1

THE BOOKS OF SHREYAS AND MRUNAL.

Trading and Profit and Loss Account for the year ended 31st March 2019

Dr. **Cr.**

Particulars	Amount ₹	Amount ₹	Particulars	Amount ₹	Amount ₹
To Opening Stock		22,500	By Sales	66,700	
To Purchases	37,800		Less : Returns	1200	65,500
Less : Returns	1,800	36,000	By Goods destroyed		5,000
To Carriage Inward		800	by Fire		
To Wages		3,100			
To Gross Profit c/d		38,100	By Closing Stock		30,000
		1,00,500			**1,00,500**
To Insurance	9,000				
Add : Outstanding	3,000	12,000	By Gross Profit b/d		38,100
(3 months)					
To Salaries	6,000				
Add : Outstanding	1,200	7,200			
To Commission	2,400				
Add : Outstanding	400	2,800			
To Depreciation on Furniture		2,000			
To Bad debts	500				
Add : Bad Debts (New)	1,200	1,700			
To Loss by fire		3,000			
To Postage		1,700			
To Carriage Outward		1,700			
To Net Profit (Transferred to Capital Accounts)					
Shreyas	4,000				
Mrunal	2,000	6,000			
		38,100			**38,100**

Balance Sheet as on 31st March, 2019

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital Account :			Furniture	20,000	
Shreyas	35,000		Less : Depreciation10%	2,000	18,000
Add : Net Profit	4,000	39,000	Sundry Debtors	25,000	
Mrunal	20,000		Less : Bad debts	1,200	23,800
Add : Net Profit	2,000	22,000	Bills Receivable		8000
Sundry Creditors		48,900	Freehold Premises		17,300
Bills Payable		6,500	Cash in Hand		4500
Outstanding Expenses			Cash at Bank		16,000
Salaries	1,200		Closing Stock		30,000
Commission	400	1,600	Insurance Claim		2,000
Outstanding Insurance		3,000	Prepaid Rent		3,000
Outstanding Wages		1,600			
		1,22,600			**1,22,600**

7. **Sapre and Atre are partners sharing Profits and Losses equally. From the following Trial Balance and Adjustments, prepare Trading and Profit and Loss Account for the year ended 31st March, 2019 and Balance Sheet as on that date.**

Trial Balance as on 31st March, 2019

Debit Balance	Amount ₹	Credit Balance	Amount ₹
Sundry Debtors	40,000	Sales	85,000
Purchases	65,000	Sundry Creditors	23,000
Returns	800	Sundry Income	2,000
Opening Stock	18,000	Capital :	
Land and Building	10,000	Sapre	35,000
Carriage	1,200	Atre	35,000
Rent, Rates & Taxes	1,000	Provident Fund	10,000
Drawings :		Returns	1,500
Sapre	3,000	Commission Pre Received	800
Atre	2,000	R.D.D	400
Salaries	3,200		
Bad debts	1,000		
Machinery	25,000		
(Additions on 1st Oct, 2018, ₹ 10,000)			
Advertisement	4,000		
Provident Fund Investment	18,500		
	1,92,700		**1,92,700**

Adjustments :

1) Closing Stock is valued at ₹ 23,000.
2) Depreciate Land and Building @ 5% and Machinery @10%.
3) Create Provision for Bad and Doubtful Debts at 5% on Sundry debtors and write off ₹ 1000 for Bad-debts.
4) Goods worth ₹ 3000 were sold, but no entry was found in the books of account.
5) Outstanding carriage ₹ 500.
6) Goods worth ₹ 8000 were purchased on 31st March, 2019 and included in the closing stock but not recorded in the Books of Account.

IN THE BOOKS OF SAPRE & ATRE
TRADING AND PROFIT & LOSS ACCOUNT
For the year ended 31st March, 2019

Dr. **Cr.**

Particulars	Amt ₹	Amt ₹	Particulars	Amt ₹	Amt ₹
To Opening Stock		18,000	By Sales	85,000	
To Purchases	65,000		Add : Unrecorded	3,000	
Add : Unrecorded	8,000		Sales		
Purchases				88,000	
	73,000		Less : Returns	800	87,200
Less : Returns	1,500	71,500			
To Carriage	1,200		By Closing Stock		23,000
Add : Outstanding	500	1,700			
To Gross Profit c/d		19,000			
		1,10,200			**1,10,200**
To Salaries		3,200	By Gross Profit b/d		19,000
To Rent, Rates & Taxes		1,000			
To Depreciation			By Sundry Income		2,000
Land & Building	500				
Plant & Machinery	2,000	2,500			
To Bad debts (Old)	1,000				
Add : Bad-debts(New)	1,000				
Add : New R.D.D.	2,100				
	4,100				
Less - R.D.D (Old)	400	3,700			
To Advertisement		4,000			
To Net Profit Transferred					
to Capital Accounts :					
Sapre	3,300				
Atre	3,300	6,600			
		21,000			**21,000**

BALANCE SHEET
As on 31st March, 2019

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital : Sapre	35,000		Land & Building	10,000	
Add : Net Profit	3,300		Less : Depreciation5%	500	9,500
	38,300		Plant & Machinery	25,000	
Less : Drawings	3,000	35,300	Less:Depreciation10%	2,000	23,000
Capital : Atre	35,000		Sundry Debtors	40,000	
Add : Net Profit	3,300		Add : Unrecorded	3,000	
	38,300		Sales	43,000	
Less : Drawings	2,000	36,300	Less : Bad debts (Now)	1,000	
Providend Fund		10,000	Less : R.D.D. 5%	42,000	
Outstanding Expenses :			Closing Stock	2,100	39,900
Carriage		500	Providend Fund		23,000
Creditors	23,000		Investment		18,500
Add : Unrecorded	8,000	31,000			
Purchases					
Commission Received in					
advance		800			
		1,13,900			**1,13,900**

Working Notes :

1) While calculating Depreciation on Machinery, we have to consider the date of purchase of additional Machine, which is purchased on 1st Oct 2018. (Additional Machine Purchased ₹10,000) So -

25,000

15,000 | 10,000

On ₹ 15,000, Dep. @ 10% for 12 months → 1,500

On 10,000, Dep. @ 10% for 6 months only → 500

$15{,}000 \times \frac{10}{100} = ₹\ 1{,}500$

$\frac{1}{1{,}000} \times \frac{1}{100} \times \frac{6}{12} = ₹\ 500$

So Depreciation is 1,500 + 500 = ₹ 2,000

2) Goods worth ₹ 3,000 is unrecorded sales. It will be added in to the Sundry Debtors and in to Sales also and after that Bad Debts (New) will be deducted and on that amount of Debtors 5% R.D.D. will be calculated.

1st effect		**2nd effect**			
Debtors	40,000	(i) Trading		(ii) Profit & Loss A/c	-
Add : Unrecorded	3,000	A/c Credit Side		To Bad debts	1,000
Sales	43,000	By Sales	85,000	Add : Bad Debts	1,000
Less : Bad-debts(New)	1,000	+Unrecorded Sales	3,000		
	42,000		88,000	Add : New R.D.D.	2,100
Less : R.D.D 5%(New)	2,100	Less : Returns	800		4.100
				Less : R.D.D. (Old)	400
	39,900		**87,200**		**3,700**

3) Unrecorded Purchases of ₹ 8,000, This will affects on Purchases and Creditors also - As it is unrecorded, So ₹ 8,000 will be added in to the Purchases (65,000 + 8,000) and also added into the Creditors (23,000 + 8,000)

8. **Nene and Kane are Partners, sharing Profits and Losses in the ratio 6:4. From the following Trial Balance and adjustments given below, Prepare, Trading and Profit and Loss Account for the year ending and Balance Sheet as on that date.**

Trial Balance as on 31st March, 2019

Particulars	Debit Amount ₹	Credit Amount ₹
Capital :		
Nene		15,00,000
Kane		10,00,000
Sundry Debtors	4,50,000	
Sundry Creditors		3,00,000
Rent (10 months)	10,000	
Stock (1/4/2018)	5,35,500	
Premises	8,50,000	
Salaries	50,000	
Discount	800	950
Motor Vehicle	3,70,000	
Sales		8,40,500
Purchases	6,40,500	
Wages	10,000	
Office Expenses	20,000	
Bank Overdraft		1,50,000
Returns	5,500	3,500
Providend Fund Investment	8,00,000	
Cash in Hand	40,000	
Providend Fund Contribution	1,00,000	
Providend Fund		2,80,000
Cash at Bank	2,00,000	
Interest on P.F. Investment		42,000
Drawings :		
Nene	20,000	
Kane	15,000	
Bad-debts	3,350	
R.D.D.		3,700
Total	**41,20,650**	**41,20,650**

Adjustments :

1) Closing Stock ₹ 3,60,000.
2) Outstanding Wages ₹ 3,000 and Salaries ₹ 2000.
3) Depreciate Motor Vehicle @ 5% p.a.
4) Write of Bad-debts of ₹ 5,000 and provide for R.D.D at 5% Sundry Debtors.
5) Kane withdrew Goods of ₹ 6,000 for his personal use.

IN THE BOOKS OF NENE AND KANE
TRADING AND PROFIT AND LOSS ACCOUNT
For the year ended 31st March, 2019

Dr **Cr**

Particulars	Amount ₹	Amount ₹	Particulars	Amount ₹	Amount ₹
To Opening Stock		5,35,500	By Sales	8,40,500	
To Purchases	6,40,500		Less : Returns	5,500	8,35,000
Less - Returns	3,500	6,37,000	By Goods		6,000
To Wages	10,000		Withdraw by		
Add : Outstanding Wages	3,000	13,000	Kane for Personal		
To Gross Profit c/d		15,500	Use		
			By Closing Stock		3,60,000
		12,01,000			**12,01,000**
To Salaries	50,000		By Gross Profit b/d		15,500
Add : Outstanding	2,000	52,000	By Discount		950
To Depreciation on		18,500	By Net Loss		
Motor Vehicle			(Transferred to Capital A/c)		
To Bad debts (Old)	3,350		Nene	1,28,250	
Add : Bad-debts(New)	5,000		Kane	85,500	2,13,750
Add :New R.D.D.	22,250				
	30,600				
Less : R.D.D. (Old)	3,700	26,900			
To Rent	10,000				
Add : Outstanding Rent	2,000	12,000			
To Discount		800			
To Office Expenses		20,000			
To Providend Fund					
Contribution		1,00,000			
		2,30,200			**2,30,200**

BALANCE SHEET as on 31st March, 2019

Liabilities	Amt. ₹	Amt. ₹	Assets	Amt. ₹	Amt. ₹
Capital : Nene	15,00,000		Motor Vehicle	3,70,000	
Less : Net Loss	1,28,750		Less : Depreciation5%	18,500	3,51,500
	13,71,750		Sundry Debtors	4,50,000	
Less : Drawings	20,000	13,51,750	Less : Bad-debts	5,000	
Capital : Kane	10,00,000			4,45,000	
Less - Net Loss	85,500		Less - R.D.D 5%	22,250	4,22,750
	9,14,500		Premises		8,50,000
Less : Drawings	21,000	8,93,500	Providend Fund		
(15,000 + 6,000)			Investment		8,00,000
Sundry Creditors		3,00,000	Cash in Hand		40,000
Outstanding Expenses			Cash at Bank		2,00,000
Wages	3,000		Closing Stock		3,60,000
Salaries	2,000				
Rent	2,000	7,000			
Bank Overdraft		1,50,000			
Providend Fund	2,80,000				
Add : Interest on					
Providend Fund	42,000	3,22,000			
Investment					
		30,24,250			**30,24,250**

9. **Kranti & Sumangala are Partners sharing Profits and Losses in their Capital ratio. From the Trial Balance given below and Adjustments, you are required to prepare Trading and Profit and Loss Account for the year ended 31st March, 2019 and Balance Sheet as on that date.**

Trial Balance as on 31st March, 2019

Debit Balance	Amount ₹	Credit Balance	Amount ₹
Stock (1/4/2018)	32,500	Capital :	
Purchases	40,000	Kranti	1,20,000
Sundry Debtors	1,00,000	Sumangala	40,000
Bills Receivable	8,500	Sales	60,000
Wages	3,000	Sundry Creditors	30,000
Investment	32,000	Bills Payable	15,000
Postage	2,700	Commission	325
Insurance	7,500	Purchases Returns	1,000
Plant & Machinery	15,000		
Salaries	4,850		
Prepaid Rent	2,000		
Bad-debts	500		
Furniture	12,500		
Cash in Hand	3,775		
Sales Return	1,500		
	2,66,325		**2,66,325**

Adjustments :

1) Closing Stock is valued at Cost Price ₹ 28,000 and Market Price ₹ 32,000.
2) Insurance is paid up to 30th June 2019.
3) Outstanding Expenses - Wages ₹ 800, Salaries ₹ 700.
4) Book value of Plant and Machinery is reduced to ₹ 13,000.
5) Depreciate Furniture by 5% p.a.
6) Provide further Bad debts of ₹ 800.
7) Goods of ₹ 3,000 distributed as a free sample.

IN THE BOOKS OF KRANTI AND SUMANGALA
TRADING AND PROFIT AND LOSS ACCOUNT
For the year ended 31st March, 2019

Dr. **Cr.**

Particulars	Amount ₹	Amount ₹	Particulars	Amount ₹	Amount ₹
To Opening Stock		32,500	By Sales	60,000	
To Purchases	40,000		Less : Sales Return	1,500	58,500
Less : Purchases Returns	1,000	39,000	By Closing Stock		28,000
To Wages	3,000		By Goods Distributed		3,000
Add : Outstanding	800	3,800	as Free sample		
To Gross Profit c/d		14,200			
		89,500			**89,500**
To Postage		2,700	By Gross Profit b/d		14,200
To Insurance	7,500		By Commission		325
Less : Prepaid Insurance	1,875	5,625			
To Salaries	4,850		By Net Loss		
Add : Outstanding Salary	700	5,550	(Transferred to Capital A/c's)		
To Depreciation on :			Kranti	4,706	
Plant & Machinery	2,000		Sumangala	1,569	6,275
Furniture	625	2,625			
To Bad-debts (Old)	500				
Add : Bad debts (New)	800	1,300			
To Advertisement		3,000			
(Goods distributed)					
		20,800			**20,800**

BALANCE SHEET

As on 31st March, 2019

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital : Kranti	1,20,000		Plant & Machinery	15,000	
Less : Net Loss	4,706	1,15,294	Less : Depreciation	2,000	13,000
Capital : Sumangala	40,000		Furniture	12,500	
Less : Net Loss	1,569	38,431	Less : Depreciation5%	625	11,875
Outstanding Expenses			Sundry Debtors	1,00,000	
Wages	800		Less : Bad Debts	800	99,200
Salaries	700	1,500	Bills Receivable		8,500
Sundry Creditors		30,000	Investment		32,000
Bills Payable		15,000	Cash in Hand		3,775
			Closing Stock		28,000
			Prepaid Insurance		1,875
			Prepaid Rent		2,000
		2,00,225			**2,00,225**

10. From the following Trial Balance of Riddhi and Siddhi, you are required to prepare Trading and Profit and loss Account for the year ended 31st March 2019 and Balance Sheet as on that date after considering the additional information given below.

Trial Balance as on 31st March, 2019

Particulars	Debit (₹)	Credit (₹)
Stock (1/4/2018)	48,000	
Capital - Riddhi		50,000
Siddhi		30,000
Purchases	22,500	
Wages	800	
Carriage Inward	1,000	
Sundry Creditors		27,600
Bills Payable		20,000
Cash in hand	2,850	
Insurance	1,200	
Sundry Debtors	32,000	
Bank Overdraft		18,000
Carriage outward	900	
Land and Building	42,500	
Furniture	38,700	
Sales		47,000
Purchase Return		500
Sales Return	400	
Rent		1800
Bad-debts	300	
R.D.D		350
Discount	700	1000
Travelling Expenses	250	
Advertisements	4,150	
	1,96,250	**1,96,250**

Adjustments :

1) Closing stock ₹ 48,700.
2) Outstanding Expenses - Wages ₹ 700 and Travelling Expenses ₹ 200.
3) Depreciate Land and Building by 10% and Furniture by 5%.
4) Insurance paid in advance ₹ 300.
5) Goods of ₹ 3000 destroyed by fire and Insurance company rejected the claim fully.

IN THE BOOKS OF RIDDHI AND SIDDHI
TRADING AND PROFIT AND LOSS ACCOUNT
For the year ended 31st March, 2019

Dr. **Cr.**

Particulars	Amount ₹	Amount ₹	Particulars	Amount ₹	Amount ₹
To Opening Stock		48,000	By Sales	47,000	
To Purchases	22,500		Less : Sales Return	400	46,600
Less : Purchases Return	500	22,000	By Closing Stock		48,700
To Wages	800		By Good destroyed		3,000
Add : Outstanding Wages	700	1,500	by fire		
To Carriage Inward		1,000			
To Gross Profit c/d		25,800			
		98,300			**98,300**
To Insurance	1,200		By Gross Profit b/d		25,800
Less : Prepaid	300	900	By Rent		1,800
To Depreciation on :			By R.D.D (Old)	350	
Land & Building	4,250		Less : Bad-debts(New)	300	50
Furniture	1,935	6,185	By Discount		1,000
To Travelling Expenses	250				
Add : Outstanding	200	450			
To Loss by fire		3,000			
To Carriage Outward		900			
To Discount		700			
To Advertisement		4,150			
To Net Profit Transferred					
to Capital A/c					
Riddhi	6,183				
Siddhi	6,182	12,365			
		28,650			**28,650**

BALANCE SHEET

As on 31st March, 2019

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital			Land & Building	42,500	
Riddhi	50,000		Less : Depreciation10%	4,250	38,250
Add : Net Profit	6,183	56,183	Furniture	28,700	
Capital			Less : Depreciation 5%	1,935	36,765
Siddhi	30,000		Prepaid Insurance		300
Add : Net Profit	6,182	36,182	Cash in hand		2,850
Sundry Creditors		27,600	Sundry Debtors		32,000
Outstanding Expenses			Closing Stock		48,700
Wages	700				
Travelling	200	900			
Bill Payable		20,000			
Bank Overdraft		18,000			
		1,58,865			**1,58,865**

EXERCISE - 1

Q.I Objective Questions :

A Select the most appropriate alternatives from the following & rewrite the sentences :

1) When there is no partnership agreement between partners, the division of Profits take place in .... ratio.
   a) Equal b) capital ratio
   c) initial contribution d) experience and tenrue of partners.
2) To find out Net Profit or Net Loss of the business .... account is prepared.
   a) Trading b) Capital
   c) Current d) Profit & Loss
3) A .... is an Intangible Asset.
   a) Goodwill b) Stock
   c) Cash d) Furniture
4) In the absence of an agreement, interest on loan advanced by the partner to the firm is allowed at the rate of ....
   a) 5% b) 6% c) 10% d) 9%
5) Liability of partners in a partnership business is ....
   a) Limited b) Unlimited
   c) Limited and Unlimited d) None of the above

6) The Indian Partnership act is in force since ....

a) 1932 b) 1881

c) 1956 d) 1984

7) Maximum number of Partners in a firm are .... according to Companies Act 2013.

a) 10 b) 25

c) 20 d) 50

B Write the word/phrase/term, which can substitute each of the following sentences.

1) Persons who form the partnership firm.
2) Amount of cash or goods withdrawn by partners from the business from time to time.
3) An association of two or more persons according to Indian partnership Act 1932.
4) Act under which partnership firms are regulated.
5) Process of entering the name of partnership firm in the register of Registrar.
6) Partnership agreement in written form.
7) Under this method capital balances of partners remains constant.
8) Proportion in which partners share profits.
9) Such capital method in which only capital account is maintained for each partner.
10) The account to which all adjustment are made when capital is fixed.
11) Expenses which are paid before they are due.
12) The accounts that are prepared at the end of each accounting year.
13) An asset which can be converted into cash easily.
14) Order in which fixed assets are recorded first in Balance sheet.
15) The account in which selling expenses of business are recorded.
16) Debit balance of Trading Account.
17) Credit balance of profit & loss account.

C State whether the following statements are True of False with reasons :

1) Partnership firm is a Non Trading Concern.
2) Profit and Loss Account is a Real Account.
3) Carriage Inward is carriage on purchases.
4) Adjustments are recorded in Partners Current Account in Fixed Capital Method.
5) Prepaid expenses are treated as liabilities.
6) If Partnership Deed is silent partners share profits and losses in proportion to their capital.
7) Balance sheet is an Account.
8) Wages paid for installation of Machinery is a Revenue expenditure.
9) Income received in advance is a liability.
10) R.D.D is created on creditors.
11) Depreciation is not calculated on Current Assets.
12) Goodwill is an intangible asset.

13) Indirect expenses are debited to Trading Account.

14) Bank Loan is a current liability.

15) Net profit is debit balance of Profit & Loss Account.

D Find odd one

1. Wages, Salary, Royalty, Import Duty. .
2. Postage, Stationery Advertising, Purchases.
3. Capital, Bills Receivable, Reseve Fund, Bank overdraft
4. Building, Machinery, Furniture, Bills payable.
5. Discount received, Dividend received, Interest received, Depreciation.

E Complete the Sentences

1) Partners share profit & losses in .... ratio in the absense of partnership deed.

2) Registration of Partnership is .... in India.

3) Partnership business must be ....

4) Liabilities of Partners in Partnership firm is ....

5) The balance of Drawings Account of a partner is transferred to his .... account under the Fixed Capital Method.

6) The interest on capital of a partner is debited to .... account.

7) Partners are .... liable for the debts of the firm.

8) Partnership Deed is an .... of Partnership.

9) The withdrawal by partner for personal use from the firm is .... to his account.

10) Commission payable to partner is .... to the firm.

11) When partners adopt Fixed Capital Method then they have to operate .... Account.

12) If partners Current Account shows .... balance it is shown to the liability side of Balance sheet.

13) The expenses paid for trading purpose are known as .... expenses.

14) Cash receipts which are recurring in nature are called as .... Receipts.

15) Return outward are deducted from ....

16) Expenses which are paid before due date are called as ....

17) Assets which are held in the business for a long period are called ....

18) Trading Account is prepared on the basis of is .... expenses.

19) When commission is allowed to any partner, it is .... of the business.

20) When goods are distributed as free samples, it is treated as .... of the business.

F Answer in one sentence only :

1) What is fluctuating capital?

2) Why is Partnership Deed necessary?

3) If the Partnership Deed is silent, in which ratio the partners will share the profit or loss?

4) What is the Fixed Capital Method?

5) How many partners are required to form a Partnership Firm?

6) What is Partnership Deed?

7) What are the objectives of the Partnership firm?
8) What rate of interest is allowed on partner's loan in the absence of an agreement?
9) What is the minimum number of Partners in a Partnership firm according to Indian Partneship Act, 1932.
10) What is liability of a partner?
11) In the absence of Partnership Deed what is the rate of interest on loan advanced by partner to the firm is allowed?
12) What do you mean by pre-received income?
13) What is the effect of the adjustment of provision for discount on debtors in the final accounts of partnership?
14) When is partners Current Account opened ?
15) As per which principle of accounting closing stock is valued at cost price or at market price which ever is less?
16) What is the provision of Indian Partnership Act with regard to Interest on capital ?
17) Why is Balance Sheet prepared?
18) Why wages paid for installation of Machinery are not shown in Trading Account?
19) What do you mean by indirect incomes?
20) Why partners capital is treated as long term liability of business?

G Do you agree/disagree with the following statements.

1) When Partnership Deed is silent, Partners share profits of the firm according to capital ratio.
2) Current account always shows a debit balance.
3) It is compulsory to have a partnership agreement in writing.
4) Partnership Firm is a trading concern.
5) An interest on capital is an expenditure for the partnership firm.
6) Partnership is an association of two or more persons.
7) Partners are entitled to get Salary or Commission.
8) The balance of Capital Account remains constant under Fixed Capital Method.
9) The Indian Partnership Act, came into existence in the year 1945.
10) Profit and Loss Account reflects the true Financial position.
11) Amount borrowed by partner from his business will be debited to Current Account.
12) Sold but undispatched goods must be part of valuation of closing stock.
13) Carriage Inward is a selling and distribution overhead
14) Gross profit is an operation profit
15) All financial expenditures are debited to profit and loss account.
16) Free distribution of goods is debited to trading account.

H Calculate the following:

1. Undervaluation of Closing Stock by 10%. Closing Stock was ₹ 30,000 find out the value of Closing Stock
2. Calculate 12.5% P. A.depreciation on Furniture -

   a) on ₹ 220,000 for 1 year

   b) on ₹ 10,000 for 6 months

3. Insurance Premium is paid for the year ending 1st September 2019 Amounted to ₹ 1,500. Calculate prepaid insurance assuming that the year ending is 31st March 2019.

4. Find out Gross profit / Gross Loss Purchases ₹ 30,000, Sales ₹ 15,000, Carriage Inward ₹ 2,400, Opening Stock ₹ 10,000, Purchase Returns ₹1,000, Closing Stock ₹ 36,000.

5. Borrowed Loan from Bank of Maharashtra ₹ 2,00,000 on 1st October 2019 at rate of 15% p.a. Calculate Interest on Bank Loan for the year 2019-20 assuming that the financial year ends on 31st March, every year.

Practical Problems

1. Amitbhai and Narendrabhai are in Partnership Sharing Profits and Losses equally. From the following Trial Balance and Adjustments given below, you are required to prepare Trading and Profit and Loss Account for the year ended 31st March, 2019 and Balance Sheet as on that date.

Trial Balance as on 31st March, 2019

Debit Balance	Amount ₹	Credit Balance	Amount ₹
Plant & Machinery	2,80,000	Capital A/c :	
Factory Building	75,000	Amitbhai	3,50,000
Sundry Debtors	28,700	Narendrabhai	3,00,000
Purchases	85,500	Sales	1,80,000
Bad Debts	500	Bills Payable	8,500
Sales Return	2,200	Discount	1,200
10% Govt. Bond	40,000	Creditors	38,500
(Purchased on 1st Oct, 2018)		R.D.D.	2,700
Import Duty	1,800	Bank Loan	15,000
Legal Charges	2,000	Purchases Return	2,000
Motive Power	12,000		
Warehouse Rent	1,800		
Cash in Hand	20,000		
Cash at Bank	70,000		
Advertisement	10,000		
(for 2 years, w.e.f 1st Jan 2019)			
Salaries	3,800		
Rent	1,500		
Drawings :			
Amitbhai	2,400		
Narendrabhai	3,200		
Furniture	1,95,800		
Bills Receivable	20,700		
Free hold Property	41,000		
	8,97,900		**8,97,900**

Adjustments :

1) Stock on hand on 31st March 2019 was valued at ₹ 43,000.
2) Uninsured Goods worth ₹ 8,000 were stolen.
3) Create R.D.D at 2% on Sundry debtors.
4) Mr. Patil, our customer become insolvent and could not pay his debts of ₹ 500.
5) Outstanding Expenses - Rent ₹ 800 and Salaries ₹ 300
6) Depreciate Factory Building by ₹ 2,500 and Furniture by ₹ 1,800

(Ans : G.P. ₹ 1,31,500, N.P. ₹ 1,12,086 Balance Sheet Total ₹ 8,19,586)

2 From the following Trial Balance of M/S Mitesh and Mangesh, you are required to prepare Trading and Profit and Loss Account for the year ended 31st March, 2019 and Balance Sheet as on that date.

Trial Balance as on 31st March, 2019

Debit Balance	Amount ₹	Credit Balance	Amount ₹
Stock as on (1/4/2018)	25,000	Sundry Creditors	38,000
Building	48,500	Sales	1,75,000
Carriage	1,780	Capital :	
Factory Insurance	2,700	Mitesh	1,50,000
Postage	1,600	Mangesh	50,000
Bills Receivable	13,700	Outstanding Salaries	2,000
Sundry Debtors	52,200	Bills Payable	18,000
Return Inward	1,600	Return outword	1,800
Purchases	68,900		
Audit fees	1,800	Current A/c :	
Loose tools	32,000	Mitesh	3,000
Manufacturing Expenses	1,820	Mangesh	2,000
Electricity Charges	2,600		
General Expenses	3,400		
Export duty	1,000		
Cash in hand	75,000		
Bank Balance	29,000		
Conveyance	4,100		
Furniture	64,000		
Salaries	2,000		
Rent, Rate & Taxes	3,700		
Drawings :			
Mitesh	1,200		
Mangesh	2,200		
	4,39,800		**4,39,800**

Adjustments :

1) Mitesh and Mangesh are sharing Profit and losses in the ratio 3:1.
2) Partners are entitled to get Commission @ 1% each on Gross Profit.
3) The closing stock is valued at ₹ 23,700.
4) Outstanding Expenses - Audit fees ₹ 400; carriage ₹ 600.
5) Building is valued at ₹ 46,500.
6) Furniture is depreciated by 5%.
7) Provide Interest on Partner's capital at 2.5% pa.
8) Goods of ₹ 900 were taken by Mangesh for his personal use.
9) Write off ₹ 1,000 as Bad Debts and maintain R.D.D at 3% on Sundry Debtors.
   (Ans : G.P. ₹ 99,000, N.P. ₹ 63,684 Balance Sheet Total ₹ 3,30,364)

3. From the following Trial Balance and adjustments given below of Reena and Aarti, you are required to prepare Trading and Profit and Loss Account for the year ended 31st March, 2019 and Balance Sheet as on that date.

Trial Balance as on 31st March, 2019

Debit Balance	Amount ₹	Credit Balance	Amount ₹
Purchases	35,500	Sales	58,200
Sundry Debtors	40,000	Sundry Creditors	25,700
Sales Returns	1,000	Purchases Returns	500
Opening Stock	18,100	R.D.D	800
Bad debts	500	Discount	50
Land & Building	25,000	Commission	250
Furniture	20,000	Capital :	
Discount	1,000	Reena	50,000
Royalties	700	Aarti	30,000
Rent	1,900		
Salaries	3,000		
Wages	800		
Insurance	1,500		
Drawings :			
Reena	2,000		
Aarti	1,000		
Cash at Bank	11,500		
Cash in Hand	2,000		
	1,65,500		**1,65,500**

Adjustments :

1) Closing Stock valued at ₹ 22,000.
2) Write off ₹ 900 for Bad & doubtful debts and create a provision for Reserve for doubtful debts ₹ 1,000.
3) Create a provision for Discount on Debtors @ 3% and creditors @ 5%.
4) Outstanding Expenses - Wages ₹ 700 and Salaries ₹ 800.
5) Insurance is paid for 15 months, w.e.f. 1st April 2018

6) Depreciate Land and Building @ 5%

7) Reena & Aarti are Sharing Profits & Losses in their Capital Ratio.

(Ans : G.P. ₹ 23,900, N.P. ₹ 13,592 Balance Sheet Total ₹ 1,16,507)

4. From the following Trial Balance of M/S Meera and Madhav. Prepare Trading and Profit and Loss Account for the year ended 31st March, 2019 and Balance Sheet as on that date.

Trial Balance as on 31st March, 2019

Debit Balance	Amount ₹	Credit Balance	Amount ₹
Stock (1/4/2018)	25,000	Bank overdraft	5,000
Debtors	80,500	Bills Payable	12,500
Bills Receivable	10,000	Creditors	68,000
Purchases	2,08,500	Sales	3,25,000
Returns	1,000	Outstanding Rent	2,000
Carriage Inward	3,000	Unpaid Wages	1,500
Carriage Outwards	4,500	Capital :	
Motor Vehicle	55,000	Meera	75,000
General Expenses	1,800	Madhav	75,000
Export Duty	900	Purchase Return	1000
Advertisement	4,800		
(For 3 years from 1/10/2018)			
Printing & Stationary	1,200		
Drawings :			
Meera	3,500		
Madhav	2,000		
Leasehold Premises	1,10,000		
Cash at Bank	45,000		
Furniture	8,300		
	5,65,000		**5,65,000**

Adjustments :

1) Closing Stock is valued at ₹ 32,000.

2) Provide Provision for Doubtful Debts ₹ 2,000.

3) Create reserve for Discount on Debtors @ 3%.

4) Valued of Leasehold Premises on 31st March 2019 ₹ 1,00,000.

5) Out standing Expenses Printing & Stationary ₹ 500.

(Ans : G.P. ₹ 1,20500, N.P. ₹ 96,445 Balance Sheet Total ₹ 3,30,445)

5. **Sucheta & Gayatri are Partners sharing Profit and Losses in the ratio 3:2. From the following Trial Balance and additional information you are required to prepare Trading and Profit and Loss Account for the year year ended 31st March 2019 and Balance Sheet as on that date.**

Trial Balance as on 31st March, 2019

Particulars	Debit ₹	Credit ₹
Purchases & Sales	65,000	1,85,500
Works Manager's Salary	2,300	
Capital - Sucheta		75,000
- Gayatri		40,000
Opening Stock	18,700	
Debtors & Creditors	47,500	35,000
Wages & Salaries	4,000	
Bills Receivable	22,000	
Bills Payable		27,300
Discount		400
Motive Power	1,350	
Custom duty	1,500	
Interest		1,300
Unproductive Wages	3,000	
Audit fees	2,500	
Rent	1,800	
Conveyance	2,000	
Goodwill	25,000	
Copyrights	20,000	
Building	88,000	
Partner (Sucheta's) Loan		6,150
Investments	40,000	
Cash at Bank	26,000	
	3,70,650	**3,70,650**

Adjustments :

1) Stock on 31st March 2019 was valued at ₹ 19,700.
2) Goods costing ₹ 3,000 distributed as free sample.
3) Motive Power includes ₹ 500 paid for deposit of Power Meter.
4) Depreciate Building @ 5%.
5) Write of ₹ 2,000 for Bad debts and maintain R.D.D at 3% on Debtors.
6) Bills Receivable included dishonoured of Bill of ₹ 4,000.

(Ans : G.P. ₹ 1,15,850, N.P. ₹ 97,365 Balance Sheet Total ₹ 2,80,815)

6. **Archana and Prerana are partners, sharing Profits and Losses in the ratio 2:1 with the help of following Trial Balance and Adjustments given below. You are required to prepare Trading and Profit and Loss Account for the year ended 31st March 2019 and Balance Sheet as on that date.**

Trial Balance as on 31st March, 2019

Debit Balance	Amount ₹	Credit Balance	Amount ₹
Stock (1/4/2018)	8,560	Capital :	
Patents	2,000	Archana	40,000
Sundry Debtors	18,500	Prerana	20,000
Stock of Stationary	3,000	Other Loans	3,000
Trade Mark	2,000	Reserve fund	1,000
Bills Receivable	6,300	Sundry Creditors	17,500
Electricity charges	1,450	Bills Payable	5,000
Wages	950	Purchase Return	1,000
Heating & Lighting	1,000	R.D.D	500
Trade Expenses	850	Sales	30,200
Sales Return	400	Interest	310
Land & Building	22,000		
Furniture	13,000		
Cash at Bank	5,000		
Investments	7,500		
Drawings :			
Archana	1,200		
Prerana	900		
Baddebts	200		
Purchases	23,700		
	1,18,510		**1,18,510**

Adjustments :

1) Stock on 31st March 2019 is valued at Cost Price ₹ 12,000 and Markct Price ₹ 17,000.
2) Our customer Mr. Shekhar failed to pay his dues of ₹ 800.
3) 1/8th of Patents are to be written off.
4) A part of Furniture ₹ 5,000 is purchased on 1st Oct 2018.
5) Depreciation on Land & Building 10% and on Furniture 5%.
6) Outstanding Expenses Wages ₹ 300 and Electricity Charges ₹ 200.
7) Allow Interest on Capital 3%.

(Ans : G.P. ₹ 8,290, N.P. ₹ 825 Balance Sheet Total ₹ 87,525)

7. **Satish and Pramod are Partners. Prepare Trading Account and Profit and Loss Account for the year 31st March, 2019. You have to find out Gross Profit and Net Profit only.**

Trial Balance as on 31st March, 2019

Debit Balance	Amount ₹	Credit Balance	Amount ₹
Stock (1/4/218)	8,700	Sales	68,000
Purchases	18,300	Dividend	2,000
Wages	1,000	Purchases Return	500
Insurance	800	Sundry Creditors	13,000
Unproductive Wages	1,400	10% Bank Loan	8,000
Warehouse Rent	600	(w.e.f. 1/7/2018)	
Carriage Outward	1,200	Other Receipts	1,000
Sales Return	600		
Export Duty	1,400		
Customs Duty	800		
Sundry Debtors	40,000		
Investments	15,700		
Factory Rent	1,600		
Postage & Telegram	400		
	92,500		**92,500**

Adjustments :

1) The Closing Stock is valued at ₹ 15,400.
2) Outstanding Wages ₹ 500.
3) Create provision for Bad debts ₹ 800 and maintain R.D.D 3% on Sundry Debtors.
4) Goods of ₹ 1,800 distributed as a free sample.
5) Goods of ₹ 2,000 were sold and delivered on 31st March 2019 but no entry is passed in the Books of Account.

(Ans : G.P. ₹ 56,200, N.P. ₹ 48,964)

8. Nana and Nani are Partners in Partnership Firm sharing Profits and Losses equally. You are required to give effects of Adjustments in Profit & Loss A/c and Balance Sheet with the help of following information.

Trial Balance as on 31st March, 2019

Debit Balance	Amount ₹	Credit Balance	Amount ₹
Insurance	15,000	Capital A/c	
Land and building	50,000	Nana	50,000
(Addition of ₹ 20,000		Nani	50,000
w.e.f 1st July 2018)		10`% Bank loan taken on 1st Oct. 2018	30,000
Salaries	5,000	Interest	1,500
Export Duty	2,500	Bills Payable	8,000
Interest	1,000		
Furniture	40,000		
Debtors	26,000		
	1,39,500		**1,39,500**

Adjustments :

1) Gross profit amounted to ₹ 34,500.
2) Insurance Paid for 15 months w.e.f. 1.4.2018.
3) Depreciate Land and Building at 10% p.a. and Furniture at 5% p.a.
4) Write off ₹ 1,000 for Bad Debts and maintain R.D.D at 5% on Sundry Debtors.
5) Closing Stock is valued at ₹ 34,500.

(Ans : N.P. ₹ 5,250 Balance Sheet Total ₹ 1,44,750)

9. Sun and Moon are Partners in Partnership Firm sharing Profits and Losses equally. You are required to give effects of Adjustments with the help of following information.

Trial Balance as on 31st March, 2019

Debit Balance	Amount ₹	Credit Balance	Amount ₹
Land & Building	40,000	Capital A/C	
Furniture	18,000	Sun	33,500
Machinery	40,000	Moon	33,500
(Purchased on 1/7/18)		Current A/c : Sun	6,000
Goodwill	2,000	Sundry Creditors	25,000
Wages	2,000	Bank Overdraft	10,000
Current A/c : Moon	4,000	Reserve Fund	5,000
8% Debentures	8,000	Providend Fund	5,000
(Purchased on 1/10/18)			
Providend Fund Investment	3,500		
Stock of Postal stamps	500		
	1,18,000		**1,18,000**

Adjustments :

1) Partners are entitled to get salary ₹ 6,000 p.a. in addition to their profit & loss sharing.
2) Depreciation on Land & Building, Furniture & Machinery @ 10%, 5% and 3% respectively.
3) Interest on Capital 5% p.a.
4) Closing Stock ₹ 60,743.
5) Wages included ₹ 1,000 as advance given to workers.
6) Interest due but not paid ₹ 800.
7) Total Net Profit amounted to ₹ 38,113.

You are required to prepare Balance Sheet and Partners Current A/c only.

(Ans : Balance Sheet Total ₹ 1,68,263, Current A/c Balance Sun ₹ 32,731, Moon ₹ 22,732)

10. Kshipra and Manisha are Partners sharing Profit and Losses in their Capital Ratio. You are required to prepare Trading Account and Profit and Loss Account for the year ended 31st March, 2019 and Balance Sheet as on that date.

Trial Balance as on 31st March, 2019

Debit Balance	Amount ₹	Credit Balance	Amount ₹
Sundry Debtors	28,000	Sales	1,20,000
Purchases	55,000	Rent	1,800
Furniture	38,500	Sundry Creditors	38,500
Plant & Machinery	60,000	Purchase Return	1,000
Wages	800	Discount	500
Salaries	3,500	Bills Payable	9,000
Discount	800	Capital A/c :	
Bills Receivable	14,400	Kshipra	90,000
Carriage Outward	1,000	Manisha	30,000
Postage	500	Current A/c :	
Sales Return	500	Kshipra	5,000
Cash in Hand	4,000	Manisha	3,000
Cash at Bank	47,000		
Insurance	2,000		
Opening Stock	17,800		
Trade Expenses	1,500		
Ware house Rent	2,500		
Advertisement	1,000		
Building	20,000		
	2,98,800		**2,98,800**

Adjustments :

1) Stock on 31st March 2019 was at ₹ 37,000.
2) Sales includes, sale of machinery of ₹ 2,000, which is sold on 1st April 2018.
3) Depreciation on fixed assets @ 5%.
4) Each Partners is entitled to get Commission at 1% of Gross Profit and Interest on Capital 5% p.a.
5) Outstanding Expenses Wages ₹ 200 & Salaries ₹ 500.
6) Create provision for doubtful debts @ 3% on Sundry Debtors.

(Ans : G.P. ₹ 81,700, N.P. ₹ 56,401 Balance Sheet Total ₹ 2,40,235)

Activity :

1. Visit a Partnership firm and study the management of the firm and write a report on it.
2. Write a report on procedure of Registration of Partnership firm under Indian Partnership Act, 1932.
3. Visit Chartered Accountants office and understand the process of finalisation of Partnership Accounts and filing of Income Tax Return

2 Accounts of 'Not for Profit' Concerns

Content

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2.2.3 Types of Receipts i) Capital Receipts ii) Revenue Receipts
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6. Specific Donations

7. *General Donations*
8. *Specific Funds*
9. *Endowment Funds*

Competency Statement

❑ *The students will be able to :*
- *Understand the meaning and features of Not for Profit concerns.*
- *Know the meaning of Receipts and Payments Account.*
- *Understand the meaning of Income and Expenditure Account and its difference form Profit & Loss Account.*
- *Understand difference between Profit and Not for Profit organisations.*
- *Learn to acquire the skills for Preparing Income and Expenditure Account and Balance Sheet of Not for Profit Concern.*

2.1.1 Introduction :

There are two types of organisations 1) Trading organisations or Profit making organisations and 2) Non - Trading or Not for Profit organisations

Trading organisations main object is to earn Profit. They are engaged in Trading activities. i.e. Buying and selling of goods and services, organisations like Sole Trading concern Partnership, Co-Operative organisations, Public Limited Company etc. are set up for the purpose of making profit. Final Accounts which consists of Trading and Profit and Loss Account and Balance Sheet are prepared. Base of Final Accounts is Trial Balance.

Not for Profit organisations main aim is to give service to its members or to the society at large. They are not formed for Profit making. They do not carry any Trading activity or manufacturing activity. Sports club, Charitable Hospitals, Schools, Colleges, Universities, Trade Unites, Chamber of Commerce, Professional Institutions, Trusts, Social Welfare Associations, Religious concerns, Libraries etc. are examples of Not for Profit concern. their main object is to give services to the members. They maintain the books of accounts in a different way.

As their motive is not to earn Profit 'Not for Profit' concerns do not prepare Profit and Loss Account, instead they prepare Income and Expenditure Account. Similarly they do not prepare Trial Balance but they prepared Receipts and Payments Account. These organisations prepare Balance Sheet to know the Net Worth of the concern on a particular date. Final Accounts of not for profit concerned consists of Income and Expenditure Accounts and Balance Sheet.

2.1.2 Meaning of Not for Profit Concern :

Not for Profit Concerns are those concern which are not started to earn Profit but to give qualitative service to its members and society at the minimum charges. Their main objective, is to provide social service and to promote art, culture, sports, education etc. The nature of these concerns are different from Profit organisations. Not for Profit concerns collect income through subscription, admission fees, donations etc. given by members or non members and grants subsidies or concessions received form the Government.

2.1.3 Features of 'Not for Profit' concerns :

1. The primary objective of such concerns is to provide services to its members and not to earn profit.

2. These concerns are formed for promotion of art, culture, education, sports, charity, health, etc.
3. The members of this concerns can not got the dividend. It is prohibited.
4. The management of such concerns is done by elected representatives of members. It is governed by elected members.
5. These concerns prepare Receipts and payments Account, Income and Expenditure Account and Balance Sheet.
6. Capital Fund is created by such concerns. It is made up of Entrance fees, Surplus, Legacies and donations specially received for Capital Fund.

2.1.4 Difference between Profit Organisations and Not for Profit Organisations :

Points of Distinction	Profit Organisations	Not for Profit Organisations
1. Primary objective	The primary objective of such organisation is to earn profit.	The primary object of there organisations is to provide service.
2. Preparation of Trial Balance	Prepares Trial Balance	Do not prepare Trial Balance Receipts and Payments - Acounts is Prepared.
3. Accounting Statements	i) Trading Account ii) Profit and Loss Account iii) Balance Sheet	i) Receipts and Payments Account ii) Income and Expenditure Account iii) Balance Sheet
4. Net Results	Net Profit / Net Loss	Surplus or Deficit
5. Owner's Fund / Capital Fund	Owner's fund includes owners investment i.e capital plus reserves and surplus	Capital fund represents - accumulated amount of surplus, subscriptions, donations and surplus as shown by Income and Expditure Account.

2.1.5 Need for maintaining Books of Accounts and Preparation of Final Accounts :

'Not for Profit' concerns are not engaged in Trading activities.

Mostly they deal with public money. These concerns collect money such as subscriptions, donations, grants, entrance fees etc. from public. These concerns are answerable to the society for such money collected and spent. Hence proper Books of Accounts are to be maintained.

Following are the reasons for maintaining 'Books of Account's by 'Not for Profit' concerns.

1. To maintain Proper control over monetary transactions.
2. To know the sources of incomes and heads of Expenditure.
3. To comply with the provisions of laws applicable to them. eg. 'Not for Profit' concern registered as a Charitable Trust under Mumbai Public Trust Act or a Co-Operative Society registered under the Co-Operative Society Act has to comply with the provisions of these Acts regarding budget, audit of accounts, registers to be maintained etc.
4. To know surplus / deficit of the concern during a particular period.
5. To know the net worth of the concern as on a particular day.
6. To avoid malpractices and misappropriations of cash and assets.

2.2.1 Meaning of Receipts and Payments Account :

The day to day transactions of a 'Not For Profit' concern are recorded in a cash book and then they are posted to Ledger Accounts. At the end of financial Period the cash book and ledger accounts are balanced and from these balances, Receipts and Payments Account is prepared.

The Receipts and Payments Account is a Real Account. Credit transactions are not recorded in Receipts and Payments Account. Receipts and Payments Account is a summary of cash and bank transactions for a particular Period. All receipts are shown to the debit side and all Payments to the credit side.

This Accounts starts with opening Cash and Bank Balance (Different Banks) and closes with Cash and Bank Balance at the end of the year.

Receipts : All receipts during a particular Period are debited to Receipts And Payments Account irrespective of the year for which they are received and irrespective of their nature Revenue or capital. Such receipts may be related to previous year or current year or next year. All receipts are debited to this account. (Revenue capital)

Payments : All Payments made during a particular period are credited to Receipts and Payments Account irrespective of the period to which it related and irrespective of their nature Revenue or Capital. Such Payments may be related to previous year a current year or next year similarly such Payments may be Revenue or Capital expenditure. All are credited to this account.

Receipts and Payments Account

for the year ended 31st March 20......

Dr. **Cr.**

Receipts	Amount ₹	Payments	Amount ₹
To All Receipts (Revenue or Capital) Previous year - .... Current year - .... Next year -	....	By All Payments (Revenue or Capital) Previous year - .... Current year - .... Next year -	....

2.2.2 Features of Receipts and Payments Account :

1. Receipts and Payments Account is a Real Account
2. Receipts and Payments Account is similar to cash book (summary of cash & Bank transactions)
3. It includes all types of Receipts and Payments (Revenue or Capital)
4. It records all receipts and payments made during a particular period i.e. Current year. (previous, current or next year)
5. Income Receivable and amounts Payable are not recorded in this account.
6. This account is a base to prepare Final Accounts of 'Not for Profit' concerns
7. This account shows opening and closing balances of cash and Bank (or Bank overdraft).

2.2.3 Types of Receipts :

i) Capital Receipts ii) Revenue Receipts

ii) **Capital Receipts :-** All such receipts are non - recurring in nature and not forming a part of regular flow of income of a concern are known as capital Receipts e.g Spectific Donations for Building, Sports Tournaments, Library, life membership fees, sales proceeds of Fixed Asset. Capital Receipts are either added to Capital Fund or separately shown on Liabilities side of Balance Sheet.

iii) **Revenue Receipts :-** All such receipts which are recurring in nature and represent regular flow of income of a concern, are known as revenue receipts.
e.g Subscription Rent, Locker Rent, Interest received etc.

Receipts

Revenue → Income & Expenditure A/c

Capital → Balance sheet

All receipts are not income, capital receipts and considered in a different manner.

2.2.4 Types of Payments :

Payments

Capital Expenditure	Revenue Expenditure and
(Long Period)	(Short Period)
e.g. Purchase of Land,	Salaries, Taxes, Insurance,
Furniture, Machinery etc.	Premium etc.

i) **Capital Expenditure :-** These expenditures are non-recurring expenditure in nature. The benefits of such Expenditure are likely to be received for a long period. These expense's are shown on the Assets side the Balance Sheet and their Balances are carried forward to next accounting period.

ii) **Revenue Expenditure :-** There expenses are recurring in nature. The benefit of these expenses are enjoyed immediately i.e. in current year.

iii) **Deferred Revenue Expenditure :-** Deferred revenue expenditure is actually a revenue expenditure . Such expenditure is incurred for receiving benefits for more than a year.

e.g. Advertisement expenditure paid ₹ 30,000 is for 3 years. In such case 1/3rd of ₹ 30,000 is ₹ 10,000 is for current year. It should be debited to Income and Expenditure Account and 2/3rd ₹ 20,000 expenditure should be shown on Asset side of Balance Sheet.

Total Receipts

Revenue → Credit side of Income & Expenditure Account

Capital → Liability side of Balance Sheet.

Total Payments

Revenue → Debit side of Income & Expenditure Account

Capital → Balance Sheet Asset side.

2.2.5 Specimen of Receipts and Payments Account :

In the books of ......

Receipts and Payments Account

for the year ended 31st March 20......

Dr. **Cr.**

Receipts	Amt ₹	Amt ₹	Receipts	Amt ₹	Amt ₹
To Balance b/d			By Balance b/d		xxx
Cash in Hand	xxx		(Bank overdraft)		
Cash at Bank	xxx	xxx	By Salaries		
(Name of Banks)			Previous year	xxx	
To Subscriptions			Current year	xxx	xxx
Previous year	xxx		By Rent Rates and Taxes		
Current year	xxx		Previous year	xxx	
Next year	xxx	xxx	Current year	xxx	
To Entrances fees		xxx	Next year	xxx	xxx
To Admission fees		xxx	By Printing and Stationery		xxx
To Life membership		xxx	By General Expenses		xxx
fees			By Interest on Bank Loan		xxx
To Legecies		xxx	By Electricity Charges		xxx
To Govt. Grants		xxx	By Audit fees		xxx
To Donations (General)		xxx	By Tournaments Exp.		xxx
To Donations		xxx	By Wages		xxx
for specific fund			By Purchase of Sports Materials		xxx
Building Fund,		xxx	By Insurance		xxx
Prize Fund, Tournment		xxx	By Telephone / mobile Exp.		xxx
Fund			By Bank charges		xxx
To Dividend - Received		xxx	By Postage		xxx
To Hire / Rent of Hall		xxx	By Conveyance		xxx
received			By Expenses for Annual function		xxx
To Sundry Income		xxx	By Fixed Deposit		xxx
To Sale of old materials		xxx	By Purchase of fixed Assets		xxx
To Sale of old News		xxx	Books		xxx
Papers / scrap		xxx	Furniture		xxx
To Misc. Receipts		xxx	Building		xxx
To Tournaments Receipts		xxx	Investments		xxx
To Cricket Fees		xxx	By News Papers		xxx
To Tution Fee		xxx	By Office Exp.		xxx
To Term Fees		xxx	By Repairs		xxx
To Collection of fine		xxx	By Balance c/d		
To Locker Rent		xxx	Cash in Hand		xxx
To Exam Fees		xxx	Cash at Bank		xxx
To Balance c/d		xxx	(Names of Bank)		
(Bank overdraft)					
		xxxx			xxxx

2.3.1 Meaning of Income and Expenditure Account :

Meaning : Income and Expenditure Account is a summary of revenue incomes and revenue expenses of a particular period. It is similar to Profit and Loss Account. It is a Nominal Account 'Not for Profit' concerns prepare Income and Expenditure Account. All Revenue expenses / Losses of current year are debited and all Revenue Income / Gains of Current year are credited to this account.

Incomes : In Income and Expenditure Account only, revenue incomes or gains of the current period are credited, eg. Subscriptions Received, Interest on Investments received, Sundry Receipts. General Donations received Tuition fees Received etc. Incomes received for previous year or for next year are not taken into this account. However, all incomes pertaining to current year whether received or not received or received during the previous year for this year, are taken into account. On the other hand outstanding - incomes and pre -received incomes of current year are considered.

Expenditure : Only Revenue Expenses / Losses of current year are debited to this account. Items of expenses of 'Not for Profit' concern may differ from concern to concern. Expenses Paid for previous year or for the next year are not taken into account. However, all expenses pertaining to current year, whether actually paid or not paid during the previous year or current year, are taken into account. In other words outstanding expenses and prepaid expenses during previous year are considered.

Income and Expenditure Account shows Surplus or Deficit of the concern. Excess of Income over Expenditure is known as Surplus while excess of Expenditure over Income is known as Deficit.

If there is a surplus, it is added to the 'Capital Fund' and if there is a deficit, it is deducted from 'Capital Fund'

2.3.2 Features of Income and Expenditure Account :

1) Income and Expenditure Account is a Nominal A/c.
2) This account records only revenue expenses and Income of current year only.
3) It is similar to Profit and Loss Account.
4) It is prepared to find out surplus (i.e. excess of Income are Expenditure) or Deficit i.e. excess of Expenditure over Income.)
5) Income and Expenditure Account is always accompanied with Balance Sheet.
6) It has no Opening Balance.
7) Surplus or Deficit is transferred to Capital Fund.
8) It records all cash items as well as non cash items which are related to current period eg. salaries paid, outstanding salary, Bad Debts, Depreciation on Fixed Assets etc.

2.3.3 Specimen :

In the books of ......
Income and Expenditure Account
for the year ended 31st March 20.....

Dr. **Cr.**

Expenditure	Amt ₹	Amt ₹	Income	Amt ₹	Amt ₹
To Salaries paid	xxx		By Subscription Received	xxx	
Less : paid for last year	xxx		Less :		
paid for next year	xxx		i) received for last year	xxx	
	xxx		ii) received of next year	xxx	
Add Outstanding	xxx			xxx	
	xxx		Add :		
Add prepaid for last year	xxx	xxx	i) Received during last year for	xxx	
To Wages		xxx	current year		xxx
To Printing and Stationery		xxx	ii) Outstanding for current year	xxx	xxx
To Rent		xxx	By Rent Received		xxx
To Interest		xxx	By Interest Received		xxx
To Conveyence		xxx	By Dividend Received		xxx
To Rates & Taxes		xxx	By Govt. Grants (General)		xxx
To Insurances Premium		xxx	By Ground Rent		xxx
To Audit fees		xxx	By Sundry Receipts		xxx
To Office Expenses		xxx	By Entrance Receipts (Revenue)		xxx
To Telephone / Mobile Expenses		xxx	By Entrance fee (Revenue)		xxx
To Medicines		xxx	By Admission fees		xxx
To Sports Materials			By Donations (General)		xxx
consumed during the year			By Profit on Sale of Asset		xxx
Opening Stock	xxx		By Deficit (Excess of		xxx
Add : Purchases	xxx		expediture over Income)		
	xxx				
Less : Closing Stock	xxx	xxx			
To Repairs and Maintenance		xxx			
To Electricity charges		xxx			
To News papers and periodical		xxx			
To Sundry Expenses		xxx			
To Loss on sale of Asset		xxx			
To Depreciation on Fixed		xxx			
Assets					
To Surplus (Excess of		xxx			
Income over Expenditure)					
		xxxx			xxxx

2.3.4 Distinguish between :

Receipts and Payments Account and Income and Expenditure Account

Point	Receipts & Payments Account	Income and Expenditure Account
1) Type of Account	It is a Real Account.	It is a Nominal Account.
2) Nature	It is similar to cash Book.	It is like a Profit and Loss Account.
3) Object	It is prepared to present a summary of cash transactions	It is prepared to ascertain the net results of all Income and Expenditure transactions
4) Opening Balance	It starts with opening cash balance and Bank balance or Bank over draft.	It has no opening balance.
5) Closing Balance	The closing balance represents cash in hand and cash of Bank at the end of the given period.	The closing balance represents either surplus or deficit.
6) Receipts and Payments	All receipts and payments during the current period are recorded in this account (Revenue or capital)	only Revenue - Receipts and Revenue Expenses are related to current period are recorded in this account.
7) Non - cash items	Non - cash items are not recorded in this account.	In this account non - cash items like bad - debts, Dep. outstanding expenses etc. are also included.
8) All Accounts	All transections related to personal Accounts, Real Accounts and Nominal Accounts.	This Account contains only transections related to Nominal Accounts.
9) Period	It includes amounts received or amount paid for any period like previous year, current on next year.	In this accounts amount related to current year only are included.
10) Balance Sheet	It need not be necessarily accompanied by a Balance Sheet.	It is always accompanied by a Balance Sheet.

2.3.5 Preparation of Income and Expenditure Account :

Income and Expenditure Account is a Nominal Account. All Revenue Expenses and losses are debited to it and all Revenue income and gains are credited to it. It is similar to Profit & Loss Account.

2.3.6 Preparation of Balance Sheet :

Balance Sheet is a statement of Assets and Liabilities of the organisation as on a particular date. The Balance sheet of Non - Trading organisation is similar to a Balance Sheet of a sole Trading concern / organisation.

A Balance Sheet only show Capital Receipts and Capital Expenditure. Balance Sheet is prepared with a view to measure the exact financial position of an organisation / concern on a certain date, normaly at the end of the year.

The excess of Assets over Liabilities is termed as Capital Fund. If the opening balance of 'Capital Fund' is not known it can be ascertained as the balancing figure by preparing opening Balance Sheet.

2.3.7 Implied Adjustments :

In Receipts and Payments Account some additional information is given regarding certain items. On the basis of such information some accounting adjustments are necessary. Such adjustment are known as implied or hidden adjustments. Some implied (Hidden) adjustments are given below - (These items are given in Receipts and Payments Account.

1) Rent (11 months) ₹ 11,000
2) 10 % Loan form Bank of India. ₹ 20,000 (Taken on 1st Jan 2020)
3) Leeshold Land ₹ 1,00,000 (for 10 year from 1 - 4 - 2019)
4) Sale proceeds of furniture (Book Value ₹ 7,500, ₹ 8,000)

Receipts and Payments Account
for the year ended 31st March 2020

Dr. **Cr.**

Receipts	Amt ₹	Payments	Amt ₹
		By 10 % Fixed Deposit (Deposited on 1 - 1- 2020)	1,00,000

In the above example implied adjustment is Outstanding Interest on fixed Deposit because :

i) No receipts of Interest on fixed Deposit is given.

ii) Rate of interest on fixed Deposit is given along with date of deposit with Bank.

Therefore, it becomes necessary to take into account the outstanding interest on fixed Deposit for 3 months (i.e 1 - 1 - 2020 to 31 - 3 - 2020) at 10 % p. a. ₹ 2,500

Adjustment in final Accounts.

i) Outstanding Interest of Fixed Deposit ₹ 2,500 Should be credited to Income and Expenditure Account.

ii) It is shown on Asset side of the Balance sheet. Add in Fixed Deposit or show separately on the Asset side.

2.3.8 Capital Fund :

Capital fund is shown on the Liabilities side of Balance Sheet of 'Not for Profit' concern. Capital Fund is created from capital incomes and by capitalising surplus, if any.

The Net Surplus is added in the Capital Fund and Deficit is deducted from Capital Fund.

2.3.9 Specimen of Balance Sheet :

Balance Sheet as on 31st March 20......

Liabilities	Amt ₹	Amt ₹	Assets	Amt ₹	Amt ₹
Capital Fund			Cash in Hand		xxx
(Opening Balance)	xxx		Cash at Bank		xxx
Add :			Fixed Deposit		xxx
i) Donations (Capitalised)	xxx		Investments		xxx
ii) Entrances fees (Capitalised)	xxx		Sundry Debtors		xxx
iii) Surplus	xxx		Land and Buildings		xxx
	xxx		Furniture and Fixtures		xxx
Less : Deficit	xxx	xxx	Plant and Machinery		xxx
Building Fund		xxx	Equipments		xxx
Endownment Fund		xxx	Play Ground		xxx
Tournament Fund		xxx	Motor Vehicles		xxx
Special Fund		xxx	Library Books		xxx
Charity Fund		xxx	Stock of Sports Materials		xxx
Sundry Creditors		xxx	Stock of Stationery		xxx
Bank overdraft		xxx	Stock of Drugs		xxx
Other Loan		xxx	Loans and Advances given		xxx
Outstanding Expenses		xxx	Accured Interest		xxx
Pre Received Income		xxx	Prepaid Expenses		xxx
(Subscription received in advance)		xxx	Outstanding Income		xxx
Life Membership Fees		xxx			
		xxxx			xxxx

Some times instead of adding surplus into Capital Fund, it is accumulated as a credit Balance to Income and Expenditure Account. such balance is shown separate in Balance Sheet. On the Liabilities side making there of may be as under.

	Amt ₹	Amt ₹
Income the Expenditure Account		
Opening credit Balance	xxx	
Add surplus of current year	xxx	xxx

2.3.9 (A) Additional Information :

1) (Refer illustration No. 4) **Outstanding and prepaid Expenses**

1. Outstanding Expenses - Outstanding expenses are the expenses which are unpaid.

Two effects

i) Add outstanding amount in the concerned expenditure on expenditure side of Income & Expenditure Account.

ii) Show outstanding expenses on Liabilities side of Balance Sheet.

2. **Prepaid Expenses -** Prepaid Expenses are the expenses which are paid in advance.

Two effects

i) Deduct the prepaid amount from the concerned expenses on expenditure side of In come and Expenditure Account.

ii) Show prepaid expenses on Asset side of Balance Sheet.

3. **Accured Income/Outstanding Income :**

The Income which is earned during the year but it has not been, received during the year, it is an outstanding income.

Two effects

i) Outstanding income is added in the concerned Income on Income side of Income and Expenditure Account.

ii) Outstanding Income is shown on the Asset side of the Balance Sheet.

4. **Income Received in Advance / Pre - Received Income :**

Sometimes income is received during the year which is actually related to the next year. It is income received but not earned.

Two effects

i) The amount of Income received in advance is deducted from the concerned income in Income side of Income and Expenditure Account.

ii) Show on Liabilities side of Balance Sheet.

5. **Subscription received in advance and outstanding subscription :**

Subscription is a revenue income of Not for Profit concern. Subscription may be given periodically. All members have to pay subscription regularly. It is credited to Income and Expenditure Account.

Subscription can be classified as :

i) Subscription of current year received in the current year -

ii) Subscription of previous year received in current year -

iii) Subscription of next year received in the current year -

iv) Subscription of current year is outstanding.

6. **Depreciation :**

(for this refer to illustration No. 3) Depreciation is a Nominal Account.

Two effects

1) Debit side of Income and Expenditure Account.

2) Deduct from deduct from the concerned asset from Balance Sheet.

7. **Capitalisation of Entrances fees :**

Entrances fees are the fees paid by the persons, who intend to become a member of the organ isation / concern.

Generally Entrance fees are treated as Capital receipts / Income. But sometime part & it can be treated an Revenue Receipts.

e.g Entrance Fees Received ₹ 50,000.

Additional Information -

50 % Entrance Fees should be Capitalised.

50 % of ₹ 50,000 = ₹ 25,000

₹ 25,000 will be added in Capital Fund. and ₹ 25,000 will be treated as Revenue - Income which is credited on Income side of Income and Expenditure Account. (Deduct from Entrance Fees)

8. Creation of special funds out of Donations :

Donations means gifts given by either members or any outsiders to the Organisation Types of Donations.

1) **Genaral Donations -** Treated as Revenue Income and will be shown on Income side of Income and Expenditure Account. These donations are given without any condition.

2) **Specific Donations -** Donations are sometimes given for specific purpose. The doner specifies the purpose for utilising the amount donated by him e.g.
Donations for Building Fund, Donations for Prize Fund, Donations for Sports Tournaments etc.
Such Donations should be shown on the Liabilities side of Balance Sheet.

9. Stock of Stationery : Stationery is an expenditure. It is a consumable item.

It may be calculated as under :

Opening Stock of Stationery	₹ xxx
Add : Purchases of Stationery during the year	₹ xxx
Add : Outstanding Stationery Bill	₹ xxx
Less : Closing Stock of Stationery	₹ xxx
Stationery Consumed	₹ **xxx**

Stationery consumed is to be debited to Income and Expenditure Account and closing Stock & Stationery will be shown on Asset side of Balance Sheet.

Same treatment id to be given for Sports Material Consumed, Medicines/Druges etc.

10. Opening Balances of Assets and Liabilities Opening Balance Sheet :

At the beginning of accounting year the accounts of assets and liabilities show balance. With these opening balances, opening Balance Sheet is prepared. While preparing final Accounts of the concern these balances are property taken into account.

Capital Fund should he represented on Liabilities side of Balance Sheet.

Refer the Point 2:3:8

B) Important Terms:

1) **Entrance fees -** (please refer Additional information point No. 7)

2) **Subscriptions -** (please refer Additional information Point No. 5)

3) **Legacy -** Legacy means gifts received under the will on the death of a donor . This gift may be for general or special purpose.

   i) General gift - Revenue Income which is credited on Income side of Income and Expenditure Account.

   ii) Special purpose (Gift) - It is a capital Receipt. It should be shown on the liability side of Balance Sheet.

4. Life Membership Fees :

In Not for Profit concerns same members Pay Life Membership fees. It is non - recurring income therefore it will be shown on liability side of Balance Sheet.

5. **Sale of old Assets :**

When any asset became obsolete or useless for the concern, it is sold out. Amount relaised on it in a Capital Receipt. The Book value of sale of such asset is deducted from the concerned asset. The difference between the Book Value and Realised value is either Profit on Loss on sale of Asset. It there is a Profit it should be shown to income side of Income and Expenditure Account. If there is a loss it should be shown on Expenditure side of Income and Expenditure Account.

6. Sale of Scrap, News papers etc. Scrap of old materials is sold in the market. It is treated as recurring income. Therefore, It is credited to Income side of Income and Expenditure Account. Sale of old News Papers is a miscellaneous income. It is credited on Income side of Income and Expenditure Account.

7) **Specific Donations (please refer point No. 8)**

8) **General Donations (please refer point No. 8)**

9) **Specific Funds (please refer point No. 8)**

10) **Endowment Fund**

It is a fund created out of specific amount embarked, gifted or donated. The Income of this fund is a specific Income. It shows on the liability side of the Balancesheet.

Illustrations

1 : Treatment of Stationery

Balance Sheet
as on 31st March 2017

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
			Stock of Stationery		800

Receipts and Payments Account
for the year ended 31st March 2018

Dr. Cr.

Receipts	Amount ₹	Amount ₹	Payments	Amount ₹	Amount ₹
			By Stationery Purchased		7,000

Adjustments :

1) ₹ 1,500 is Outstanding for Stationery Bill.
2) Stock of Stationery on 31st March 2018 was ₹ 1,300.

With the help of above information calculate the amount of stationery cosumed during the year.

Particulars	Amount ₹
Stock of stationery as on 1-4-2017	800
Add : Purchased during the year	7,000
Add : Outstand bill	1,500
	9,300
Less : Closing Stock (31-3-2018)	1,300
Stationery consumed during the year	8,000

2 : For considering adjustments relating to subscription only

Receipts and Payments Account

for the year ended 31st March 2018

Dr. **Cr.**

Receipts	Amount ₹	Amount ₹	Payments	Amount ₹	Amount ₹
To Subscription					
2016 - 17	1,500				
2017 - 18	80,000				
2018 - 19	3,500	85,000			

Adjustments :

1) Subscription outstanding for current year was ₹ 7,000
2) Outstanding subscription for 2016 - 17 was ₹ 2,000 Subscription received in advance during last year was ₹ 8,000.

With the help of above information show the effects in final account.

Solution :

Income & Expenditure Account

for the year ended 31st March 2018

Dr. **Cr.**

Expenditure	Amount ₹	Amount ₹	Income	Amount ₹	Amount ₹
			By Subscription	80,000	
			Add : Subscription received in advance in last year	8,000	
			Add ; Outstanding Subscription for current year	7,000	95,000

Balance Sheet

as on 31st March 2018

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Subscritpion received in advance (2018-19)		3,500	Outstanding Subscription		
			2016 - 17	500	
			2017 - 18	7,000	7,500

3 : Calculation of Depreciation

On 1st April 2018 Furniture Account shows a balance of ₹ 1,00,000, On 1st July 2018, Additional Furniture was purchased for ₹ 30,000.

Furniture is to be depreciated by 12 % p.a. **show the presentation in Final Accounts.**

Income & Expenditure Account
for the year ended 31st March 2019

Dr. **Cr.**

Expenditure	Amount ₹	Amount ₹	Income	Amount ₹	Amount ₹
To Depriciation on Furniture (Working Note)		14,700			

Balance Sheet
as on 31st March 2019

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
			Furniture	1,00,000	
			Add : Additions	30,000	
				1,30,000	
			Less : 12 %Depreciation	14,700	1,15,300

Working Note :

		₹
A)	12 % Depr. on ₹ 1,00,000 for 1 year	12,000
B)	12 % Depr. on ₹ 30,000 for 9 months	2,700
	Total Depreciation	14,700

4 : Outstanding Expenses and Prepaid Expenses of the current year and previous year

Balance Sheet as on 31st March 2018

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
			Prepaid Salaries (for 2018 - 19)		2,000

Receipts & Payments Account
for the year ended 31st March 2019

Dr. **Cr.**

Receipts	Amount ₹	Amount ₹	Payments	Amount ₹	Amount ₹
			By Salaries		
			2018 - 19	30,000	
			2019 - 20	1,000	31,000

Adjustment : Outstanding Salaries for the current year was ₹ 5,500, **show the presentation of Salaries in the Final Accounts of a concern for the year 2018 - 19.**

Solution :

Income & Expenditure Account
for the year ended 31st March 2019

Dr. **Cr.**

Expenditure	Amount ₹	Amount ₹	Income	Amount ₹	Amount ₹
To salaries	30,000				
Add : Paid during	2,000				
the year (2017 - 18)					
Outstanding for current year	5,500	37,500			

Balance Sheet
as on 31st March 2018

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Outstanding Salary		5,500	Prepaid Salaries (for 2019 - 20)		1,000

5 : Simple Example - Prepare Income and Expenditure Account only

From the following Receipts & Payments Account and Adjustments given below you are required to prepare Income and Expenditure Account for year ended 31st March 2020 of Venna Cultural Association, Satara.

Receipts & Payments Accounts
for the year ended 31st March 2020

Dr. **Cr.**

Receipts	Amount ₹	Amount ₹	Payments	Amount ₹	Amount ₹
To Balance b/d			By Rent		
Cash in Hand	10,000		2018 - 19	700	
Cash at Bank	19,200	29,200	2019 - 20	54,300	55,000
To Subscriptions			By Fixed Deposit		47,000
2018 - 19	15,000		By Sundry Exp.		8,000
2019 - 20	1,00,000		By Insurance		12,000
2020 - 21	8,000	1,23,000	By Printing &Stationery		6,000
To Donations		25,000	By Picnic Expenses		18,000
(General)			By Salaries		20,000
To Entrance fees		15,000	By Traveling Expenses		13,000
To Interest on Fixed		4,800	By Advt. (2018 - 19)		7,000
Deposit			By Balance c/d		
To Picnic Receipts		20,000	Cash in Hand	15,000	
			Cash at Bank	16,000	31,000
		2,17,000			**2,17,000**

Adjustments :

1) Outstanding Rent for the current year was ₹ 7,000.
2) 60 % Entrance fees should be capitalised.
3) Outstanding subscription for the current year was ₹ 20,000.
4) Prepaid Insurance ₹ 1,000.

Solution :

In the books of Venna Cultural Association, Satara
Income and Expenditure Account
for the year ended 31st March 2020

Dr. **Cr.**

Expenditure	Amount ₹	Amount ₹	Income	Amount ₹	Amount ₹
To Rent	54,300		By Subscriptions	1,00.000	
Add : Outstanding	7,000	61,300	Add : Outstanding Subscription	20,000	1,20,000
To Sundry Expenses		8,000	By Donations		25,000
To Insurance	12,000		By Entrance fees	15,000	
Less : Prepaid Insurance	1,000	11,000	Less : 60 % Capitalised	9,000	6,000
To Printing & Stationery		6,000	By Interest on Fixed Deposit		4,800
To Picnic Expenses		18,000			
To Salaries		20,000	By Picnic Receipts		20,000
To Traveling Expenses		13,000			
To Surplus (Excess of Income over Expenditure)		38,500			
		1,75,800			**1,75,800**

Note : Picnic Expenses may be deducted form picnic receipts.

6 : The following are the details of Subscription, as per Receipts and Payments Account.

Subscription received during the year 2018 - 19 ₹ 50,000 Subscription outstanding on 31st March 2018 ₹ 10,000. Subscription outstanding on 31st March 2019 ₹ 20,000. Subscription received in advance as on 31st March 2018 ₹ 15,000. Subscription received in advance as on 31st March 2019 ₹ 10,000

You are required to show its presentation in Income and Expenditure Account for the year ended 31st March 2019 and a Balance Sheet as on that date.

Income & Expenditure Account
for the year ended 31st March 2019

Dr. **Cr.**

Expenditure	Amount ₹	Income	Amount ₹
		By Subscription for the Current year (Working Note)	65,000

Balance Sheet as on 31st March 2019

Dr. **Cr.**

Liabilities	Amount ₹	Assets	Amount ₹
Subscription Received in advance	10,000	Outstanding Subscription	20,000

Working Note :-

Calculation of subscription Income for the current year can be done by preparing either an Account or a Statement.

i) Statement of Subscription

Particulars	Amount ₹
Subscription - As per Receipt & Payment A/c	50,000
Add : Outstanding for the year 31-3-2019	+ 20,000
Less : Outstanding for the year 31-3-2018	- 10,000
Less : Advance during the year 31-3-2019	- 10,000
Add : Advance during the year 31-3-2018	+ 15,000
As per Income and Expenditure Account (Balancing fig)	**65,000**

Subscription Account

Dr. **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To Outstanding Subscription b/d	10,000	By Advance Subscription b/d	15,000
To Income & Expenditure A/c	65,000	By Bank	50,000
To Advance Subscription c/d	10,000	By Outstanding Subscription c/d	20,000
	85,000		**85,000**

7 : From the following Receipts and Payments Account and additional information prepare Income and Expenditure Account for the year ended 31st March 2019 and Balance Sheet as on that date.

Receipts and Payments Account
for the year ended 31st March 2019

Dr. **Cr.**

Receipts	Amount ₹	Payments	Amount ₹
To Balance b/d	3,000	By Salaries	4,000
To Subscription	5,000	By Printing & Stationery	1,000
To Donations (Revenue)	5,000	By Commission	500
To Entrance fees	4,000	By Rent	2,000
To Interest	1,000	By Electric Charges	1,500
		By Furniture	8,000
		By Balance c/d	1,000
	18,000		**18,000**

Additional Information :

1) Outstanding Rent was ₹ 200
2) Subscription includes ₹ 1,000 as Subscription received in advance and subscription outstanding for current year was ₹ 500.
3) Depreciate Furniture @ 8 % p.a.
4) 50 % Entrance fees should be capitalised
5) Capital Fund was ₹ 3,000

Income and Expenditure Account
for the year ended 31st March 2019

Dr. **Cr.**

Expenditure	Amount ₹	Amount ₹	Income	Amount ₹	Amount ₹
To Salaries		4,000	By Subscriptions	5,000	
To Printing & Stationery		1,000	Less : Advance Subscriptions	1,000	
To Commission		500		4,000	
To Rent	2,000		Add : O/s Subscriptions	500	4,500
Add : O/s Rent	200	2,200	By Donations		5,000
To Electric charges		1,500	By Entrance fees	4,000	
To Deperaciation on		640	Less : 50 % Capitalised	2,000	2,000
Furniture			By Interest		1,000
To Surplus (Excess of Income over Expenditure		2,660			
		12,500			**12,500**

Balance Sheet
as on 31st March 2019

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital Fund	3,000		Furniture	8,000	
Add : 50 % Entrance fees	2,000		Less : 8 % Depreciation	640	7,360
Add : Surplus	2,660	7,660	Cash in hand		1,000
Outstanding Rent		200	O/s Subscription		500
Subscription					
received in advance		1,000			
		8,860			**8,860**

8 : **Dr. Abhinav Bharat started practice of Medical Practitioner on 1st April 2019, He gives you the Receipts and Payments Account for the year ended 31st March 2020 and the adjustments.**

Prepare Income and Expenditure Account and Balance Sheet for the year ended 31st March 2020.

Dr. Abhinav Bharat
Receipts and Payments Account
for the year ended 31st March 2020

Dr. **Cr.**

Receipts	Amount ₹	Payments	Amount ₹
To Cash introduced	25,000	By Furniture	8,000
To Visit fees	10,000	By Equipments	10,000
To Receipts from Dispensary	30,000	By Drugs	7,000
To Sundry Receipts	5,000	By Salaries	12,000
		By Rent	6,000
		By Conveyance	4,000
		By Stationery	500
		By Electrical Charges	5,000
		By Journals	500
		By Drawings	15,000
		By Balance c/d	2,000
	70,000		**70,000**

Additional Information :

1) Receipts in Arrears are Visit Fees ₹ 2,000 and Dispensary ₹ 500
2) Outstanding Expenses - Rent ₹ 500 and Salaries ₹ 1,000
3) Stock of drugs was ₹ 1,000
4) Depreciate Furniture @ 8 % p.a. and Equipments ₹ 500.

Solution :

In the books of Dr. Abhinav Bharat.
Income and Expenditure Account
for the year ended 31st March 2020

Dr. **Cr.**

Expenditure	Amount ₹	Amount ₹	Income	Amount ₹	Amount ₹
To Drugs	7,000		By Visit fees	10,000	
Less : Stock & Drugs	1,000	6,000	Add : Outstanding	2,000	12,000
To Salaries	12,000		Visit Fee		
Add : O/s Salary	1,000	13,000	By Receipts for	30,000	
To Rent	6,000		Dispensary		
Add : O/s Rent	500	6,500	Add : Outstanding	500	30,500
To Conveyance	4,000		By Sundry Receipts		5,000
Less : 40 % Domestic	1,600	2,400			
To Stationery		500			
To Electrical Charges		5000			
To Journals		500			
To Deperaciation on					
Furniture	640				
Equipments	500	1,140			
To Surplus		12,460			
(Excess of Income					
over expenditure)					
		47,500			**47,500**

Balance Sheet as on 31st March 2020

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital Fund	25,000		Furniture	8,000	
(Cash Introduced)			Less : 8 % Depreciation	640	7,360
Add : Surplus	12,460		Equipments	10,000	
	37,460		Less : Depreciation 5%	500	9,500
Less : Drawings	15,000		Stock of Drugs		1,000
	22,460		O/s Visit Fees		2,000
Less : Additional Drawings	1,600	20,860	O/s Receipts form		
			Dispensary		500
Outstanding Rent		500	Cash in Hand		2,000
Outstanding Salaries		1,000			
		22,360			**22,360**

9 : Following is the Receipts and Payments Account of Parnil Sports Club, Pune and additional information given below you are required to prepare Income and Expenditure Account.

Account for the year ended 31st March 2019 and a Balance Sheet as on that date.

Receipts and Payments Account
for the year ended 31st March 2019

Dr. **Cr.**

Receipts		Amount ₹	Payments	Amount ₹
To Balance b/d		5,000	By Bank Overdraft (repaid)	32,000
To Subscriptions			By Salaries	10,000
2016 - 17	2,000		By Electrical Charges	4,000
2017 - 18	3,000		By Municipal Taxes	2,700
2018 - 19	70,000	75,000	By Purchase of Sports Materials	50,000
To Donations		15,000	By General Expenses	500
To Entrance fees		1,700	By Billiard Expenses	3,000
To Life membership fees(Revenue)		17,000	By Repairs to Ground	500
To Tournament Receipts		60,000	BY Tournaments Exp.	50,000
			By Balance c/d	
			Cash in Hand	7,000
			Cash at Bank	14,000
		1,73,700		**1,73,700**

Additional Information :

1) 50 % Donations are for Building Fund
2) 70 % of Entrance fees should be Capitalised
3) Subscription ₹ 500 for the year 2016 - 17 and ₹ 1,000 for the year 2017 - 18 are still in arrears.
4) Following are the balances appeared in the books as on 1-4-2018.
   Building Fund ₹ 47,000, Bank Overdraft ₹ 32,000, Land ₹ 1,50,000. Sports Materials ₹ 30,000, Outstanding Subscription for 2016 - 17 ₹ 2,500 and 2017 - 18 ₹ 4,000.
5) Outstanding subscription for the current year is ₹ 8,000
6) Closing Stock of Sports Materials was ₹ 8,000 on which depreciation is to be provided at 12.5% p.a.

Solution :

Income and Expenditure Account
for the year ended 31st March 2019

Dr. **Cr.**

Expenditure	Amount ₹	Amount ₹	Income	Amount ₹	Amount ₹
To Salaries		10,000	By Tournament Receipts	60,000	
To Electricity Charges		4,000	Less : Tournament exp.	50,000	10,000
To Municipal taxes		2,700	By Subscriptions	70,000	
To Sports Materials			Add : Outstanding	8,000	78,000
consumed			By Donations	15,000	
Opening Stock	30,000		Less : 50 % for	7,500	7,500
Add : Purchases	50,000		Building fund		
	80,000		By Entrance fees	1,700	
Less : Closing Stock	8,000	72,000	Less : 70 % Capitalised	1,190	510
To General Expenses		500	By Life Membership Fee		17,000
The Billiard Expenses		3,000			
To Repairs to Ground		500			
To Depreciation on		1,000			
Sports Materials					
To Surplus		19,310			
(Excess of Income					
over Expenditure)					
		1,13,010			**1,13,010**

Balance Sheet
as on 31st March 2019

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital Fund	1,12,500		Cash in Hand		7,000
Add : 70 % Entrance fees	1,190		Cash at Bank		14,000
Add : Surplus	19,310	1,33,000	O/s Subscription		
Building Fund	47,000		2016 - 17	500	
Add : 50 % Donations	7,500	54,500	2017 - 18	1,000	
			2018 -19	8,000	9,500
			Land		1,50,000
			Sports Materials	8,000	
			Less : 12.5 % Depreciation	1,000	7,000
		1,87,500			**1,87,500**

Working Notes :

1) Calculation of Capital Fund

Balance Sheet
as on 31st March 2018

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Building Fund		47,000	Land		1,50,000
Bank Overdraft		32,000	Sports Materials		30,000
Capital Fund		1,12,500	Outstanding Sub.		
(Balancing figure)			2016 - 17	2,500	
			2017 - 18	4,000	6,500
			Cash in Hand		5,000
		1,91,500			**1,91,500**

2) Calculation of Depreciation on Sports Materials

$12\frac{1}{2}$ % Depreciation, on ₹ 8,000

$8{,}000 \times \frac{12.5}{100}$ = ₹ 1,000

10 : Saraswati High School, Khed showed the following position on 31st March 2018

Balance Sheet

as on 31st March 2018

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital Fund		6,80,000	Cash in Hand		5,000
Entrance fees		20,000	Cash at Bank		8,000
			Laboratory		15,000
			Building		6,00,000
			Furniture		40,000
			Books		22,000
			Tuition fees Receivable		10,000
		7,00,000			**7,00,000**

Receipts and Payments Account

for the year ended 31st March 2019

Dr. **Cr.**

Receipts	Amount ₹	Amount ₹	Payments	Amount ₹	Amount ₹
To Balance b/d			By Salaries to Teachers		1,80,000
Cash	5,000		By Salaries to Office staff		30,000
Bank	8,000	13,000			
To Tuition fees			By Books (Purchased on 1-1-2019)		15,000
2017 - 18	8,000				
2018 - 19	1,00,000	1,08,000	By Printing & Stationery		5,000
To Fine Collected		2,000	By Annual Gathering Exp		10,000
To Admission fees		10,000			
To Term fees		7,000	By Office Rent		16,000
To Donations to for Library		1,000	By Repairs		15,000
			By Sports Exp.		5,000
To Interest on Bank Deposits		5,000	By Furniture (Purchased on 1-7-2018)		50,000
To Govt. Grants (Revenue)		2,00,000	By Balance c/d		
			Cash	8,000	
			Bank	12,000	20,000
		3,46,000			**3,46,000**

Additional Information :-

1) Tuition fees are outstanding for current year ₹ 5,000
2) Salary to teachers is outstanding ₹ 15,000
3) Rent paid in advance is ₹ 3,000
4) Depreciation on Books @ 15 % p. a. and 10 % on Furniture.

You are required to prepare Income & Expenditure Account for the year ended 31st March, 2019 and a Balance Sheet as on that date.

Solution :

In the Book of Saraswat High School, Khed
Income and Expenditure Account
for the year ended 31st March, 2019

Dr. **Cr.**

Expenditure	Amount ₹	Amount ₹	Income	Amount ₹	Amount ₹
To Salaries to teachers	1,80,000		By Tuition fees	1,00,000	
Add : o/s Salaries	15,000	1,95,000	Add : Outstanding tuition fees	5,000	1,05,000
To Salaries to Office Staff		30,000	By Fine Collected		2,000
To Printing and Stationery		5,000	By Admission fees		10,000
To Annual Gathering Expenses		10,000	By Term fees		7,000
			By Interest on Bank Deposits		5,000
To Office Rent	16,000		By Govt. Grants		2,00,000
Less : Prepaid Rent	3,000	13,000			
To Repairs		15,000			
To Sports Expenses		5,000			
To Depreciation on					
Furniture	7,750				
Books	3,863	11,613			
To Surplus (Excess of Income over Expenditure)		44,387			
		3,29,000			**3,29,000**

Balance Sheet as on 31st March 2019

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital Fund	6,80,000		Cash in Hand		8,000
Add : Surplus	44,387	7,24,387	Cash in Bank		12,000
Entrance fees		20,000	Tution fees Receivable		
Donations for Library		1,000	2017 - 18	2,000	
Outstanding Salary		15,000	2018 - 19	5,000	7,000
of teachers			Prepaid Rent		3,000
			Laboratory		15,000
			Building		6,00,000
			Furniture	40,000	
			Add : Furniture Purchased	50,000	
				90,000	
			Less : 10 % Depreciation	7,750	82,250
			Books	22,000	
			Add : Purchases	15,000	
				37,000	
			Less : 15 % Depreciation	3,863	33,137
		7,60,387			**7,60,387**

Working Notes :

1) Calculation of Depreciation on Furniture ₹

a) 10 % Depreciation on ₹ 40,000 — 4,000

b) 10 % Depreciation on ₹ 50,000 for 9 months

$$50,000 \times \frac{10}{100} \times \frac{9}{12}$$ — 3,750

Total Depreciation — 7,750

2) Calculation of Depreciation on Books ₹

a) 15 % Depreciation on ₹ 22,000 = 3,300

b) 15 % Depreciation on ₹ 15,000 for 3 months

$$15,000 \times \frac{15}{100} \times \frac{3}{12} =$$ 563

Total Depreciation — 3,863

11 : Following is the Balance Sheet on 1st April 2019 and Receipts and Payments Account of Dayanand Library Ambajogai. You are required to prepare Income and Expenditure Account of the year ended 31st March 2020 and Balance Sheet as on that date.

Balance Sheet as on 31st March 2019

Liabilities	Amount ₹	Assets	Amount ₹
Capital Fund	7,50,000	Furniture	50,000
Subscription received in Advance	3,000	Books	6,50,500
Outstanding Expenses	2,000	Stock of Postage stamps	500
		Investments in Securities	7,000
		Cash in Hand	7,000
		Cash at Bank	40,000
	7,55,000		**7,55,000**

Receipts and Payments Account
for the year ended 31st March 2020

Dr. **Cr.**

Receipts	Amount ₹	Payments	Amount ₹
To Balance b/d		By Salaries	24,000
Cash	7,000	By Purchase of Postage Stamps	1,500
Bank	40,000	By Books (Purchased on 1-10-19)	1,00,000
To Members Subscription	1,80,000	By Outstanding Expenses Paid	2,000
To Entrance fees	30,000	By Investments in Fixed Deposit	50,000
To Sale of old News Papers	2,000	By Furniture	30,000
To Hire of Lecture Hall	10,000	(Purchases on 1-7-2019)	
To Interest on securities	5,000	By Printing & Stationery	6,000
To Life Members Fee	10,000	By Rent	18,000
		By Balance c/d	
		Cash	9,500
		Bank	43,000
	2,84,000		**2,84,000**

Adjustments :

1) Depreciation on Books at 10 % p.a.
2) Depreciation on Furniture at 8.5 % p.a.
3) 50 % Entrance fees and whole amount of Life Membership Fees should be capitalised.
4) Library had 2,000 members paying Subscription ₹ 100 each.
5) The value of unused Postage Stamps was ₹ 200.

Solution :

In the Book of Dayanand Library, Ambajogai.
Income & Expenditure Account
for the year ended 31st March 2020

Dr. **Cr.**

Expenditure	Amount ₹	Amount ₹	Income	Amount ₹	Amount ₹
To Salaries		24,000	By Members		
To Postage			Subscription	1,80,000	
Opening Stock	500		Add : Subscription		
Add : Purchases	1,500		received in advance	3000	
	2,000		Add : O/s. Subscription	17,000	2,00,000
Less : Closing Stock	200	1,800	By Entrance fees	30,000	
To Printing and Stationery		6,000	Less : 50 %Capitalised	15,000	15,000
To Rent		18,000	By Sale of old		2,000
To Depreciation on :			News Papers		
Books	70,050		By Hire of Lecture Hall		10,000
Furniture	6,162	76,212	By Interest on securities		10,000
To Surplus (Excess of		1,05,988			
income over Expenditure)					
		2,32,000			**2,32,000**

Balance Sheet as on 31st March 2020

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital Fund	7,50,000		Cash in Hand		9,500
Add : 50 % Entrance fees	15,000		Cash at Bank		43,000
Life Membership Fees	10,000		Furniture	50,000	
Surplus	1,05,988	8,80,988	Add : Purchases	30,000	
				80,000	
			Less : 8.5 % Depreciation	6,162	73,838
			Books	6,50,500	
			Add : Purchases	1,00,000	
				7,50,500	
			Less : Depreciation	70,050	6,80,450
			Stock of Postage Stamps		200
			Investment in Securities		7,000
			Investment in Fixed Deposit		50,000
			O/s Subscription		17,000
		8,80,988			**8,80,988**

Working Notes :

1) Calculation of Depreciation on Books ₹

a) 10 % Depreciation on ₹ 6,50,500

$$\frac{6{,}50{,}500}{1} \times \frac{10}{100} = 65{,}050 \qquad 65{,}050$$

b) 10 % Depreciation on ₹ 1,00,000 for 6 months

$$\frac{10{,}000}{1} \times \frac{1}{100} \times \frac{6}{12} \qquad 5{,}000$$

Total Depreciation 70,050

2) Calculation of Depreciation of Furniture ₹

a) 8.5 % Depreciation on ₹ 50,000

$$50{,}000 \times \frac{8.5}{100} = 4{,}250 \qquad 4{,}250$$

b) 8.5 % Depreciation on ₹ 30,000 for 6 months

$$30{,}000 \times \frac{8.5}{100} \times \frac{9}{12} = 1{,}912 \qquad 1{,}912$$

Total Depreciation 6,162

12 : Following is the Receipts and Payments Account of Chamber of Commerce, Beed for the year ended 31st March 2018 and same additional information. You are required to prepare Income and Expenditure Account for the year ended 31st March 2018 and Balance Sheet as on that date.

Receipts and Payments Account
for the year ended 31st March 2018

Dr. **Cr.**

Receipts	Amount ₹	Payments	Amount ₹
To Balance b/d	22,250	By Insurance	10,000
(Cash at Bank)		By Printing & Stationery	4,000
To Subscription	72,000	By Books	30,000
(including ₹ 8,000 for 2016 - 17)		By Computers	60,000
To Sale of Machinery	20,000	By Traveling Expenses	4,000
(Book value ₹ 25,000)		By Furniture	62,000
To Donations	55,000	By Balance c/d	5,250
To Admission fees (Revenue)	6,000	(Cash at Bank)	
	1,75,250		**1,75,250**

Additional Information :

1) Assets and liabilities on 1st April 2017 were as follows :
   Outstanding Subscription ₹ 10,000, Machinery ₹ 50,000, Building Fund ₹ 2,10,000, Investment ₹ 3,00,000.
2) Depreciate Machinery by ₹ 2,500.
3) Donations received for Building fund.
4) Outstanding subscription for the current year was due for ₹ 6,000.

Solution :

In the Book of Chambers of Commerce, Beed.
Income & Expenditure Account
for the year ended 31st March 2018

Dr. **Cr.**

Expenditure	Amount ₹	Amount ₹	Income	Amount ₹	Amount ₹
To Insurance		10,000	By Subscriptions	72,000	
To Printing and Stationery		4,000	Less for 2016 - 17	8,000	
To Traveling Exp.		4,000		64,000	
To Loss on sale		5,000	Add : O/s.Subscriptions	4,000	68,000
Machinery			By Admission fees		6,000
To Depreciation on		2,500			
Machinery					
To Surplus		48,500			
(Excess to Income					
over Expenditure)					
		74,000			**74,000**

Balance Sheet as on 31st March 2018

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital Fund	1,72,250		Cash at Bank		5,250
Add : Surplus	48,500	2,20,750	Books		30,000
Building Fund	2,10,000		Computers		60,000
Add : Donations	55,000	2,65,000	Furniture		62,000
			O/s Subscription		
			2016 - 17	2,000	
			2017 - 18	4,000	6,000
			Machinery	50,000	
			Less : Sold	25,000	
				25,000	
			Less : Depreciation	2,500	22,500
			Investment		30,000
		4,85,750			**4,85,750**

Working Note :

1) **Calculation of Capital Fund as on 1-4-2017**

Balance Sheet
as on 1st April 2017

Liabilities	Amount ₹	Assets	Amount ₹
Building Fund	2,10,000	Cash at Bank	22,250
Capital Fund	1,72,250	O/s Subscription (2016-17)	10,000
(Balancing figure)		Machinery	50,000
		Investment	3,00,000
	3,82,250		**3,82,250**

2) **Current years O/s Subscription**

Subscription Outstanding on 1st April, 2017	=	10,000
Less Subscription Received for 2016-17	=	8,000
Subscription Still Outstanding for	=	2,000

Subscription Outstanding on 31st March, 2018 is given ₹ 6,000 which includes ₹ 2,000 for 2016-17 i.e. Current years Subscription Outstanding will be ₹ (6,000-2,000) ₹ 4,000.

13 : **Following is the summary of Receipts and Payments of Jay Hanuman Vyayamshala, Aurangabad for the year ended 31st March 2020.**

Receipts & Payments Account
for the year ended 31st March 2020

Dr. **Cr.**

Receipts		Amount ₹	Payments	Amount ₹
To Balance b/d		32,800	By Salary	50,000
To Subscription			By Lighting	10,500
2018 - 19	4,000		By General Expenses	20,000
2019 - 20	2,30,000	2,34,000	By Maintenances charges	40,000
To Donations		60,000	By Entertainment Exp.	35,000
To Receipts from Entertainments		40,000	By Printing & Stationery	7,000
To Interest on F. D.		3,000	By Expenses for 2018 - 19	25,000
To Entrance fees		50,000	By Investment	1,50,000
To Income from Investment		1,000	By 8 % Fixed Deposit with Wai Urban Bank Ltd.	50,000
			By Balance c/d	33,300
		4,20,800		**4,20,800**

Additional Information :

1) Jay Hanuman Vyayamshala has ₹ 5,000 members paying annual subscription ₹ 50 each.
2) Outstanding Salary ₹ 12,000.
3) On 1st April, 2019 the assets stood as under.
   a) Land & Building ₹ 70,000
   b) Furniture ₹ 45,000

   Depreciate the above assets at 10 % p. a.
4) Income Accrued on Investment is ₹ 2,000
5) 50 % Entrance fees and 60 % of Donations should be capitalised.

   Prepare Income and Expenditure Account for the year ended 31st March 2020 and also Balance Sheet as on same date.

Solution :

In the Book of Jay Hanuman Vyayamshala, Aurangabad.
Income & Expenditure Account
for the year ended 31st March 2020

Dr. **Cr.**

Expenditure	Amount ₹	Amount ₹	Income	Amount ₹	Amount ₹
To Salary	50,000		By Subscription	2,30,000	
Add : Outstanding	12,000	62,000	Add : O/s Subscription	20,000	2,50,000
To Lighting		10,500	By Donations	60,000	
To General Exp.		20,000	Less : 60 % Capitalised	36,000	24,000
To Maintenance Charges		40,000	By Receipts from		40,000
To Entertainment		35,000	Entertainment		
Expenses			By Income from	1,000	
To Printing & Stationery		7,000	Investment		
To Depreciation on			Add : Outstanding	2,000	3,000
Land & Building	7,000		By Entrance fees	50,000	
Furniture	4,500	11,500	Less : 50 % Capitalised	25,000	25,000
To Surplus		1,60,000	By Interest on F. D.	3,000	
(Excess of Income			Add : O/s Interest	1,000	4,000
over Expenditure)					
		3,46,000			**3,46,000**

Balance Sheet as on 31st March 2020

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital fund			Cash in Hand		33,300
Opening Balance	1,26,800		Investment	1,50,000	
Add : 50 % Entrance fees	25,000		Add : Accrued Income	2,000	1,52,000
Add : 60 % Donations	36,000		8 % Fixed Deposit	50,000	
Surplus	1,60,000	3,47,800	Add : O/s Interest	1,000	51,000
O/s Salary		12,000	O/s Subscription		20,000
			Land & Building	70,000	
			Less : 10 %Depreciation	7,000	63,000
			Furniture	45,000	
			Less :10 % Depreciation	4,500	40,500
		3,59,800			**3,59,800**

Working Note :

1) Calculation of capital fund

Balance Sheet as on 1st April 2019

Liabilities	Amount ₹	Assets	Amount ₹
Outstanding Expenses	25,000	Cash in Hand	32,800
Capital Fund	1,26,800	Outstanding Subscription	4,000
(Balancing figure)		Land & Building	70,000
		Furniture	45,000
	1,51,800		**1,51,800**

14 : Given below is the Balance Sheet of Yesubai Mahila Mandal on 01.04.2018 and Receipts and Payments Account for the year ending 31.03.2019.

Balance Sheet as on 1st April 2018

Liabilities		Amount ₹	Assets	Amount ₹
Capital Fund		30,000	Cash in Hand	3,000
Outstanding Expenses			Cash at Bank	8,000
Salary	8,000		Furniture	20,000
Rent	7,000		Outstanding Subscription	8,500
Stationery	1,000	16,000	6 % Investment	6,500
		46,000		**46,000**

Receipts & Payments Account
for the year ended 31st March 2019

Dr. **Cr.**

Receipts		Amount ₹	Payments	Amount ₹
To Balance b/d			By Rent	25,000
Cash in Hand		3,000	By Stationery	3,000
Cash at Bank		8,000	By Salaries	22,000
To Entrance fees		28,000	By Furniture Repairs	1,800
To Subscriptions			By Honorarium to Secretary	16,000
2017 - 18	2,000		By Miscellaneous Expenses	2,000
2018 - 19	45,000		By Balance c/d	
2019 - 20	3,000	50,000	Cash in Hand	8,200
To Miscellaneous receipts		5,000	Cash at Bank	16,000
		94,000		**94,000**

Additional Information :

1) Rent for last two months ₹ 5,000 is still due.
2) Stationery Expenses payable on 31st March 2019 were ₹ 450.
3) Outstanding Subscription for 2018 - 19 was ₹ 3,000.
4) Entrance fees should be capitalised.
5) Depreciate Furniture @ 10 % p.a.

You are required to prepare Income and Expenditure Account for the year ended 31st March 2019 and a Balance Sheet as on that date.

In the Books of Yesubai Mahila Mandal
Income & Expenditure Account
for the year ended 31st March 2019

Dr. **Cr.**

Expenditure	Amt. ₹	Amt. ₹	Income	Amt. ₹	Amt. ₹
To Rent	25,000		By Entrance fees	28,000	
Less : O/s for 2017-18	7,000		Less : Capitalized	28,000	--------
	18,000		By Subscriptions	45,000	
Add : O/s for 2 months	5,000	23,000	Add : O/s Subscriptions	3,000	48,000
To Stationery	3,000		By Miscellaneous		5,000
Less : O/s for 2017 - 18	1,000		Receipts		
	2,000		By O/s Interest on Investment		390
Add : O/s Expenses	450	2,450	By Deficit		7,860
To Salaries	22,000		(Excess of Expenditure		
Less : O/s for 2017 - 18	8,000	14,000	over Income)		
To Furniture Repairs		1,800			
To Honorarium to		16,000			
Secretary					
To Miscellaneous Expenses		2,000			
To Depreciation on Furniture		2,000			
		61,250			**61,250**

Balance Sheet as on 31st March 2019

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital Fund			Cash in Hand		8,200
Opening Balance	30,000		Cash at Bank		16,000
Add : Entrance fees	28,000		Furniture	20,000	
	58,000		Less : 10 % Depreciation	2,000	18,000
Less : Deficit	7,860	50,140	6 % Investments	6,500	
Outstanding Expenses			Add : O/s Interest	390	6,890
Rent	5,000		Outstanding Subscription		
Stationery	450	5,450	2017 - 18	6,500	
Subscription Received		3,000	2018 - 19	3,000	9,500
in Advance					
		58,590			**58,590**

15 : Following is the Receipts and Payments Accounte of Krishna Junior College, Mahabaleshwar for the year ended 31st March 2020.

Receipts & Payments Account
for the year ended 31st March 2020

Dr. **Cr.**

Receipts	Amount ₹	Amount ₹	Payments	Amount ₹	Amount ₹
To Balance b/d			By Bank Overdraft		28,500
Cash		23,500	By Salaries to teachers		2,00,000
To Tution fees			By Salaries to Office Staff		40,000
2018 - 19	7,000		By Books Purchased on		60,000
2019 - 20	70,000	77,000	1 - 7 - 2019		
To Fine Collected		4,000	By Printing and Stationery		7,000
To Interest on Bank		25,500	By Office Rent		6,000
Deposits			By Repairs		3,000
To Admission fees		12,000	By Sports Expenses		1,500
To Donations for		90,000	By Annual Gathering Exp.		12,000
Prize Fund			By Furniture		40,000
To Govt. Grands		1,73,000	(Purchased on 1-1-2020)		
			By Balance c/d		
			Cash in Hand	200	
			Cash in Bank	6,800	7,000
		4,05,000			**4,05,000**

Additional Information :

1) For the current year (2019 - 20) Tuition fees are outstanding ₹ 10,000.
2) 50 % Admission fees should be capitalised.
3) Outstanding Salary to teachers are ₹ 12,000.
4) Depreciation : Books @ 10 % p.a. and Furniture @ 15 % p.a.
5) 50 % Govt. Grants should be capitalised.
6) Assets and Liabilities on 1st April, 2019 were as follows. Building ₹ 18,00,000, Furniture ₹ 7,00,000, Books ₹ 5,00,000, 9 % Bank Deposits ₹ 3,00,000, Tution fees receivable ₹ 7,000, Bank overdraft ₹ 28,500

You are required to prepare Income and Expenditure Account for the year ended 31st March 2020 and Balance sheet as on that date.

Solution :

In the Books of Krishna Junior College Mahabaleshwar.
Income and Expenditure Account
for the year ended 31st March 2020

Dr. **Cr.**

Expenditure	Amount ₹	Amount ₹	Income	Amount ₹	Amount ₹
To Salaries to teachers	2,00,000		By Tution fees	70,000	
Add : O/s Salary to	12,000	2,12,000	Add : O/s Tution fees	10,000	80,000
teachers			By Fine Collected		4,000
To Salaries to office staff		40,000	By Admission fees	12,000	
To Printing & Stationery		7,000	Less : 50 %Capitalised	6,000	6,000
To Office Rent		6,000	By Interest on	25,500	
To Repairs		3,000	Bank Deposits		
To Sports Expenses		1,500	Add : O/s Interest	1,500	27,000
To Annual Gathering Expenses		12,000	By Govt. Grants	1,73,000	
To Depreciation on			Less : 50 %Capitalised	86,500	86,500
Books	54,500		By Deficit		2,39,000
Furniture	1,06,500	1,61,000	(Excess of Exp. over Income)		
		4,42,500			**4,42,500**

Balance Sheet as on 31st March 2020

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital Fund	33,02,000		Outstanding Tution fees		10,000
Add : 50 %Admission fees	6,000		Building		18,00,000
			Furniture	7,00,000	
Add : 50 % Govt. Grants	86,500		Add : New Furniture	40,000	
	33,94,500			7,40,000	
Less : Deficit	2,39,000	31,55,000	Less : 15 % Depreciation	1,06,500	6,33,500
Add :			Books	5,00,000	
Donation for prize fund		90,000	Add : Purchases	60,000	
Outstanding		12,000		5,60,000	
Salaries to teachers			Less : 10 % Depreciation	54,500	5,05,500
			9 % Bank Deposits	3,00,000	
			Add : Outstanding Interest	1,500	3,01,500
			Cash in Hand		200
			Cash at Bank		6,800
		32,57,500			**32,57,500**

Working Note :-

1) Calculation of Capital Fund

Balance Sheet as on 1st April 2019

Liabilities	Amount ₹	Assets	Amount ₹
Bank overdraft	28,500	Cash in Hand	23,500
Capital fund	33,02,000	Tution fees receivable	7,000
(Balancing figure)		Building	18,00,000
		Furniture	7,00,000
		Books	5,00,000
		9 % Bank Deposits	3,00,000
	33,30,500		**33,30,500**

2) Calculation of Depreciation on Books

		₹
a)	10 % Depr. on ₹ 5,00,000	50,000
b)	10 % Depr. on ₹ 60,000	
	for 9 months	4,500
	Total Depreciation	54,500

3) Calculation of Depreciation on Furniture

a)	15 % Depr. on ₹ 7,00,000	1,05,000
b)	15 % Depr. on ₹ 40,000	1,500
	for 3 months	1,06,500
Total Depreciation		

4) Calculation of 9 % Interest on Bank Deposits

9 % on Bank Deposits	₹ 3,00,000	
Interest Received	₹ 25,500	
Outstanding Interest	1,500	27,000

16 : The following is the Receipts and Payments Account of Young Pensior's Association. Leh for the year ended 31st March 2020.

Receipts & Payments Account
for the year ended 31st March 2020

Dr. **Cr.**

Receipts	Amount ₹	Amount ₹	Payments	Amount ₹	Amount ₹
To Bal b/d		7,000	By Stationery		8,000
To Subscriptions			By Postage		1,000
2018 - 19	5,000		By Picnic Exp		8,000
2019 - 20	83,000		By Salaries		8,000
2020 - 21	2,000	90,000	By Annual		4,500
To Entrance fees		13,000	General meeting		
(Capital Receipt)			Expenses		
To Donations		60,000	By Traveling Exp		7,500
To Legacies		40,000	By Rent		12,000
To Interest on			By charity		7,800
Deposit		7,000	By Sundry Exp.		3,200
To Picnic Receipts		10,000	By Fixed Deposit		1,10,000
			By Furniture		50,000
			By Balance c/d		7,000
		2,27,000			**2,27,000**

Adjustment :

1) Outstanding subscription for current year ₹ 7,000.
2) Furniture was purchased on 1st Oct, 2019 and it is to be depreciated by 10 % p.a.
3) Outstanding picnic receipts ₹ 7,500.
4) Stock of stationery on 1-4-2019 was ₹ 350 and on 31st March, 2020 was ₹ 1,700.
5) 50 % of legacies and full amount of donations are to be capitalised.

With the above information, you are required to prepare Income and Expenditure Account for the year ended 31st March 2020.

In the Books of Young Pensioner's Association, Leh.
Income and Expenditure Account
for the year ended 31st March 2020

Dr. **Cr.**

Expenditure	Amount ₹	Amount ₹	Income	Amount ₹	Amount ₹
To Stationery used			By Subscriptions	83,000	
Opening stock	350		Add : Outstanding	7,000	90,000
Add : Purchases	8,000		By Legacies	40,000	
	8,350		Less : 50 %Capitalised	20,000	20,000
Less : Closing stock	1,700	6,650	By Interest on		
To Postage		1,000	Deposits		7,000
To Picnic Exp.		8,000	By Picnic Receipts	10,000	
To Salaries		8,000	Add : Outstanding	7,500	17,500
To Annual		4,500			
General meeting					
Expenses					
To Traveling Exp.		7,500			
To Rent		12,000			
To Charity		7,800			
To Sundry Exp.		3,200			
To Depr. on Furniture		2,500			
To Surplus		73,350			
(Excess of Income					
over Exp)					
		1,34,500			**1,34,500**

Working Note :

1) Calculation of Depr. on Furniture 10 % Depr. on ₹ 50,000 for 6 months ₹ 2,500.

Hint :

Picnic Receipts + Outstanding Receipts
are credited to Income and Expenditure
A/c and Picnic
Expenses are deducted from Picnic Receipts.

	₹	
Picnic Receipts	10,000	
Add : Outstanding	7,500	
	17,500	
Less : Picnic Expenses	8,000	9,500

17 : Following is the Balance Sheet and Receipts and Payments Account of Samarth Hospital, Sawantwadi.

Prepare Income and Expenditure Account for the year ended 31st March 2018 and Balance Sheet as on that date.

Balance Sheet as on 1st April 2017

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital Fund		8,98,500	Cash in Hand		5,000
Outstanding Salary		15,000	Cash at Bank		25,000
Medicines bill			Land & Building		7,00,000
Unpaid		9,000	Furniture		50,000
Outstanding sundry		1,500	Equipments		1,40,000
Expenses			Outstanding		4,000
			Subscription		
		9,24,000			**9,24,000**

Receipts & Payments Account
for the year ended 31st March 2018

Dr. **Cr.**

Receipts	Amount ₹	Payments	Amount ₹
To Balance b/d		By Medicines (Included of	50,000
Cash in Hand	5,000	previous year bill)	
Cash at Bank	25,000	By Purchase of Equipment	1,30,000
To Subscription (included	90,000	By Salaries (Inclusive of	52,000
₹ 4,000 received for previous year)		Previous year)	
To Sale of Furniture (Book value 20,000)	15,000	By Taxes	7,200
To Donations (Capital)	50,000	By Sundry Expenses	1,500
To Life Membership fees	30,000	(2016 - 17)	
To Visit fees	55,000	By Balance c/d	
		Cash in Hand	8,300
		Cash at Bank	21,000
	2,70,000		**2,70,000**

Additional Information :

1) Prepaid taxes ₹ 1,000
2) Outstanding Salary ₹ 8,000
3) Depreciate Land & Building by 10 % p.a. and Equipments by ₹ 12,000
4) Outstanding Subscription ₹ 20,000
5) 50 % of Life Membership should be capitalised.

Solution :

In the Books of Samarth Hospital, Sawantwadi.
Income and Expenditure Account
for the year ended 31st March 2018

Dr. **Cr.**

Expenditure	Amount ₹	Amount ₹	Income	Amount ₹	Amount ₹
To Medicines	50,000		By Subscription	90,000	
Less : Unpaid Bill	9,000	41,000	Less : Previous year	4,000	
To Salaries	52,000		(2016-17)		
Less : O/s for previous year	15,000			86,000	
(2016-17)	37,000		Add : O/s Subscription	20,000	1,06,000
Add : O/s (2017-18)	8,000		(2017-18)		
To Taxes	7,200	45,000	By Life Membership	30,000	
Less : Prepaid	1,000		Less : 50 % Capitalised	15,000	15,000
To Loss on Sale		6,200	By Visit fees		55,000
Of Furniture		5,000	By Deficit		3,200
(20,000 - 15,000)			(Excess of Expenditure		
To Depreciation on :			over Income)		
Land & Building	70,000				
Equipment	12,000	82,000			
		1,79,200			**1,79,200**

Balance Sheet as on 31st March 2018

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital Fund	8,98,500		Cash in Hand		8,300
Add : Life Membership	15,000		Cash at Bank		21,000
(50 %)			O/s Subscription		
Add : Donations	50,000		Land & Building	7,00,000	
	9,63,500		Less : 10 % Depreciation	70,000	6,30,000
Less : Deficit	3,200	9,60,300	Furniture		
O/s Salary		8,000	Opening Balance	50,000	
			Less : Sold	20,000	30,000
			Equipments		
			Opening Balance	1,40,000	
			Add : Additions	1,30,000	
				2,70,000	
			Less : Depreciation	12,000	2,58,000
			Prepaid Taxes		1,000
		9,68,300			**9,68,300**

18 : From the following Receipts and Payments Account of Bahurao Patil Polytechnic College, Nagpur for the year ending 31st March 2019 and additional information. Prepare Income and Expenditure Account for the year ended 31st March 2019 and a Balance Sheet as on that date.

Receipts & Payments Account
for the year ended 31st March 2019

Dr. **Cr.**

Receipts	Amount ₹	Payments	Amount ₹
To Balance b/d		By Salaries to teaching staff	15,00,000
Cash	12,000	Office Staff	8,55,000
Bank	2,00,000	By Printing & Stationery	27,000
To Interest	60,000	By Books	88,000
To Donations	7,00,000	By Furniture	78,000
To Tution fees	15,00,000	(Purchased on 1-1-2019)	
To Admission fees	65,000	By Drama Expenses	90,000
To Term fees	4,00,000	By Postage	7,000
To Drama Receipts	1,00,000	By Telephone Charges	6,000
To Rent from use of hall	6,000	By Electricity	61,000
To Legacies (capital)	60,000	By Magazines and Newspaper	6,500
		By Balance c/d	
		Cash	62,000
		Bank	3,23,000
	31,03,000		**31,03,000**

Additional Information :

1)

Particulars	1/4/2018 (₹)	31/3/2019 (₹)
Books	9,00,000	8,88,000
Furniture	3,26,000	3,00,000
Building Fund	8,27,000	?
Capital Fund	6,11,000	?

2) 60 % Donations are for Building Fund and balance is to be treated as revenue income.

3) Outstanding office staff Salaries ₹ 70,000.

Solution :

In the Books of Bahurao Patil Polytechnic College, Nagpur.
Income and Expenditure Account
for the year ended 31st March 2019

Dr. **Cr.**

Expenditure	Amount ₹	Amount ₹	Income	Amount ₹	Amount ₹
To Salaries to teaching staff		15,00,000	By Interest		60,000
			By Donations	7,00,000	
To Salaries to office staff	8,55,000		Less : 60 % for Building	4,20,000	2,80,000
			By Tution fees		15,00,000
Add : Outstanding	70,000	9,25,000	By Admission fees		65,000
To Printing & Stationery		27,000	By Term fees		4,00,000
To Pastage		7,000	By Drama Receipts	1,00,000	
To Telephone charges		6,000	Less : Expenses	90,000	10,000
To Electricity		61,000	By Rent from Hall		6,000
To Magazines & News Papers		6,000	By Deficit (Excess of Expenditure over Income)		4,15,000
To Depr. on					
Books	1,00,000				
Furniture	1,04,000	2,04,000			
		27,36,000			**27,36,000**

Balance Sheet as on 31st March 2019

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital Fund	6,11,000		Books	9,00,000	
Add : Legacies	60,000		Add : Purchases	88,000	
	6.71,000			9,88,000	
Less : Deficit	4,15,000	2,56,000	Less : 10 % Depreciation	1,00,000	8,88,000
Building Fund	8,27,000		Furniture	3,26,000	
Add : Donations	4,20,000	12,47,000	Add : Purchases	78,000	
O/s Salaries to office staff		70,000		4,04,000	
			Less : Depreciation	1,04,000	3,00,000
			Cash in Hand		62,000
			Cash at Bank		3,23,000
		15,73,000			**15,73,000**

19 : From the following Particulars relating to Sushma Memorial Hospital, Jalgaon, Prepare Income and Expenditure Account for the year ended 31st March 2020 and Balance Sheet as on that date.

Receipts & Payments Account
for the year ended 31st March 2020

Dr. **Cr.**

Receipts	Amount ₹	Payments	Amount ₹
To Balance b/d	12,000	By Furniture	27,000
To Subscription	1,03,000	By Medicines	7,000
To Entrances fees (Revenue)	1,700	By Honorarium to Doctors	80,000
To Life membership fees (Revenue)	18,000	By Salary to staff	15,000
		By General Expenses	8,000
To Sale of Old News Papers	500	By Surgical Instruments	60,000
To Donations for Building fund	1,50,000	By Fixed Deposit (31-3-2020)	80,000
		By Balance c/d	5,500
	2,82,500		**2,82,500**

Additional Information :

1)

Particulars	1/4/2019 ₹	31/3/2020 ₹
Outstanding Subscription	9,000	10,000
Subscription received in advance	8,000	6,000
Building	13,00,000	13,00,000
Investment	2,00,000	2,00,000
Capital Fund	10,13,000	?
Building Fund	5,00,000	?

Solution :

In the Books of Sushma Memorial Hospital, Jalgaon.
Income and Expenditure Account
for the year ended 31st March 2020

Dr. **Cr.**

Expenditure	Amount ₹	Amount ₹	Income	Amount ₹	Amount ₹
To Medicines		7,000	By Subscription (Workinh Note)		1.03.300
To Honorarium to Doctors		80,000	By Entrance fees		1.700
To Salary to Staff		15,000	By Life Membership fees		18,000
To General Expenses		8,000	By Sale of old News Papers		500
To Surplus (Excess of Income over Expenditure)		13,500			
		1,23,500			**1,23,500**

Balance Sheet as on 31st March 2020

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amoun ₹
Capital Fund	10,13,000		Investment		2,00,000
Add : Surplus	13,500	10,26,500	Building		13,00,000
Building Fund	5,00,000		Furniture		27,000
Add : Donations	1,50,000	6,50,000	Surgical		
Subscription received		6,000	Instruments		60,000
in advance			Fixed Deposit		80,000
			Cash in Hand		5,500
			Outstanding		10,000
			Subscription		
		16,82,500			**16,82,500**

Working Note : Calculation of Subscription

Particulars	₹
As per Receipts and Payments Account	1,00,300
Add : Outstanding for the Current Year	10,000
	1,10,300
Less : Outstanding for the previous year	9,000
	1,01,300
Add : Received in advance in previous year	8,000
	1,09,300
Less : Received in advance during current year	6,000
As per Income and Expenditure Account	1,03,300

EXERCISE - 2

Q.1 Objective Type Questions:

A) Select the most appropriative alternatives from those given below.

1. Not for Profit Concern renders .... services to public at large.
   a) Commercial b) Social c) Individual d) Group
2. Donation for Scholarship Fund is ....
   a) Capital Receipt b) Revenue Receipt
   c) Capital Expenditure d) Revenue Expenditure
3. Income and Expenditure Account is a .... Account
   a) Capital b) Real c) Personal d) Nominal
4. Outstanding subscription at the end of the Accounting Year represents ....
   a) Liability b) An Expenditure c) An Asset d) Capital Fund

5. Subscription received in advance during the accounting year is ....
   a) An Income b) An Expense c) An Asset d) A Liability

6. Excess of Income over Expenditure is termed as ....
   a) Deficit b) Profit c) Surplus d) Loss

7. Not for Profit Concerns prepares .... account instead of Profit and Loss account to know the result.
   a) Trading b) Income and Expenditure
   c) Cash d) Receipt and Payments

8. The closing balance of Receipts and Payments account usually represent ....
   a) Closing stock b) Cash and Bank balance c) Surplus d) Deficit

9. Not for Profit Organization is also called .... organization.
   a) Service b) Trading c) Profit making d) Commercial

10. Expenditure on Purchase of Building is a .... Expenditure.
    a) Capital b) Revenue c) General d) Recurring

B) Write the Word / Term / Phrase which can substitute each of the following statements.

1. The Form of Organization providing services to the society only.
2. An account which is prepared by Not for Profit Concern instead of Profit and Loss Account.
3. Donation received for a specific purpose.
4. The Receipts which are not recurring in nature.
5. An Account which records only revenue items in case of Not for Profit Concern.
6. Accounts which records only cash transactions in case of Not for Profit Concern.
7. The income which is earned during the year but not received during the year.
8. The credit balance of Income and Expenditure Account.
9. The excess of total assets over total liabilities of a Not for Profit Concern.
10. All such receipts which are non recurring in nature and not forming a part a regular flow of income.

C) State whether the following statements are True or False with reasons.

1. Not for Profit Concerns do not have profit motive.
2. Charitable Institutions prepare Profit and Loss Account at the end of every financial year.
3. There is no difference between Receipts and Payments Account and Income and Expenditure Account.
4. Income and Expenditure Account represents either surplus or deficit.
5. Receipts and Payments Account do not have any opening balance.
6. Not for Profit Concerns do not prepare Balance Sheet.
7. Purchases of Sports Equipment is a Capital Expenditure.
8. Income and Expenditure Account is Real Account.
9. Receipts and Payments Account contains only the transactions relating to current year.
10. Excess of Assets over Liabilities is called Capital Fund.

D) Fill in the blanks

1. Not for Profit Organization never is engaged in .... activities.
2. Not for Profit organization is called .... organization.
3. Receipts and Payments Account falls under the category of ..... Account.
4. In Receipts and Payments Account the summary of .... transactions are recorded.
5. Income and Expenditure Account is similar to the .... account of Trading Concern.
6. Credit side of Receipts and Payments Account shows cash ....
7. Income and Expenditure Account is a .... Account.
8. Mumbai University prepares .... Account instead of a Profit and Loss account.
9. Subscription received from the members is considered as .... receipts.
10. The transactions recorded in Income and Expenditure Account are related only to the .... year.

E) Answer in one sentence only.

1. What do you mean by 'Not for Profit Concern'?
2. Which organizations prepare Income and Expenditure Account?
3. What is Receipts and Payments Account?
4. Why Income and Expenditure Account is prepared?
5. What is Capital Fund?
6. What is Subscription?
7. What is Legacy?
8. What is Surplus?
9. What do you mean by Non Recurring Expenses?
10. To which account Surplus or Deficit is transferred?

F. I. Complete the Table

Sr.No.	Income ₹	Expenditure ₹	Surplus/Deficit ₹
1	10,000	?	5,000 (Deficit)
2	8,000	?	4,000 (Surplus)
3	?	15,000	8,000 (Surplus)
4	7,500	9,000	?
5	15,000	11,300	?

II. Salaries paid during the year

Sr.No.	Total ₹	Prepaid / Outstanding	₹	Expenditure for the year
1	1,100	Prepaid	100	?
2	2,700	Prepaid	?	2,000
3	8,250	Prepaid	?	6,650
4	1,200	Outstanding	200	?
5	?	Outstanding	600	5,100
6	1,800	Outstanding	?	2,200

III. Rent received during the year

Sr.No.	Total Received ₹	Rent received in Advance/Accrued	₹	Income for the year ₹
1	1,300	Received in Advance	200	?
2	?	Received in Advance	400	1,400
3	2,650	Received in Advance	?	2,000
4	?	Accrued	290	3,190
5	1,700	Accrued	?	2,150
6	2,600	Accrued	500	?

G) Calculate the following

1. 10 % p.a. Depreciation on Furniture ₹ 50,000 (for three months)
2. 12 % p.a. Interest on Bank Loan ₹ 80,000 for 1 year.
3. Opening Stock of Stationery ₹ 5,000, Purchases Stationery ₹ 7,000, Outstanding Stationery Bill ₹ 12,000, Closing Stock ₹ 1,000 What is the amount of Stationery Consumed?
4. Salary ₹ 10,000, Outstanding Salary ₹ 5,000, Calculate the Salary to be debited to Income and Expenditure Account?
5. Library Books ₹ ....? Less 10 % Depreciation ₹ 5,000 = ₹ 45,000

H) Find odd one.

1. Trading Account, Profit and Loss Account, Receipts and Payments Account, Balance Sheet.
2. Machinery, Furniture, Computers, Salaries.
3. Subscription, Stationery, Interest Received, Locker Rent received,
4. Reliance Industries, Venna Vidya Mandir, Laxmi Hospital, Manoj Sports club.
5. Surplus, Deficit, Net Profit, Capital fund,

Practical Problems

1. (Calculation of stationery consumed during the year)

Balance Sheet as on 01.04.2018

Liabilities	Amt. ₹	Amt. ₹	Assets	Amt. ₹	Amt. ₹
			Stock of Stationery		400

Receipts and Payments Account for the year ending 31.03.2019

Dr. **Cr.**

Receipts	Amt. ₹	Amt. ₹	Payments	Amt. ₹	Amt. ₹
			By Stationery Purchased		6,300

Adjustments :

1) ₹ 1,000 Outstanding for Stationery bill.
2) Stock of Stationery as on 31.03.2019 was valued at ₹ 1,800.

With the above information, calculate the amount of Stationery consumed during the year and show its presentation in final Accounts of a concern.

(Ans. : Stationery Consumed during the year ₹ 5,900)

2. (Presentation of Subscription only)

Balance Sheet as on 01.04.2018

Liabilities	Amt. ₹	Amt. ₹	Assets	Amt. ₹	Amt. ₹
Subscription received in Advance for 2018 - 19		20,000	Outstanding Subscription		
			2016 - 17	26,000	
			2017 - 18	35,000	61,000

Receipts and Payments Account for the year ending 31.03.2019.

Dr. **Cr.**

Receipts	Amt. ₹	Amt. ₹	Payments	Amt. ₹	Amt. ₹
To Subscriptions					
2016 - 17	23,000				
2017 - 18	30,000				
2018 - 19	4,10,000				
2019 - 20	21,000	4,84,000			

Adjustments :

Outstanding Subscription for 2018 - 19 is ₹ 32,000.

With the above information present the item Subscription in Income and Expenditure Account for the year ended 31.03.2019 Balance Sheet as on the date.

Ans. :

i) Total subscription for 31.03.2019 ₹ 4,62,000.

ii Total subscription for outstanding as on 31.03.2019 ₹ 40,000 (i.e ₹ 3,000 + ₹ 5,000 + ₹ 32,000)

iii subscription received in advance for 2019 - 20 ₹ 21,000)

3.

Receipts and payments Account for the year ending 31.03.2018.

Dr. **Cr.**

Receipts	Amt. ₹	Amt. ₹	Payments	Amt. ₹	Amt. ₹
To Subscriptions					
2016 - 17	2,000				
2017 - 18	60,000				
2018 - 19	4,500	66,500			

Adjustments :

Subscription Outstanding for the year 2017 - 18 is ₹ 6,000.

During previous year Subscription received in advance for 2017 - 18 is ₹ 2,000.

Outstanding subscription of 2016 - 2017 is ₹ 2,500

With the help of above information present the item Subscription in Income and Expenditure Account for the year ending 31.03.2018 and Balance Sheet as on that date.

(Ans. : Subscription ₹ 68,000)

4. (Preparation of Income and Expenditure Account only)

Following is the Receipts and Payments Account of "Satara Sports Club" Satara Prepare Income and Expenditure Account for the year ending 31.03.2019.

Receipts and Payments Account for the year ending 31.03.2019.

Dr. **Cr.**

Receipts	Amt. ₹	Amt. ₹	Payments	Amt. ₹	Amt. ₹
To Balance b/d			By Salaries		5,000
Cash in hand	4,500		By Rent (Including ₹ 2,000		5,000
Cash at Bank	12,000	16,500	for 2017 - 18)		
To Subscription			By Electricity Charges		1,450
2017 - 18	4,000		By Fixed Deposit		60,000
2018 - 19	44,500		By Printing and Stationery		750
2019 - 20	3,500	52,000	By General Expenses		5,500
To Entrance fees		8,000	(Including ₹ 500 paid for		
To Donation for		70,000	next year)		
Building fund			By Sports Material Purchased		40,000
To Interest		600	By Balance c/d		
To Sale of furniture		4,500	Cash in Hand	8,900	
(Book Value ₹ 8000)			Cash at Bank	25,000	33,900
		1,51,600			**1,51,600**

Adjustments :

1) Outstanding Subscription for Current Year is ₹ 4,500
2) Outstanding Rent for Current Year amounted to ₹ 1,000
3) Entrance Fees are to be treated as Revenue Income
4) Stock of Sports Material as on 01.04.2018 ₹ 6,000 and on 31.03.2019 ₹ 14,000

(Ans. : Surplus Amount ₹ 5,900)

5. "Bhartiya Kala Kendra", Solapur gives you thefollowing information, for the year ended on 31.03.2018 Prepare Income and Expenditure Account for the year ending 31.03.2018

Receipts and payments Account for the year ending 31.03.2018.

Dr. **Cr.**

Receipts	Amount ₹	Payments	Amount ₹
To Balance b/d		By Stationery	600
Cash in Hand	200	By Furniture Purchased	7,000
Cash at Bank	12,500	By Investments in	14,000
To Locker Rent	400	Govt. Securities	
To Entrance fees	2,900	By Expenses of Drama	3,000
To Sale of old newspapers	250	By Postage	450
To Receipts from Drama	9,000	By Magazine and	600
To Legacies	12,000	Newspaper	
To Interest of Govt. Securities	400	By Salaries	4,400
To Miscellaneous Receipts	400	By Balance c/d	
		Cash in Hand	700
		Cash at Bank	7,300
	38,050		**38,050**

Additional Information :

1) Legacies are to be capitalized
2) Outstanding Salary ₹ 200
3) 50 % of Entrance Fees are to be Capitalised

(Ans. : Surplus ₹ 2,650)

6. **(Accounts of a Charitable Hospital)**

From the following particulars relating to "Radha-Krishna Charitable Hospital" Pune. Prepare Income and Expenditure Account for the year ending 31.03.2020 and Balance Sheet as on that date.

Receipts and payments Account for the year ending 31.03.2020.

Dr. **Cr.**

Receipts	Amount ₹	Payments		Amount ₹
To Balance b/d		By Medicines Purchased		41,000
Cash	8,230	By General Expenses		1,050
To Subscriptions	52,000	By Salaries		23,500
To Donations (General)	17,500	By Stationery		2,000
To Interest in Investments	10,000	By Expenses on Charity Show		550
To Proceeds from Charity Show	8,530	By Surgery and Dispensary Exp.		4,200
		By Equipments		10,000
		By Balance c/d		
		Cash in Hand	960	
		Cash at Bank	13,000	13,960
	96,260			**96,260**

Additional Information :

Particulars	01.04.2019 ₹	31.03.2020 ₹
1. Subscription Due	310	350
2. Subscription Received in Advance	600	150
3. Stock of Medicines	8,000	11,000
4. Estimated Value of Equipments	15,000	?
5. Buildings	40,000	?
6. Capital Fund	1,70,940	?
7. 10 % Investment	1,00,000	?

Provide Depreciation on Equipments ₹ 1,900 and on Building ₹ 1,500

(Ans. : Surplus ₹ 15,820, Total of Balance Sheet ₹ 1,86,910)

7. **From the following transactions of Receipts and Payments Account of "Pavan - putra Hanuma Vyayamshala" Parbhani, and the adjustments given, you are required to prepare Income and Expenditure Account and Balance Sheet as on 31st March 2019.**

Receipts and payments Account for the year ending 31.03.2019.

Dr. **Cr.**

Receipts		Amount ₹	Payments		Amount ₹
To Balance b/d			By Salaries		6,000
Cash in Hand		5,000	By Entertainment Expenses		2,480
To Subscriptions			By Sundry Expenses		1,300
2018 - 19	18,000		By Electricity Charges		1,200
2019 - 20	410	18,410	By Rent		700
To Donations		6,000	By Investment		15,000
To Receipts from Entertainment		5,400	By Printing and Stationery		800
To Interest		400	By Postage		3,200
To Entrance fees		6,200	By Fixed Deposit		3,900
			By Balance c/d		
			Cash in Hand	830	
			Cash at Bank	6000	6,830
		41,410			**41,410**

Adjustments :

1) There are 500 members paying an annual Subscription of ₹ 50 each
2) Outstanding Salary was ₹ 1,200
3) The Assets on 01.04.2018 were as follows:
   Building ₹ 50,000, Furniture ₹ 15,000
4) Provide depreciation on Building and Furniture at 5 % and 10 % respectively.
5) 50 % Entrance Fees is to be capitalized.
6) Interest on Investment at 5 % p. a. has accrued for 6 months.
7) Capital Fund ₹ 70,000 on 01.04.2018

(Ans. : Surplus ₹ 19,395, Total of Balance Sheet ₹ 94, 105)

8. **(Newly Started Art Circle)**

"Jeevan Jyoti Art Circle" a newly established concern has presented the following information.

Receipts and payments Account for the year ending 31.03.2018.

Dr. **Cr.**

Receipts	Amt. ₹	Amt. ₹	Payments	Amt. ₹	Amt. ₹
To Admission fees		22,000	By Furniture		12,000
To Subscriptions		40,000	By Stationery		4,000
To Donations		18,000	By Office Rent		2,600
			By Newspapers & Periodicals		300
			By Telephone Expenses		560
			By Investments		23,000
			By Balance c/d		
			Cash in Hand	7,540	
			Cash at Bank	30,000	37,540
		80,000			**80,000**

Adjustments :

1) Subscription Outstanding for the year was ₹ 5,000
2) Depreciate Furniture @ 10 % p.a
3) Full amount of Admission Fees and 50 % Donations are to be capitalized.

You are required to prepare income and Expenditure Account for the year ending 31.03.2018 and Balance Sheet as on that date.

(Ans. : Surplus ₹ 45,340, Total of Balance Sheet ₹ 76,340)

9. **Given below is Receipts and Payments Account of "Vithai Mahila Mandal" Pandharpur for the year ending 31.03.2018. Prepare an Income and Expenditure Account for the year ended 31.03.2018 and Balance Sheet as on that date.**

Receipts and payments Account for the year ending 31.03.2018.

Dr. **Cr.**

Receipts	Amt. ₹	Amt. ₹	Payments	Amt. ₹	Amt. ₹
To Balance b/d			By Stationery		600
Cash in Hand	3,000		By Repairs to Furniture		95
Cash at Bank	20,000	23,000	By Rent		8,30
To Entrance Fees		3,500	By Salaries		15,00
To Subscription		19,000	By Miscellaneous Expenses		45
To Miscellaneous Receipts		850	By Balance c/d		
			Cash in Hand	1,650	
			Cash at Bank	14,000	15,650
		46,350			**46,350**

Adjustments :

1) Capital Fund on 01.04.2017 was ₹ 90,000
2) Outstanding Subscription ₹ 4,000
3) Entrance Fees are to be capitalized
4) Rent paid includes ₹ 800 paid for April 2018
5) They have following Assets and Liabilities 01.04.2017
   Furniture ₹ 9,000, Building ₹ 70,000, and Outstanding Expenses ₹ 12,000

(Ans. : Deficit ₹ 6,050, Total of Balance Sheet ₹ 99,450)

10. From the following Receipts and Payments Account "K.B.P. Engineering College" Nashik for the year ending on 31.03.2019 and additional information, prepare Income and Expenditure Account for the year ending 31.03.2019 and Balance Sheet as on that date.

Receipts and payments Account for the year ending 31.03.2019.

Dr. **Cr.**

Receipts	Amount ₹	Payments	Amount ₹
To Balance b/d		By Salaries to Teaching Staff	11,70,000
Cash in Hand	18,000	By Electricity Charges	55,000
Cash at Bank	1,00,400	By Books	61,000
To Interest	55,000	By Furniture	51,000
To Subscriptions	28,300	By Stationery	21,850
To Life Membership fees	25,000	By Fixed Deposit (31.03.2019)	8,50,000
To Donation	7,00,000	By Balance c/d	
To Tution Fees	12,30,000	Cash in Hand	16,650
To Term Fees	2,00,800	Cash at Bank	2,00,000
To Sundry Receipts	8,000		
To Admission Fees (Revenue)	60,000		
	24,25,500		**24,25,500**

Additional Information :

Particulars	01.04.2018 ₹	31.03.2019 ₹
Books	6,00,000	6,00,000
Furniture	3,19,000	3,00,000
Building Fund	10,00,000	?
Fixed Deposit	9,10,000	?
Capital Fund	9,47,400	?

1) 50% of Donation are for Building Fund and the balance is to be treated Revenue Income.
2) Outstanding subscription ₹ 5,300
3) Life membership fees are to capitalised

(Ans. : Surplus ₹ 5,59,550, Total of Balance Sheet ₹ 28,81,950)

11. (Account of a School)

From the following Balance Sheet and Receipts and Payments Account of "New English School", Barshi, Prepare Income and Expenditure Account for the year ending 31.03.2020 and a Balance Sheet as on that date.

Balance Sheet as on 01.04.2019

Liabilities	Amount ₹	Assets	Amount ₹
Capital Fund	6,43,000	Cash in Hand	6,000
		Cash at Bank	10,000
		Building	4,50,000
		Furniture	72,000
		Library Books	45,000
		Computer Laboratory	60,000
	6,43,000		**6,43,000**

Receipts and Payments Account for the year ending 31.03.2020.

Dr. **Cr.**

Receipts	Amt. ₹	Amt. ₹	Payments	Amt. ₹	Amt. ₹
To Balance b/d			By Salary		90,000
Cash in Hand	6,000		By Library Books		14,000
Cash at Bank	10,000	16,000	By Office Rent		10,000
To Tution Fees		90,000	By Printing and Stationery		22,000
To Term Fees		3,000	By Sundry Expenses		12,000
To Admission Fees		12,000	By Insurance		10,200
To Donation (Capital)		61,000	By Sport Expenses		8,000
To Interest Received		2,000	By Annual Gathering Exp.		9,000
To Government Grant		1,20,000	By Furniture		50,000
(Revenue)			By Repairs		15,000
To Sundry Receipts		11,000	By Balance c/d		
			Cash in Hand	4,800	
			Cash at Bank	70,000	74,800
		3,15,000			**3,15,000**

Additional Information :

1) Outstanding Salary of ₹ 9,000
2) Outstanding Tution Fees ₹ 15,000
3) Depreciate Library Books by ₹ 9,000 and Furniture by ₹ 10,000

(Ans. : Surplus ₹ 48,000, Total of Balances Sheet ₹ 7,61,800)

12. **(Account of a Library)**

Following is the Receipts Payments Account of "Dhananjay Library , Mumbai" for the year ending 31.03.2020

Receipts and payments Account for the year ending 31.03.2020.

Dr. **Cr.**

Receipts	Amount ₹	Payments	Amount ₹
To Balance b/d	5,000	By Salaries	9,000
To Admission Fees	4,500	By Rent	7,500
To Subscriptions	20,000	By Investments	6,000
To Lecture Hall Hire Charges	4,200	By Stationery	1,350
To Miscellaneous Income	250	By Electricity Charges	850
To Interest on Investment	900	By Books	5,000
		By Outstanding Expenses (2018 - 19)	500
		By Balance c/d	4,650
	34,850		**34,850**

You are required to prepare an Income and Expenditure Account for the year ended 31.03.2020 and Balance Sheet as on that day.

The following information is also made available to you.

1) On 31.03.2019, the Library had the following Assets also; Books at ₹ 50,000, Furniture ₹ 6,500, and Machinery of ₹ 30,000
2) Subscription received in advance amounted to ₹ 500
3) Outstanding Salaries ₹ 1300 and for Rent ₹ 950
4) 50 % of the Admission Fees should be capitalized.
5) Furniture to be depreciated at 10 % p.a.
6) Library Books were purchased on 1st April 2019 charge Depreciation at 10 % p. a.
7) The Investments were purchased on 01.04.2019 and they carry interest at 20 % p.a.

(Ans. : Surplus ₹ 300, Balance Sheet Total ₹ 96,300 Capital Fund ₹ 91,000)

13. **(Outstanding Expenses and Prepaid Expenses)**

From the following information supplied to you, prepare Income and Expenditure Account for the year ending on 31.03,2020 and Balance Sheet as on that date for "Morya Sports Club" Thane.

Balance Sheet as on 01.04.2019.

Liabilities	Amount ₹	Assets	Amount ₹
Capital Fund	64,500	Machinery	69,000
Bank overdraft	38,000	Outstanding Subscriptions	8,000
Outstanding Salary	4,000	Prepaid Insurance Premium	2,000
		Furniture	15,000
		Cash in Hand	12,000
		Outstanding Locker's Rent	500
	1,06,500		**1,06,500**

Receipts and Payments Account for the year ended 31.03.2020

Dr. **Cr.**

Liabilities	Amount ₹	Payments	Amount ₹
To Balance b/d	12,000	By Balance b/d (Bank Overdraft)	38,000
To Subscription	1,05,000	By Salary	17,500
To Entrance Fees (Capitalized)	9,300	By Insurance Premium	11,000
To Locker Rent	1,500	By Interest	1,400
To Donations (Capitalized)	800	By Refreshment Expenses	4,200
		By Furniture	30,000
		By Balance c/d	
		Cash in Hand	6,500
		Cash at Bank	20,000
	1,28,600		**1,28,600**

Adjustments :

1) Subscription received includes ₹ 3,000 for 2018 - 19 and Outstanding Subscription for 2019 - 20 was ₹ 14,000.
2) On 31.03.2020, Prepaid Insurance Premium was ₹ 2,500.
3) Depreciate Furniture by ₹ 3,000.
4) Locker Rent Outstanding for 2019 - 20 is ₹ 400.

(Ans. : Surplus ₹ 84,800, Total of Balance Sheet ₹ 1,59,400)

14. (Charitable Hospital)

Following information has been provided by "Vivekanand Charitable Hospital" Latur. You are required to prepare Income and Expenditure Account for the year ending on 31.03.2019 and Balance
Sheet as on that date.

Balance Sheet as on 01.04.2018.

Liabilities	Amount ₹	Assets	Amount ₹
Capital Fund	11,00,000	Building	10,50,000
Bank Loan	6,50,000	Ambulance	4,00,000
Outstanding Bill for Drugs	50,000	Stock of Drugs	42,000
		Hospital Equipments	3,04,000
		Cash in Hand	4,000
	18,00,000		**18,00,000**

Receipts and Payments Account for the year ended 31.03.2019

Dr. **Cr.**

Receipts	Amount ₹	Payments	Amount ₹
To Balance b/d	4,000	By Purchase of Drugs	2,00,000
To Subscription	2,22,000	(Includes 40,000 for 2017 - 18)	
To Life Membership Fees	30,000	By Salary to Staff	85,000
To Hospital Receipts	5,10,400	By Honorarium to Doctors	4,00,000
(Revenue)		By Repairs and Maintenance	18,000
		By Furniture	45,000
		By General Expenses	16,000
		By Balance c/d	2,400
	7,66,400		**7,66,400**

Adjustments :

1) On 31.03.2019 Stock of Drugs was valued at ₹ 22,000.
2) Depreciation on Building at 5 % p.a. and on Ambulance ₹ 30,000.
3) Life Membership Fees are to be capitalized.

(Ans. : Deficit ₹ 49,100, Balance Sheet Total ₹ 17,40,900)

Activity :

1. Visit any Mahila Bachat Gat and study the procedure of maintaing the accounts and write a reprot on the same.
2. Visit any School/Junior College and study the Income & Expenditure A/c and Balance Sheet.
3. Visit any Co-operative Housing Society and understand the procedure of Accounting.

3 Reconstitution of Partnership (Admission of Partner)

Contents

Competency Statement

❑ *The students will be able :*
- *To understand the meaning and different ways of reconstitution.*
- *To understand the meaning and need of admission of partner.*
- *To learn the adjustments required on admission of a partner.*
- *To calculate the new profit sharing ratio and sacrifice ratio.*
- *To know the methods of valuation of goodwill and treatment of goodwill.*
- *To learn the accounting treatment of accumulated profits / loss.*
- *To To make necessary adjustments for revaluation of assets and liabilities.*
- *To learn to adjust the capitals according to new profit sharing ratio.*

3.1 Meaning of Reconstitution of Partnership :

The reconstitution of partnership primarily involves change in the form of partnership. There is change in agreement among the partners which leads to change in the relationship between the partners and change in share of the Profit or Losses of the partners in the firm. The change in the partnership may take the following forms :

3:1:1 Different forms of Reconstitution :

1) Change in Profit - Sharing of existing Partner

The partners of a firm may decide to change their existing profit sharing ratio. If one partner purchases a share of profit from another partner, the old partnership agreement stands terminated and the new agreement comes into force stating the new profit sharing ratio.

2) Admission of a Partner

When the new partner is admitted in the business he brings capital and his share of goodwill. Old partners have to sacrifice their share of profit for new partner. So the partnership agreement changes.

3) Retirement of a Partner

If the partner is retiring from partnership firm his share of profit, upto the date of retirement capital, his share in other reserves of the firm will be paid to him. Old partners will gain the profit and there will be change in the profit sharing ratio.

4) Death of a Partner

Partner is going out of business due to death his legal heir will get the partner's share in the business. Share of Profit of continuing partners will change and old partnership agreement comes to an end.

3.2
Admission of a Partner :

According to section 31 (1) of the Partnership Act 1932, A person can be admitted as a new partner only with the consent of all existing partners unless otherwise agreed upon. New Partner will bring his share of goodwill and capital and enjoy the right to share the future profits.

This chapter covers the accounting treatment of admission of a partner in the existing partnership firm.

3.2.1
Need :

Generally, the new Partner is admitted in the firm to expand the capital base as well as to use the skills of that person to improve the overall performance of the partnership firm.

3.2.2
Capital brought by new partner :

The purpose of admitting new partner is to increase the capital of the partnership firm. The new partner can bring capital in Cash or kind. The new partner will bring the capital as per the terms in Partnership Deed. The accounting treatment for the capital brought in by the new partner is:

3.2.3

Transaction	Journal Entry
When new partner brings cash towards his Capital	Cash/Bank A/c .... Dr. To New Partner's capital A/
When new partner brings certain assets towards his capital	Assets A/c.. Dr. To New Partner's capital A/c

New ratio

As the new partner is admitted in partnership firm the profit sharing ratio of existing partners changes and there is need to calculate new profit sharing ratio including new partner. This ratio is used for writing off goodwill and capital adjustments.

Formula for calculating new ratio

If total profit is 1

1(-) Share of new partner = Balance of 1

New Ratio = Old Ratio × Balance of 1

OR

If Sacrifice ratio of old partners is given along with old ratio the new ratio can be calculated as follows:

New Ratio = Old Ratio - Sacrifice Ratio

3.2.4 Sacrifice Ratio :

When new partner is admitted old partners have to sacrifice their share of profit to give the share of profit to new partner. The ratio in which the old partners sacrifice their share of profit is called as sacrifice ratio. This ratio is used to retain the goodwill in premium method.

Sacrifice ratio = Old Ratio - New Ratio

Change in the Profit sharing ratio due to admission of a partner

Illustrations

1: (Calculation of New ratio)

Mohan and Ganpat are sharing profits and losses in the ratio of 2:3. They admitted Chandrakant for 1/4th share in future profit. The new profit sharing ratio of Mohan, Ganpat and Chandrakant will be as under

Formula	=	1 – share of New Partner
	=	1– 1/4
	=	3/4 Remaining Profit
New Ratio	=	Old Ratio × balance of 1
Mohan's New Ratio	=	2/5×3/4 = 6/20
Ganpat's New Ratio	=	3/5× 3/4 = 9/20
Chandrakant's Ratio	=	1/4 i.e. 5/20

New Profit Sharing Ratio will 6:9:5

2: (Calculation of Sacrifice Ratio)

A and **B** are Partners sharing profits in the ratio of 6:4. C is admitted as a partner. The new profit sharing ratio of A, B and C is 10 : 6: 4. Find out the sacrificing ratio.

Sacrifice ratio	=	Old Ratio – New Ratio
A's sacrifice	=	6/10 – 10/20 = 2/20
B's Sacrifice	=	4/10 – 6/20 = 2/20

Sacrifice ratio of A and B = 2/20 : 2/20 or 2:2 = 1 :1

3: (Calculation of Sacrifice Ratio and New Ratio)

Pravin and Navin are partners sharing profits in the ratio of 7:3 They admit Reena for 1/5th share of profit which he takes equally from Pravin and Navin. Calculate sacrifice ratio and new profit sharing ratio.

Reena's share	=	1/5
Sacrifice Ratio of P and Q	=	1:1 or 1/2:1/2
Pravin's Sacrifice	=	$1/5 \times 1/2 = 1/10$
Navin's Sacrifice	=	$1/5 \times 1/2 = 1/10$
New Ratio	=	Old Ratio - Sacrifice Ratio
New Share of Pravin	=	7 /10 – 1/10 = 6 / 10
New share of Navin	=	3 / 10 – 1/10 = 2 / 10
Reena's share = 1/5th share	=	2/10
Therefore, New Ratio is 6:2:2	=	3:1:1

4: (Calculation of Sacrifice Ratio and New Ratio)

X and **Y** are partners sharing profits in the ratio 7:3. X surrenders 1/7th of his share and Y surrenders 1/3rd of his share in favour of Z, a new partner. Calculate new ratio and sacrificing ratio.

Old Ratio of X and Y = 7:3 or 7/10 : 3 /10

X's Sacrifice = $1/7 \times 7/10 = 1/10$

Y's Sacrifice = $1/3 \times 3/10 = 1/10$

Sacrificing ratio of X and Y = 1/10 :1/10 or 1:1

Z's share = X's share + Y's share = 1/10 + 1/10 = 2/10

X's New share = Old ratio – Sacrifice ratio = 7/10 – 1/10 = 6/10

Y's New share = Old ratio – Sacrifice ratio = 3/10 – 1/10 = 2/10

Therefore, New Ratio of X, Y and Z = 6:2:2 = 3:1:1

3.2.5

Meaning of Goodwill :

Goodwill is the benefit, name, fame, reputation, image of a business which ultimately helps the business to earn more profits. It is also because of the honesty, business ethics and hard work done by all the partners in the past years. Good will is calculated on the basis of part performances.

3.2.5.1

There are various methods of valuation of goodwill. For Std 12th following two main methods are included:

1) Average Profit Method

Under this method goodwill is calculated on the average basis of the past number of years of profit. It is assumed that the firm will maintain average profit for next certain years also and so the goodwill is calculated on the basis of certain number of years purchase of average profit.

Goodwill can be calculated as per this method by following these steps

i) Calculation of total profit

Total Profit is calculated by adding the profits of the previous years and deducting the losses, if any.

Eg. Profits / Losses of the past 4 years are as follows:

Year	Amount
2016	1,20,000 (Profit)
2017	80,000 (Profit)
2018	20,000 (Loss)
2019	60,000 (Profit)

The total Profit will be as follows :

Total Profit = 1,20, 000 + 80,000 – 20,000 + 60,000

= ₹ 2, 40,000

ii) Calculation of Average Profit

$$\text{Average Profit} = \frac{\text{Total Profit}}{\text{Number of years}}$$

$$\text{Average Profit} = \frac{2{,}40{,}000}{4}$$

Average Profit = ₹ 60,000

iii) Calculation of Goodwill:

Goodwill is valued at certain number of year's purchase of average profit.
Thus Goodwill can be calculated by using the following formula

Goodwill = Average profit × Number of year's purchase

In above example If Goodwill is to be calculated as 2 year's purchase of average profit. then,

Goodwill = 60, 000 × 2

= ₹ 1,20, 000

2) Super Profit Method

Super Profit is the profit which is earned over and above the normal profit. If the firm earns extra profit than the normal standard profit this is because of reputation of the firm. So super profit can be considered as a base for calculation of goodwill. Normal rate of return is considered to calculate the profit normally expected on the capital employed. If the firm earns excess than the normal profit it is super profit.

Calculation of Goodwill by using Super Profit method.

Capital employed :

It is the amount of capital used by the firm to start and run the business activities. It is made of fixed assets other than goodwill plus current assets minus current liabilities.

Normal Rate of return :

It is the rate of return normally earned by the firms in the same industry or it is the profit expected by the investor on the capital employed.

1 : Find the value of Goodwill from the following information by using Super Profit Method.

Year	Amount (₹)
2014	80,000 (Profit)
2015	95,000 (Profit)
2016	1,10,000 (Profit)
2017	40,000 (Loss)
2018	85,000 (Profit)

i) Capital employed is ₹ 3, 50, 000

ii) Normal Rate of Return is 12%

iii) Goodwill is to be valued at two year's purchase of super profit.

i) Calculation of Average Profit

$$\text{Average Profit} = \frac{\text{Total Profit}}{\text{Number of years}}$$

$$= \frac{80{,}000 + 95{,}000 + 1{,}10{,}000 - 40{,}000 + 85{,}000}{5}$$

$$= ₹\ \frac{3{,}30{,}000}{5}$$

$$= ₹\ 66{,}000$$

ii) Calculation of Normal Profit

$$\text{Normal Profit} = \frac{\text{Capital employed} \times \text{NRR}}{\text{Number of years}}$$

$$= ₹\ \frac{3{,}50{,}000 \times 12}{100}$$

$$= ₹\ 42{,}000$$

ii) Calculation of Super Profit

Super Profit = Average Profit – Normal Profit

= 66,000 – 42,000

= ₹ 24,000

iii) Calculation of Goodwill

Goodwill = Super Profit × No. of year's purchases

= 24,000 × 2

= ₹ 48,000

3.2.5.2 Treatment of Goodwill

Unlike other assets Goodwill is treated separately at the time of reconstitution of the firm. There are two methods of recording Goodwill in the books of accounts while admitting new partner in the firm.

(A) Premium Method

Under this method new partner brings his share of goodwill in cash or kind. It may be retained in the business or may be withdrawn by the old partners.

Sr. No	Transactions	Journal Entry
1	When new partner brings his share of goodwill in cash and it is retained in the business.	(a) Cash / Bank / A/c ....Dr. To Goodwill A/c (Being goodwill brought in by new partner) (b) Goodwill A/c ....Dr. To Old Partners' Capital / Current A/c **(Sacrifice Ratio)** (Being goodwill distributed among old partners)
2	When new partner brings his share of goodwill in cash and it is withdrawn by old partners.	(a) Cash / Bank / A/c............................ ....Dr. To Goodwill A/c (Being goodwill brought in by new partner) (b) Goodwill A/c... Dr. To Old Partners' Capital / Current A/c **(Sacrifice Ratio)** (Being goodwill distributed among old partners) (c) Old Partner's Capital / Current A/c. Dr. (Actual withdrawn) To Cash / Bank A/c (Being goodwill withdrawn by old partners)
3	When new partner brings his share of goodwill in cash and it is paid to old partners privately	In this case no entry is required to be passed the books of the firm.

(B) Valuation Method:

Under this method new partner does not bring his share of goodwill. So old partners measure the goodwill of the firm and then it is raised in the books of the firm at the time of admission of new partner.

Sr. No.	Transcation	Journal Entry
1	When new partner does not bring his share of goodwill in cash and it is raised in the books of the firm.	(a) Goodwill A/c...Dr. To Old Partners' Capital / Current A/c **(Old Ratio)** (Being goodwill raised in the books of the firm) ● Goodwill will appear in the New balance sheet on asset side.
2	When goodwill is raised and written off.	(a) Goodwill A/c...Dr. To Old Partners' Capital / Current A/c **(Old Ratio)** (Being goodwill raised in the books) (b) All Partners Capital A/c ....Dr. **(New Ratio)** To Goodwill A/c (Being goodwill written off) ● Goodwill will not appear in the New Balance sheet
3	When goodwill already appears in the books of the firm (In balance sheet) ● If goodwill already appears in the Balance sheet and new partner brings goodwill in cash	In such cases, if the goodwill is revalued, the difference between revalued value of goodwill and its books value is transferred to Old partners' capital/ current A/c or Revaluation A/c ● Then it is desirable to write off the goodwill appearing in the books among old partners in their old profit sharing ratio.

3.2.6 Revaluation of Assets and Liabilities

Meaning

The value of assets shown in Balance Sheet may be different than market value. So the increase or decrease in the value at the time of admission of new partner belongs to old partners. The new partner has no right over such past profits Also he should not suffer due to losses on revaluation of assets.

Same way there may be unrecorded Asset or unrecorded Liability at the time of admission. It should be shown in the books before admitting the new partner. Such adjustment of values of assets and liabilities is called as 'Revaluation of Assets and Liabilities'.

At the time of reconstitution of the firm, assets and liabilities of the firm are revalued. The change made in the value of assets and liabilities are recorded in 'Revaluation Account' or 'Profit and Loss Adjustment Account'. After recording the increase or decrease in asset and liabilities the gain or loss on revaluation is transferred to old partners' Capital / Current accounts in their old profit sharing ratio. Revaluation Account / Profit and Loss Adjustment account is a Nominal Account.

Sr. No.	Transaction	Journal Entry
1.	Increasing the value of asset and Decreasing the value of liability	Asset A/c .... Dr. Liability A/c .... Dr. To Revaluation A/c / P & L Adjustment A/c (Being the value of asset increased and value of liability decreased)
2	Decreasing the value of asset and Increasing the value of liability	Revaluation A/c / P & L Adjustment A/c.................. Dr. To Asset A/c To Liability A/c (Being the value of asset decreased and value of liability increased)
3.	Recording the unrecorded asset in the books of accounts	Asset A/c .... Dr. To Revaluation A/c (Being, unrecorded asset brought in the books of accounts)
4.	Creating new liability in the books	Revaluation A/c .... Dr. To New Liability A/c (Being unrecorded liability brought in the books of accounts)
5.	Transfer of Profit on Revaluation to old partner's Capital/Current A/c	Revaluation A/c .... Dr. To Old Partner's Capital/Current A/c (Being profit on revaluation credited to partners' capital/ current A/c)
6.	Transfer of Loss on Revaluation to old partners' Capitals/ Current A/c	Old Partners' Capital/ Current A/c .... Dr. To Revaluation A/c (Being loss on revaluation transferred to partners' capital / current A/c)

Dr. Specimen of Revaluation / Profit & Loss Adjustment Account Cr.

Particular	Amt (₹)	Paritcular	Amt (₹)
To Asset A/c (Decrease-- in Asset)	xxx	By Asset A/c (Increase in Asset)	xxx
To Liability (Increase in Liability)	xxx	By Liability (Decrease in Liability)	xxx
To Old Partners' Capital / Current A/c (Profit on Revaluation transferred)	xxx	By Old Partner's Capital / Current A/c (Loss on Revaluation transferred)	
	xxx		xxx

3.2.7 Adjustment of accumulated profit and Losses

Accumulated profit is the profit earned by the old partners before admitting the new partner that may be in the form of undistributed profit, Reserve Fund, General Reserve, Workmen Compensation Fund, Joint Policy Reserve etc.

These reserves are on the Liability side of Balance Sheet therefore transferred on credit side of partner's Capital / Current A/c.

Any type of Reserve / Accumulated profits A/c ....Dr.

To Partners' Capital / Current A/c

(Being reserve / accumulated profits transferred to partners)

Accumulated Loss is the loss sustained by the old partners before admitting the new partner & it is undistributed loss. It appears on the Assets side of Balance-sheet therefore transferred on the debit side of Partners Capital/Current A/c e.g. Profit Loss A/c (Debit Balance) Preliminary Expenses

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

To Accumulated loss

(Being accumulated loss transferred to partners)

3.2.8 Adjustment of Capitals

Sometimes capitals of all partners are to be adjusted in the new profit sharing ratio after the admission of new partner. The capitals of the partners may be adjusted in any one of the following ways.

(1) Capitals of old partners may be adjusted on the basis of the capital of the new partner

In this case, capital of the new partner is taken as base to find out the total capital. The total capital can be calculated as follows : -

Total Capital = New partner's capital × Reciprocal of his PSR (Profit sharing ratio)

e.g. 'Z' is admitted in the firm with $1/5^{th}$ share of the profits of the firm. 'Z' contributes ₹ 50,000 as his capital. 'X' and 'Y' the other two partners were sharing profits in the ratio of 2:3.

Then the required capital of X and Y should be calculated as follows.:

Calculation of New profit sharing ratio:

X' s Share of Profits = 2/5 × (1– 1/5) = 2/5 × 4/5 = 8/ 25

Y' s Share of Profits = 3/5 × (1– 1/5) = 3/5 × 4/5 = 12/ 25

Z' s Share of Profits = 1/5 = 5 / 25

So new ratio is 8:12:5

Calculation of New Capital :

If Z' Capital / Share is ₹ 50,000, then the total capital of the firm has to be ₹ 50,000 × 5/1 = ₹ 2,50,000

X's share should be ₹ 2,50,000 × 8/25 = ₹ 80,000

Y's share should be ₹ 2,50,000 × 12/25 = ₹ 1,20,000

(2) Capitals of the new partner may be determined on the basis of the total capital of the old partners: In this case, new partner is required to bring his share of capital in proportion to total capital of old partner's. It is calculated as follows:

eg. After making all adjustments as regards goodwill reserve, accumulated profits / loss, revaluation profit / loss etc. the capitals of 'P' and 'Q' are ₹ 60,000 and ₹ 48,000. The profits and losses are shared by P and Q in the ratio of 3:2 respectively. R is admitted and is to be given 1/4th share of profits. He has to bring in capital representing his share, which is explained as under.

R gets 1/4 th share, so 3/4th share is left for P and Q. Therefore the combined capital of P and Q is 1,08,000 represents 3/4th share. Thus total capital should be ₹ 108000 × 4/3 = 1, 44,000. Therefore R should bring ₹ 36,000 i.e. ₹ 1,44,000 × 1/4

Proportionate capitals of the partners are recorded in capital accounts. The difference is adjusted normally through Cash / Bank / Current / Loan account. Difference between the actual capital and proportionate capital can be shown by passing following entries.

1) An entry for surplus capital

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

To Cash / Bank / Current A/c

2) An entry for deficit capital

Cash / Bank / Current A/c ....Dr.

To Concerned Partner's Capital A/c

Illustrations

1: (Journal Entries)

The Balance Sheet of Sujata and Pournima who shared profits equally was as follows:

Dr. **Balance Sheet as on 31st March 2018** **Cr.**

Liabilities	Amt ₹	Amt ₹	Assets	Amt ₹	Amt ₹
Capitals			Land & Building		60,000
Sujata	1,00,000		Plant & Machinery		70,000
Pournima	1,40,000	2,40,000	Furniture		24,000
			Sundry Debtor		26,000
Creditors		34,000	Stock		40,000
Bills Payable		26,000	Cash		80,000
		3,00,000			**3,00,000**

On 1st April 2018, Aparna joins the firm as a third partner for 1/5 th share of future profits on the following terms and condition :

a) Goodwill is valued at ₹ 2,00,000, Aparna is to bring her share of goodwill in cash.

b) Aparna is to bring in ₹ 1,00,000 as capital.

c) A provision of 10% is to be created on sundry debtors

d) Land and Building is to be valued at ₹ 80,000

e) Stocks Plant and Machinery is to be reduced by 20%

Draft the journal entries to record the above arrangement and give the opening balance sheet of the new firm.

In the Books of Sujata, Pournima, Aparna

JOURNAL

Date	Particulars	L.F.	Debit ₹	Credit ₹
2018 April 1 st	Cash A/c .... Dr.		1,40,000	
	To Aparna's Capital A/c			1,00,000
	To Goodwill A/c			40,000
	(Being cash brought in by Aparna as her share of capital and goodwill)			
April 1 st	Goodwill A/c .... Dr.		40,000	
	To Sujata's capital A/c			20,000
	To Pournima's capital A/c			20,000
	(Being the amount of goodwill distributed among partners in scarifying ratio)			
April 1 st	Revaluation A/c .... Dr.		24,600	
	To RDD A/c			2,600
	To Stock A/c			8,000
	To Plant & Machinery A/c			14,000
	(Being decrease in value of Debtors, Stock, Plant and Machinery recorded in revaluation accounts)			
April 1 st	Land & Building A/c .... Dr.		20,000	
	To Revaluation A/c			20,000
	(Being increase in value of Debtors and Building recorded in revaluation accounts)			
April 1 st	Sujata's capital A/c		2,300	
	Aparna's capital A/c		2,300	
	To Revaluation A/c			4,600
	(Being loss on revaluation transferred to partners capital account)			

BALANCE SHEET AS ON 1st APRIL 2018

Liabilities	Amt (₹)	Amt (₹)	Assets	Amt (₹)	Amt (₹)
Creditors		34,000	Cash in hand		2,20,000
Bills Payable		26,000	Sundry Debtors	26,000	
Capitals			Less : Provision	2,600	23,400
Sujata	1,17,700		Stock	40,000	
Pournima	1,57,700		Less: - Decrease	8,000	32,000
Aparna	1,00,000	3,75,400	Furniture		24,000
			Land & Building	60,000	
			Add: - Appreciation	20,000	80,000
			Plant and Machinery	70,000	
			Less: - Depreciation	14,000	56,000
		4,35,400			**4,35,400**

Working Note : -

1) **Cash in hand**

(In old balance sheet) 80000 + 140000 (capital and goodwill brought in)

= 220000

2) **Revaluation Account**

Dr. **Revaluation Account** **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To R.D.D. A/c	2,600	By Land & Building A/c.	20,000
To Stock	8,000	By Sujata's Capital A/c.	2,300
To Plant & Machinary	14,000	By Pournima's Capital A/c. (Revolution Loss)	2,300
	24,600		**24,600**

2: **Padma and Kumud share profits and losses in the ratio 3:2 in partnership firm. Their Balance Sheet as on 31st March 2019 was as under:**

Balance Sheet As on 31st March, 2019

Liabilities	Amt ₹	Amt ₹	Assets	Amt ₹	Amt ₹
Creditors		37,500	Bank		22,500
Bills payable		30,000	Bills Receivable		11,400
Bank loans		48,000	Debtors	62,400	
General reserve		7,500	Less: R. D. D	2,400	60,000
Capitals :			Stock		36,000
Padma	45,000		Furniture		14,100
Kumud	36,000	81,000	Machinery		15,000
			Building		45,000
		2,04,000			**2,04,000**

On 1.04.2019 they admitted Asha on the following terms : -

1) For 1/2 Share in profits in future, Asha should bring ₹30,000 for capital and ₹ 15,000 for goodwill in cash.
2) Half of amount of goodwill is withdrawn by old partners.
3) The Stock is to depreciated by 10% and Machinery by 5%
4) RDD is to be maintained at ₹ 3,000
5) Furniture should be appreciated to ₹16,050 and Building be aprreciated by 20%

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

Solutions : - **Journal Entries in the Books of the Firm**

Date	Particulars	L. F.	Debit (₹)	Credit (₹)
1.4.2019	General reserve A/c... Dr. To Padma's capital A/c To Kumud's capital A/c (Being general reserve distributed among old partners)		7,500	 4,500 3,000
	Profit & Loss Adjustment A/c............................ Dr. To Stock A/c To Machinery A/c To RDD A/c (Being decrease in the value of assets and RDD increased)		4,950	 3,600 750 600
	Furniture A/c .... Dr. Building A/c .... Dr. To Profit & Loss Adjustment A/c (Being appreciation in the value of assets)		1,950 9,000	 10,950
	Profit & Loss Adjustment A/c.......................... Dr. To Padma's Capital A/c To Kumud's Capital A/c (Being Profit on Revaluation distributed in Profit sharing ratio)		6,000	 3,600 2,400
	Bank A/c Dr. To Asha's capital A/c (Being cash brought in by Asha as capital)		30,000	 30,000
	Bank A/c .... Dr. To Goodwill's A/c (Being cash brought in by Asha as goodwill)		15,000	 15,000
	Goodwill A/c .... Dr. To Padma's capital A/c To Kumud's capital A/c (Being goodwill distributed in sacrifice ratio)		15,000	 9,000 6,000
	Padma's capital A/c .... Dr. Kumud's capital A/c .... Dr. To Bank A/c (Being half the amount of goodwill withdrawn by old partners)		4,500 3,000	 7,500

Working Notes: -

In the Books of firm

Profit and loss adjustment A/c

Dr. **Cr.**

Particulars		Amount (₹)	Particulars	Amount (₹)
To Stock Ac		3,600	By Furniture A/c By	1,950
To Machinery A/c		750	By Building A/c	9,000
To RDD A/c		600		
To Profit on Revaluation transferred to Partners a Capital A/c				
Padma	3,600			
Kumud	2,400	6,000		
		10,950		10,950

Dr. **Goodwill A/c** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Padma 's capital A/c	9,000	By Bank A/c	15,000
To Kumud's capital A/c	6,000		
	15,000		15,000

3: Anand and Rohit are partners sharing profits and losses in the ratio of 4:1. Their Balance Sheet as on 31 st March 2018 was as follows:

Balance Sheet As on 31st March, 2018

Liabilities	Amount (₹)	Assets	Amount (₹)
Capitals :		Goodwill	90,000
Anand	1,35,000	Equipments	45,000
Rohit	75,000	Stock	54,000
Reserve Fund	90,000	Debtors	1,20,000
Creditors	54,000	Cash	51,000
Bills Payable	6,000		
	3,60,000		**3,60,000**

They agreed to Admit Nachiket on the following terms :

1 The Goodwill is to be written off after admission of Nachiket.

2 1/4th of equipments to be written off.

3 Stock is undervalued by 10% and it is to be adjusted properly.

4 Debtors of ₹ 1,800 are not recoverable.

5 Nachiket will introduce ₹ 1,20,000 for 2/5th share of firm

6 Anand withdrew ₹ 60,000 from business.

Prepare Revaluation A/c & Pass Journal entries of Goodwill

Solution :

Dr. **Revaluation Account** **Cr.**

Particular	Amount (₹)	Particulars		Amount (₹)
To Equipment	11,250	By Stock		6,000
To Bad debts	1,800	By Revaluation Loss		7,050
		Transferred to Capital A/c		
		Anand	5,640	
		Rohit	1,410	
	13,050			**13,050**

Journal

Date	Particulars	L. F.	Debit (₹)	Credit (₹)
	Anand's capital A/c ....Dr.		72000	
	Rohit's capital A/c ....Dr.		18000	
	To Goodwill A/c			90,000
	(Being Goodwill written off after admission of partner)			

4: The following is the Balance Sheet of Makarand and Mahesh sharing profits in the ratio of 3:2

Balance Sheet As on 31st March 2019

Liabilities	Amt (₹)	Assets		Amt (₹)
Capital Account	95,000	Building		72,000
Makrand	1,00,000	Plant and Machinery		60,000
Mahesh	4,000	Debtors	42,000	
Sundry Creditors	3,000	Less: R.D.D.	2,000	40,000
Bills Payable		Bank		20,000
		Furniture		10,000
	2,02,000			**2,02,000**

On 1st April 2019 Mangesh is admitted for 1/2 share on the following terms:

1 He Paid ₹1,00,000 as his capital and ₹ 40,000 as his share of goodwill by RTGS.

2 Plant and Machinery revalued at ₹ 48,000.

3. Building taken by Makarand ₹ 1,00,000.

4. RDD to be increased up to ₹ 4,000.

5 The old partners decided to retain half of the amount of goodwill in the business.

6 The old partners decided to sacrifice equally.

Prepare Partner's Capital Account Only

Solution:

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

Particular	Makarand (₹)	Mahesh (₹)	Mangesh (₹)	Particulars	Makarand (₹)	Mahesh (₹)	Mangesh (₹)
To Building	1,00,000			By Balance b/d	95,000	1,00,000	
To Bank	10,000	10,000		By Bank A/c			1,00,000
To Balance C/d	13,400	1,15,600	1,00,000	By Goodwill A/c	20,000	20,000	
				By Revaluation A/c (Profit)	8,400	5,600	
	1,23,400	**1,25,600**	**1,00,000**		**1,23,400**	**1,25,600**	**1,00,000**

Working Note:

Dr. **Revaluation Account** **Cr.**

Particulars		Amt (₹)	Particulars	Amt (₹)
To Plant & Machinery		12,000	By Building	28,000
To RDD		2,000	(Taken by Makarand)	
To Revaluation Profit transferred to Partners Capital A/c				
Makarand	8,400			
Mahesh	5,600	14,000		
		28,000		**28,000**

5: **The following is the Balance Sheet of Madhuri and Manisha sharing Profit and Losses in the ratio of 3:2 as on 31 March, 2019**

Balance Sheet As on 31st March 2019

Liabilities	Amount (₹)	Assets		Amount (₹)
Capital Account	80,000	Building		72,000
Madhuri	1,00,000	Plant and Machinery		60,000
Manisha	60,000	Stock		48,000
Sundry Creditors	10,000	Debtors	42,000	
Bills Payable		Less : R.D.D.	2,000	40,000
		Bank		20,000
		Furniture		10,000
	2,50,000			**2,50,000**

On 01/04/2019 Mohini is admitted on the following terms:

1 She is to pay ₹ 1,00,000 as her capital and ₹ 40,000 as her share of Goodwill.

2 The new profit sharing ratio is to be 5:3:2

3. The assets are to be revalued as under:

Building ₹ 1,00,000, Plant and Machinery ₹ 48,000

4. RDD to be increased up to ₹ 4,000.
5 The old partners decided to retain half of the amount of goodwill in the business.
6 Sundry creditors should be revalued at ₹ 66,000

Give Revaluation Account, Capitals Accounts and Balance Sheet of New firm,

Solution :

In the books of Partnership firm

Dr. **Revaluation Account** **Cr.**

Particular	Amount (₹)	Particular	Amount (₹)
To Plant and Machinery	12,000	By Building A/c	28,000
To RDD A/c	2,000		
To Sundry Creditors A/c	6,000		
To Profit on Revaluation transferred to Capital A/c			
Madhuri	4,800		
Manisha	3,200		
	28,000		**28,000**

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

Particular	Madhuri (₹)	Manisha (₹)	Mohini (₹)	Particulars	Madhuri (₹)	Manisha (₹)	Mohini (₹)
To Bank	10,000	10,000		By Balance b/d	80,000	1,00,000	
To Balance c/d	94,800	1,13,200	1,00,000	By Bank A/c		20,000	1,00,000
				By Goodwill A/c	20,000		
				By Revaluation A/c (Profit)	4,800	3,200	
	1,04,800	**1,23,200**	**1,00,000**		**1,04,800**	**1,23,200**	**1,00,000**

Balance Sheet of Madhuri, Manisha & Mohini as on 1st April, 2019

Liabilities	Amt ₹	Amt ₹	Assets	Amt ₹	Amt ₹
Capital Account			Building	72,000	
Madhuri		94,800	Add: Appreciation	28,000	1,00,000
Manisha		1,13,200	Plant & Machinary	60,000	
Mohini		1,00,000	Less Depreciation	12,000	48,000
Sundry Creditor		66,000	Furniture		10,000
Bills Payable		10,000	Sundry Debtors	42,000	
			Less: R.D.D.	4,000	38,000
			Stock		48,000
			Bank		1,40,000
		3,84,000			**3,84,000**

Note: Goodwill brought in by Mohini transfered to Old Partners Capital A/c in their Sacrific Ratio which is 1:1

6 : Sameer and Nisha were partners sharing profits and losses in the ratio of 3/4 and 1/4 showed the following Balance sheet on 31st March, 2018

Balance Sheet as on 31st March 2018

Liabilities	Amt ₹	Amt ₹	Assets	Amt ₹	Amt ₹
Capital			Stock		90,000
Sameer	1,50,000		Fixtures		60,000
Nisha	1,62,000	3,12,000	Debtors	1,50,000	
General Reserve		48,000	Less: R.D.D.	15,000	1,35,000
Creditors		90,000	Bills Receivable		90,000
			Cash in hand		75,000
		4,50,000			**4,50,000**

They admit Poonam for 1/5th share on 1st April 2018, on the following terms :

1 Poonam introduced ₹ 1,20,000 as her capital.

2 Poonam would pay cash for Goodwill which would be based on 4 year's purchase of past profits of last 5 years.

3. Assets were revalued as under :

Fixtures at ₹ 45,000, Bill Receivable ₹ 1,20,000, Stock at ₹ 60,000 Debtors at book value less a provision of 20%

4. Bill payable of ₹ 15,000 have been omitted from books.

Profits for the last five years were as under :

I ₹ 60,000

II ₹ 45,000

III ₹ 75,000

IV ₹ 30,000

V ₹ 45,000

Prepare Revaluation Account, Partner's Capital Account and Balance Sheet after Poonam's admission.

Solution :

In the books of Partnership firm

Dr. Revaluation Account Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Fixtures A/c	15,000	By Bill Receivable A/c		30,000
To Stocks A/c	30,000	By Revaluation Loss		
To Provision on Debtors A/c	15,000	transferred to		
To Bills Payable A/c	15,000	Sameer	33,750	
		Nisha	11,250	45,000
	75,000			**75,000**

Dr.	Partner's Capital Account	Cr.

Particulars	Sameer (₹)	Nisha (₹)	Poonam (₹)	Particulars	Sameer (₹)	Nisha (₹)	Poonam (₹)
To Revaluation A/c (Loss)	33,750	11,250		By Balance b/d	1,50,000	1,62,000	
To Balance c/d	1,82,850	1,72,950	1,20,000	By General Reserve A/c	36,000	12,000	
				By Cash A/c	4,800		1,20,000
				By Goodwill A/c	30,600	10,200	
	2,16,600	**1,84,200**	**1,20,000**		**2,16,600**	**1,84,200**	**1,20,000**

Balance Sheet As on 1st April, 2018

Liabilities	Amt (₹)	Amt (₹)	Assets	Amt (₹)	Amt (₹)
Creditors		90,000	Cash		2,35,800
Bill Payable		15,000	Debtors	1,50,000	
Capitals			Less : Provision	30,000	1,20,000
Sameer's capital		1,82,850	Bills Receivable	90,000	
Nisha's capital		1,72,950	Add: - Increase	30,000	1,20,000
Poonam's capital		1,20,000	Stock	90,000	
			Less: Depreciation	30,000	60,000
			Fixture	60,000	
			Less: Depreciation	15,000	45,000
		5,80,800			**5,80,800**

Working Note :

i) Calculation of Goodwill and Poonam's share there of

Total Profit	₹ 2,55,000	
Average Profit	₹ 51,000	
Goodwill	₹ 51,000 × 4	= ₹ 2,04,000
Poonam's Share	₹ 2,04,000 × 1/5	= ₹ 40,800

Treatment of Goodwill

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1.4.2019	Cash A/c Dr.		1,60,800	
	To Poonam's capital A/c			1,20,000
	To Goodwill A/c			40,800
	(Being cash brought by Poonam as her share of capital and goodwill)			
1.4.2019	Goodwill A/c Dr.		40,800	
	To Sameer's capital A/c			30.600
	To Nisha's capital A/c			10,200
	(Being amount of goodwill distributed among partners in their sacrificing ratio)			

7 : The Balances sheet of Bhavesh and Chandra who share profit and losses in the ratio of 3:1 as at 31st March 2018 was as under :

Balance Sheet As on 31st March, 2018

Particulars	Amt (₹)	Particulars		Amt (₹)
Creditors	20,000	Bank		20,000
Workmen's Compensation Reserve	30,000	Debtors	13,000	
General Reserve	24,000	Less : Provision	1,000	12,000
Bhavesh's Capital	32,000	Bills Receivable		10,000
Chandra's Capital	28,000	Stock		20,000
		Land & Building		30,000
		Goodwill		42,000
	1,34,000			**1,34,000**

Alia was admitted on 1.4.2018 for 1/5th share on the following terms :

1 Alia shall bring ₹ 20,000 for her share of goodwill and necessary amount for her share of capital in cash.

2 Anju, an old customer whose account was written off as bad, has paid ₹ 400 in cash in full settlement of his dues.

3. The market value of Land and Building be taken as ₹ 40,000.

4. Workmen's Compensation Reserve is to be increased by ₹ 10,000.

5. Unaccounted Accrued Incomes of ₹ 200 to be accounted for.

6. The capitals of all partners are to be in new profit sharing ratio taking old partners total capital as base after adjustment. Actual cash is to be paid off or brought in by the partners for adjusting their capital accounts.

Prepare Revaluation Account, Partner's Capital Account and Balance Sheet after Alia's admission.

Solution :

Dr. **Revaluation Account** **Cr.**

Particulars		Amt (₹)	Particulars	Amt (₹)
To Workmen Compensation Reserve A/c		10,000	By Accrued Income A/c	200
To Profit transferred to Capital A/c			By Land and Building A/c	10,000
Bhavesh	450		By Bad Debts Recovered A/c	400
Chandra	150	600		
		10,600		10,600

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

Particular	Bhavesh (₹)	Chandra (₹)	Alia (₹)	Particulars	Bhavesh (₹)	Chandra (₹)	Alia (₹)
To Goodwill A/c	31,500	10,500		By Balance b/d	32,000	28,000	
To Cash A/c		13,000		By General Reserve A/c	18,000	6,000	
To Balance c/d	46,950	15,650	15,650	By Revaluation A/c (Profit)	450	150	
				By Goodwill A/c	15,000	5,000	
				By Cash A/c	13,000		15,650
	78,450	**39,150**	**15,650**		**78,450**	**39,150**	**15,650**

Balance Sheet As on 1 .4. 2018

Particulars	Amt (₹)	Amt (₹)	Particulars	Amt (₹)	Amt (₹)
Creditors		20,000	Cash		36,050
Workmen's Compensation Reserve	30,000		Bank		20,000
Add: Increase	10,000	40,000	Debtors	13,000	
Capitals :			Less: Provision	1,000	12,000
Bhavesh		46,950	Bills Receivable		10,000
Chandra		15,650	Stock		20,000
Alia's Capital		15,650	Accrued income		200
			Land & Building	30,000	40,000
			Add: Appreciation	10,000	
		1,38,250			**1,38,250**

Working Note :

Calculation of proportionate Capital

Bhavesh's capital after adjustment .... ₹ 33,950

Chandra's capital after adjustment .... ₹ 28,650

Total capital of Bhavesh and Chandra for 4/5 share .... ₹ 62,600

Total Capital of the firm should be .... ₹ 62,600 × 5/4 = 78,250

New profit sharing ratio of Bhavesh Chandra and Alia is 3:1:1

Bhavesh's new Capital = ₹ 78,250 × 3/5

= ₹ 46,950

Chandra's new Capital = ₹ 78,250 × 1/5

= ₹ 15,650

Alia's new Capital = ₹ 78,250 × 1/5

= ₹ 15,650

Treatment of Goodwill

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1.4.2018	Cash A/c.. Dr. To Goodwill A/c (Being cash brought by Alia as her share of goodwill)		20,000	20,000
1.4.2018	Goodwill A/c.. Dr. To Bhavesh's Capital A/c To Chandra's Capital A/c (Being amount of goodwill distributed among scarifying partners in sacrificing ratio)		20,000	15,000 5,000
1.4.2018	Bhavesh's Capital A/c .... Dr. Chandra's Capital A/c .... Dr. To Goodwill A/c (Being old goodwill written off from the books)		31,500 10,500	42,000

8 : The Balances sheet of Adil and Sameer who share profits in the ratio of 2:1 as on 31st March, 2018

Balance Sheet As on 31st March 2018

Particulars	Amt (₹)	Particulars	Amt (₹)
Capitals:		Land & Building	75,000
Adil	90,000	Investment	1,08,000
Sameer	48,600	Debtors	39,000
Investment Fluctuation Reserve	15,000	Goodwill	12,000
General Reserve	12,000	Profit and Loss A/c	12,000
Sundry Creditors	63,000	Advertisement Suspense	12,000
Bills Payable	60,000	Cash	30,600
	2,88,600		**2,88,600**

On 1.4.2018 Raju was admitted into partnership on the following terms :

1 Raju pays ₹ 30,000 as his capital for 1/4th share.

2 Raju pays ₹ 15,000 for Goodwill. Half of the sum is to be withdrawn by Adil and Sameer.

3. RDD is created @ 10%.

4. The value of land and building is appreciated by ₹ 30,000.

5. Investments were reduced by ₹ 22,500.

6. Sundry creditors are to be valued at ₹ 62,250.

7. Capitals of Adil and Sameer to be adjusted taking Raju's capital as the base. Adjustment of capitals is to be made through cash.

Prepare Revaluation Account, Partner's Capital Account and Balance Sheet of the New Firm as on 1st April, 2018

Solution :

Dr. **Revaluation Account** **Cr.**

Particulars		Amt (₹)	Particulars	Amt (₹)
To Provision to Doubtful Debts A/c		3,900	By Land and Building A/c	30,000
To Investment A/c (22500-15000)		7,500	By Creditors A/c	750
To Profit transferred to				
Adil's Capital A/c	12,900			
Sameer's Capital A/c	6,450	19,350		
		30,750		30,750

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

Particulars	Adil (₹)	Sameer (₹)	Raju (₹)	Particulars	Adil (₹)	Sameer (₹)	Raju (₹)
To Goodwill A/c	8,000	4,000		By Balance b/d	90,000	48,600	
ToAdvertisement Suspens A/c	8,000	4,000		By Revaluation A/c (Profit)	12,900	6,450	
To Cash A/c	5,000	2,500		By Cash A/c)			30,000
To Profit and Loss A/c	8,000	4,000		By Goodwill A/c	10,000	5,000	
To Cash A/c (Surplus)	31,900	19,550		By General Reserve A/c	8,000	4,000	
To Balance c/d	60,000	30,000	30,000				
	1,20,900	**64,050**	**30,000**		**1,20,900**	**64,050**	**30,000**

Balance Sheet As on 1 .4. 2018

Particulars	Amt (₹)	Amt (₹)	Particulars	Amt (₹)	Amt (₹)
Bill Payable		60,000	Cash		16,650
Sundry Creditors		62,250	Debtors	39,000	
			Less : Provision	3,900	35,100
Capital :			Investments		85,500
Adil	60,000		Land & Building		1,05,000
Sameer	30,000				
Raju	30,000	1,20,000			
		2,42,250			**2,42,250**

Note :

At the time of the admission it is desirable that the amount of goodwill which is already appearing in the books should always be written off among old partners in their old profit sharing ratio, when the new partner brings in cash for goodwill.

Working Note :

Adil's Share = 1/4

Remaining share = 1- 1/4 = 3/4

Adil's new share = 2/3 × 3/4 = 2/4

Sameer's new share = 1/3 × 3/4 = 1/4

New ratio = 2: 1:1

Calculation of new Capital of Partners.

2) Investment fluctuation reserve will be used at the time of reduction in the value of investments.

9: The following is the Balance Sheet of the firm Triveni Traders as on 31st March 2019 Narmada and Godavari are the partners of the firm who share profits and losses in the ratio of 3:2 respectively.

Balance Sheet As on 31st March 2019

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	49,600	Cash at bank	4,000
Capitals:		Building	20,000
Narmada	28,000	Machinery	28,000
Godavari	28,000	Furniture	1,200
		Stock	16,400
		Debtors	36,000
	1,05,600		**1,05,600**

They take Kaveri into partnership on 1.4.2019 the terms being:

1 Kaveri shall pay ₹ 4,000 as her share of Goodwill, the amount to be retained in business.

2 She shall bring in ₹ 12,000 as capital for 1/4 the share in the future profits.

3. The firm's assets were to be revalued as under:

Building ₹ 24,000, Machinery and Furniture to be reduced by 10%, a Provision of 5% on Debtors is to be made for doubtful debts; Stock is to be taken at a value of ₹ 20,000.

4. The excess of capital of Narmada and Godavari over their due proportion of sharing profits of the new firm is to be transferred to their respective loan account.

Prepare Profit and Loss Adjustment Account, Capital Account of Partners and New Balance sheet.

Soluation :

Dr. **Profit and Loss Adjustment A/c** **Cr.**

Galiabilities	Amt ₹	Amt ₹	Assets	Amt ₹	Amt ₹
To Machinery A/c		2,800	By Building A/c		4,000
To Furniture A/c		120	By Stock A/c		3,600
To R. D. D. A/c		1,800			
To Profit on Revaluation transferred to Capital A/c					
Narmada	1728				
Godavari	1152	2,880			
	7,600				**7,600**

Dr. **Partners Capital Account** **Cr.**

Particulars	Narmada (₹)	Godavari (₹)	Kaveri (₹)	Particulars	Narmada (₹)	Godavari (₹)	Kaveri (₹)
To Loan A/c	10,528	16,352		By Balance b/d	28,000	28,000	
To Balance c/d	21,600	14,400	12,000	By Goodwill A/c	2,400	1,600	
				By Bank A/c			12,000
				By P & L Adj. A/c (Profit)	1,728	1,152	
	32,128	**30,752**	**12,000**		**32,128**	**30,752**	**12,000**

Balance Sheet as on 1.4. 2019

Particulars	Amt (₹)	Amt (₹)	Particulars	Amt (₹)	Amt (₹)
Capital A/c :			Building	20,000	
Narmada		21,600	Add: Appreciation	4,000	24,000
Godavari		14,400	Machinery	28,000	
Kaveri		12,000	Less : Depreciation	2,800	25,200
Loan A/c :			Furniture	1,200	
Narmada		10,528	Less: Depreciation	120	1,080
Godavari		16,352	Stock	16,400	
Creditors		49,600	Add: Appreciation	3,600	20,000
			Debtors	36,000	
			Less R. D.D	1,800	34,200
			Cash at Bank		20,000
		1,24,480			**1,24,480**

10 : Kabir and Reshma are partners in a firm sharing profits and losses in the ratio of 4:1. Their Balance Sheet as on 31st March, 2019 is as follows.

Balance Sheet as on 31st March 2019

Galiabilities	Amt ₹	Amt ₹	Assets	Amt ₹	Amt ₹
Capitals :					
Kabir		1,05,000	Goodwill		66,000
Reshma		75,000	Sundry Debtors	30,000	
General Reserve		30,000	Less: RDD	3,000	27,000
Profit and Loss A/c		6,000	Land and Building		1,00,000
Creditors for goods		48,000	Bank		83,000
Creditors for expenses		12,000			
		2,76,000			**2,76,000**

On 1 April 2019 Suvarna is admitted in the partnership on the following terms :

1 Suvarna to bring for 20% share in future Profits ₹ 45,000.

2 Goodwill of the firm is valued at ₹ 75,000.

3. RDD is no longer required.

4. Rent receivable ₹ 4,500 to be adjusted in the books.

5. Capital Accounts of partners to be adjusted in new profit sharing ratio by opening Current Account **Prepare : 1) Profit and Loss Adjustment Account 2) Partner's Capital A/c and 3) New Balance Sheet.**

Solution :

Dr. **Profit and Loss Adjustment A/c** **Cr.**

Particulars	Amt (₹)	Amt (₹)	Particulars	Amt (₹)
To Revaluation Profit Transferred to Capital A/c:			By R.D.D.	3,000
Kabir	6000		By Rent Receivable	4,500
Reshma	1500	7500		
		7,500		**7,500**

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

Particulars	Kabir (₹)	Reshma (₹)	Suvarna (₹)	Particulars	Kabir (₹)	Reshma (₹)	Suvarna (₹)
To Balance c/d	1,44,000	36,000	45,000	By Balance b/d	1,05,000	75,000	
To Current A/c	3,000	49,500		By General Reserve A/c	24,000	6,000	
				By Profit and Loss A/c	4,800	1200	
				By Bank			45,000
				By Goodwill A/c	7200	1,800	
				By P and L Adj A/c (Profit)	6000	1,500	
	1,47,000	**85,500**	**45,000**		**14,700**	**85,500**	**45,000**

Balance Sheet as on 1.4. 2019

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital A/c		Goodwill	75,000
Kabir	1,44,000	Sundry Debtors	30,000
Reshma	36,000	Land and Building	1,00,000
Suvarna	45,000	Bank	1,28,000
Current A/c		Rent Receivable	4500
Kabir	3,000		
Reshma	49,500		
Creditors for goods	48,000		
Creditors for expenses	12,000		
	3,37,500		**3,37,500**

11: Tara, Chandra and Surya are partners in a firm of Accountants sharing profits and losses in the ratio of 2:3:1. Their Balance Sheet as on 31 st March 2018 on which date Akash is admitted as a partner as follows.

Balance Sheet As on 31st March 2018

Liabilities	Amount (₹)	Assets	Amount (₹)
Chandra's Capital	1,05,000	Furniture	30,000
Surya's Capital	66,000	Motor Car	60,000
		Cash	54,000
		Tara's Capital	27,000
	1,71,000		**1,71,000**

Akash is given 1/4th share of the profits and losses in the firm and the profit and loss sharing ratio among other partners to remain same as before. The following adjustments are to be made prior to Akash's admission:

1 The Motor Car is taken over by Chandra at a value of ₹ 75,000.

2 The Furniture is revalued at ₹ 54,000.

3. Goodwill account is raised in the books at ₹ 1,50,000.

4. Unrecorded debtors are ₹ 33,000.

5. Expenses incurred but not paid ₹ 9,000 are to be provided for.

6. Akash brings in ₹ 60,000 in cash as his capital contribution.

Pass necessary journal entries and prepare Balance Sheet of the firm after Akash's admission.

Solution :

Dr. **Journal** **Cr.**

Date	Particular	LF	Amt (₹)	Amt (₹)
1	Goodwill A/c. Dr.		1,50,000	
	To Tara's Capital A/c			50,000
	To Chandra's Capital A/c			75,000
	To Surya's Capital A/c			25,000
	(Being goodwill raised in the books)			
2	Motor Car A/c Dr.		15,000	
	Furniture A/c Dr.		24,000	
	Debtor A/c (unrecorded) Dr.		33,000	
	To Revaluation A/c			72,000
	(Being recording of unrecorded assets and appreciation of assets)			
3	Revaluation A/c Dr.		9,000	
	To Outstanding Expenses A/c			9,000
	(Being recording of outstanding expenses)			
4	Chandra's capital A/c Dr.		75,000	
	To Motor Car A/c			75,000
	(Being acquisition of Motor Car by Chandra)			
5	Cash A/c Dr.		60,000	
	To Akash's Capital A/c			60,000
	(Being cash brought in by Akash)			
6	Revaluation A/c Dr.		63,000	
	To Tara's Capital A/c			21,000
	To Chandra's Capital A/c			31,500
	To Surya's Capital A/c			10,500
	(Being distribution of revaluation profits done)			

Balance Sheet As on 31st March, 2018

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Accounts :		Goodwill	1,50,000
Tara	44,000	Furniture	54,000
Chandra	1,36,500	Debtors	33,000
Surya	1,01,500	Cash	1,14,000
Akash	60,000		
Outstanding Expenses	9,000		
	3,51,000		**3,51,000**

12 : **Pravin and Deepak were partners in a firm sharing profits in the ratio of 3:1. Their Balance Sheet as on 31 st March, 2019 on which date Akash is admitted as a partner is as follows.**

Balance Sheet as on 31st March 2019

Liabilities	Amt (₹)	Amt (₹)	Assets	Amt (₹)	Amt (₹)
Creditors		60,000	Debtor	1,00,000	
Bills Payable		2,000	Less: Provisions	10,000	90,000
Reserve Fund		32,000	Stock		60,000
Outstanding Salary		6,000	Bills Receivable		20,000
Capital Account:			Patents		2,000
Pravin	1,20,000		Machinery		80,000
Deepak	40,000	1,60,000	Cash		8,000
		2,60,000			**2,60,000**

They admitted Sandeep as a new partner on 1st Apri 2019. New Profit sharing ratio is agreed 3:2:3, Sandeep brings ₹ 96,000 as capital

Adjustments :

1 Sandeep paid ₹ 32,000 as his share of goodwill privately to the partners.

2. Provision for doubtful debts is to be reduced by ₹ 4,000.

3 Unrecorded Computer valued at ₹ 4,800 not appearing in the books of the firm. It is now to be recorded.

4 Patents are useless.

Prepare : Revaluation Account, Capital A/cs and New Balance Sheet.

Solutions :

Dr. **Revaluation Account** **Cr.**

Particulars		Amt (₹)	Particulars	Amt (₹)
To Patents A/c		2,000	By Provision for doubtful Debts A/c	4,000
To Profit transferred to Capital A/c :			By Computer A/c (unrecorded)	4,800
Pravin	5100			
Deepak	1700	6800		
		8,800		**8,800**

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

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance c/d	1,49,100	ByBalance b/d	1,20,000
		By Reserve Fund	24,000
		By Revaluation A/c	5100
	1,49,100		**1,49,100**

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

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance c/d	49,700	By Balance b/d	40,000
		By Reserve Fund	8,000
		By Revaluation A/c	1700
	49,700		**49,700**

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

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance c/d	96,000	By Bank A/c	96,000
	96,000		**96,000**

Balance Sheet as on 1st April 2019

Galiabilities	Amt ₹	Amt ₹	Assets	Amt ₹	Amt ₹
Creditors		60,000	Debtors	1,00,000	94,000
Bills payable		2,000	Less: RDD	6,000	60,000
Outstanding Salary		6,000	Stock		20,000
Capital A/c :			Bills Receivable		80,000
Praveen		1,49,100	Machinery		4,800
Deepak		49,700	Computer		1,04,000
Sandeep		96,000	Cash		
	3,62,800			**3,62,800**	

13: Radha And Vikas were in partnership sharing profits & losses in proportion of 3:2 respectively. Their Balance Sheet as on 31 st March 2019 stood as follows.

Balance Sheet As on 31st March 2019

Liabilities	Amt (₹)	Amt (₹)	Assets	Amt. (₹)	Amt. (₹)
Capital A/cs :			Premises		2,80,000
Radha	2,00,000		Furniture and Fixture		22,800
Vikas	1,20,000	3,20,000	Stock		54,000
Current A/cs. :			Debtors		18,200
Radha			Cash at bank		2,200
Vikas	2,400	5,200			
Loan from Balu	2,800	40,000			
Creditors		12,000			
		3,77,200			**3,77,200**

On 1st April 2019 Om was admitted to the firm on the following terms.

1 Premises were to be valued at ₹ 3,40,000 and Furniture and Fixtures at ₹ 20,800. A provision for bad debts of ₹ 2,000 was to be made. Stock should be revalued at ₹ 58,000.

2. Om Should bring in ₹ 80,000 as Capital and ₹ 20,000 as his share of goodwill and it was retained in the business and he should be given one-fourth share in the future profits.

3 The loan from Balu was repaid through NEFT.

Prepare Profit and Loss Adjustment Account, Partners Current Accounts and Balance sheet of the New firm.

Solution :

Dr. Profit and Loss Adjustment Account Cr.

Particulars		Amt. (₹)	Particulars	Amt. (₹)
To Furniture A/c		2,000	By Premises A/c	60,000
To R.D.D A/c		2,000	By Stock A/c	4,000
To Profit on Revaluation transferred to Current A/c :				
Radha	36,000			
Vikas	24,000	60,000		
		64,000		**64,000**

Dr. Partner's Current Account Cr.

Paritculars	Radha (₹)	Vikas (₹)	Particulars	Radha (₹)	Vikas (₹)
To Balance c/d	50,400	34,800	By Balance b/d	2400	2800
			By Goodwill A/c	12,000	8000
			By P & L Adj. A/c (Profit)	36,000	24,000
	50,400	**34,800**		**50,400**	**34,800**

New Balance Sheet as on 1st April, 2019

Liabilities	Amt.(₹)	Amt.(₹)	Assets	Amt.(₹)	Amt.(₹)
Capital A/c :			Premises	2,80,000	
Radha	2,00,000		Add Appreciation	60,000	3,40,000
Vikas	1,20,000		Furniture and Fixtures	22,800	
Om	80,000	4,00,000	Less : Depreciation	2,000	20,800
Current A/c :			Stock	54,000	
Radha		50,400	Add : Appreciation	4,000	58,000
Vikas		34,800	Debtors	18,200	
Creditors		12,000	Less : R.D.D	2,000	16,200
			Cash at bank		62,200
		4,97,200			**4,97,200**

14 : Mr. Sahil & Mrs. Vanita were in Partnership sharing profits & losses in the proportion of 3:1 respectively. Their Balance Sheet as on 31 st March 2019 of their business was as follows.

Balance Sheet as on 31st March. 2019

Liabilities	Amount (₹)	Assets	Amount (₹)
Capitals :		Building	90,000
Sahil	90,000	Stock	60,000
Vanita	75,000	Debtors	46,500
Sundry Creditors	31,500	Cash	6,000
General Reserve	6,000		
	2,02,500		**2,02,500**

Dinesh is admitted as a partner in the firm on the following terms :

1 He shall have 1/4 the share in profits of the firm.

2. Dinesh shall bring in cash ₹ 60,000 as his capital and ₹ 30,000 as his share of goodwill.

3 Building overvalued by ₹12,000 and the stock is undervalued by 20% in the books, these assest are to be adjusted at their proper values.

4. Provided Reserve for Doubtful Debts ₹ 1,200 on Debtors.

You are required to prepare Revaluation A/c. Capital accounts of partners and Balance Sheet of the firm after admission of Dinesh.

Solution :

In the Books of Partnership firm

Revaluation Account

Dr. | | | **Cr.**

Particulars		Amount (₹)	Particulars	Amount (₹)
To Building		12,000	By Stock A/c	15,000
To R.D.D		1,200		
To Profit on Revaluation transferred to Capital A/c				
Sahil	1350			
Vikas	450	1,800		
		15,00		**15,000**

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

Particulars	Sahil (₹)	Vanita (₹)	Dinesh (₹)	Particulars	Sahil (₹)	Vanita (₹)	Dinesh (₹)
To Balance c/d	1,18,350	84,450	60,000	By Balance b/d	90,000	75,000	
				By General Reserve A/c	4,500	1,500	
				By Cash A/c			60,000
				By Goodwill A/c	22,500	7,500	
				By Revaluation A/c (Profit)	1,350	450	
	1,18,35	**84,450**	**60,000**		**1,18,350**	**84,450**	**60,000**

M/s. Sahil, Vanita and Dinesh

Balance Sheet as on 1.4. 2019

Liabilities	Amt (₹)	Amt (₹)	Assets	Amt (₹)	Amt (₹)
Capital A/c			Building	90,000	
Sahil	1,18,350		Less : Depreciation	12,000	78,000
Vanita	84,450		Stock	60,000	
Vikas	60,000	2,62,800	Add : Appreciation	15,000	75,000
Sundry Creditors		31,500	Debtors	46,500	
			Less : R.D.D	1,200	45,300
			Cash at Bank		96,000
		2,94,300			**2,94,300**

EXERCISE - 3

Q.1 Objetive type questions.

(A) Select appropriate alternatives from those given below and rewrite the sentences.

1. Anuj and Eeshan are two partners sharing profits and losses in the ratio of 3:2. They decided to admit Aaroh for 1/5th share, the new profit sharing ratio will be ....
   (a) 12:8:5 (b) 4:3:1 (c) 12:8:1 (d) 12:3:1
2. Excess of proportionate capital over actual capital represents.......................
   (a) Equal capital (b) Surplus Capital (c) Deficit Capital (d) Gain
3. ....is credited when unrecorded asset is brought into business.
   (a) Revaluation Account (b) Balance Sheet (c) Trading Account
   (d) Partners capital Account.
4. When goodwill is withdrawn by the partner ....account is credited.
   (a)Revaluation (b) Cash / Bank (c) Current (d) Profit and Loss Adjustment
5. If asset is taken over by the partner ....account is debited.
   (a) Revaluation (b) Capital (c) Asset (d) Balance Sheet

(B) Write a word/ phrase / term which can substitute each of the following statements.

1 Method under which calculation of goodwill is done on the basis of extra profit earned above the normal profit.
2 An account opened to adjust the value of assets and liabilities at the time of admission of a partner.
3 Reputation of business measured in terms of money.
4 The ratio in which general reserve is distributed to the old partners.
5 Name the method of the treatment of goodwill where new partner will bring his share of goodwill in cash.
6 The proportion in which old partners make a sacrifice.
7 Capital employed × NRR /100 =
8 An Account which is debited when the partner takes over the asset.
9 Profit and Loss account balance appearing on liability side of Balance Sheet.
10 Old ratio - New ratio =

(C) State True or False with reasons

1 New Partner can bring capital in cash or kind.
2 When goodwill is paid privately to the partners it is not recorded in the books.
3 Gain ratio is calculated at the time of admission of partner.
4 Revaluation profit is distributed among all partners including new partner.
5 Change in relationship between the partners is called as Reconstitution of partnership.
6 New partner always brings his share of goodwill in cash .
7 When the goodwill is written off goodwill account is debited.

8 New ratio minus old ratio is equal to sacrifice ratio.

9 Usually when a new partner is admitted in the firm there will be an increase in the capital of the firm.

10 Cash/ Bank Account is credited when goodwill is withdrawn by the old partners.

(D) Find the Odd one.

1. General reserve, Creditors, Machinery, Capital
2. Decrease in Furniture, Patents written off, Increase in Bills Payable, RDD written off.
3. Super profit method, Valuation method, Average profit method, Fluctuating capital method.

(E) Calculate the following

1. A and B are partners in a firm sharing profits and losses in the ratio of 1:1. C is admitted. A surrenders 1/4th share and B surrenders 1/5th of his share in favour of C. Calculate the new profit sharing ratio.
2. Anika and Radhika are partners sharing profits in the ratio of 5:1. They decide to admit Sanika in the firm for 1/5th share. calculate the sacrifice ratio of Anika and Radhika
3. Pramod and Vinod are partners sharing profits and losses in the ratio 3:2. After admission of Ramesh the new ratio of Pramod, Vinod and Ramesh is 4:3:2. Find out the sacrifice ratio.

(F) Answer the following.

1 What is Revaluation Account?

2 What is meant by Reconstitution of partnership?

3 Why is new partner admitted?

4 What is sacrifice ratio?

5 What do you mean by raising the goodwill at the time of admission of a new partner?

6 What is super profit method of calculation of goodwill?

7 When is the ratio of sacrifice calculated for distribution of goodwill?

8 What is the treatment of accumulated profits at the time of admission of a partner?

9 State the ratio in which old partner's capital A/c will be credited for goodwill when the new partner does not bring his share of goodwill in cash.

10. What does the excess of debit over credits in Profits and Loss Adjustment account indicate?

(G) Complete the table

1. $\boxed{\qquad} = \dfrac{\text{Total profit}}{\text{Number of years.}}$

2. Normal Profit $= \boxed{\qquad} \times \dfrac{\text{NRR}}{100}$

3. Stock shown in Balance Sheet → Stock undervalued by 20% → Cost of Stock

Stock shown in Balance Sheet	Stock undervalued by 20%	Cost of Stock
₹ 1,60,000		

Practical Problems

1. **Vikram and Pradnya share profits and losses in the ratio 2:3 respectively. Their balance sheet as on 31st March 2018 was as under.**

Balance Sheet as on 31st March, 2018

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	1,05,000	Cash	7,500
Capitals :		Land & Building	37,500
Vikram	75,000	Plant	45,000
Pradnya	75,000	Furniture	3,000
		Stock	75,000
		Debtors	87,000
	2,55,000		**2,55,000**

They agreed to admit Avani as a partner on 1st April 2018 on the following terms:

1 Avani shall have 1/4th share in future profits.

2. He shall bring ₹ 37,500 as his capital and ₹ 30,000 as his share of goodwill.

3. Land and building to be valued at ₹ 45,000 and furniture to be depreciated by 10%.

5. Provision for bad and doubtful debts is to be maintained at 5% on the Sundry Debtors.

6. Stocks to be valued ₹ 82, 500.

The capital A/c of all partners to be adjusted in their new profit and loss ratio and excess amount be transferred to their loan accounts.

Prepare Profit and Loss Adjustment Account, Capital Accounts and New Balance Sheet.

(Ans: (Revaluation Profit 10,350, Capital Balance - Vikram 97,140, Pradnya 93,210, Avani 37,500, Balance Sheet Total - 3,32,850)

2. **Amalendu and Sameer share profits and losses in the ratio 3:2 respectively Their balance sheet as on 31st March 2017 was as under.**

Balance Sheet as on 31st March, 2017

Liabilities	Amount (₹)	Assets	Amount (₹)
Sundry Creditors	10,000	Cash at bank	12,000
Amlendu capital	60,000	Sundry debtors	24,000
Sameer capital	40,000	Land & Building	50,000
General reserve	20,000	Stock	16,000
		Plant and machinery	20,000
		Furniture & fixture	8,000
	1,30,000		**1,30,000**

On 1st April 2017 they admit Paresh into partnership. The term being that:

1 He shall pay ₹ 16,000 as his share of Goodwill 50% amount of Goodwill shall be withdrawn by the old partners.

2 He shall have to bring in ₹ 20,000 as his Capital for 1/4 share in future profits.

3. For the purpose of Paresh's admission it was agreed that the asssets would be revalued as follows.

A) Land and Building is to be valued at ₹ 60,000

B) Plant and Machinery to be valued at ₹16,000

C) Stock valued at ₹ 20,000 and Furniture and Fixtures at ₹ 4,000

D) A Provision of 5% on Debtors would be made for Doubtful Debts.

Pass The necessary Journal Entries in the Books of a New Firm.

3. Vasu and Viraj Share Profits and Losses in the Ratio of 3:2 respectively Their Balance Sheet as on 31st March 2019 was as under

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Assets	Amount (₹)
Sundry Creditors	45,000	Cash at bank	750
General Reserve	30,000	Sundry debtors	66,750
Capital :		Stock	25,500
Vasu	1,08,000	Investment	36,000
Viraj	72,000	Plant	90,000
		Building	36,000
	2,55,000		**2,55,000**

They admit Hari into Partnership on 1.4. 2019 the terms being that :

1 He shall have to bring in ₹ 60,000 as his Capital for 1/4 share in future profits

2 Value of Goodwill of the Firm is to be fixed at The average profits for the last three years. The Profit were.

2009-10 ₹ 48,000,

2010-11 ₹ 81,000

2011-12 ₹ 73,500

Hari is unable to bring the value of the Goodwill in cash. It is decided to raise the Goodwill in the books of accounts.

3. Reserve for Doubtful Debts is to be created at ₹ 1,500.

4. Closing Stock is valued at ₹ 22, 500

5. Plant and Building is to be depreciated by 5%.

Prepare Profit and Loss Adjustment A/c, Capital Accounts of Partners And Balance Sheet of the New Firm.

(Ans : Revaluation Loss 10,800, Capital balances - Vasu 1,60,020, Viraj 1,06,680, Hari 60,000, Balance sheet total - 3,71,700)

4. **Mr. Deep & Mr. Karan were in Partnership sharing Profits & Losses in the proportion of 3:1 respectively. Their Balance Sheet On 31st March 2018 Stood as follows.**

Balance Sheet as on 31st March, 2018

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Sundry Creditors		40,000	Cash		40,000
Bill Payable		10,000	Sundry debtors		32,000
Bank Overdraft		11,000	Land & Building		16,000
Capital A/c:			Stock		20,000
Deep	60,000		Plant and machinery		30,000
Karan	20,000	80,000	Furniture		11,000
General Reserve		8,000			
		1,49,000			**1,49,000**

They admit Shubham into Partnership on 1 April, 2018 The term being that :

1. He shall have to bring in ₹ 20,000 as his capital for 1/5 Share in future profits & 10,000 as his share of Goodwill.
2. A Provision for 5% doubtful debts to be created on Sundry Debtors.
3. Furniture to be depreciated by 20%
4. Stock should be appreciated by 5% and Building be appreciated by 20%
5. Capital A/c of all partners be adjusted in their new profit sharing ratio through cash account.

Prepare Profit and Loss Adjustment A/c , Partner's capital A/c, Balance sheet of new firm.

(Ans : Revaluation Profit - 400, Cash transferred to Deep 13800, to Karan 4,600, Balance Sheet total 1,61,000)

5. **Mr. Kishor & Mr. Lal were in partnership sharing profits & losses in the proportion of 3/4 and 1/4 respectively.**

Balance Sheet as On 31 March 2018

Galiabilities	Amt ₹	Amt ₹	Assets	Amt ₹	Amt ₹
Creditors		1,20,000	Land and Building		75,000
General Reserve		12,000	Furniture		6,000
Capital A/c:			Stock		60,000
Kishor	90,000		Debtors		60,000
Lal	48,000	1,38,000	Bills Receivable		39,000
			Cash at Bank		30,000
		2,70,000			**2,70,000**

They decided to admit Ram on 1 April 2018 on following terms:

1. He should be given 1/5th share in profit and for that he brought in ₹ 60,000 as capital through RTGS.
2. Goodwill should be raised at ₹ 60,000
3. Appreciate Land and Building by 20%

4. Furniture and Stock are to be depreciated by 10%
5. The Capitals of all partners should be adjusted in their new profit sharing ratio through Bank A/c.

   Pass necessary Journal Entries in the books of the Partnership firm and a Balance sheet of new firm.

6. Vrushali and Leena are equal partners in the business. Their Balance sheet as on 31 March 2018 stood as under.

Balance Sheet as on 31 March 2018

Liabilities	Amt. (₹)	Amt. (₹)	Assets	Amt. (₹)	Amt. (₹)
Sundry Creditors_	90,000	90,000	Cash in Bank		62,000
Capitals :			Debtors	31,000	
Vrushali	45,000	75,000	Less: R.D.D	1,000	30,000
Leena	30,000		Building		55,000
General Reserves		18,000	Machinery		24,000
			Bills Receivable		12,000
		1,83,000			**1,83,000**

They decided to admit Aparna on 1st April 2018 on the following terms:

1. The Machinery and Building be depreciated by 10%. Reserve for Doubtful Debts to be increased by ₹ 5,000
2. Bills Receivable are taken over by Vrushali at the discount of 10%
3. Aparna should bring ₹ 60,000 as capital for her 1/4 th share in future profits.
4. The capital accounts of all the partners be adjusted in proportion in the new profit sharing ratio by opening current accounts of the partners.

   Prepare Profit and Loss Adjustment A/c, Partner's capital A/c, Balance sheet of new firm.

   (Ans : Revaluation loss - 14,100, Current A/c Vrushali 53,850, Leena 58,050, Balance Sheet 3,30,000)

7. The balance sheet of Medha and Radha who share profit and loss in the ratio 3:1 is as follows :

Balance Sheet as on 31 March 2018

Liabilities	Amount (₹)	Assets	Amount (₹)
Sundry Creditors	80,000	Cash	78,000
Bills Payable	20,000	Sundry debtors	64,000
Bank overdraft	20,000	Stock	40,000
Capital A/c :		Plant & Machinery	60,000
Medha	1,20,000	Furniture	22,000
Radha	40,000	Land and Building	32,000
General reserve	16,000		
	2,96,000		**2,96,000**

They decided to admit krutika on 1st April 2018 on the following terms:

1. Krutika is taken as partner on 1st April 2017 she will pay 40,000 as her capital for 1/5 share in future profits and ₹ 2,500 as goodwill
2. A 5% provision for bad and doubtful debt be created on debtors.
3. Furniture be depreciated by 20%.
4. Stocks be appreciated by 5% and plant & machinery by 20%
5. The Capital accounts of all partners be adjusted in their new profit sharing ratio by adjusting amount through loan.
6. The new profit sharing ratio will be 3/5 1/5 1/5 respectively.

   You are required to prepare profit and loss adjustment A/c, Partner's capital A/c, Balance Sheet of the new firm.

   (Ans: Revaluation Loss 4,400, Current A/c Medha 10,575, Radha 3,525, Balance Sheet 3,34,100)

8. The Balance Sheet of Sahil and Nikhil who share profits in the ratio of 3:2 as on 31st March, 2017

Balance Sheet as on 31st March 2017

Liabilities	Amt. (₹)	Amt. (₹)	Assets	Amt. (₹)	Amt. (₹)
Creditors		60,000	Furniture		60,000
Capitals:			Building		72,000
Sahil	80,000		Debtors		40,000
Nikhil	1,00,000	1,80,000	Closing Stock		48,000
			Cash in Hand		20,000
		2,40,000			**2,40,000**

Varad admitted on 1St April 2017 on the following terms :

1. Varad was to pay 1,00,000 for his share of capital.
2. He was also to pay 40,000 as his share of goodwill.
3. The new profit sharing ratio was 3:2:3
4. Old partners decided to revalue the assets as follows:

   Building 1,00,000, Furniture- 48,000, Debtors - 38,000 (in view of likely bad debts)
5. It was found that there was a liability for 3,000 for goods in March 2017 but recorded on 2nd April 2017 .

   You are required to prepare :

   a) Profit and Loss adjustment accounts

   b) Capital accounts of the partners

   c) Balance sheet after the admission of Varad.

   (Ans : Revaluation Profit ₹ 11,000 Capital A/c Sahil ₹ 1,10,600, Nikhil ₹ 1,20,400, Varad ₹ 1,00,000, Balance sheet ₹ 3,94,000)

9. Mr. Amit and Baban share profits and losses in the ratio 2:3 respectively. Their balance sheet as on 31st March 2018 was as under.

Balance Sheet as On 31st March 2018

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	1,40,000	Cash	110,000
Capital :		Land and Building	50,000
Amit	100,000	Plant	60,000
Baban	100,000	Furniture	4,000
		Stock	100,000
		Debtors	16,000
	3,40,000		**3,40,000**

They agreed decided to admit Kamal on 1st April 2018 on following terms:

1. Kamal shall have 1/4th share in future profits.
2. They agreed to admit Kamal as a partner on 1st April 2018 on the following terms:
3. She shall bring 50,000 as her capital and 40,000 as her share of goodwill.
4. Land and building to be valued at 60,000 and furniture to be depreciated by 10%
5. Provision for bad and doubtful debts is tobe maintained at 5% on the sundry debtors.
6. Stocks to be valued 1,10,000

The capital A/c of all partners to be adjusted in their new profit and loss ratio and excess amount be transferred to their loan accounts.

Prepare profit and loss adjustment A/c, Capital A/cs, and New Balance Sheet

(Ans : Revaluation Profit 18,800, Loan A/c Amit 56,000, Baban 45,280, Balance Sheet total 4,48,800)

10. The following is the Balance Sheet of Om and Jay on 31st March 2018, they share profits and losses in the ratio 3:2

Balance Sheet as On 31st March 2018

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	30,000	Cash	3,000
Capital A/c		Building	15,000
Om	21,000	Machinery	21,000
Jay	21,000	Furniture	900
Current A/c		Stock	12,300
Om	3,750	Debtors	27,000
Jay	3,450		
	79,200		**79,200**

They take Jagdish into partnership on 1st April 2018 the terms being

1. Jagdish should pay 3,000 as his share of Goodwill. 50% of goodwill withdrawn by partners in cash.
2. He should bring 9,000 as capital for 1/4th share in future profits.
3. Building to be valued at 18,000, Machinery and Furniture to be reduced by 10%
4. A Provision of 5% on debtors to be made for doubtful debts.
5. Stock is to be taken at the value of 15,000.

   Prepare profit and loss A/c, Partner's Current A/c, Balance Sheet of the new firm.

(Ans : Revaluation Profit ₹ 2,160, Current A/c Om ₹ 5,946, Jay ₹ 4,914, Balance Sheet total ₹ 91,860)

Activity :

1. Find out the reasons for the revaluation of assets and liabilities at the time of admission of a partner.
2. Visit any Bank and enquire about procedure for changes in the signatories of Partnership due to Admission of a Partner.

4 Reconstitution of Partnership (Retirement of Partner)

Contents

Competency Statement

❏ *The student's will be able to :*

- *Understand the meaning of retirement of partners in partnership business.*
- *Learn to calculate various ratios connected to retirement of partnership.*
- *Understand the treatment of goodwill*
- *Know the effects of reserves, accumulated Profit / Loss*
- *Learn the effects of revaluation of assets and reassessment of liabilities.*
- *Understand the adjustments to be made for remaining partner's capital.*
- *To know the various modes of final payment to be made to retiring partner.*

4.1 Introduction :

When one member ceases to be a partner and the remaining partners continue to carry on the business of the firm it is called as Retirement of a Partner. It is one of the modes of reconstitution of partnership. The new partnership business will continue with the remaining partners and the retiring partner will get the amount payable to him after considering net balance of Capital and Current Account, his share of Profit or Loss on revaluation of assets and liabilities, his share of accumulated profit, goodwill etc. Partner may retire from the business due to old age, misunderstandings amongst the partners, loss in business or want to start new business venture etc.

A partner may retire

1. By giving notice to remaining partners in the case of partnership at will
2. In accordance with the agreement by the partners
3. With the consent of all partners.

4.2 New Ratio

The ratio in which the continuing partners decide to share the future Profits and Losses is known as New Profit Sharing Ratio.

Illustrations:

1. A, B and C share profits and losses in the ratio of 4:2:1, if B retires what will be the new ratio?
   Ans. The new ratio of A and C will be 4:1. It is cancelling by canceling B's share.

2. X. Y. and Z share profits and losses equally. Z retires and his share is acquired by X and Y in the ratio of 3:1. Calculate New Profit sharing ratio.

   Ans: Calculation of New Profit Sharing Ratio

   Old Ratio = X : Y: Z = 1:1:1

   Z's share is acquired by X and Y in the ratio of 3:1

   X's gain = 1/3 × 3/4 = 3/12

   Y's gain = 1/3 × 1/4 = 1/12

   X's New Share = 1/3 + 3/12 = 7/12

   Y's New Share = 1/3 + 1/12 = 5/12

   New Profit Sharing Ratio of X and Y = 7:5

4.3 Gain / Benefit Ratio

The ratio in which the continuing partners acquire the retiring partner's share is called gain ratio. It is normally used to write off goodwill created or raised to the extent of retiring partner's share only.

Gain Ratio = New Ratio - Old Ratio

Illustration 1:

A, B and C are sharing Profits and Losses in the ratio of 4:3: 2. B retires and A and C share future profits equally. Calculate gain ratio.

Gain Ratio = New Ratio - Old Ratio

A's Gain = 1/2 - 4/9 = 1/18

C's Gain = 1/2 - 2/9 = 5/18

Gain Ratio of A and C is 1:5

Illustration 2:

X, Y and Z are sharing Profits and Losses in the ratio of 4:3:2. Z retires the new ratio of X and Y is 3 :2. Calculate the gain ratio.

X's Gain = 3/5 - 4/9 = 7/45

Y's Gain = 2/5 - 3/9 = 3/ 45

Gain Ratio of × and Y is 7:3

Illustration 3:

P,Q, and R and partners sharing Profits in the ratio of 2 :2:1. Q retired. Calculate the gain ratio.

Old Ratio = 2:2:1

New Ratio = 2:1

P' s gain = 2/3 - 2/5 = 4/15

R's gain = 1/3 - 1/5 = 2/ 15

Gain Ratio = 4:2 i.e. 2:1

4.4 Treatment of goodwill

Sr. No.	Transaction	Journal Entry
1.	When goodwill of the entire firm is raised and retained in the business	Goodwill A/c ....Dr. To All partner's capital A/c (old profit sharing ratio) Goodwill will appear in new Balance Sheet.
2.	When goodwill of entire firm is raised and then written off	a) When goodwill is raised Goodwill A/c ....Dr. To all Partners' capital A/c (Old Profit sharing ratio) b) When goodwill is written off Continuing partner's Capital A/c ....Dr. (New profit sharing ratio) To Goodwill A/c Goodwill will not appear in New Balance Sheet.
3.	When goodwill is raised to the extent of retiring partner's share and retained in business.	Goodwill A/c ....Dr. To Retiring Partners' capital A/c Goodwill will appear in New Balance Sheet to that extent.
4.	When goodwill is raised to the extent of Retiring partner's share and then written off	1) Goodwill A/c ....Dr. To Retiring Partner's capital A/c 2) Continuing partner's capital A/c.........................Dr. To Goodwill A/c (Gain ratio) Goodwill will not appear in New Balance Sheet
5.	In case goodwill already appears in the old Balance Sheet.	The difference in goodwill amount can be shown either in Profit and Loss adjustment account/ Revaluation A/c in Md Ratio or in Partner's capital / Current Account.

4.5 Transfer of Reserve Fund or General Reserve / Accumulated Profit or loss

On Retirement of a partner any reserve, accumulated profit/ loss is transferred to Capital or Current A/c in the their profit sharing ratio to all partners or only share of retiring partner to his Capital / Current A/c, as per the instructions given in the problem.

If any type of reserve / accumulated profit is transferred the entry will be :

All types of Reserves / Accumulated profits A/c ....Dr.

To Partner's Capital / Current A/c

(Being balance transfer to all partners including retiring partner in their profit sharing ratio)

Any accumulated loss appearing on asset side of Balance Sheet is transferred to all partners in their profit sharing ratio. the entry will be:

All Partners Capital / Current A/c ....Dr.

To Profit and Loss A/c
(Being accumulated loss debited to all partner's capital/ current A/c)

4.6 Revaluation of Assets and re-assessment of liabilities.

When the partner retires from the business it is desirable to revalue assets and liabilities to bring their values at the correct position. The benefit of such change in the value of Assets and Liabilities will be given to the retiring partner as well. To Show the changes in the value of Assets and liabilities Revaluation Account is opened. After showing all the effects in Revaluation Account/Profit and Loss Adjustment account the balance appearing in the account will be transferred to partner's capital account in their profit Sharing Ratio.

(Note : For more details about effects in revaluation account and specimen of Revaluation account/ Profit and Loss Adjustment Account please refer the previous topic (i.e. admission of partner)

4.7 Adjustment of Capital :

On retirement of a partner the continuing partner may decide to rearrange their capital in their new profit sharing ratio. For this Purpose.

i) The total capital of the firm is divided among the partners in their new profit sharing ratio.

ii) New capital balance is then compared with the latest capital balance of each partner.

iii) Surplus or Deficit in individual Capital A/c is calculated.

iv) Such Surplus may be withdrawn by the partner (i.e. paid to partner) or transferred to Current A/c or Loan A/c. Deficit may be brought in by the partner or transferred to Current A/c or Loan A/c

Sr. No.	Transaction	Journal Entry
1.	If Surplus is paid back to continuing partners	Continuing Partners Capital A/c ....Dr. To Cash / Bank A/c.
2.	If Surplus on capital account is not paid but transferred to Loan Account or Current Account.	Continuing Partners Capital A/c................................Dr. To Continuing Partner's Current / Loan A/c.
3.	If continuing partner brings cash towards his deficiency in the capital account	Cash / Bank A/c ....Dr. To Continuing Partner's Capital A/c
4	If deficit is transferred to Loan Account or Current Account	Continuing Partners Current / Loan A/c ....Dr. To Continuing Partners capital A/c

Ascertainment of Retiring Partner's share of profit on retirement

If a partner retires from firm on any day during accounting year, then it is necessary to compute profit from date of last Balance Sheet to date of retirement.

Profit of current year is calculated either on the basis of the last year's profit or average profit. Proportionate profit for the part of year (i.e. from date of Balance Sheet to date of retirement) is calculated. Share of Retiring Partner is calculated on the basis of proportionate Profit.

For transfer of such Profit or Loss following journal entries are drafted in the books of the firm.

<u>Transfer of Profit to Retiring Partner's Capital / Current A/c</u>

Profit and Loss Suspense A/c ....Dr.

To Retiring Partner's Capital /Current A/c. Transfer of

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

To Profit and Loss Suspense A/c

4.8 Total Payable amount to retiring partner

Sr. No.	Transaction	Journal Entry
1.	Lumpsum : The entire amount payable to retiring partner is paid in one installment at a time.	Retiring Partner's Capital A/c ....Dr. To Cash / Bank A/c.
2. (A)	Installment: The amount due to retiring partner may be paid and Balance is transferred to Loan A./c.	Retiring Partner's Capital A/c ....Dr. To Retiring Partner's Loan A/c.
2. (B)	When interest charged on Loan Account	Interest A/c ....Dr. To Retiring Partner's Loan A/c
2. (C)	When interest paid in cash	Retiring Partner's Loan A/c ....Dr. To Bank A/c
3.	If the total amount due to retiring Partner is transferred to loan account	Retiring Partner's Capital A/c ....Dr. To Retiring Partner's Loan A/c
4.	If amount due to retiring partner is partly paid in cash and balance due transferred to Loan Account	Retiring Partner's Capital A/c ....Dr. To Cash/ Bank A/c To Retiring Partner's Loan A/c

Illustrations

1. Given below is a Balance Sheet of Raja, Rani and Pradhan who were partners in a firms sharing profits and losses in the ratio 5:3:2
Their Balance Sheet as on 31st March 2019 was as follows.

Balance Sheet as on 31-03-2019

Liability	Amt (₹)	Assets	Amt (₹)
Creditors	11,200	Cash	7,600
Bank Overdraft	9,700	Debtors	18,000
Reserve Fund	15,000	Stock	17,500
Capital A/c:		Machinery	30,000
Raja	42,000	Land	70,000
Rani	37,000	Furniture	5,000
Pradhan	33,200		
	1,48,100		**1,48,100**

On 1st April 2018 Pradhan retired on the following terms.

1. Goodwill of the firm will be raised in the Books at ₹ 20,000
2. Stock be reduced by 10 % and Furniture by 5% and Machinery by 11%
3 R.B.D.D. be maintained at 5% on debtors.
4. ₹ 200 to be written off from Creditors.
5. Out of the amount due to Pradhan ₹ 5000 to be paid by cash and remaining amount to be transferred to his loan account.

Prepare a) Profit and Loss adjustment Account, Partner's capital A/c, Balance sheet of new firm.

Solution :

In the Books of Partnership firm

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

Particulars	Amt (₹)	Particulars	Amt (₹)	Amt (₹)
To Stock A/c	1,750	By Creditors A/c		200
To Furniture A/c	250	By Partners Capital A/c (loss)		
To R.B.D.D. A/c	900	Raja	3,000	
To Machinery A/c	3,300	Rani	1,800	6,000
		Pradhan	1,200	
	6,200			**6,200**

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

Particular	Raja (₹)	Rani (₹)	Pradhan (₹)	Particulars	Raja (₹)	Rani (₹)	Pradhan (₹)
To P & L Adj. A/c (Loss)	3,000	1,800	1,200	By Balance b/d	42,000	37,000	33,200
				By Reserve Fund A/c	7,500	4,500	3,000
To Cash A/c			5,000	By Goodwill A/c	10,000	6,000	4,000
To Pradhan's Loan A/c			34,000				
To Balance c/d	56,500	45,700					
	59,500	**47,500**	**40,200**		**59,500**	**47,500**	**40,200**

Balance Sheet as on 1st April 2019

Liabilities	Amt ₹	Amt ₹	Assets	Amt ₹	Amt ₹
Creditors	11,200		Cash		2,600
Less: Written off	200	11,000	Debtors	18,000	
Bank Overdraft		9,700	Less: R. D. D 5%	900	17,100
Partners Capital A/c			Stock	17,500	
Raja		56,500	Less: Depreciation	1750	15,750
Rani		45,700	Machinery	30,000	
Pradhan's Loan A/c		34,000	Less: Depreciation	3,300	26,700
			Land		70,000
			Furniture	5000	
			Less: Depreciation	250	4,750
			Goodwill		20,000
		1,56,900			**1,56,900**

2. **Following is the Balance Sheet of the firm of Nana, Nani and Sona who share Profits and Losses in the ratio of their Capital**

Balance Sheet as on 31st March 2019

Liability	Amt (₹)	Assets		Amt (₹)
Capital A/c:		Machinery		20,000
Nana	50,000	Building		55,000
Nani	20,000	Stock		12,000
Sona	30,000	Debtors	12,000	
Creditors	10,000	Less: R.D.D.	1,000	11,000
Bills Payable	5,000	Cash		17,000
	1,15,000			**1,15,000**

Sona retires from the business on 1st April 2019 and the following Adjustment were agreed.

1. Stock is to be valued at 92% of its Book Value
2. R.D.D. is to be maintained at 10% on debtors
3. The value of Building is to be appreciated by 20%
4. The Goodwill of the firm be fixed at ₹ 12000. Sona's share in the same be adjusted in the accounts of continuing partners in Gain Ratio.
5. The entire Capital of the new firm be fixed at ₹ 1,60,000 between Nana and Nani in their New Profit sharing ratio which is fixed at 3:1 making adjustment in Cash.
6. Amount payable to Sona paid in cash.

Prepare : Revaluation A/c, Partnership Capital A/c , Balance Sheet as on 1st April 2019.

Solution :

In the Books of the firm

Dr. Revaluation A/c Cr.

Particulars		Amt (₹)	Particulars	Amt (₹)
To Stock A/c		960	By Building A/c	11,000
To R.D.D. A/c		200		
To Partners Capital A/c (Profit)				
Nana	4,920			
Nani	1,968			
Sona	2,952	9,840		
		11,000		**11,000**

Dr. Partner's Capital Account Cr.

Particular	Nana (₹)	Nani (₹)	Sona (₹)	Particulars	Nana (₹)	Nani (₹)	Sona (₹)
To Goodwill	3,000	600		By Balance b/d	50,000	20,000	30,000
To cash A/c			36,552	By P & L Adj. A/c (Profit)	4,920	1,968	2,952
To Balance c/d	1,20,000	40,000		By Goodwill A/c			3,600
				By Cash A/c	68,080	18,632	
	1,23,000	**40,600**	**36,552**		**1,23,000**	**40,600**	**36,552**

Working Note:

1. **Calculation of Gain Ratio**

Old Ratio : 5: 2: 3

New Ratio : 3:1

Gain Ratio = New Ratio – Old Ratio

Nana's Gain Ratio = $\frac{3}{4} - \frac{5}{10} = \frac{30 - 20}{40} = \frac{10}{40}$

Nani's Gain Ratio = $\frac{1}{4} - \frac{2}{10} = \frac{10\text{-}8}{40} = \frac{2}{40}$

Gain Ratio = 10:2 i.e. 5:1

Balance Sheet as on 1st April 2019

Liabilities	Amt ₹	Amt ₹	Assets	Amt ₹	Amt ₹
Creditors		10,000	Cash		67,160
Bills payable		5,000	Stock	12,000	
Capital A/c:			Less: Reduction	960	11,040
Nana		1,20,000	Debtors	12,000	
Nani		40,000	Less : R.D.D	1200	10,800
			Building	55,000	
			Add : Appreciation	11,000	66,000
			Machinery		20,000
		1,75,000			**1,75,000**

3. **The Balance Sheet of Shyam Traders Pune is as follows, Partners share Profit and Losses as 5:2:3**

Balance Sheet as on 31st March 2019

Liabilities	Amt ₹	Amt ₹	Assets	Amt ₹	Amt ₹
Capital Account:			Plan & Machinery		32,000
Rambha		36,000	Building		40,000
Menka		32,000	Stock		20,400
Urvashi		17,600	Debtors	16,800	
Creditors		20,000	Less: R. D. D.	800	16,000
Bill Payable		1,200	Bank		12,400
General Reserve		14,000			
		1,20,800			**1,20,800**

Menka retired from the business on 1st April 2019 on the following terms. The assets were revalued as under.

i) Stock at ₹ 28,000 ii) Building is appreciated by 10%

iii) R.D.D. is to be increased upto ₹ 1000

iv) Plant and Machinery is to be depreciated by 10%

2. The Goodwill of retiring partner is valued at ₹ 8000 and the remaining Partners decided that Goodwill be written back in their New Profit sharing ratio which will be 5:3

3. Amount due to Menka is to be transferred to her Loan Account

Prepare : Profit and Loss Adjustment A/c , Capital Account of partners, Balance Sheet of new firm.

In the Books of Shyam Traders Pune

Profit and Loss Adjustment A/c

Dr. | **Cr.**

Particulars		Amt (₹)	Particulars	Amt (₹)
To R. D. D		200	By Stock A/c	7,600
(1000-800)		3,200	By Building A/c	4,000
To Plant & Machinery				
To Partners Capital A/c's (profit)				
Rambha	4,100			
Menka	1,640			
Urvashi	2,460	8,200		
		11,600		**11,600**

Partner's Capital Account

Dr. | **Cr.**

Particular	Rambha (₹)	Menka (₹)	Urvashi (₹)	Particulars	Rambha (₹)	Menka (₹)	Urvashi (₹)
To Goodwill A/c	5,000	-	3,000	By Balance b/d	36,000	32,000	17,600
To Loan A/c	-	44,440	-	By Goodwill A/c	-	8,000	-
To Balance c/d	42,100	-	21,260	By General Reserve A/c	7,000	2,800	4,200
				By P & L Adj. A/c (Profit)	4,100	1,640	2,460
	47,100	**44,440**	**24,260**		**47,100**	**44,440**	**24,260**

Balance Sheet as on 1st April 2019

Liabilities	Amt ₹	Amt ₹	Assets	Amt ₹	Amt ₹
Creditors		20,000	Stock	20,400	
Bills Payable		1,200	Add : Appreciation	7,600	28,000
Capital A/c :			Building	40,000	
Rambha	42,100		Add : Appreciation	4,000	44,000
Urvashi	21,260	63,360	Debtors	16,800	
Menka's loan A/c		44,440	Less : R.D.D	1,000	15,800
			Plant & Machinery	32,000	
			Less : Depreciation	3,200	28,800
			Bank		12,400
		1,29,000			**1,29,000**

4. Kale, Gore and Pandhare were partners sharing Profit and losses in the ratio 3:3: 2. Their Balance sheet as on 31st March 2018 is as follows.

Balance Sheet as on 31st March 2018

Liabilities	Amt ₹	Assets	Amt ₹
Capital Account:		Building	10,000
Kale	11,000	Plan & Machinery	10,700
Gore	15,000	Lice Stock	10,000
Pandhare	8,000	Debtors	5,000
Creditors	8,900	Stock	6,600
Bill Payable	2,000	Bank	6,600
Reserve Fund	4,000		
	48,900		**48,900**

On 1 st April 2018 Mr. Pandhare retired from the firm on the following terms.

1. Assets to be revalued as Stock ₹ 6300, Plant and Machinery ₹ 10,000 Live Stock ₹10,200
2. Goodwill of the firm is to be valued at ₹ 4,000, however only Pandhare's share in it is to be raised in the books and written off immediately.
3. R.D.D to be maintained at 10 % on debtors.
4. ₹ 100 to be written off from Creditors.
5) The amount payable to Mr. Pandhare to be transferred to his loan account.

Prepare : Profit and Loss Adjustment account, Partners Capital Account, Balance Sheet of new firm.

Solution :

In the Books of Shyam Traders Pune

Dr. Profit and Loss Adjustment A/c Cr.

Particulars	Amt (₹)	Particulars		Amt (₹)
To Plant & Machinery A/c	700	By Live Stock A/c		200
To Stock A/c	300	By Creditors A/c		100
To R.D.D	500	By Partners Capital A/c (Loss)		
		Kale	450	
		Gore	450	
		Pandhare	300	1,200
	1,500			**1,500**

Dr. Partner's Capital Account Cr.

Particular	Kale (₹)	Gore (₹)	Pandhare (₹)	Particulars	Kale (₹)	Gore (₹)	Pandhare (₹)
To Goodwill A/c.	5,00	500		By Balance b/d	11,000	15,000	8,000
To P & L Adj. A/c (Loss)	450	450	300	By Reserve Fund A/c	1,500	1,500	1,000
				By Goodwill A/c			1,000
To Loan A/c			9,700				
To Balance c/d	11,550	15,550					
	12,500	**16,500**	**10,000**		**12,500**	**16,500**	**10,000**

Balance Sheet as on 1st April 2018

Liabilities	Amt ₹	Amt ₹	Assets	Amt ₹	Amt ₹
Capital Account:			Building		10,000
Kale	11,550		Pant & Machinery	10,700	
Gore	15,550	27,100	Less : Depreciation	700	10,000
Pandhare's Loan A/c		9,700	Live Stock	10,000	
Creditors	8,900		Add : Appriciation	200	10,200
Less : Written off	100	8,800	Debtors	5,000	
Bills Payable		2,000	Less : R.D.D.	500	4,500
			Stock	6,600	
			Less : Depreciation	300	6,300
			Cash		6,600
		47,600			**47,600**

5. **Given Below is the Balance Sheet of Vaishali, Madhuri, and Menka who were sharing profit and losses in the ratio 3:3:3:**

Balance Sheet as on 31st March 2019

Liabilities	Amt (₹)	Amt (₹)	Assets	Amt (₹)	Amt (₹)
Creditors		10,500	Cash		19,500
Bank Overdraft		5,000	Debtors	16,000	
General Reserve		12,000	Less : R.D.D.	2,000	14,000
Capital A/c :			Furniture		15,000
Vaishali		28,700	Machinery		40,000
Madhuri		31,800	Motor car		25,000
Manasi		30,000	Profit & loss A/c		4,500
		1,18,000			**1,18,000**

Vaishali retired on 1st April 2019 form the firm on the following terms.

1. Furniture be valued ₹ 14,000, Machinery at ₹ 38,000 and Motor car ₹ 23,800
2. R.D.D. be maintained at 5% on Debtors
3. Goodwill of the firm be valued at ₹ 15,000. However only Vailshali's share in it is to be raised in the Books.
4. A part payment of ₹ 10,000 be made to Vaishali and the balance be transferred to her Loan Account.

Prepare Profit and Loss Adjustment Account , Partners Capital A/c, Balance Sheet of new firm.

In the Books of the firm

Dr. Profit and Loss Adjustment A/c Cr.

Particulars	Amt (₹)	Amt (₹)	Particulars	Amt (₹)	Amt (₹)
To Furniture A/c		1,000	By R.D.D		1,200
To Machinery A/c		2,000	By Partners Capital A/c (Loss)		
To Motor Car A/c		1,200	Vaishali	1,000	
			Madhuri	1,000	
			Manasi	1,000	3,000
		4,200			**4,200**

Dr. Partner's Capital Account Cr.

Particular	Vaishali (₹)	Madhuri (₹)	Manasi (₹)	Particulars	Vaishali (₹)	Madhuri (₹)	Manasi (₹)
To P & L A/c	1,500	1,500	1,500	By Balance b/d	28,700	31,800	30,000
To P & L Adj. A/c (Loss)	1,000	1,000	1,000	By General Reserve	4,000	4,000	4,000
To Cash A/c	10,000			By Goodwill A/c	5,000		
To Vaishali's Loan A/c	25,200						
To Balance c/d		33,300	31,500				
	37,700	**35,800**	**34,000**		**37,700**	**35,800**	**34,000**

Balance Sheet as on 1st April 2019

Liabilities	Amt ₹	Amt ₹	Assets	Amt ₹	Amt ₹
Creditors		10,500	Cash		9,500
Bank Overdraft		5,000	Debtors	16,000	
Vaishali's Loan A/c:		25,200	Less : R.D.D.	800	15,200
Capital A/c:			Furniture	15,000	
Madhuri		33,300	Less Depreciation	1,000	14,000
Manasi		31,500	Machinery		38,000
			Motor car	25,000	
			Less Depreciation	1,200	23,800
			Goodwill		5,000
		1,05,500			**1,05,500**

6. **Following is the Balance Sheet of Anil, Sunil and Suresh who were sharing Profit and Losses equally.**

Balance Sheet as on 31st March 2019

Particular	Amt ₹	Amt ₹	Assets	Amt ₹	Amt ₹
Creditors		20,300	Bank		8,400
Bills payable		10,600	Debtors	18,000	
General Reserve		13,500	Less :R.D.D	900	17,100
Capital A/c:			Computer		17,500
Anil		43,600	Land & Building		70,000
Sunil		35,000	Machinery		10,000
Suresh		32,000	Furniture		20,000
			Goodwill		12,000
		1,55,000			**1,55,000**

On 1st April 2019 Suresh retired from the firm on the following terms.

1. Land and Building be appreciated by 10% and Computer be reduced by ₹ 1,900.
2. Debtors were all good and R.D.D. was no longer required.
3. Machinery be revalued at ₹ 9,400
4. Goodwill of the firm be valued at ₹ 16,500.
5. Furniture were sold at ₹ 21,800 and part payment of ₹ 15,000 was made to Suresh by R.T.G.S. and balance was transferred to his Loan Account.

   Prepare: Profit and Loss Adjustment A/c , Partners capital A/c's, Balance Sheet of Anil and Sunil

Solution:

In the Books of Anil And Sunil

Dr. **Profit and Loss Adjustment A/c** **Cr.**

Particulars	Amt ₹	Amt ₹	Particulars	Amt ₹	Amt ₹
To Computer A/c		1,900	By Land and Building A/c		7,000
To Machinery A/c		600	By R.D.D A/c		900
To Partners Capital A/c:			By Furniture A/c		1,800
(profit)					
Anil	2,400				
Sunil	2,400				
Suresh	2,400	7,200			
		9,700			**9,700**

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

Particular	Anil (₹)	Sunil (₹)	Suresh (₹)	Particulars	Anil (₹)	Sunil (₹)	Suresh (₹)
To Bank A/c			15,000	By Balance b/d	43,600	35,000	32000
To Suresh Loan A/c			25,400	By General Reserve	4,500	4,500	4,500
				By P & L Adj. A/c (Profit)	2,400	2,400	2,400
To Balance c/d	52,000	43,400					
				By Goodwill A/c	1,500	1,500	1,500
	52,000	**43,400**	**40,400**		**52,000**	**43,400**	**40,400**

Balance Sheet as on 1st April 2019

Particular	Amt ₹	Assets	Amt ₹
Creditors	20,300	Bank	15,200
Bills Payable	10,600	Debtors	18,000
Suresh's Loan A/c	25,400	Computer	15,600
Capital Account :		Land & Building	77,000
Anil	52,000	Machinery	9,400
Sunil	43,400	Goodwill	16,500
	1,51,700		**1,51,700**

7. Given below is the balance Sheet of Jaya, Maya and Mamta, who were sharing Profit and losses as 3:3:2

Balance Sheet as on 31st March 2019

Particular	Amt ₹	Assets	Amt ₹
Creditors	34,400	Bank	21,600
Bills payable	9,200	Plant and Machinery	34,800
Capital Account :		Debtors	50,000
Jaya	48,000	Live Stock	25,200
Maya	52,000	Equipments	16,000
Mamta	36,000	Investment	48,000
General Reserve	16,000		
	1,95,600		**1,95,600**

On 1st April 2019 Mamta retired from the firm on the following terms.

1. Assets to be revalued as under

   Live Stock ₹ 24,000; Plant and Machinery ₹ 32,000, Equipments ₹ 16,800
2. An item of ₹ 400 from Creditors is no longer a liability and hence should be properly adjusted.
3. Mr. Ram, our customer may or may not be able to pay his debts of ₹ 2000
4. The amount due to Mamta be transferred to her Loan Account.

   Pass necessary Journal Entries in the books of the firm.

Journal entries in the books of Partnership firm

Date	Particulars	LF	Debit ₹	Credit ₹
2019 April 1	General Reserve A/c .... Dr.		16,000	-
	To Jaya's Capital A/c			6,000
	To Maya's Capital A/c			6,000
	To Mamta's Capital A/c			4,000
	(Being General Reserve distributed among partners)			
	Revaluation A/c .... Dr.		6,000	
	To Live Stock A/c			1,200
	To Plant and Machinery A/c			2,800
	To R.D.D. A/c			2,000
	(Being assets depreciated and R.D.D. Provided on Debtors)			
	Equipment A/c .... Dr.		800	
	Creditors A/c		400	
	To Revaluation A/c			1,200
	(Being Equipments appreciated in value and creditors decreased in value)			
	Jaya's Capital A/c.. Dr.		1,800	
	Maya's Capital A/c.. Dr.		1,800	
	Mamta's capital A/c .... Dr.		1,200	
	To Revaluation A/c			4,800
	(Being loss on revaluation distributed and transferred to capital accounts)			
	Mamta's Capital A/c... Dr.		38,800	
	To Mamta's Loan A/c			38,800
	(Being balance amount due to mamta transferred to her loan A/c)			

Working Note : -

1) Calculation of profit on Revaluation of Assets and Liabilities

Dr. **Revaluation Account** **Cr.**

Particular	Amt ₹	Particular		Amt ₹
To Live Stock A/c	1,200	By Equipments A/c		8,00
To Plant and Machinery	2,800	By Creditors A/c		400
To R.D.D. A/c	2,000	By Partners Capital Accounts (loss)		
		Jaya	1,800	
		Maya	1,800	
		Mamta	1,200	4,800
	6,000			**6,000**

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

Particular	Anil (₹)	Sunil (₹)	Suresh (₹)	Particulars	Anil (₹)	Sunil (₹)	Suresh (₹)
To Revaluation A/c (Loss)	1,800	1,800	1,200	By Balance c/d	48,000	52,000	36,000
To Suresh Loan A/c			38,800	By General Reserve	6,000	6,000	4,000
To Balance c/d	52,200	56,200					
	54,000	**58,000**	**40,000**		**54,000**	**58,000**	**40,000**
				By Balance b/d	52,200	56,200	

EXERCISE - 4

(A) Select the most appropriate alternatives from those given below and rewrite the sentence.

1. The Profit or Loss from revaluation on retirement of partner is shared by ....
   a) The remaining partners b) All the partners
   c) Only retiring partner d) Bank

2. Decrease in the value of assets should be .... to Profit and Loss Adjustment Account.
   a) Debited b) Credited c) Added d) Equal

3. The balance of the capital account of retired partner is transferred to his .... account if it is not paid.
   a) Loan b) Personal c) Current d) Son's

4. Gain ratio................, Ratio less Old Ratio Gain Ratio............Ratioo less Old Ratio.
   a) New b) Equal c) Capital d) Sacrifice

5. New Ratio = Old Ratio + ... Ratio
   a) Gain b) Capital c) Sacrifice d) Current

6. Apte, Bhate and Chitale are sharing 1/2, 3/10, and 1/5 if Apte retire their new ratio will be ....
   a) 5:2 b) 3:2 c) 5:3 d) 2:5

(B) Write the word, term, phrase, which can substitute each of the following statement.

1 Credit balance of Profit and Loss Adjustment Account.
2 The Ratio in which the continuing partners are benefited due to Retirement of Partner.
3 Debit balance of Revaluation Account
4 The ratio which is obtained by deducting Old Ratio from New Ratio.
5 Money value of business reputation earned by the firm over a number of years.
6 Partner's Account where Loss or Profit on revaluation is transferred.

(C) State whether the following statement are true or false with reasons.

1. Gain ratio means New ratio minus old ratio.
2. Retiring partners share in Profit up to the date of his retirement will be debited to Profit and Loss Suspense Account
3. On retirement of a partner sacrifice ratio is considered.
4. Retiring Partner is called an outgoing partner
5. On retirement of a partner, remaining partner will share the goodwill in their profit sharing ratio
6. Retiring partner is not entitled to share in General Reserve and Accumulated Profit.

(D) Fill in the blanks and rewrite the following sentence :

1. New Ratio (less) .... = Gain ratio
2. Retiring Partner's share of goodwill is .... to remaining partner's capital account .
3. Revaluation A/c is also known as .... account
4. On retirement, the balance at a current Account of a partner is transferred to his .... account.
5. A proportion in which the continuing partners get the share of retiring partner is known as ....ratio.

(E) Answer the following.

1 What is meent by Retirement of a Partner?
2 What is Benefit Ratio?
3 What is New Ratio?
4 How is the amount due to the retiring partner settled?
5 How is Gain Ratio calculated?
6 Why is retiring partner's capital account credited with goodwill?

Practical Problems

1. The Balance Sheet of Mr. Mama, Kaka and Mr. Baba who shared profit and losses as 4:3:3 respectively.

Balance Sheet as on 31 st March 2018

Liabilities	Amt ₹	Amt ₹	Assets	Amt ₹	Amt ₹
Suppliers		7,000	Cash		4,500
Loan		5,000	Sundry Debtors	5,000	
General Reserve		6,250	Less : R:D:D	500	4,500
Capital Account:			Live Stock		12,500
Mama		20,000	Motor Car		4,000
Kaka		15,000	Furniture		17,500
Baba		12,250	Plant		22,500
		65,500			**65,500**

Kaka retires on 1st April 2018 on the following terms.

1. The share of Kaka in Goodwill of the firm is valued at ₹ 2,700
2. Furniture to be depreciated by 10% and Motor Car by 12.5%
3. Live Stock to be appreciated by 10% and Plant by 20%
4. A provision of ₹ 2,000 to be made for a claim of compensation.
5. R.D.D. is no longer necessary.
6. The amount payable to Kaka should be transfereed to his Loan A/c

   Ans. : 1. Profit and loss Adj. A/c profit ₹ 2,000, Balance Sheet Total ₹ 72200, kaka's loan A/c ₹ 20,175.

2. The Balance Sheet of Ram, Shyam and Ghanshyam sharing profits and losses 3:2:1 respectively. Their position on 31-3-2019 were n follows.

Balance Sheet as on 31st March 2019

Liabilities	Amt ₹	Assets	Amt ₹
Capitals :		Bank	54,000
Ram	1,20,000	Debtors	90,000
Shyam	90,000	Building	60,000
Ghanshyam	60,000	Investment	1,50,000
Creditors	22,000		
Bills payable	12,000		
Loan	50,000		
	65,500		**3,54,000**

Ghanshyam retired on 1st April 2019 on the following terms.

1. Building and Investment to be appreciated by 5% and 10% respectively.
2. Provision for Doubtful Debts to be created at 5% on Debtors.
3. The provision of ₹ 3,000 be made in respect of Outstanding Salary.
4. Goodwill of the firm is valued at ₹ 90,000 and partners decide that goodwill should be written back.
5. The amount payable to the Retiring partner be transferred to his Loan A/c.

   Prepare : Profit and Loss Adjustment A/c , Partners Capital A/c, Balance Sheet of New firm.

   Ans. : Profit and Loss Adjustment A/c. Profit = ₹ 10,500, Balance Sheet Total = ₹ 3,67,500, Ghanshyam's Loan A/c = ₹ 76,750

3 The Balance Sheet of the Anu, Renu and Dinu is as follows, the partners are sharing profits and losses in the proportion of 2:2:1 respectively.

Balance Sheet as on 31st March 2019

Liabilities	Amt ₹	Amt ₹	Assets	Amt ₹	Amt ₹
Creditors		8,000	Bank		5,000
Bills Payable		2,000	Debtors	20,000	
General Reserve		5,000	Less : R.D.D	1,000	19,000
Capital Account:			Furniture		15,000
Anu		40,000	Machinery		4,000
Renu		30,000	Free hold Property		27,000
Dinu		15,000	Goodwill		30,000
		1,00,000			**1,00,000**

Dinu retires from the firms on 1st April 2019 on the following terms.

1. The assets are to be revalued as freehold property ₹ 30,000, Machinery ₹ 5000, Furniture ₹ 12000, All debtors are good.
2. Goodwill of the firm be valued at thrice the average profit for preceding five years. Profits of the firm for the year.

2014-15	₹ 1,000	2015-16	₹ 10,500	2016-17	₹ 10,000
2017-18	₹ 16,000	2018-19	₹ 10,000		

3. Dinu should be paid ₹ 3,000 by cheque
4. The Balance of Dinu's capital A/c should be kept in the business as loan.

   Prepare: Profit and loss adjustment A/c, Capital Accounts of partners , Balance Sheet of the new firm.

   (Ans. Profit and Loss adjustment A/c Profit ₹ 8,600, Balance sheet total ₹1,05,600, Bank Balance ₹ 2000, Dinu's Loan A/c ₹ 14720)

4. Rohan, Rohit and Sachin are partners in a firm sharing profit and losses in the proportion 3:1:1 respectively. Their balance sheet as on 31st March 2018 is as shown below.

Balance Sheet as on 31 st March 2018

Liabilities	Amt ₹	Assets	Amt ₹
Creditors	40,000	Bank	12,500
General Reserve	50,000	Debtors	60,000
Bills payable	25,000	Live Stock	50,000
Capital Accounts :		Building	75,000
Rohan	1,25,000	Plant and Machinery	35,000
Rohit	1,00,000	Motor Truck	1,00,000
Sachin	50,000	Goodwill	57,500
	3,90,000		**3,90,000**

On 1st April, 2018 Sachin retired and the following adjustments have been agreed upon.

1. Goodwill was revalued at ₹ 50,000
2. Assets and Liabilities were revalued as follows.

   Debtors ₹ 50,000, Live Stock, ₹ 45,000; Building ₹1,25000, Plant and Machinery ₹ 30,000, Motor Truck ₹ 95,000 and Creditors ₹ 30,000

3. Rohan and Rohit contributed additional capital through Net Banking of ₹ 50,000 and ₹ 25,000 respectively.
4. Balance of Sachin's Capital Account is transferred to his Loan Account.

Give Journal entries in the books of new firm.

5. Shah, Lodha and Dhole were partners sharing profits and losses in the ratio of 4:3:3. Their Balance Sheet as on 31st March 2019 is a given below.

Balance Sheet as on 31st March 2019

Liabilities	Amt ₹	Amt ₹	Assets	Amt ₹	Amt ₹
Sundry Creditors		20,000	Cash		9,000
Bills payable		4,000	Sundry Debtors	10,000	
Capital Account:			Less: R.D.D.	1,000	9,000
Shah		45,000	Furniture		25,000
Lodha		35,000	Computers		43,000
Dhole		27,000	Vehicles		45,000
		1,31,000			**1,31,000**

On 1st April 2019, Mr. Lodha retired form the firm on the following terms.

1. Goodwill is to be valued at an average Profits and Losses of the last five years which were as follows.

Years	Profit/Loss
2015	₹ 35,000
2016	₹ 20,000
2017	₹ 30,000
2018	₹ 20,000
2019	₹ 25,000

2. Computers to be depreciated by 10%
3. Furniture to be revalued at ₹ 27,500
4. Vehicles appreciated by 20%
5. R.D.D. was no longer necessary
6. Shah and Dhole will share the future profits and losses in the ratio of 2:1
7. It was decided that goodwill should not appear in the books of a new firm and amount payable to Lodha is to be transferred to his Loan A/c

Prepare : Profit and Loss adjustment A/c , Partners capital accounts, Balance sheet of new firm,

(Ans. : Profit on Revaluation ₹ 8,200, Balance Sheet Total ₹ 1,39,200)

Activity :

1. Visit to Partnership firm and collect the procedure of Retirement and calculate retiring partners share of goodwill.
2. Visit any lawyers office and obtain the procedure for preparation of New Partnership Deed after Retirement of an existing partner.

5 Reconstitution of Partnership (Death of Partner)

Contents

Competency Statement

- *The students will be able to:*
- *Learn how to calculate various ratio.*
- *Know how to calculate share of profit up to the date of death of a partner*
- *Learn to the calculation share of goodwill of deceased partner*
- *Know how to calculate amount due to decreased partner's executor.*
- *Understand how to settle the account of an executor.*

5.1 Meaning :

A partner will cease to be a partner on his death and hence death is considered as compulsory retirement. Partnership business may be continued by surviving partners if partnership firm makes provision in Partnership Deed. Partners make arrangement to settle account of deceased partner with his legal representative who will be entitled, at their choice, to interest at 6% per annum on amount due, from date of death to date of payment.

5.2 New Profit Sharing Ratio

On death of partner, profit sharing ratio of remaining partner's changes. Profit Sharing Ratio of remaining partners' increases because profit sharing of deceased partner gets divided and received by remaining partners.

5.3 Gain Ratio or Benefit Ratio

Benefit or Gain Ratio is a ratio by which surviving partners are benefited due to death of a partner. The extra share which they are getting is added in their old share. Such extra share which they are getting is called as 'Gain' and the ratio is called as 'Gain Ratio'. This ratio is normally used to write off the goodwill created or raised to the extent of retiring partner share only. It is calculated by using following formula.

Gain ratio = New Ratio - Old Ratio

5.4 Revaluation of Assets and Liabilities

The assets and liabilities of the partnership firm are revalued on the death of a partner. The benefit arising out of it are given to representative of deceased partner. Effects of revaluation of assets and liabilities are shown in Revaluation Account these are same as given in retirement. The Profit or loss on revaluation is transferred to deceased partner's capital account to the extent of his share.

5.5 Amount due to deceased Partner's Executor / Nominee / Administrator

Capital : The capital of the deceased partner is calculated on the basis of balance of capital of deceased partner shown in the last balance sheet, share of profit or loss on revaluation, general reserve, accumulated profit or loss, share of goodwill, salary of partner, interest on capital, interest on drawings, profit up to the date of death etc.

5.6 Settlement of Amount Due

The amount due to deceased partner is transferred to his Executor / Nominee / Administrator's loan Account and it is paid to them after completing all legal formalities and procedure.

5.7 Accounting Treatment

The Accounting Treatment for preparing the account of deceased partner is similar to that of retirement of a partner.

Illustrations

1. **Rekha, Menaka, Mukta were partners in a business sharing profits and losses in the ratio of 2:1:1 respectively. Their Balance sheet as on 31st March 2019**

Balance Sheet as on 31-03-2019

Liability	Amt (₹)	Assets	Amt (₹)
Capital Accounts :		Plant & Machinery	60,000
Rekha	60,000	Debtors	50,000
Menaka	70,000	Furniture	30,000
Mukta	34,000	Bank	60,000
Creditors	18,000		
Bills payable	2,000		
General Reserve	16,000		
	2,00,000		2,00,000

Mukta died on 1st July 2019

1. Plant & Machinery was to be revalued to ₹ 70,000 and R.D.D. is to be created of ₹ 2,000
2. The drawings of Mukta up to the date of her death amounted to ₹ 10,000
3. Charge interest on drawings ₹ 1,000
4. Her share of goodwill should be calculated at three year purchase of the profits for the last four years which were 1 year ₹ 1,50,000, II year ₹1,30,000, III year ₹ 70,000, IV ₹ 50,000
5. The deceased partners share of profit upto the date of death to be calculated on the basis of average profit of last two years. (III & IV year)

Prepare : Profit and Loss Adjustment Account, Partners Capital Accounts, Balance sheet of the continuing firm, Give working Note of Profit of Goodwill.

Solution :

In the Books of Partnership firm

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

Particulars		Amt (₹)	Particulars	Amt (₹)
To R.D.D.A/c		2,000	By Plant & Machinery A/c	10,000
To Profit (transfer to Partners Capital A/c)				
Rekha	4000			
Menka	2000			
Mukta	2000	8,000		
		10,000		10,000

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

Particular	Rekha (₹)	Menaka (₹)	Mukta (₹)	Particulars	Rekha (₹)	Menaka (₹)	Mukta (₹)
To Drawing			10,000	By Balance b/d	60,000	70,000	34,000
To Interest on Drawing			1,000	By General Reserve	8,000	4,000	4,000
To Mukta's Executors Loan A/c			1,07,750	By Profit and loss Adjustment A/c (Profit)	4,000	2,000	2,000
				By Goodwill A/c			75,000
To Balance c/d	72,000	76,000		By Profit and Loss Suspense A/c			3,750
	72,000	76,000	1,18,750		72,000	76,000	1,18,750

Balance Sheet as on 1st July 2019

Liabilities	Amt ₹	Amt ₹	Assets	Amt ₹	Amt ₹
Creditors		18,000	Plant & Machinery	60,000	
Bills payable		2,000	Add: Appreciation	10,000	70,000
Capital Accounts :			Debtors	50,000	
Rekha		72,000	Less: R.D.D.	2,000	48,000
Menka		76,000	Furniture		30,000
Mukta's Representive's Loan A/c		1,07,750	Bank		50,000
			Profit and Loss Suspense A/c (3750- 1000 Int)		2,750
			Goodwill		75,000
		2,75,750			2,75,750

Working Notes:

1. **Calculation of Share of Profit**

Profit of current year = Average of the profit of last 2 year

$$= \frac{70{,}000 + 50{,}000}{2} = \frac{1{,}20{,}000}{2} = ₹\ 60{,}000$$

Profit for proportionate period from 1st April 2019

to 1st July 2019 = $60{,}000 \times \frac{3}{12}$ = ₹ 15,000

Mukta's share in proportionate profit = $15{,}000 \times \frac{1}{4}$ = ₹ 3,750

2. **Valuation of Goodwill**

Total profit of 4 year = 15,000 + 1,30,000 + 70,000 + 50,000

Average Profit = $\frac{4{,}00{,}000}{4}$ = ₹ 1,00,000

Goodwill = Average Profit × No. of Year Purchases

1,00,000 × 3

Mukta's share in Goodwill = $3{,}00{,}000 \times \frac{1}{4}$ = ₹ 75,000

2. **Rakesh, Mahesh and Mukesh were partners sharing Profits and Losses in the ratio 3:2:1 respectively. Their Balance Sheet as on 31st March 2019 is as under.**

Balance Sheet as on 31st March 2019

Liability	Amt (₹)	Assets		Amt (₹)
Capital A/c :		Plant & Machinery		40,000
Rakesh	30,000	Motor Truck		20,000
Mahesh	20,000	Debtors	16,000	
Mukesh	10,000	Less: R.D.D.	2,000	14,000
Creditors	8,000	Investment		18,000
Bank Loan	20,000	Bank		14,000
Bills Payable	18,000			
	1,06,000			1,06,000

Mukesh died on 30th June 2019 and the following adjustment were made

1. Assets were revalued as : Plant & Machinery ₹ 44,000, Motor Truck ₹ 18,000, Investment ₹ 17,000.
2. All Debtors were good.
3. Goodwill of the firm valued at two times the average profits of the last five years. No Goodwill account to be shown in the books of the firm.

4 Mukesh's share of profit up to his death to be calculated on the basis of average profits of last two years.

5. Five years Profits were I year ₹ 6,000, II year ₹ 11,000, III year ₹ 7,000, IV year ₹ 12,000, V year ₹ 24,000 respectively.

1. Prepare : Profit and loss Adjustment Account , Partners Capital Accounts, Balance Sheet on 1st July 2019

Solution:

In the Books of the Partnership Firm

Dr. Profit and Loss Adjustment Account Cr

Particular		Amt (₹)	Particulars	Amt (₹)
To Motor Truck		2,000	By Plant & Machinery	4,000
To Investment		1,000	By. R.D.D A/c	2,000
To Partners Capital A/c (Profit)				
Rakesh	1,500			
Mahesh	1,000			
Mukesh	500	3,000		
		6,000		6,000

Dr. Partner's Capital Account Cr.

Particular	Rakesh (₹)	Mahesh (₹)	Mukesh (₹)	Particulars	Rakesh (₹)	Mahesh (₹)	Mukesh (₹)
To Mukesh's Capital A/c	2,400	1,600		By Balance b/d	30,000	20,000	10,000
				By Profit and loss Adjustment A/c (Profit)	1,500	1,000	500
To Mukesh's Executors A/c			15,250	By Rakesh's Capital A/c (Goodwill)			2,400
To Balance c/d	29,100	19,400		By Mahesh's capital A/c (Goodwill)			1,600
				By Profit and loss Suspense A/c			750
	31,500	21,000	15,250		31,500	21,000	15,250

Balance Sheet as on 1st July 2019

Liabilities	Amt ₹	Amt ₹	Assets	Amt ₹	Amt ₹
Capital Account :			Plant & Machinery	40,000	
Rakesh		29,100	Add : Appreciation	4,000	44,000
Mahesh		19,400	Motor Truck	20,000	
Mukesh's Executor's		15,250	Less : Depreciation	2,000	18,000
Loan A/c			Debtors		16,000
Creditors		8,000	Investment	18,000	
Bank Loan		20,000	Less : Reduction	1,000	17,000
Bills Payable		18,000	Bank		14,000
			Profit & Loss Suspense A/c		750
		1,09,750			1,09,750

Working Note:

1. Valuation of Goodwill

Total Profits = 6,000 + 12,000 + 7,000 + 11,000 + 24,000

= ₹ 60,000

Average Profit = $\frac{60,000}{5}$ = ₹ 12,000

Goodwill = 12,000 × 2 = ₹ 24,000

Mukesh's Share in Goodwill = 24,000 × $\frac{1}{6}$ = ₹ 4,000

Goodwill is divided and debited to Rakesh and Mahesh's Capital A/c in the ratio of 3:2

Rakesh = 4000 × $\frac{3}{5}$ = ₹ 2,400

Mahesh = 4000 × $\frac{2}{5}$ = ₹ 1,600

2. Calculation of Mukesh's share in profit from 1st April 2019 to 1st July 2019

Total Profit of current year = Average profit of last 2 years profit

$$= \frac{12,000 + 24,000}{2} = \frac{36,000}{2} = ₹18,000$$

Proportional Profit = 18,000 × $\frac{3}{12}$ = ₹ 4,500

Mukesh's share in profit = 4,500 × $\frac{1}{6}$ = ₹ 750

3 **Anita, Sunita and Kavita were partners in a business sharing Profits and Losses in the ratio of 2:2:1 respectively. Their Balance Sheet as on 31st March 2019 is as under.**

Balance Sheet as on 31st March, 2019

Liability	Amt (₹)	Amt (₹)	Assets	Amt (₹)	Amt (₹)
Capital A/c :			Plant & Building		55,800
Anita		40,000	Investment		30,000
Sunita		40,000	Furniture		16,000
Kavita		20,000	Debtors	20,800	
Creditors		30,000	Less: R.D.D.	800	20,000
Bills Payable		2,000	Bank		8,200
Bank Loan		8,000	Goodwill		10,000
		1,40,000			1,40,000

On 1st July 2019 Kavita died and the following adjustment were made:

1. All the Debtors were considered as good.
2. A contingent liability for a compensation of ₹ 900 was provided.
3. Investment were sold out in the market at 10% profit.
4. Loan were paid off.
5. Land and Building were depreciated by ₹ 800 and Furniture by ₹ 1100.
6. Goodwill of the firm was valued at ₹ 15000. It was to be raised in the Books.
7. Kavita was entitled to get her share in the profit upto the date of her death. Profit for 2019-20 was estimated at ₹10,000.
8. The amount due to Kavita's executors was paid by NEFT.

Prepare : Revaluation Account, Partners Capital Account, Balance sheet of new firm.

Solution:

In the Books of the Firm

Dr. Revaluation Account Cr.

Particular		Amt (₹)	Particulars	Amt (₹)
To Contingent Liability		900	By R.D.D A/c	800
To Land and Building		800	By Investments	3,000
To Furniture		1,100		
To Partners Capital A/c (Profit)				
Anita	400			
Sunita	400			
Kavita	200	1,000		
		3,800		3,800

Solution:

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

Particular	Anita (₹)	Sunita (₹)	Kavita (₹)	Particulars	Anita (₹)	Sunita (₹)	Kavita (₹)
To Kavita's Executor's Loan A/c			21,700	By Balance b/d	40,000	40,000	20,000
				By Revaluation A/c (Profit)	400	400	200
To Balance c/d	42,400	42,400		By Goodwill A/c	2,000	2,000	1,000
				By Profit and Loss Suspense A/c			500
	42,400	42,400	21,700		42,400	42,400	21,700

Balance Sheet as on 1st July 2019

Liabilities	Amt ₹	Amt ₹	Assets	Amt ₹	Amt ₹
Capital Account :			Land & Building		55,000
Anita		42,400	Debtors		20,800
Sunita		42,400	Furniture		14,900
Creditors		30,000	Bank		11,500
Bills Payable		2,000	Goodwill		15,000
Contingent Liability		900	Profit and Loss Suspense A/c		500
		1,17,700			1,17,700

Working Note :

1. Calculation of Kavita's share in the profit till the date of her death. Kavita died on 1st July 2019. Profit for 2019-20 is estimated at ₹ 10,000

   Kavita's share in it for 3 months is ₹10,000 $\times \frac{3}{12} \times \frac{1}{5} =$ ₹ 500

2. Kavita's Executors loan account was fully paid, hence it is not transferred to liability side.

4 Rohit, Sachin and Virat were sharing profits and losses in the ratio of 7 : 5 : 4 respectively. Their Balance sheet as on 31st March 2017 was as follows.

Dr. **Balance Sheet as on 31st March 2017** Cr.

Liabilities	Amt ₹	Assets	Amt ₹
Capital Accounts:		Stock	17,000
Rohit	23,000	Furniture	18,000
Sachin	15,000	Land & Building	16,000
Virat	12,000	Bank	37,000
Bills Payable	2,000		
Creditors	8,000		
Bank Loan	12,000		
General Reserve	16,000		
	88,000		88,000

Mr. Virat died on 30 th June 2017 and the following adjustments were agreed as per deed.

1. Stock, Furniture and Land and Building are to be revalued at ₹ 16, 700, ₹ 16,200, ₹ 30,100 respectively.
2. Virat's share in goodwill is to be valued from firm's goodwill which was valued at three times of the average profit of last four years Profit of the last four years : I ₹ 30,000, II ₹ 25,000, III ₹ 25,000, IV ₹ 40,000
3. His Profit up to the death is to be calculated on the basis of profit of last year.
4. Virat was entitled to get a Salary of ₹1200 per month.
5. Interest on capital at 10% paid to be allowed
6. Virat's drawing up to the date of death was ₹ 900 per month.

Prepare : Virat's Capital Account showing amount payable to his executor.
Give working notes for share of Goodwill and Profit.

Solution :

In the Books of the Firm

Dr. Virat's Capital Account Cr.

Particulars	Amt ₹	Particulars	Amt ₹
To Drawing A/c	2,700	By Balance b/d	12,000
To Executors Loan A/c	45,200	By General Reserve	4,000
		By Profit & Loss Adjustment A/c	3,000
		By Goodwill A/c	22,500
		By Profit & Loss Suspense A/c	2,500
		By Salary A/c	3,600
		By Interest on Capital A/c	300
	47,900		47,900

Working Note :

1. Calculation of share of Goodwill

a. $\text{Average Profit} = \dfrac{\text{Total Profit}}{\text{No. of Years}} = \dfrac{1,20,000}{4} = ₹\ 30,000$

b. Goodwill of Firm = Average Profit × No. of Year Purchases
= 30,000 × 3 times
= ₹ 90,000

c. Share of Goodwill to Virat = Goodwill of the firm × Virat's share

$$= 90,000 \times \frac{4}{16} = ₹\ 22,500$$

2. Calculation of share of profit due to Virat

Share of profit = Last year profit × share of profit × period

$$= 40,000 \times \frac{1}{4} \times \frac{3}{12} = ₹\ 2,500$$

5 **Sonu, Maneka and Karina were partners sharing profits and losses in the ratio 2:2:1 respectively. Their balance Sheet as on 31st March 2018 was as follows.**

Balance Sheet as on 31st March 2018

Liabilities	Amt ₹	Assets		Amt ₹
Capital Account :		Plant & Machinery		50,000
Sonu	40,000	Stock of Goods		50,000
Maneka	40,000	Debtors	22,000	
Karina	20,000	Less: R. D. D.	2,500	19,500
Genral Reserve	10,000	Investment		10,000
Creditors	10,000	Cash		500
Bill Payable	6,000			
Bank loan	4,000			
	1,30,000			1,30,000

Adjustment :

Karina died on 1st Oct 2018 and the adjustment were agreed as per the deed as follows.

1. Plant & Machinery to be valued at ₹ 60,000 and all Debtors were good.
2. Stock of Goods to be reduced by ₹ 3, 000
3. The drawings of Karina up to the date of her death amounted to ₹ 400 per month.
4. Interest on capital was to be allowed at 10% p.a.
5 The deceased partners share of Goodwill is to be valued at 2 years purchased of average profit for last 3 years. The profits were

2015-16	₹ 15,000	2016-17	₹ 17,000
2017-18	₹ 13,000		

6. The deceased partners share of profit up to the date of her death should be based on average profit of last two years.

Prepare : Profit & Loss Adjustment A/c , Karina's capital A/c showing the balance payable to her executors loan account. Working Note for share of Goodwill and Profit up to the date of death.

Solution :

Dr. **Profit and Loss Adjustment A/c** **Cr.**

Particulars		Amt ₹	Particulars	Amt ₹
To Stock		3,000	By Plant & Machinery A/c	10,000
To Partners Capital A/c			By. R.D.D. A/c	2,500
(Profit)				
Sonu	3,800			
Maneka	3,800			
Karina	1,900	9,500		
		12,500		12,500

Dr. **Karina Capital Account** Cr.

Particulars	Amt ₹	Particulars	Amt ₹
To Drawings	2,400	By Balance b/d	20,000
To Karina's Executors Loan A/c	30,000	By General Reserve	2,000
		By P & L Adjustment A/c (Profit)	1,900
		By Interest on Capital A/c	1,000
		By Goodwill A/c	6,000
		By Profit and Loss Suspense A/c	1,500
	32,400		32,400

C) Calculation of Goodwill

1) a. Average Profit $= \frac{\text{Total Profit}}{\text{No. of Years}} = \frac{45{,}000}{3} =$ ₹ 15,000

b. Goodwill of the Firm = Average Profit × No. of Year Purchases

= ₹ 15,000 × 2

= ₹ 30,000

c. Share of Goodwill to Karina = Goodwill of the firm × Her share

$=$ ₹ $30{,}000 \times \frac{1}{5} =$ ₹ 6,000

2 Calculation of share of the Profit of Karina

a. Average Profit $= \frac{\text{Total Profits}}{\text{No. of Years}}$

$= \frac{17{,}000 + 13{,}000}{2}$

$= \frac{30{,}000}{2}$

= ₹15,000

b. Share of Profit to Karina = Average Profit × Profit Sharing Ratio × Period

$= 15{,}000 \times \frac{1}{5} \times \frac{6}{12} =$ ₹ 1,500

6 **Ajay, Sanjay and Vijay were partners sharing profits and losses in the proportion to their capital. Their Balance Sheet as on 31st March 2019 was as follows.**

Balance Sheet as on 31st March 2019

Liabilities	Amt ₹	Assets		Amt ₹
Capital Account :		Land & Building		80,000
Ajay	60,000	Motor Lorry		40,000
Sanjay	40,000	Debtors	32,000	
Vijay	20,000	Less: R. D. D.	4,000	28,000
Creditors	50,000	Furniture		36,000
Outstanding Salary	6,000	Bank		28,000
Reserve Fund	36,000			
	2,12,000			2,12,000

Vijay died on 1 st August 2019 and the following adjustments were made.

1. Assets to be revalued as under Land & Building ₹ 88,000, Motor Lorry ₹ 36,000 and Furniture ₹ 34,000
2. All Debtors were good.
3. Goodwill of the firm valued at two times the average profit of the last 4 years profit.
4. Vijay's share of profit to be calculated on the basis of average profit of last three years.
5. Profit for 4 years were 1^{st} year ₹ 12,000, 2^{nd} year ₹ 24,000, 3^{rd} year ₹ 14,000, 4^{th} year ₹ 22,000

Prepare : 1. Vijay's Capital Account, showing amount payable to his executor.

2. Give working of Vijay's share of Goodwill and profit upto the date of his death.

Solution :

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

Particular	Amt ₹	Particular	Amt ₹
To Vijay's Executors Loan A/c	34,111	By Balance b/d	20,000
		By Reserve Fund A/c	6,000
		By Profit and Loss Adjustment A/c	1,000
		By Goodwill A/c	6,000
		By Profit and Loss Suspense A/c	1,111
	34,111		34,111

Working Note :

Calculation of Vijay's share of Goodwill

1) a. Average Profit $= \dfrac{\text{Total Profit}}{\text{No. of Years}} = \dfrac{72,000}{4} =$ ₹ 18,000

b. Goodwill of the Firm = Average Profit × No. of Year Purchases

$= 18,000 \times 2$

= ₹ 36,000

c. Vijay's Share of Goodwill = Goodwill of the firm × Vijay's share

$= 36,000 \times \dfrac{1}{6} =$ ₹ 6,000

3. Calculation of share of profit due to Vijay

a. Average Profit $= \dfrac{\text{Total Profit}}{\text{No. of Years}} = \dfrac{60,000}{3} =$ ₹ 20,000

b. Vijay's share of profit = Average Profit × Period × Vijay's share of Profit.

$= 20,000 \times \dfrac{4}{12} \times \dfrac{1}{6}$

= ₹ 1111

7 **Prem, Verma, Sharma were partners sharing profits and losses in the ratio 2:1:1 Their Balance sheet as on 31st March 2019 is as follows.**

Balance Sheet as on 31st March 2019

Liabilities	Amt ₹	Assets	Amt ₹
Creditors	20,000	Premises	2,40,000
Bank Loan	90,000	Debtors	2,00,000
Bill Payable	10,000	Furniture	60,000
General Reserve	64,000	Stock	1,00,000
Capital Account :		Cash	2,00,000
Prem	2,40,000		
Verma	2,00,000		
Sharma	1,76,000		
	8,00,000		8,00,000

1. Prem died on 30th June 2019 and the following adjustments were made on the average profit of the last two years.
2. Prem's share in the Goodwill of the firm be given him. Goodwill will be valued at three times of the average profits of the last four years. The profits were.

2015-16	₹ 1,60,000	2016-17	₹ 1,20,000
2017-18	₹ 80,000	2018-19	₹ 40,000

3. Premises be valued at ₹ 2,80,000 and R.D.D. of ₹ 8,000 be created on debtors.
4. Drawing of Prem up to the date of his death were ₹ 15000 per month.
5. Interest on capital is allowed at 10% p.a. and to be charged on drawing at ₹ 4000
6. The amount due to Prem be transferred to his executors loan account.

Prepare : Prem's Capital Account, Give working of Prem's share in Goodwill, and Interest on capital

Solution :

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

Particular	Amt ₹	Particular	Amt ₹
To Drawings A/c	45,000	By Balance b/d	2,40,000
To Interest on Drawings	4,000	By General Reserve A/c	32,000
To Prem's Executors loan A/c	4,02,500	By Profit and Loss Adjustment A/c	16,000
		By Interest on Capital A/c	6,000
		By Goodwill A/c	1,50,000
		By Profit and Loss Suspense A/c	7,500
	4,51,500		4,51,500

Working Note :

Calculation of Prem's share in the goodwill of the Firm

1) a. Average Profit $= \frac{\text{Total Profit}}{\text{No. of Years}} = \frac{4,00,000}{4} =$ ₹ 1,00,000

b. Goodwill of Firm = Average Profit × No. of Year Purchases

$= 1,00,000 \times 3$

$=$ ₹ 3,00,000

c. Prem's Share of Goodwill = Goodwill of the firm × Prem's share

$= 3,00,000 \times \frac{2}{4} =$ ₹ 1,50,000

2) Calculation of Prem's share in the profit

Average Profit of the last two years

a. $\text{Average Profit} = \frac{\text{Total Profit}}{\text{No. of Years}} = \frac{80,000 + 40,000}{2}$

$= \frac{1,20,000}{2}$

$=$ ₹ 60,000

b. Average Profit = ₹ 60,000

3 months profit is = $60,000 \times \frac{3}{12} =$ ₹ 15,000

Prem's share is $\frac{2}{4} = 15,000 \times \frac{2}{4} =$ ₹ 7,500

3 Calculation of Interest on Prem's Capital

Prem died on 30th June 2019

His capital balance is 2,40,00 for three months

$2,40,000 \times \frac{10}{100} \times \frac{3}{12} =$ ₹ 6,000

EXERCISE - 5

Q.1 Objective questions :

A. Select the most appropriate answer from the alternative given below and rewrite the sentences.

1. Benefit Ratio is the Ratio in which ....
   a) The old partner gain on admission of a new partner
   b) The Goodwill of a new partner on admission is credited to old partners
   c) The continuing partners benefits on retirement or death of a partner
   d) All partenrs are benefited.

2. The ratio by which existing partners are benefited ....
   a) Gain Ratio b) Sacrifice Ratio c) Profit Ratio d) Capital Ratio

3. Profit and Loss Suspense Account is shown in the new Balance Sheet on .... side.
   a) Debit b) Credit c) Asset d) Liabilities

4. Death is a compulsory
   a) Dissolution b) Admission c) Retirement d) Winding up

5. The balance on the capital account of a partners, on his death is transferred to .... account.

   a) Relatives b) Legal Heir's loan / Executors loan

   c) Partner's capital d) Partners Loan

B. Write a word, term, phrase, which can substitute each of the following statement.

1. Excess of credit side over debit side of profit and loss adjustment account.
2. A Person who represents the deceased partner on the death of the Partner.
3. Accumulated past profit kept in the form of reserve
4. The Partner who died.
5. The proportion in which the continuing partners benefit due to death of partner.

C. State whether the following statements are True or False with reasons

1. A deceased partner is not entitled to Goodwill of the firm
2. A deceased partner is entitled to his share of General Reserve
3. If Goodwill is written off a deceased partner's capital account is debited.
4. After the death of partner, entire amount due to deceased partner is paid to legal rep representative of the deceased partner.
5. For recording the Profit or Loss upto the date of death, Profit and Loss Appropriation Account is operated.

D. Fill in the blanks and rewrite the following sentence.

1. Deceased partner's executors account is shown on the .... side of the Balance Sheet.
2. On death of a partner, a ratio in which the continuing partners get more share of profits in future is called as .... ratio.
3. Deceased partners share of profit up to the death is shown on ....side of Balance Sheet.
4. Benefit ratio = New Ratio ....
5. When Goodwill is raised at its full value and it is written off .... account is to be credited.

E. Answer in one sentence only.

1. What is gain ratio?
2. In which ratio General Reserve is distributed on death of a partner?
3. To whom you distribute General Reserve on death of a partner?
4. How death of a partner is a compulsory retirement?
5. To which account Profit is to be transferred upto the date of his death?

Practical Problems

1. **Rajesh, Rakesh and Mahesh were equal Partner on 31st March 2019. Their Balance Sheet was as follows 31st March 2019**

Balance Sheet as on 31st March 2019

Liabilities	Amt ₹	Assets	Amt ₹
Capital Account :		Land and Building	4,00,000
Rajesh	5,00,000	Furniture	3,00,000
Rakesh	2,00,000	Debtors	3,00,000
Mahesh	2,00,000	Stock	1,00,000
Sundry creditors	90,000	Cash	1,00,000
Bills Payable	60,000		
Bank loan	1,50,000		
	12,00,000		12,00,000

Mr. Rajesh died on 30th June 2019 and the following adjustment were agreed as

1) Furniture was to be adjusted to its market price of 3,40,000
2) Land and Building was to be depreciated by 10%
3) Provide R.D.D 5% on debtors
4) The Profit upto the date of death of Mr. Rajesh is to be calculated on the basis of last years profit which was 1,80,000

Prepare 1) Profit and Loss adjustment A/c , 2) Partners capital account, 3) Balance sheet of the continuing firm

Ans : P & Ajdustment A/c Loss ₹ 15,000 Balance Sheet Total ₹ 12,90,000

2. **Rahul, Rohit and Ramesh are in a business sharing profits and losses in the ratio of 3:2:1 respectively. Their balance Sheet as on 31st March 2017 was as follows.**

Balance Sheet as on 31st March 2017

Liabilities	Amt ₹	Assets		Amt ₹
Capital Account :		Debtors	1,00,000	
Rahul	2,20,000	Less: R. D. D.	10,000	90,000
Rohit	2,10,000	Plant and Machinery		85,000
Ramesh	2,40,000	Investment		3,50,000
creditors	80,000	Motor lorry		1,00,000
Bills Payable	7,000	Building		80,000
General Reserve	96,000	Bank		1,48,000
	8,53,000			8,53,000

On 1st October 2017 Ramesh died and the Partnership deed provided that

1 R.D.D. was maintained at 5% on Debtors

2. Plant and Machinery and Investment were valued at ₹ 80,000 and ₹ 4,10,000 respectively.
3. Of the creditors an item of ₹ 6000 was no longer a liability and hence was properly adjusted.

4. Profit for 2017-18 was estimated at ₹120,000 and Ramesh share in it up to the date of his death was given to him.
5. Goodwill of the Firm was valued at two times the average profit of the last five years. Which were

2012-13	₹1,80,000	2013-14	₹ 2,00,000
2014-15	₹ 2,50,000	2015-16	₹ 1,50,000
2016-2017	₹ 1,20,000		

   Ramesh share in it was to be given to him
6. Salary 5,000 p.m. was payable to him
7. Interest on capital at 5% i.e. was payable and on Drawings ₹ 2000 were charged.
8. Drawings made by Ramesh up to September 2017 were ₹5,000 p.m.

Prepare Ramesh's Capital A/c showing the amount payable to his executors
Give Working of Profit and Goodwill
Ramesh Capital Balance ₹ 3,41,000
(Ans : Profit on Adj A/c ₹ 66000)

3 **Ram, Madhav and Keshav are partners sharing Profit and Losses in the ratio 5:3:2 respectively. Their Balance Sheet as on 31st March 2018 was as follows.**

Balance Sheet as on 31st March 2018

Liabilities	Amt ₹	Assets	Amt ₹
General Reserve	25,000	Goodwill	50,000
Creditors	1,00,000	Loose Tools	50,000
Unpaid Rent	25,000	Debtor	1,50,000
Capital Accounts		Live Stock	1,00,000
Ram	1,00,000	Cash	25,000
Madhav	75,000		
Keshav	50,000		
	3,75,000		3,75,000

Keshav died on 31st July 2018 and the following Adjustment were agreed by as per partnership deed.

1. Creditors have increased by 10,000
2. Goodwill is to be calculated at 2 years purchase of average profits of 5 year.
3. The Profits of the preceding 5 years was

2013-14	₹ 90,000	2014-15	₹ 1,00,000
2015-16	₹ 60,000	2016-17	₹ 50,000
2017-18	₹ 50,000 (Loss)		

   Keshav share in it was to be given to him.
4. Loose Tools and live stock were valued at ₹80,000 and ₹ 1,20,000 respectively
5. R.D.D. was maintained at ₹10,000
6. Commission ₹ 2000 p.m. was payable to Keshav Profit for 2018 -19 was estimated at ₹ 45000 and keshav's share in it up to the date of his death was given to him.

Prepare Revaluation A/c , Keshav's capital A/c showing the amount payable to his executors.

(Ans : (Revaluation profit ₹ 30,000, Keshva's Executors Loan ₹ 92,000)

4 **Virendra, Devendra and Narendra were partners sharing Profit and Losses in the ratio of 3:2:1. Their Balance Sheet as on 31st March 2019 was as follows.**

Balance Sheet as on 31st March 2019

Liabilities	Amt ₹	Assets	Amt ₹
Bank Loan	25,000	Furniture	50,000
Creditors	20,000	Land & Building	50,000
Bills Payable	5,000	Motor Car	20,000
Reserve Fund	30,000	Sundry Debtors	50,000
Capital Account :		Bills Receivable	20,000
Virendra	90,000	Investments	50,000
Devendra	60,000	Cash at Bank	20,000
Narendra	30,000		
	2,60,000		2,60,000

Mr. Virendra died on 31st August 2019 and the Partnership deed provided that. That the event of the death of Mr. Virendra his executors be entitled to be paid out.

1. The capital to his credit at the date of death.
2. His proportion of Reserve at the date of last Balance sheet.
3. His proportion of Profits to date of death based on the average profits of the last four years.
4. His share of Goodwill should be calculated at two years purchase of the profits of the last four years for the year ended 31st March were as follows -

2016	₹ 40,000	2017	₹ 60,000
2018	₹ 70,000	2019	₹ 30,000

5. Mr. Virendra has drawn ₹ 3000 p.m. to date of death, There is no increase and Decrease the value of assets and liabilities.

Prepare Mr. Virendras Executors A/c

(Ans : Executor's Loan A/c ₹ 150417)

5. The Balance Sheet of Sohan, Rohan and Mohan who were sharing profits and Losses in the ratio of 3:2:1 as follows.

Balance Sheet as on 31st March 2019

Liabilities	Amt ₹	Assets	Amt ₹
Bank Overdraft	18,000	Bank	48,000
Creditors	85,000	Debtors	30,000
Bills payable	40,000	Land and Building	40,000
Bank Loan	1,50,000	Machinery	80,000
General Reserve	27,000	Investments	40,000
Capital Account :		Computers	40,000
Sohan	20,000	Stock	90,000
Rohan	20,000	Patents	12,000
Mohan	20,000		
	3,80,000		3,80,000

Mr. Rohan died on 1 st October 2019 and the following adjustments were made.

1. Goodwill of the firm is valued at 30,000
2. Land and Building and Machinery were found to be undervalued by 20%
3. Investments are valued at ₹ 60,000
4. Stock to be undervalued by ₹ 5000 and a provision of 10% as debtors was required.
5. Patents were value less
6. Mr. Rohan was entitled to share in profits up to the date of death and it was decided that he may be allowed to retain his drawings as his share of profit. Rohan's drawings till date of death was ₹ 25000

   Prepare partners capital accounts.

   (Ans : Revaluation profit ₹ 30,000, Rohan's Executors Loan ₹ 49,000, Soham ₹ 63,500, Mohan ₹ 34,500.)

Activity :

Collect the information of Deceased partners claim from any chartered Accounts. (CA)

Visit Life Insurance Company and find out the procedure for obtaining Joint Life Policy for Partners and also study the process of settlement of claim in case of death of a partner.

6 Dissolution Of Partnership Firm

Content

Competency Statements

❑ *The Students are able to :*
- *Understand the meaning and Reasons of dissolution of partnership firm.*
- *Know the effects of dissolution of Partnership firm.*
- *Learn various accounting treatment for settlement of accounts.*
- *Learn accounting procedure under simple dissolution and insolvency of partner.*

6.1 Introduction :

Dissolution means to windup or to close down. When business relations among the partners in a Partnership Firm comes to an end, it is known as Dissolution of Partnership. When one or more partner/partners take decision to close the Partnership Firm, it is known as Dissolution of Partnership firm. When all partners decide to discontinue from partnership firm, it results in to dissolution of partnership. The relationship between partners is referred to as Partnership. While all the partners collectively are called firm. Dissolution of a firm is different from dissolution of partnership.

In short, dissolution of partnership may not include dissolution of the firm, but dissolution of the firm means dissolution of the Partnership.

Meaning and Definition :

Meaning - In Legal terms dissolution has multiple meaning. A word "DISSOLUTION" comes from the Latin word "DISSOLUTION", means "A dissolving of something". Dissolution is the last stage of closure of business.

Definition :

1. Indian Partnership Act 1932, Sec. 39, provides that, "The dissolution of the partnership between all the partners of a firm is called the dissolution of a firm." It implies the complete breakdown of the relation of Partnership between all the partners.
2. "The act or process of ending an official organization or legal agreement."
3. "The dissolution of partnership firm indicates the discontinuance function as a firm".

6.2 Reasons For Dissolution of Partnership Firm :

1. By Voluntary act of partners themselves.
2. When the period (Duration) of partnership firm is expired.
3. Partnership can be dissolved after the completion of specific Venture for which it was formed.
4. Insolvency of all partners or all partners except one results in to dissolution.
5. Illegal or unlawful business activity results into dissolution.
6. Partnership at will can be dissolved by giving notice of 14 days.

In addition to the above circumstances. Honorable Court can order to dissolve the partnership on legal grounds. For example - Guilt of misconduct : Partner becomes of unsound mind, breach of agreement etc.

6.3 Difference Between Dissolution of Partnership and Dissolution of firm.

Basic of Comparison	Dissolution of Partnership	Dissolution of Firm.
Meaning	It may or may not involve dissolution of firm.	It implies dissolution of Partnership
Nature	The nature of Dissolution of Partnership is Voluntary	The nature of Dissolution of firm's voluntary or compulsory.
Continuation of Business	The business continues However the partnership is reconstituted	The Business discontinues completely.
Requirements	It requires revaluation of assets and liabilities for reconstitution of firm.	It requires realization of assets and liabilities for closure of the firm.
Final closure of Books	It does not require final closure of the books of accounts.	It necessitates final closure of the books of accounts.
Court Order	A court order cannot dissolves a Partnership.	A court order can dissolve a firm.

6.4 Accounting Treatment / Settlement of accounts on dissolution of firm :

When firm is dissolved all assets are realised and the proceeds from it, are to be paid for the liabilities of the partnership firm. According to Indian Partnership Act 1932 Sec. 48 the liabilities are paid as per the order given below.

(a) Realisation (Dissolution) expenses to be paid first.

(b) Outside liabilities (Third party liabilities) to be paid e. g. Sundry Creditors, Bills payable, Bank overdraft, Loan from others, Outstanding expenses etc.

(c) After paying all outside liabilities, if there is any surplus cash available, to be paid for loans given by the partners to the firm. If all the partners' loan are not fully repaid due to insufficient funds, they are entitled to share proportionately.

(d) If still surplus cash remains that should be distributed to the partners' capital in profit sharing ratio.

6.5 Accounting Procedure

The dissolution of partnership firm is to be studied under the following two heads.

(A) SIMPLE DISSOLUTION.

(B) DISSOLUTION UNDER INSOLVENCY SITUATION.

6.5 (A) SIMPLE DISSOLUTION.

When all partners of partnership firm are solvent and they decided to dissolve their firm due to any reason it is called as Simple Dissolution of Partnership Firm. Under simple dissolution of a partnership firm following accounts are opened in the books of a firm.

1) Realisation Account.
2) Partners Capital Account.
3) Partners Currents Account. (If capital method is fixed.)
4) Partners Loan Account (If necessary).
5) Cash or Bank Account.

1 **Realisation Account :** While preparing Realisation account all Sundry assets and all third party liabilities are transferred. Realisation is the process of converting assets into cash. Assets realised are credited and liabilities settled are debited to this account. The purpose of this account is to show the gain (profit) or loss on realisation and is, therefore a Nominal Account. The account is closed by transferring the gain (profit) or loss on realisation to partners Capital / Current Account in their profit sharing ratio. The debit balance of Realisation A/c is Loss and credit balance is Profit.

2 **Partners Capital Account :** Capital balance of all the partners appearing in the Balance Sheet should be shown on credit side or debit side to the respective partners capital account as "By Balance b/d" or "To Balance b/d", also transfer Reserves, Accumulated Profits or losses, Realisation Profit or loss. After making all the adjustments the balance represents the amount due to partners or due from partner. The accounts are closed after the partners receive cash or pay cash.

3 **Partners Current Account :** All Partners Current Account is opened, when fixed capital method is given. Current Account shows a Debit Balance or Credit Balance. At the end closing balances of Parters Current Account are transferred to Partners Capital Account.

4 **Partners Loan Account :** Credit Balance of Partner's Loan Account is not transferred to Realisation Account credit side but it is paid off through a separate account after payment of all the amounts owed to outsiders (third party) of the firm. However debit balance of Partners Loan should be debited to partners Capital / Current Account directly.

5 **Cash / Bank Account :** Cash / Bank Account is opened in the books of firm. Debit balance of Cash / Bank appearing in the balance sheet asset side should be shown on cash / Bank Account debit side as "To Balance b/d". After incorporating all the amounts to cash or Bank, the balance of this account must be equal to the amount due to the partners. All cash receipts in process of dissolution is debited and all payments made by firm are credited to cash / Bank A/c.

Accounting Entries To Close The Books Of Accounts -

On dissolution of partnership firm, the books of accounts are to be closed permanently, and Balance Sheet is to be prepared. If the Balance Sheet last drawn and the date of dissolution differs on the date of dissolution one fresh Balance Sheet is to be prepared for closing books of the partnership firm. If the date of dissolution and the date of Balance Sheet remains the same, one should not prepare a revised Balance Sheet. The procedure of simple dissolution may be divided into stages as under.

i) Transfer Stage :

Under this stage closing Balance Sheet's all Assets. (Except cash / Bank debit balance, fictitious assets viz formation expenses, profit and loss A/c (Debit Balance, advertising suspense etc.) and all liabilities (except partner's capital, partners loan and any undistributed profit etc.) are transferred to

Realisation Account at their Book value or Balance sheet value. All the Assets are transferred on the debit side and all the Liabilities are transferred on credit side of Realisation Account.

Specimen Journal Entries :

1. For Transferring Assets to Realisation Account :

Realisation A/c. ....Dr. (With the book value or Balance Sheet value)

To Assets A/c (Individually)

(Baing transfer of various assets at book value to Realisation Account.)

2. For Transferring Liabilities to Realisation Account :

All the liabilities to third parties are closed by transfer to Realisation Account.

Sundry Creditors A/c.	Dr.	At
Bills Payable A/c	Dr.	Book
Bank Overdraft A/c	Dr.	Values
Outsider's Loan A/c (other than partner)	Dr.	
Outstanding Expenses A/c	Dr.	

To Realisation A/c

(Being transfer of liabilities to Realisation Account.)

3. For Transfer of Provision against closing Assets :

The various assets against which provision i. e. R. D. D., Provision for Depreciation, Contingency Reserve etc exist should be transferred separately to the Realisation Account because these are separate accounts in the Books. The entry will be.

Provision for Doubtful Debts A/c	Dr.	
Provision for Discount A/c	Dr.	(At
Provision for Depreciation A/c	Dr.	Book
Contingency Reserve A/c	Dr.	Value)
Joint Life Policy Reserve A/c	Dr.	
Investment Fluctuation Fund A/c	Dr.	

To Realisation A/c

(Being transfer of various provisions to Realisation Accounts)

4. For Transfer of Accumulated Profit and Reserves :

Accumulated profits means undistributed e. g. General Reserve, Reserve Fund, Profit and loss A/c (credit balance). It should be transferred to Partners Capital Account or Partners Current Account in their profit sharing ratio. The entry is :

General Reserve A/c	Dr.	(In Profit
Reserve Fund A/c	Dr.	Sharing
Profit and Loss A/c.	Dr.	Ratio)

To all Partners Capital / Current A/c.

(Being accumulated Profit and Reserves transferred to all partners Capital / Current A/c in their profit sharing ratio.)

5. For Transfer of Accumulated Loss :

Accumulated loss are the losses suffered by the partnership firm not distributed among the partners e. g. Profit and Loss a/c debit balance such Accumulated Loss is transferred to Partners Capital Account or Partners Current Account. The entry will be :

All Partner's Capital / Current A/c ....Dr.

To Profit and Loss A/c (Debit balance)

To Advertising Suspense A/c

(Being accumulated loss transfer to all partners Capital Accounts in their Profit Sharing Ratio.)

ii) REALISATION / DISPOSAL STAGE :

Under this stage all assets including the unrecorded assets in the Balance Sheet of the firm is sold out (Realised) or may be taken over by any partner, liabilities and realisation / Dissolution expenses are paid or any liability taken over by any partner and partners loan is also paid.

SPECIMEN JOURNAL ENTRIES :

1. If the Assets are sold for cash -

Cash / Bank A/c ....Dr. (Selling Price)

To Realisation A/c.

(Being assets sold for cash.)

2. If the Assets are taken over by any partner -

Partner's Capital / Current A/c...Dr. (Agreed value)

To Realisation A/c.

(Being assets taken over by the partner.)

NOTE : If any assets is taken over by any creditors in part or full payment of the amount due to him, the value placed on the asset taken over is deducted from the amount due to the creditor and the balance of the amount due will be paid to him. Entry for the asset taken over by the creditor is not made but entry for the net payment to the creditor is made.

3. For Payment of Liabilities -

A) For Payment to outsiders liabilities (Third party)

Realisation A/c...Dr. (Actual payment.)

To Cash / Bank A/c.

(Being third party Liabilities paid.)

B) If any partner discharges any liabilities of the firm -

Realisation A/c..Dr. (Actual amount paid)

To Partners Capital / Current A/c.

(Being Liability taken over by a partner.)

Note: If nothing is mentioned about payment of any liability by then it is paid at Book Value.

4. For Payment of Realisation Expenses -

A) Realisation Expenses is borne by firm :

Realisation A/c...Dr. (Actual expenses.)

To Cash / Bank A/c.

(Being Realisation expenses paid by firm.)

B) Realisation Expenses is borne by any Partner :

Realisation A/c...Dr. (Actual expenses.)

To Concerned Capital / Current A/c.

(Being Realisation expenses paid by partner.)

5. If commission is given to any Partner for realising assets :

Realisation A/c. ....Dr. (Agreed value)

To Partner's Capital / Current A/c.

(Being commission paid for realising the assets)

6. If Any Contingent Liability is paid (i.e. liability not included in Balance Sheet) :

Realisation A/c. ....Dr. (Actual payment)

To Cash / Bank A/c.

(Being contingent Liability paid.)

7. For Payment of Partner's Loan -

As per section 48 of the Partnership Act 1932 Partners loan shall be paid after making the payment to third parties. It should not be transferred to realisation account, the loan due to a partner is paid and the entry is :

Partner's Loan A/c. ....Dr. (Actual payment)

To Cash / Bank A/c.

(Being repayment of Partner's loan.)

iii) DISTRIBUTION STAGE :

Under this stage first realisation account is closed and the profit or loss on realisation account is transferred to Partner's Capital / Current Account in their agreed Profit Sharing Ratio. After making all the adjustments related to all partners Partner's Capital Account is closed by setting the balance.

1. For Closing Realisation Account : Realisation Account is a Nominal Account; it is closed to find out profit or loss made / suffered on realisation of asset and payment of outside liabilities.

A) For Transfer of Profit on Realisation Account :

If the credit side of the Realisation Account is more than the debit side a Profit has been made and should be transfer to all Partners Capital / Current Account. The entry is :

Realisation A/c..Dr. (In profit sharing ratio)

To All Partner's Capital / Current A/c.

(Being Profit on realisation transferred to all partners Capital / Current Account in their profit sharing ratio)

B) For Transfer of Loss on Realisation Account :

If the debit side of the Realisation Account is more than the credit side a Loss has been incurred and the entry will be :

All Partner's Capital / Current A/c ....Dr. (In profit sharing ratio)

To Realisation A/c.

(Being loss on realisation transferred to all partners Capital / Current Account in their profit sharing ratio)

2. For Closing Current Accounts : Current Accounts of the partners (if any) should be closed by transferring the balance to Capital Account of the partners. The entry is :

A) If Current Account shows Credit Balance :

Partner's Current A/c. ....Dr.

To Partner's Capital A/c.

(Being transfer of credit balance to Partner's Capital account)

B) If Current Account shows Debit Balance :

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

To Partner's Current A/c.

(Being transfer of debit balance to Partner's Capital account)

3. For Closing Capital Account :

A) As the Capital Accounts of the partners shows a debit balance partner should bring in cash to settle his account with the firm. The entry is :

Cash / Bank A/c. .... Dr.

To Partner's Capital A/c.

(Being amount due from the partner received)

B) If cash paid to Partner to settle the Capital Account :

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

To Cash / Bank A/c.

(Being amount due to partners paid as final settlement.)

Treatment of Unrecorded (Undisclosed) Assets and Liabilities -

On the date of dissolution there may be some assets and liabilities which may not be appearing in the books. Such assets and liabilities have not been recorded in the books, so question of their transfer to Realisation Account does not arise. But entries are recorded when such assets or liabilities are realised or paid.

1. For any unrecorded assets Realised (sold out) -

Cash / Bank A/c. .... Dr. (Value realised)

To Realisation A/c.

(Being unrecorded assets realised.)

2. If unrecorded assets are taken over by any partner -

Partner's Capital / Current A/c.. Dr. (Agreed value)

To Realisation A/c.

(Being unrecorded assets taken over by partner.)

3. If unrecorded liabilities are paid off by any partner -

Realisation A/c. .... Dr. (Actual payment)

To Partner's Capital / Current A/c.

(Being unrecorded liabilities paid off by partner.)

4. If unrecorded liabilities are paid by Firm -

Realisation A/c. .... Dr. (Actual payment made)

To Bank / Cash A/c.

(Being unrecorded liabilities paid off by the firm.)

Treatment of Goodwill on Dissolution -

There is no need to give a special treatment to Goodwill in case dissolution. It should be treated as any other asset. If it already appears in books, it will be transferred, like all other assets, to the debit side of realisation account. If it does not appear, there is no question of transfer on sale the amounts actually received will be debited to Cash / Bank Account and credited to Realisation Account.

A. If Goodwill Account Appears in the Balance Sheet :

1. Transfer of Goodwill to Realisation Account.

Realisation A/c. .... Dr.

To Goodwill A/c.

(Being goodwill transferred.)

2. If Goodwill is realised on dissolution -

Cash / Bank A/c. .... Dr.

To Realisation A/c.

(Being goodwill realised)

B. If Goodwill Account Does Not Appears in the Balance Sheet:

When goodwill account does not appear in the Balance Sheet, there is no question of transfer But on sale the amount is actually received, The entry will be :

1. Transfer of Goodwill realised on dissolution -

Cash / Bank A/c. .... Dr.

To Realisation A/c.

(Being goodwill realised)

2. If a Partner Purchases Goodwill -

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

To Realisation A/c.

(Being goodwill purchased by a Partner.)

PROFORMA OF REALISATION ACCOUNT

Dr. **Realisation Account** **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To Sundry Assets A/c. (Transferred all assets, excluding cash, bank, Fictitious assets, accumulated losses, debit balance of Partners Capital / Current A/c. Loan to partner(s))	(Book Value)	**By Sundry Liabilities A/c.** (Transferred third party liabilities, excluding Partners Capital, Reserves, Accumulated Profit, Loan from partner(s)).	(Book Value)
To Provision on Any liabilities A/c. (Reserve for discount on creditors)	(Book Value	**By Provision on Any Assets A/c.** (Reserve for Doubtful Detts (R. D. D.)	(Book Value
To Cash / Bank A/c. (Discharge Sundry liabilities)	(Agreed-Value)	**By Cash / Bank A/c.** (Received amount on realisation of assets.)	(Re-alised Value)
To Cash / Bank A/c. (Payment of unrecorded liabilities.)	(Agreed-Value)	**By Cash / Bank A/c.** (Received amount from unrecorded assets.)	(Actual Value)
To Cash / Bank A/c. (Payment of Dissolution / Realisa-tion Expenses.)	(Agreed-Value)	**By Partners Capital / Current A/c.** (Any Assets taken over by a partner recorded or unrecorded.)	(Agreed-Value

To Partners Capital / Current A/c. (Any liability taken over by a Partner.)	(Agreed-Value)	**By Partners Capital / Current A/c.** (Loss on realisation transferred at Profit Sharing Ratio.)	xxx xxx
To Partners Capital / Current A/c. (Profit on realisation transferred at Profit Sharing Ratio.)	xxx xxx		
Total	xxx	Total	xxx

Illustrations

1. **Riddhi and Siddhi are sharing profits and losses in the ratio of 2:1. The following is their Balance Sheet as on 31st March 2019.**

Balance Sheet as on 31st March 2019

Liabilities	Amount ₹	Assets		Amount ₹
Capital A/c :		Building		60,000
Riddhi	80,000	Furniture		24,000
Siddhi	60,000	Machinery		20,000
Reserve Fund	16,000	Debtors	17600	
Siddhi's Loan A/c	4,000	Less : R. D. D.	1,600	16,000
Creditors	30,000	Stock		40,000
		Investment		8,000
		Interest Receivable		2,000
		Bank		20,000
	1,90,000			1,90,000

The firm was dissolved on 31st March 2019.

1. Assets realised as follows :
   Machinery ₹ 22,000, Building ₹ 28,000, Stock ₹ 38,000 and Debtors ₹ 15,000.
2. Riddhi took over the Investment at ₹ 10,000 and Furniture at Book value.
3. Siddhi agreed to accept ₹ 3,000 in full settlement of her Loan Account.
4. Dissolution Expenses amounted to ₹ 4,000.
5. Interest Receivable could not be recovered

Prepare Realisation Account, Partners' Capital Account, Siddhi's Loan Account and Bank Account

Solution **In the books of Riddhi and Siddhi**

Dr. **Realisation Account** **Cr.**

Particulars	Amount ₹	Amount ₹	Particulars	Amount ₹	Amount ₹
To Sundry Assets A/c			By Sundry Liabilities A/c		
Building	60,000		Creditors		30,000
Furniture	24,000		By R. D. D.		1,600
Machinery	20,000		By Bank A/c.		
Debtors	17,600		Building	28,000	
Stock	40,000		Debtors	15,000	
Investment	8,000		Stock	38,000	
Interest Receivable	2,000	1,71,600	Machinery	22,000	1,03,000
To Bank A/c			By Riddhi's Capital A/c.		
Creditors	30,000		Investment	10,000	
Realisation Exp.	4,000	34,000	Furniture	24,000	34,000
			By Siddhi's Loan A/c		1,000
			By Partner's Capital A/c.		
			(Loss on Realisation transferred.)		
			Riddhi	24,000	
			Siddhi	12,000	36,000
		2,05,600			2,05,600

Dr. **Partners' Capital Account** **Cr.**

Particulars	Riddhi ₹	Siddhi ₹	Particulars	Riddhi ₹	Siddhi ₹
To Realisation A/c	34,000		By Balance b/d	80,000	60,000
To Realisation A/c (Loss on Realisation)	24,000	12,000	By Reserve Fund A/c	10,667	5,333
To Bank A/c	32,667	53,333			
	90,667	65,333		90,667	65,333

Dr. **Bank Account** **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	20,000	By Realisation A/c	34,000
To Realisation A/c	1,03,000	By Siddhi's Loan A/c	3,000
		By Riddhi's Capital A/c	32,667
		By Siddhi's Capital A/c	53,333
	1,23,000		1,23,000

Dr.	Siddhi's Loan Account		Cr.
Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Bank	3,000	By Balance b/d	4,000
To Realisation A/c	1,000		
	4,000		4,000

2 A firm consisting of partners Mahesh, Suresh and Yogesh decided to dissolve the partnership. They decided to take over certain assets and liabilities and continue business separately. The Balance Sheet was as under.

Balance Sheet as on 31st March 2017

Liabilities	Amount ₹	Assets		Amount ₹
Capital A/c :		Furniture		2,000
Mahesh	55,000	Sundry Assets		34,000
Suresh	20,000	Debtors	48,400	
Yogesh	14,000	Less : R. D. D.	2,400	46,000
Creditors	12,000	Stock		15,600
Loan	3,000	Cash		6,400
	1,04,000			1,04,000

It was agreed as under :

1. Mahesh is to take Furniture at ₹ 1,600 and the Debtors amounting to ₹ 40,000 at ₹ 34,000 only. He accepted the Creditors of ₹ 12,000 at that figure.
2. Suresh is to take over all Stock at ₹ 14,000 and Sundry Assets worth ₹ 16,000 at ₹ 14,400 only.
3. Yogesh is to takeover the remaining Sundry Assets at ₹ 16,000 and assume the responsibility for the discharge of the loan together will accrued interest on loan of ₹ 60, which has not been recorded in accounts.
4. The dissolution expenses were ₹ 540.
5. The remaining Debtors realized ₹ 4,200 only.
6. The necessary Adjustments were made by partners to settle their accounts.

Prepare Realisation Account, Partners Capital Account, and Cash Account, after giving effect to the above adjustments.

Solution : In the books of Mahesh, Suresh and Yogesh

Dr. **Realisation Account** Cr.

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Sundry Assets A/c			By Sundry Liabilities A/c		
Sundry Assets	34,000		Creditors	12,000	
Furniture	2,000		Loans	3,000	15,000
Debtors	48,400				
Stock	15,600	1,00,000	By R. D. D.		2,400
To Mahesh's Capital A/c			By Mahesh's Capital A/c		
(Creditors)		12,000	Furniture	1,600	
			Debtors	34,400	36,000
To Yogesh's Capital A/c			By Suresh's Capital A/c		
Loan	3,000		Stock	14,000	
Interest on loan	60	3,060	Sundry Assets	14,400	28,400
			By Yogesh's Capital A/c		
To Cash A/c		540	(Sundry Assets)		16,000
(Dissolution Expenses)			By Cash A/c		4,200
			(Debtors)		
			By Partners' Capital A/c		
			(Loan on Realisation		
			Transferred.)		
			Mahesh	4,533	
			Suresh	4,533	
			Yogesh	4,534	13,600
		1,15,600			1,15,600

Dr. **Partners' Capital Account** Cr.

Particulars	Mahesh (₹)	Suresh (₹)	Yogesh (₹)	Particulars	Mahesh (₹)	Suresh (₹)	Yogesh (₹)
To Realisation A/c	36,000	28,400	16,000	By Balance b/d	55,000	20,000	14,000
To Realisation A/c (Loss)	4,533	4,533	4,534	By Realisation A/c	12,000		3,060
To Cash A/c	26,467			By Cash A/c		12,933	3,474
	67,000	32,933	20,534		67,000	32,933	20,534

Working Note :

Dr. **Cash Account** **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	6,400	By Realisation A/c	540
To Realisation A/c	4,200	By Mahesh's Capital A/c	26,467
To Suresh's Capital A/c	12,933		
To Yogesh's Capital A/c	3,474		
	27,007		27,007

3 **Rajiv and Sanjeev are partners Sharing Profits and losses equally. They decided to dissolve their firm on 31st March 2019. The Balance Sheet of the firm on 31st March 2019 was as under.**

Balance Sheet as on 31st March 2017

Liabilities	Amount ₹	Assets	Amount ₹
Reserve Fund	8,000	Building	20,000
Creditors	12,800	Furniture	6,000
Bills payable	7,200	Debtors	18,000
Capital A/c's		Stock	20,000
Rajeev	20,000	Bills Receivable	2,000
Sanjeev	24,000	Cash	6,000
	72,000		72,000

The Assets realised as under :

Stock ₹ 18,400, Debtors ₹ 16,600, Bill Receivable ₹ 1,980. Sanjeev agreed to takeover the Building for ₹ 18,000 and Ranjeev agreed to takeover the Furniture for ₹ 5,400. The realisation expenses amounted to ₹ 600.

Pass necessary Journal Entries and write up the Realisation A/c and Partners' Capital A/c.

Solution :

In the books of Jajeev and Sanjeev.

Journal Entries

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1.	Realisation A/c...Dr.		66,000	
	To Building A/c			20,000
	To Furniture A/c			6,000
	To Debtors A/c			18,000
	To Stock A/c			20,000
	To Bills Receivable A/c			2,000
	(Being Sundry Assets transferred to Realisation A/c			
2.	Creditors A/c ....Dr.		12,800	
	Bills Payable..Dr.		7,200	
	To Realisation A/c			20,000
	(Being Sundry Liabilities transferred to Realisation A/c			
3.	General Reserves A/c...Dr.		8,000	
	To Rajeev's Capital A/c			4,000
	To Sanjeev's Capital A/c			4,000
	(Being General Reserve transferred to Partners Capital A/c)			
4.	Cash A/c...Dr.		36,980	
	To Realisation A/c			36,980
	(Being assets realised.)			
5.	Sanjeev's Capital A/c ....Dr.		18,000	
	To Realisation A/c			18,000
	(Being Building taken over by Sanjeev)			
6.	Rajeev's Capital A/c..Dr.		5,400	
	To Realisation A/c			5,400
	(Being Furniture taken over by Rajeev)			
7.	Realisation A/c...Dr.		20,000	
	To Cash A/c			20,000
	(Being Sundry Liabilities Paid)			
8.	Realisation A/c...Dr.		600	
	To Cash A/c			600
	(Being Realisation expenses Paid)			
9.	Rajeev's Capital A/c ....Dr.		3,110	
	Sanjeev's Capital A/c ....Dr.		3,110	
	To Realisation A/c			6,220
	(Being Realisation loss transferred to partners Capital A/c			
10.	Rajeev's Capital A/c..Dr.		15,490	
	Sanjeev's Capital A/c ....Dr.		6,890	
	To Cash A/c			22,380
	(Being final settlement made.)			

In the books of Jajeev and Sanjeev.

Dr. **Realisation Account** **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Sundry Assets A/c			By Sundry Liabilities A/c		
Building	20,000		Creditors	12,800	
Furniture	6,000		Bills Payable	7,200	20,000
Debtors	18,400		By Cash A/c		
Stock	20,000		Stock	18,400	
Bills Receivable	2,000	66,000	Debtors	16,600	
To Cash A/c			Bill Receivable	1,980	36,980
Creditors Bills	12,800		By Sanjeev's Capital A/c		18,000
Payable	7,200	20,000	(Building taken)		
To Cash A/c		600	By Rajeev's Capital A/c		5,400
(Realisation			(Furniture taken)		
Expensesp Paid)					
			By Partners 'Capital A/c		
			(Loss on Realisation		
			transferred.)		
			Rajeev	3,110	
			Sanjeev	3,110	6,220
		86,600			86,600

Dr. **Partners' Capital Account** **Cr.**

Particulars	Rajeev (₹)	Sanjeev (₹)	Particulars	Rajeev (₹)	Sanjeev (₹)
To Realisation A/c	5,400	18,000	By Balance b/d	20,000	24,000
To Realisation A/c	3,110	3,110	By General Reserve A/c	4,000	4,000
(Loss on Realisation)					
To Cash A/c	15,490	6,890			
	24,000	28,000		24,000	28,000

Working Note :

Dr. **Cash Account** **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	6,000	By Realisation A/c	20,000
To Realisation A/c	36,980	By Realisation A/c	600
		By Rajeev's Capital A/c	15,490
		By Sanjeev's Capital A/c	6,890
	42,980		42,980

4 The following is the Balance Sheet of Swara and Swaraj as on 31st March 2018.

Balance Sheet as on 31st March 2018.

Liabilities	Amount ₹	Assets		Amount ₹
Capital Account :		Furniture		6,000
Swara	6,000	Patents		1,200
Swaraj	5,000	Goodwill		2,000
General Reserve	2,000	Debtors	3,800	
Swara's Loan A/c	2,000	Less : R. D. D.	200	3,600
Creditors	3,000	Stock		5,000
Bills Payable	1,000	Bank		1,200
	19,000			19,000

On 1st April 2018 the firm was dissolved.

1. Swara took over Patents at a value of ₹ 2,000.
2. The assets were realisaed as under :
   Furniture ₹ 7,000, Goodwill ₹ 3,000, Stock ₹ 4,000 and Debtors ₹ 3,000.
3. Creditors were paid off at a discount of 10% and other liabilities were paid in full.
4. Expenses for realisation amounted to ₹ 1,500 which is borne by Swaraj.

Prepare Realisation A/c, Partnes' Capital A/c and Bank A/c

Solution 4 **In the books of Swara and Swaraj**

Dr. **Realisation Account** **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Sundry Assets A/c			By Sundry Liabilities A/c		
Furniture	6,000		Creitors	3,000	
Patents	1,200		Bills Payable	1,000	4,000
Goodwill	2,000		By R. D. D.		200
Debtors	3,800		By Swar's Capital A/c		2,000
Stock	5,000	18,000	(Partents taken over)		
To Swaraj's Capital A/c		1,500	By Bank A/c :		
(Realisation			Furniture	7,000	
Expenses)			Goodwill	3,000	
To Bank A/c			Stock	4,000	
Creditors	2,700		Debtors	3,000	17,000
Bill Payable	1,000	3,700			
		23,200			23,200

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

Particulars	Swara (₹)	Swaraj (₹)	Particulars	Swara (₹)	Swaraj (₹)
To Realisation A/c	2,000		By Balance b/d	6,000	5,000
(Parents taken over)			By General Reserve	1,000	1,000
To Bank A/c	5,000	7,500	To Realisation A/c		1,500
	7,000	7,500		7,000	7,500

Dr. **Bank Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	1,200	By Realisation A/c	
To Realisation A/c	17,000	(Creditors & Bill payable paid)	3,700
(Assets Realised)		By Swara's Loan A/c	2,000
		By Swara's Capital A/c	5,000
		By Swaraj's Capital A/c	7,500
	18,200		18,200

Working Note :

Dr. **Swara's Loan Account** **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To Bank A/c	2,000	By Balance b/d	2,000
	2,000		2,000

5 **Sun, Moon and Star are partners in a firm sharing Profits and Losses in the ratio of 5:3:2. They agreed to dissolve the firm on 31st March 2019 on which date their Balance Sheet was as under.**

Balance Sheet as on 31st March 2019.

Liabilities	Amount ₹	Assets	Amount ₹
Capital :		Furniture	20,000
Sun	35,000	Goodwill	13,000
Star	85,000	Joint Life Policy	30,000
Reserve Fund	15,000	(At surrendered value)	
Joint Life Policy Fund	30,000	Sundry Debtors	60,000
Sundry Creditors	26,000	Stock	22,000
Outstanding Rent	4,000	Cash at Bank	40,000
		Capital Account : Moon	10,000
	1,95,000		1,95,000

During the dissolution following were the Cash and Non-Cash transactions.

A. Furniture and Stock were taken over by Sun at an agreed value of ₹ 35,000 and ₹ 28,000 respectively.

B. Joint Life Policy was surrendered and Sundry Debtors were realised in full after allowing a discount of 20%

C. Sundry Creditors were taken over by Moon at ₹ 24,000.

D. The Realisation Expenses amounted to ₹ 2,000

You are required to prepare necessary Ledger Account in the Books of firm.

5

In the books of Sun, Moon and Star

Dr. **Realisation Account** **Cr.**

Particulars	Swara (₹)	Swaraj (₹)	Particulars	Swara (₹)	Swaraj (₹)
To Sundry Assets A/c			By Sundry Liabilities A/c		
Furniture	20,000		Creditors	26,000	
Goodwill	13,000		Joint Life Policy Fund	30,000	
Joint Life Policy	30,000		Outstanding Rent	4,000	60,000
Sundry Debtors	60,000				
Stock	22,000	1,45000			
To Moon's Capital A/c		24,000	By Sun's Capital A/c		
(Sundry Creditors			Furniture	35,000	
taken over)			Stock	28,000	63,000
To Bank A/c			(taken over)		
Outstanding Rent	4,000				
Realisation Expenses	2,000	6,000	By Bank A/c :		
To Partner's Capital A/c :			Joint Life Policy	30,000	
(Profit on Realisation transferred.)			Sundry Debtors	48,000	78,000
Sun	13,000				
Moon	7,800				
Star	5,200	26,000			
		2,01,000			2,01,000

Dr. **Partners' Capital Account** **Cr.**

Particulars	Sun (₹)	Moon (₹)	Star (₹)	Particulars	Sun (₹)	Moon (₹)	Star (₹)
To Balance b/d		10,000		By Balance b/d	35,000		85,000
To Realisation A/c	63,000			By Reserve Fund	7,500	4,500	3,000
To Bank A/c		26,300	93,200	By Realisation A/c		24,000	
				By Realisation A/c (Profit on Realisation)	13,000	7,800	5,200
				By Bank A/c	7,500		
	63,000	36,300	93,200		63,000	36,300	93,200

Dr. **Bank Account** Cr.

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	40,000	By Realisation A/c	6,000
To Realisation A/c	78,000	By Moon's Capital A/c	26,300
To Sun's Capital A/c	7,500	By Star's Capital A/c	93,200
	1,25,500		1,25,500

6 Nerle and Patil were partners sharing Profit and Losses in the ratio 3:1. They decided to dissolve the partnership on 31st March 2020 on which date their Balance Sheet stood as follows.

Balance Sheet as on 31st March 2020.

Liabilities	Amount ₹	Assets	Amount ₹
Capital A/c :		Building	60,000
Nerle	1,14,000	Machinery	50,000
Patil	50,000	Stock	30,000
Profit and Loss A/c	8,000	Sundry Debtors	44,000
Sundry Creditors	32,000	Cash at Bank	20,000
	2,04,000		2,04,000

The firm was dissolved on the above date and the assets were realised as under -

1. Nerle took over 50% of the Machinery at a discount of 10% and 1/4th Stock at a discount of 20%
2. Patil took over Building at ₹ 70,000 and Debtors worth ₹ 20,000 at ₹ 16,000. He also agreed to pay Creditors at a discount of 5%.
3. Balance of Machinery was sold at a loss of ₹ 4,000.
4. Balance of Stock was sold at 10% profit and Debtors realised at 95%.

You are required to prepare Realisation A/c, Partners Capital A/c and Bank A/c.

Solution 6

In the books of Nerle and Patil

Dr. **Realisation Account** **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Sundry Assets A/c			By Sundry Liabilities A/c		
Building	60,000		Creditors		32,000
Machinery	50,000				
Stock	30,000		By Nerle's Capital A/c :		
Sundry Debtors	44,000	1,84,000	Machinery	22,500	
			Stock	6,000	28,500
To Patil's Capital A/c :			By Patil's Capital A/c :		
Creditors		30,400	Building	70,000	
To Partner's Capital A/c			Debtors	16,000	86,000
(Profit on Realisation transferred.)					
Nerle	488		By Bank A/c :		
Patil	162	650	Machinery	21,000	
			Stock	24,750	
			Debtors	22,800	68,550
		2,15,050			2,15,050

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

Particulars	Nerle (₹)	Patil (₹)	Particulars	Nerle (₹)	Patil (₹)
To Realisation A/c	28,500	86,000	By Balance b/d	1,14,000	50,000
			By Profit and Loss A/c	6,000	2,000
To Bank A/c	91,988		By Realisation A/c		30,400
			By Realisation A/c (Profit on realisation)	488	162
			By Bank A/c		3,438
	1,20,488	86,000		1,20,488	86,000

Dr. **Bank Account** **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	20,000	By Nerle's Capital A/c	91,988
To Realisation A/c	68,550		
To Patil's Capital A/c	3,438		
	91,988		91,988

Working Note :

1. **Machinery - 50,000**

50% ₹ 25,000 (Nerle)	50% ₹ 25,000 (Realised)
(less) 10% ₹ 2,500 (Discount)	(less) ₹ 4,000 (Loss)
₹ 22,500	₹ 21,000

2. **Stock - 30,000**

$\left(\frac{1}{4}\right)$ ₹ 7,500 (Nerle)	$\left(\frac{3}{4}\right)$ ₹ 22,500 (Realised)
(less) 20% ₹ 1,500 (Discount)	(Add) 10% ₹ 2,250 (Profit)
₹ 6,000	₹ 24,750

3. **Creditors paid at 5% Discount.**

$= ₹\ 32{,}000 \times \frac{5}{100} = ₹\ 1{,}600$

$= ₹\ 32{,}000 - 1{,}600 = ₹\ 30{,}400$

4. **Total Debtors (B/S)**

Total Debtors (B/S)	₹ 44,000
Less : Patil taken over	₹ 20,000
Remaining Balance	₹ 24,000
95% Debtors Realised	₹ 22,800

6.5 B) Dissolution Under Insolvency Situation :

Insolvency - In legal terminology, the situation where the liabilities of a person or firm exceeds its assets. In practice however insolvency is the situation where an individual or a firm cannot raise enough cash to meet its obligations, or to pay debts as they become due for payment.

At the time of dissolution if the Partner's Capital Account shows a debit balance after making adjustments he is to bring cash in order to settle his account. If he is unable to clear his debit balance either wholly or in part the unrecoverable portion of the said partner must be borne by the solvent partners.

6.5 C) Some Important Concepts :

A. Solvent Partner : "A Partner whose assets are more than his liabilities"

A person is said to be solvent, when he is able to pay off his liabilities out of his assets.

A solvent partner means a partner who is able to meet his financial obligations.

B. Insolvent Partner :

"Insolvent Partner means a partner whose Liabilities are more than his Assets."

"A person is said to be insolvent when he is unable to satisfy his liabilities out of his assets".

C. Capital Deficiency : Capital deficiency means that one or more partner has a debit balance in his capital account at the point of final cash distribution. As per Partnership Act 1932 The liability of partners in a firm is unlimited as well as joint and several, so when a partners becomes insolvent his private property is acquired and sold out. If he is unable to pay his dues to firm his deficiency is borne by solvent partners in their profit sharing ratio.

6.5 D) Fixed and Fluctuating Capital Method

Fixed Capital Method : Under Fixed Capital Method a separate Current Account is prepared for each partner. All the adjustment are made in the Current Accounts. Then the balance on Current Account is transferred to Capital Account of the partner.

Accounting Procedure :

1. Transfer the balance on insolvent partner's Current Account to Capital Account. The entry will be

   Insolvent Partner's Current A/c...Dr.

   To Insolvent Partner's Capital A/c...................................Dr.

   (Being insolvent partners Current A/c transferred to Capital A/c)

2. Transfer the deficiency on Insolvent Partners Capital account to solvent partners Capital Accounts in their Profit sharing ratio.

   Solvent Partners Capital A/c...Dr.

   To Insolvent Partners capital A/c ....Dr.

   (Being insolvent partners deficiency transferred to solvent partners)

3. Transfer the balance of solvent partners Current Account to their Capital Accounts.

   Solvent Partners Current A/c...Dr.

   To Solvent Partners Capital A/c.......................................Dr.

   (Being Current Account balance transferred.)

4. Final settlement of Solvent Partners Capital account.

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

   To Cash / Bank A/c ....Dr.

   (Being Final settlement made by paying cash)

6.5 E) Fluctuating Capital Method

Under Fluctuation Capital Method, no Current Accounts are opened. All the adjustment are made in the Capital Account of the partners. Deficiency of insolvent partner's capital account is transferred to solvent partner's capital accounts in their Profit Sharing Ratio.

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

To Solvent Partners Capital A/c.......................................Dr.

(Being insolvent partner's capital A/c transferred)

(When one Partner become Insolvent)

Illustrations

1 **Vidya, Sharmila and Megha are partners sharing Profit and Losses in the ratio 5:3:2. Their Balance Sheet as on 31st March 2019 was as under.**

Balance Sheet as on 31st March 2019.

Liabilities	Amount ₹	Assets	Amount ₹
Capital A/c		Sundry Assets	1,28,000
Vidya	50,000	Bank	16,000
Sharmila	40,000	Current A/c : Megha	26,000
Megha	30,000		
Current A/c : Vidya	6,000		
: Sharmila	6,000		
Sundry Creditors	28,000		
Bill Payable	10,000		
	1,70,000		1,70,000

They decided to dissolve the partnership firm on the above date as under.

1. Sundry Assets realised at 80% of book value.
2. Unrecorded outstanding expenses ₹ 8,000 paid off.
3. Realisation expenses amounted to ₹ 6,000
4. Sundry Creditors and Bills Payable were paid for ₹ 34,000.
5. Megha become insolvent and ₹ 2,000 were recovered from her private estate.

Prepare Realisation Account, Partner's Current Account, Partner's Capital Account and Bank A/c

Solution : **In the books of Vidya, Sharmila and Megha**

Dr. **Realisation Account** **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Sundry Assets A/c		1,28,000	By Sundry Liabilities A/c		
			Creditors	28,000	
To Bank A/c :			Bills Payable	10,000	38,000
Creditors and Bills payable	34,000		By Bank A/c		1,02,400
			(Sundry Assets)		
Outstanding Expenses	8,000	42,000	By Partners' Current A/c :		
To Bank A/c		6,000	(Loss on Realisation		
(Realisation Expenses)			transferred.)		
			Vidya	17,800	
			Sharmila	10,680	
			Megha	7,120	35,600
		1,76,000			1,76,000

Dr. **Partners' Current Account** Cr.

Particulars	Vidya (₹)	Sharmila (₹)	Megha (₹)	Particulars	Vidya (₹)	Sharmila (₹)	Megha (₹)
To Balance b/d			26,000	By Balance b/d	6,000	6,000	
To Realisation A/c (Loss)	17,800	10,680	7,120	By Partner's Capital A/c	11,800	4,680	33,120
	17,800	10,680	33,120		17,800	10,680	33,120

Dr. **Partners' Capital Account** Cr.

Particulars	Vidya (₹)	Sharmila (₹)	Megha (₹)	Particulars	Vidya (₹)	Sharmila (₹)	Megha (₹)
To Partner's Current A/c	11,800	4,680	33,120	By Balance b/d	50,000	40,000	30,000
				By Bank A/c :			2,000
To Megha's Capital A/c	700	420		By Vidya's Capital A/c			700
To Bank A /c	37,500	34,900		By Sharmila's Capital A/c			420
	50,000	40,000	33,120		50,000	40,000	33,120

Dr. **Bank Account** Cr.

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	16,000	By Realisation A/c	42,000
To Realisation A/c	1,02,400	By Realisation A/c	6,000
To Megha's Capital A/c	2,000	By Vidya's Capital A/c	37,500
		By Sharmila's Capital A/c	34,900
	1,20,400		1,20,400

Working Note :

Capital Deficiently of Megha -

Vidya ₹ 1,220 × 5/8 = ₹ 700

Sharmila ₹1,120 × 3/8 = ₹ 420

2. **Following is the Balance Sheet of Kadam, Shinde and Chavan as on 31st March 2019. They were sharing Profit and Losses in ratio 1/2, 1/6, 1/3.**

Balance Sheet as on 31 st March 2019.

Liabilities	Amount ₹	Assets	Amount ₹
Capital A/c :		Building	28,500
Kadam	36,000	Machinery	20,250
Shinde	32,250	Furniture	4,500
General Reserve	18,000	Stock	30,750
Kadam's Loan	11,250	Debtors	15,000
Sundry Creditors	18,750	Bills Receivable	9,000
Bills Payable	11,250	Bank	4,500
		Profit and Loss account	2,250
		Chavan's Capital account	12,750
	1,27,500		1,27,500

On the above date the firm was dissolved and the assets realised as under.

1. Building ₹ 27,000, Machinery ₹ 18,000, Debtors ₹ 27,500, and Goodwill ₹ 1,350
2. Kadam took over Furniture and Stock at ₹ 30,000 and agreed to pay Cerditors at a discount of ₹ 750
3. Shinde took over Bills Receivable at ₹ 7,800 and paid Bills Payable in full.
4. Dissolution expenses amounted to ₹ 2,400
5. Chavan become insolvent. No amount was recovered from his estate.

Show Realisation Account, Partners Capital Account and Bank Account.

Solution **In the books of Kadam, Shinde and Chavan**

Dr. **Realisation Account** **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Sundry Assets A/c			By Sundry Liabilities A/c		
Building	28,500		Creditors	18,750	
Machinery	20,250		Bills payable	11,250	30,000
Furniture	4,500		By Bank A/c		
Stock	30,750		Building	27,000	
Debtors	15,000		Machinery	18,000	
Bill Receivable	9,000	1,08,000	Debtors	7,500	
			Goodwill	1,350	53,850
To Kadam's Capital A/c (Creditors taken)		18,000	By Kadam's Capital A/c (Furniture and Stock taken.)		30,000
To Shinde's Capital A/c (Bills payable taken)		11,250	By Shinde's Capital A/c (Bills Receivable taken)		7,800
To Bank A/c (Realisation Expenses)		2,400	By Partner's Capital A/c (Loss transferred to)		
			Kadam	9,000	
			Shinde	3,000	
			Chavan	6,000	18,000
		1,39,650			1,39,650

Dr. **Partners' Capital Account** **Cr.**

Particulars	Kadam (₹)	Shinde (₹)	Chavan (₹)	Particulars	Kadam (₹)	Shinde (₹)	Chavan (₹)
To Balance b/d			12,750	By Balance b/d	36,000	32,250	
To Profit and loss A/c (Loss)	1,125	375	750	By General Reserve	9,000	3,000	6,000
To Realisation A/c (Loss on realisation)	9,000	3,000	6,000	By Realisation A/c	18,000	11,250	
To Realisation A/c	30,000	7,800		By Kadam's Capital A/c			10,125
To Chavan's Capital A/c	10,125	3,375		By Shinde's Capital A/c			3,375
To Bank A/c	12,750	31,950					
	63,000	46,500	19,500		63,000	46,500	19,500

Dr. **Bank Account** Cr.

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	4,500	By Realisation A/c	2,400
To Realisation A/c	53,850	By Kadam's Capital A/c	12,750
		By Shinde's Capital A/c	31,950
		By Kadam's Loan A/c	11,250
	58,350		58,350

Dr. **Kadam's Loan Account** Cr.

Particulars	Amount ₹	Particulars	Amount ₹
To Bank A/c	11,250	By Balance b/d	11,250
	11,250		11,250

3. Shubhangi, Manisha and Shital are partners. They share Profit and Losses equally. Their Balance Sheet as on 31st March 2018 was as follows :

Balance Sheet as on 31 st March 2018.

Liabilities	Amount ₹	Assets		Amount ₹
Capital Account :		Machinery		62,500
Shubhangi	62,500	Stock		37,500
Manisha	37,500	Debtors	27,500	
Reserve fund	22,500	Less R. D. D.	2,500	25,000
Creditors	37,500	Bills Receivable		22,500
Bills Payable	12,500	Cash at Bank		12,500
		Shital's Capital		12,500
	1,72,500			1,72,500

On the above date it was decided to dissolve the firm

The assets realised were as follows :

1. Stock ₹ 31, 250, Machinery ₹ 37,500, Debtors ₹ 21,250 and Bills Receivable ₹ 18,000.
2. Creditors were paid at a discount of 2% and Bills Payable were paid in full.
3. Realisation expenses amounted to ₹ 6,250.
4. Shital was declared insolvent and 50 paise in rupees could be recovered from her private estate.

Prepare : Realisation Account, Partner's Capital Account and Bank Account.

Solution **In the books of Shubhangi, Mahisha and Shital**

Dr. **Realisation Account** **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Sundry Assets A/c			By Sundry Liabilities A/c		
Machinery	62,500		Creditors	37,500	
Stock	37,500		Bills payable	12,500	50,000
Debtors	27,500		By R. D. D. A/c		2,500
Bill Receivable	22,500	1,50,000	By Bank A/c		
To Bank A/c			Stock	31,250	
Creditors	36,750		Machinery	37,500	
Bills Payable	12,500	49,250	Debtors	21,250	
To Bank A/c			Bill Receivable	18,000	1,08,000
Realisation Expenses		6,250	By Partner's Capital A/c		
			(Loss transferred to)		
			Shubhangi	15,000	
			Manisha	15,000	
			Shital	15,000	45,000
		2,05,500			2,05,500

Dr. **Partners' Capital Account** **Cr.**

Particulars	Shubahngi (₹)	Manisha (₹)	Shital (₹)	Particulars	Shubahngi (₹)	Manisha (₹)	Shital (₹)
To Balance b/d			12,500	By Balance b/d	62,500	37,500	
To Realisation A/c (Loss on realisation)	15,000	15,000	15,000	By General Reserve	7,500	7,500	7,500
To Shital's Capital A/c	5,000	5,000		By Bank A/c			10,000
To Bank A/c	50,000	25,000		By Shubhangi's Capital A/c			5,000
				By Manisha's Capital A/c			5,000
	70,000	45,000	27,500		70,000	45,000	27,500

Dr. **Bank Account** **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	12,500	By Realisation A/c	49,250
To Realisation A/c	1,08,000	By Realisation A/c	6,250
To Shital's Capital A/c	10,000	By Shubhangi's Capital A/c	50,000
		By Manisha's Capital A/c	25,000
	1,30,500		1,30,500

(When Two Partners become Insolvent)

1 Narendra, Devendra and Mahendra are partners sharing Profit and Losses at 3:3:2. The Business is dissolved on 31st March 2020. When their Balance Sheet stands as below :

Balance Sheet as on 31 st March 2020.

Liabilities	Amount ₹	Assets	Amount ₹
Capital Account:		Plant and Machinery	1,00,000
Narendra	20,000	Motor Car	20.000
Devendra	80,000	Sundry Debtors	90,000
Mehendra	40,000	Stock	1,20,000
Sundry Creditors	2,00,000	Cash at Bank	10,000
	3,40,000		3,40,000

They decided to dissolve the partnership on the above date as follows.

1. Machinery and Stock are sold for ₹ 50,000 and ₹ 36,000 respectively.
2. Debtors realised for ₹ 40,000
3. Motor Car is taken by Devendra for ₹ 26,000.
4. Realisation expenses amounted to ₹ 2,000.
5. Deficiency of any partner in capital account is to be met by other partners in profit sharing ratio.
6. Narendra became insolvent and Mahendra could bring in ₹ 10,000 only.

Prepare necessary ledger accounts in the books of firm.

Solution : **In the books of Narendra, Devendra and Mahendra**

Dr. **Realisation Account** **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Sundry Assets A/c			By Sundry Liabilities A/c :		
Plant and Machinery	1,00,000		Creditors		2,00,000
Motor Car	20,000		By Bank A/c :		
Sundry Debtors	90,000		Machinery	50,000	
Stock	1,20000	3,30,000	Stock	36,000	
			Debtors	40,000	1,26,000
			By Devendra's Capital A/c (Motor car taken)		26,000
To Bank A/c					
Creditors paid	2,00,000		By Partners' Capital A/c		
Expenses paid	2,000	2,02,000	(Loss on Realisation transferred.)		
			Narendra	67,500	
			Devendra	67,500	
			Mahendra	45,000	1,80,000
		5,32,000			5,32,000

Dr. **Partners' Capital Account** Cr.

Particulars	Narendra (₹)	Devendra (₹)	Mahendra (₹)	Particulars	Narendra (₹)	Devendra (₹)	Mahendra (₹)
To Realisation A/c (Loss on realisation)	67,500	67,500	45,000	By Balance b/d	20,000	80,000	40,000
				By Bank A/c			10,000
				By Devendra's Capital A/c	28,500		
To Realisation A/c		26,000		By Mahendra's Capital A/c	19,000		
To Narendra's Capital A/c		28,500	19,000	By Devendra's Capital A/c			14,000
To Mahendra's Capital A/c		14,000		By Bank A/c		56,000	
	67,500	1,36,000	64,000		67,500	1,36,000	64,000

Dr. **Bank Account** Cr.

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	10,000	By Realisation A/c	2,00,000
To Realisation A/c	1,26,000	By Realisation A/c	2,000
To Mahendra's Capital A/c	10,000		
To Devendra's Capital A/c	56,000		
	2,02,000		2,02,000

Working Note :

1. **Deficiency of Nerandra -** Capital Deficiency of Narendra ₹ 47,500 distributed among Devendra and Mahendra in their profit sharing ratio i.e. 3:2

   Devendra ₹ 47,500 × 3/5 = ₹ 28,500

   Mahendra ₹ 47,500 × 2/5 = ₹ 19,000

2. **Deficiency of Mahendra -** Because of payment of Narendra's Capital Deficiency, Mahendra become insolvent therefore his Capital Deficiency is borne by Devendra ₹ 14,000.

6.6 B) (When All Partners Are Insolvent)

If all the partners are insolvent, then the third party liabilities cannot be expected to be paid in full. All the cash available, together with whatever can be recovered from the private estate of the partners, will be paid to the third party liabilities after the expenses of realisation are met. The Realisation Account should be prepared as usual but third party liabilities should not be transferred to Realisation Account nor will payment to third party liabilities be debited to this account. The loss on realisation should be transferred proportionately to the Capital Account of partners in the profit sharing ratio. The available cash should then be paid to the third party liabilities in their liability ratio. The amount remaining unpaid should be transferred to Deficiency Account. The final balances of Partners' Capital Accounts should also be transferred to Deficiency Account. Thus the books will be closed.

1. For closing the Liabilities A/c
   Liabilities A/c ....Dr.
   To Cash / Bank A/c (Unpaid amount paid)
   To Deficiency A/c (Unpaid amount)
   (Being liabilities paid and remaining amount transferred to deficiency A/c.)
2. For closing partner's Capital A/c
   Deficiency A/c ....Dr.
   To Partner's Capital Accounts
   (Being balance of Partners Capital Account transferred to Deficeiency A/c)

1. **Recovery from insolvent partner :** If any amount is recovered from him by the firm, the entry will be as follows;
   Cash / Bank A/c ....Dr.
   To Insolvent Partners Capital A/c
   (Being amount received from insolvent partners)

2. **Distribution of capital deficiency of insolvent partner :** Point to be remembered before making distribution of capital deficiency of insolvent partners.
   a. Transfer Sundry assets to Realisation A/c
   b. Don't transfer outside liabilities to Realisation A/c Open Third Party liabilities Accounts (Sundry Creditors, Bills Payable, Bank Loan etc.) separately
   c. Open Deficiency A/c and transfer debit balance of Partners Capital Account to Deficiency A/c
   d. The available cash is to be distributed among third party liabilities, if these are more than one then in their due proportion. e.g. Creditors 30,000 and Bills Payable 20,000 in this case the available cash will be distributed in the ratio 3:2. Thus, the third party liabilities are discharged only up to the possible limit and not fully.

1 The Balance Sheet of Rupali, Dipali and Mitali who are sharing Profits and Losses in the ratio of 2:2:1. was as follows :

Balance Sheet as on 31 st March 2018.

Liabilities	Amount ₹	Assets	Amount ₹
Capital :		Fixed Assets	2,18,000
Rupali	60,000	Goodwill	60.000
Dipali	40,000	Stock	1,20,000
Sundry Creditors	2,40,000	Bank	2,000
Bank Loan (with a charge on Stock)	1,00,000	Capital : Mitali	40,000
	4,40,000		4,40,000

One the above daily the firm was dissolved and assets realised as under.

Fixed Assets were sold for ₹ 1,80,000 and Stock realised ₹ 1,04,000. Realisation expenses amounted to ₹ 6,000.

Assuming that all the partners are insolvent. **Prepare Realisation A/c, Partners' Capital A/c, Bank A/c, Sundry Creditors A/c, Bank Loan A/c, Deficiency A/c**

Solution : **In the books of Rupali, Dipali and Mitali's**

Dr. **Realisation Account** **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Sundry Assets A/c			By Bank A/c		1,80,000
Fixed Assets	2,18,000		(Fixed Assets Realised)		
Goodwill	60,000		By Bank A/c		
Stock	1,20,000	3,98,000	(Stock realised)		1,04,000
			By Partners' Capital A/c		
			(Loss on Realisation transferred.)		
To Bank A/c			Rupali	48,000	
Realisation Expenses		6,000			
			Dipali	48.000	
			Mitali	24,000	1,20,000
		4,04,000			4,04,000

Dr. **Partners' Capital Account** **Cr.**

Particulars	Rupali (₹)	Dipali (₹)	Mitali (₹)	Particulars	Rupali (₹)	Dipali ₹)	Mitali (₹)
To Balance b/d			40,000	By Balance b/d	60,000	40,000	
To Realisation /c	48,000	48,000	24,000	By Deficiency A/c		8,000	64,000
(Loss on Realisation)							
To Deficiency A/c	12,000						
	60,000	48,000	64,000		60,000	48,000	64,000

Dr. **Bank Account** **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	2,000	By Realisation A/c	6,000
To Realisation A/c	1,80,000	By Bank Loan A/c	1,00,000
To Realisation A/c	1,04,000	By Creditors A/c	1,80,000
	2,86,000		2,86,000

Dr. **Creditors Account** **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To Bank A/c	1,80,000	By Balance b/d	2,40,000
To Deficiency A/c	60,000		
	2,40,000		2,40,000

Dr.	Bank Loan Account		Cr.
Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Bank A/c (Stock Realised)	1,00,000	By Balance b/d	1,00,000
	1,00,000		1,00,000

Dr.	Deficiency A/c		Cr.
Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Dipali's Capital A/c	8,000	By Rupali's Capital A/c	12,000
To Mitali's Capital A/c	64,000	By Creditors A/c	60,000
	72,000		72,000

Note : Bank loan charged (secured) on stock, so on dissolution Bank Loan discharged on realisation of Stock.

2 Following in the Balance Sheet of M/s Rane, Kane and Mane as on 31st March 2019

Balance Sheet as on 31 st March 2019.

Liabilities	Amount ₹	Assets	Amount ₹
Capital :		Furniture	6,000
Rane	10,000	Debtors	40,000
Kane	6,000	Stocks	48,000
Sundry Creditors	80,000	Cash	2,000
Rane's Loan	20,000	Capital : Mane	20,000
	1,16,000		1,16,000

Due to the inability to pay the creditors, the firm is dissolved, Kane and Mane cannot pay anything. Rane can contribute only ₹ 3,000 from his private estate. Stock realised ₹ 30,000. Debtors realised ₹ 32,000 and Furniture is sold for ₹ 2,000. Realisation Expenses amounted to ₹ 6,000.

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

Solution No. 2 **In the books of Rane, Kane and Mane**

Dr.		Realisation Account			Cr.
Particulars	**Amount (₹)**	**Amount (₹)**	**Particulars**	**Amount (₹)**	**Amount (₹)**
To Sundry Assets A/c			By Cash A/c		
Furniture	6,000		Stock	30,000	
Debtors	40,000		Debtors	32,000	
Stock	48,000	94,000	Furniture	2,000	64,000
			By Partners' Capital A/c		1,04,000
To Cash A/c		6,000	(Loss on Realisation		
(Realisation Expenses paid)			transferred.)		
			Rane	12,000	
			Kane	12,000	
			Mane	12,000	36,000
		1,00,000			1,00,000

Dr. **Partners' Capital Account** Cr.

Particulars	Rane (₹)	Kane (₹)	Mane (₹)	Particulars	Rane (₹)	Kane (₹)	Mane (₹)
To Balance b/d			20,000	By Balance b/d	10,000	6,000	
To Realisation A/c (Loss on Realisation)	12,000	12,000	12,000	By Rane loan A/c	20,000		
				By Cash A/c	3,000		
				By Deficiency A/c		6,000	32,000
To Deficiency A/c	21,000						
	33,000	12,000	32,000		33,000	12,000	32,000

Dr. **Cash Account** Cr.

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	2,000	By Realisation A/c	6,000
To Rane's Capital A/c	3,000	By Creditors A/c	63,000
To Realisation A/c	64,000		
	69,000		69,000

Dr. **Creditors Account** Cr.

Particulars	Amount ₹	Particulars	Amount ₹
To Cash A/c	63,000	By Balance b/d	80,000
To Deficiency A/c	17,000		
	80,000		80,000

Dr. **Deficiency A/c** Cr.

Particulars	Amount ₹	Particulars	Amount ₹
To Kane's Capital A/c	6,000	By Rane's Capital A/c	21,000
To Mane's Capital A/c	32,000	By Creditors A/c	17,000
	38,000		38,000

3 Dinesh, Mangesh and Ramesh are partners sharing Profits and Losses in the ratio 2:2:1. They decided to dissolved the firm on 31st March 2018. When their position was as under.

Balance Sheet as on 31st March 2018.

Liabilities	Amount ₹	Assets	Amount ₹
Capital :		Building	78,000
Dinesh	26,000	Computer	45,000
Mangesh	22,000	Debtors	20,000
Ramesh	18,000	Goodwill	35,000
Creditors	80,000	Bank	8,000
Bill Payable	40,000		
	1,86,000		1,86,000

The firm was dissolved on above date and the following is the result of realisation.

1. The assets were realised as Building ₹ 40,000, Computer ₹ 30,000, Debtors ₹ 10,000.
2. Realisation expenses amounted to ₹ 2,000.

3. All partners were insolvent. The following amount was recovered from them Dinesh ₹ 2,000 and Mangesh ₹ 2,000.

Prepare necessary ledger account to close the books of the firm.

Solution : **In the books of Dinesh, Mangesh and Ramesh**

Dr. **Realisation Account** **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Sundry Assets A/c			By Bank A/c		
Building	78,000		Building	40,000	
Computer	45,000		Computer	30,000	
Debtors	20,000		Debtors	10,000	80,000
Goodwill	35,000	1,78,000	By Partners' Capital A/c		
To Bank A/c		2,000	(Loss on Realisation		
(Realisation			transferred.)		
Expenses paid)			Dinesh	40,000	
			Mangesh	40,000	
			Ramesh	20,000	1,00,000
		1,80,000			1,80,000

Dr. **Partners' Capital Account** **Cr.**

Particulars	Dinesh (₹)	Mangesh (₹)	Ramesh (₹)	Particulars	Dinesh (₹)	Mangesh (₹)	Ramesh (₹)
To Realisation A/c	40,000	40,000	20,000	By Balance b/d	26,000	22,000	18,000
(Loss on				By Bank A/c	2,000	2,000	
Realisation)				By Deficiency A/c	12,000	16,000	2,000
	40,000	40,000	20,000		40,000	40,000	20,000

Dr. **Bank Account** **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	8,000	By Realisation A/c	2,000
To Dinesh's Capital A/c	2,000	By Creditors A/c	60,000
To Mangesh's Capital A/c	2,000	By Bills Payable A/c	30,000
To Realisation A/c	80,000		
	92,000		92,000

Dr. **Creditors Account** **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To Bank A/c	60,000	By Balance b/d	80,000
To Deficiency A/c	20,000		
	80,000		80,000

Dr. **Bills Payable Account** Cr.

Particulars	Amount ₹	Particulars	Amount ₹
To Bank A/c	30,000	By Balance b/d	40,000
To Deficiency A/c	10,000		
	40,000		40,000

Dr. **Deficiency A/c** Cr.

Particulars	Amount ₹	Particulars	Amount ₹
To Dinesh's Capital A/c	12,000	By Creditors A/c	20,000
To Mangesh's Capital A/c	16,000	By Bills Payable A/c	10,000
To Ramesh's Capital A/c	2,000		
	30,000		30,000

EXERCISE - 6

Q. 1 Objective Questions :

A) Select most appropriate answer from the alternatives given below and rewrite the sentences.

1) In case of dissolution, assets and liabilities are transferred to .... Account.
   (a) Bank Account (b) Partner's Capital Account
   (c) Realisation Account (d) Partner's Current Account

2) Dissolution expenses are credited to .... Account.
   (a) Realisaton Account (b) Cash / Bank Account
   (c) Partner's Capital Account (d) Partner's Loan Account

3) Deficiency of insolvent partner will be suffered by solvent partners in their .... ratio.
   (a) Capital ratio (b) Profit sharing ratio
   (c) Sale ratio (d) Liquidity ratio

4) If any asset is taken over by partner from firm his capital account will be ....
   (a) Credited (b) Debited
   (c) Added (d) Divided

5) If any unrecorded liability is paid on dissolution of the firm .... account is debited.
   (a) Cash / Bank Account (b) Realisation Account
   (c) Partners capital Account (d) Loan Account

6) Partnership is completely dissolved when the partners of the firm become ....
   (a) Solvent (b) Insolvent
   (c) Creditor (d) Debtors

7) Assets and liabilities are transferred to Realisation account at their .... values.
   (a) Market (b) Purchases
   (c) Sale (d) Book

8) If the number of partners in a firm falls below two, the firm stands ....
   (a) Dissolved (b) Established
   (c) Realisation (d) Restructured

9) Realisation account is .... on realisation of asset.
   (a) Debited (b) Credited
   (c) Deducted (d) Closed

10) All activities of partnership firm ceases on .... of firm.
   (a) Dissolution (b) Admission
   (c) Retirement (d) Death

B) Give the word / term / phrase which can substitute each of the following statement.

1. Debit balance of Realisation account.
2. Winding up of partnership business.
3. An account opened to find out the Profit or Loss on realisation of Assets and settlement of Liabilities.
4. Debit balance of an Insolvent Partner's Capital Account.
5. Credit balance of Realisation Account.
6. Conversion of asset into cash on dissolution of firm.
7. Liability likely to arise in future on happening of certain event.
8. Assets which are not recorded in the books of account.
9. The Accounts which show realisation of Assets and discharge of Liabilities.
10. Expenses incurred on dissolution of firm.

C) State whether the following statements are True of False with reasons.

1) The firm must be dissolved on the retirement of a partner.
2) On dissolution Cash / Bank Account is closed automatically.
3) On dissolution Bank Overdraft is transferred to Realisation Account.
4) A solvent partner having debit balance to his capital account does not share the deficiency of insolvent partners capital account.
5) At the time of dissolution of partnership firm all assets should be transferred to Realisation account.
6) Debit balance of insolvent partner's capital account is known as capital deficiency.
7) At the time of dissolution, Loan from partner will be transferred to Ralisation account.
8) Dissolution takes place when the relation among the partner's comes to an end.
9) The insolvency Loss at the time of dissolution of the firm is shared by the solvent partner's in their profit sharing ratio.
10) Realisation Loss is not transferred to insolvent partner's capital account.

D) Calculate the following :

1) Vinod, Vijay and Vishal are partners in a firm, sharing profit & Losses in the ratio 3:2:1. Vishal becomes insolvent and his capital deficiency is ₹ 6,000. Distribute the capital deficiency among the solvent partners.
2) Creditors ₹ 30,000, Bills Payable ₹ 20,000 and Bank Loan ₹ 10,000. Available Bank Balance ₹ 40,000 what will be the amount that creditors will get in case of all partners insolvency.
3) Insolvent Partners Capital A/c debit side total is ₹ 10,000 & Credit side total is ₹ 6,000 Calculate deficiency

4) Insolvent partners capital A/c Debit side is ₹ 15,000 & insolvent partner brought cash ₹ 6,000. Calculate the amount of Insolvency Loss to be distributed among the solvent partners.

5) Realisation profit of a firm is ₹ 6,000, partners share Profit & Loss in the ratio of 3:2:1. Calculate the amount of Realisation Profit to be credited to Partners Capital A/c

E) Answer in one sentence only.

1. What is dissolution of partnership firm?
2. When is Realisation Account opened?
3. Which accounts are not transferred to Realisation account?
4. Who is called Insolvent person?
5. What is capital deficiency?
6. In what proportion is the balance on Realisation A/c transferred to Partners capital / Current Account?
7. Who should bear the capital deficiency of insolvent partner?
8. Which account is debited on repayment of Partner's Loan?
9. Which account is debited on payment of dissolution expenses?

F) Complete the table.

1)

Debit side total of Realisaton A/c	Credit side total of Realisaton A/c	Loss on Realisations
₹ 20,000	?	₹ 4,000

2)

Creditors	Bills Payable	Third Party Liabilities
₹ 16,000	₹ 12,000	?

3)

Credit side total of Realisaton A/c	Debit side total of Realisaton A/c	Profit ion Realisation
₹ 21,000	₹ 16,000	?

4)

Debit side total of Capital A/c	Credit side total of Capital A/c	Cash brought by partner
₹ 51,000	?	₹ 17,000

5)

Capital Deficiency	Cash brought by Insolvent Partner	Insolvent Loss
?	₹ 7,000	₹ 21,000

Practical Problems

(Simple Dissolution)

1. **Ganesh and Kartik are partners sharing Profits and Losses equally. They decided to dissolve the firm on 31st March 2018. Their Balance Sheets was as under :**

Balance Sheets as on 31st March 2018.

Liabilities	Amount ₹	Assets	Amount ₹
Creditors	18,400	Building	88,000
Bills Payable	5,600	Furniture	12,000
Reserve Fund	20,000	Debtors	32,000
Capital A/c :		Stock	24,000
Genesh	40,000	Bills Receivable	4,000
Kartik	80,000	Cash	4,000
	1,64,000		1,64,000

Assets were realised as under :

Building ₹ 82,000, Debtors ₹ 22,000, Stock ₹ 20,000. Bills Receivable ₹ 3,200 and Ganesh agreed to take over Furniture for ₹ 10,000. Realisation Expenses amounted to ₹ 2,000.

Show Realisation A/c, Partners' Capital A/c and Cash A/c.

(Ans : Realisation Loss - ₹ 24,800, Cash A/c total ₹ 1,31,200,
Amount paid to Ganesh - ₹ 27,600 and Kartik ₹ 77,600)

2. **Leela, Manda and Kunda are partners in the firm 'Janki Stores' sharing Profits and Losses in the ratio of 3:2:1 respectively. On 31st March 2018 they decided to dissolve the firm when their Balance Sheet was as under.**

Balance Sheets as on 31st March 2018.

Liabilities	Amount ₹	Assets	Amount ₹
Creditors	28,800	Building	1,02,000
Bills Payable	21,600	Machinery	73,000
Capital A/c's		Motor Car	1,67,600
Leela	2,27,160	Goodwill	45,600
Manda	1,44,000	Investment	62,400
Kunda	1,08,000	Debtors	30,600
		Stock	45,000
		Bank	3,360
	5,29,560		5,29,560

Leela agreed to take over the Building at ₹ 1,23,600. Manda took over Goodwill, Stock and Debtors at Book values and agreed to pay Creditors and Bills payable. Motor Car and Machinery realised ₹ 1,51,080 and ₹ 31,680 respectively. Investments were taken by Kunda at an agreed value of ₹ 55,440. Realisation expenses amounted to ₹ 6,800

Pass necessary entries in the books of 'Janki Stores.'

Ans : (Reaslistion Loss 50,000, Amount to Leela - ₹ 78,560, Manda - ₹ 56,533 and Kunda - ₹ 44,227.)

3. **Shailesh and Shashank were partners sharing Profits and Losses in the ratio of 3:2. Their Balance Sheet as on 31st March 2019 was as follows :**

Balance Sheets as on 31st December 2019.

Liabilities	Amount ₹	Assets	Amount ₹
Capital Account :		Building	7000
Shailesh	10,000	Plant	9,000
Shashank	6,000	Debtors	14,000
Current Account :		Stock	5,000
Shailesh	3,000	Bank	6,000
Shashank	2,000		
Creditors	17,400		
Bills payable	2,600		
	41,000		41,000

The firm was dissolved on the above date and the assets realised as under.

1. Plant ₹ 8,000, Building ₹ 6,000, Stock ₹ 4,000 and Debtors ₹ 12,000.
2. Shailesh agreed to pay of the Bills Payable.
3. Creditors were paid in full.
4. Dissolution expenses were ₹ 1,400.

Prepare Realisation A/c, Partners Current A/c, Partners Capital A/c and Bank A/c

(Ans : Realisation Loss - ₹ 6,400, Bank A/c Total - ₹ 36,000.
Amount to Shailesh ₹ 11,760 and Shashank - ₹ 5,440)

4. **Asha, Usha and Nisha were partners sharing Profits and Losses in the ratio of 2:2:1. The following is the Balance Sheet as on 31st March 2019.**

Balance Sheets as on 31st March 2019.

Liabilities	Amount ₹	Assets		Amount ₹
Capital Accounts :		Machinery		1,00,000
Asha	1,20,000	Investment		48,000
Usha	40,000	Debtors	1,10,000	
Nisha	40,000	Less : R. D. D.	6,000	1,04,000
General Reserve	12,000	Stock		40,000
Creditors	80,000	Profit and Loss A/c		36,000
Asha's Loan A/c	16,000	Bank		8,000
Bills payable	28,000			
	3,36,000			3,36,000

On the above date the partners decided to dissolve the firm.

1. Assets were realised as under Machinery ₹ 90,000, Stock ₹ 36,000, Investment ₹ 42,000 and Debtors ₹ 90,000.
2. Dissolution expenses were ₹ 6,000.
3. Goodwill of the firm realised ₹ 48,000.

Pass Journal Entries to close the books of firm. :

(Ans : Realisation Profit - ₹ 8,000, Asha - ₹ 1,13,600, Usha -₹ 33,600 and Nisha - ₹ 36,800)

5 **Seeta and Geeta are partners in the firm sharing Profits and Losses in the ratio of 4:1. They decided to dissolve the partnership on 31st March 2020 on which date their Balance Sheet stood as follows.**

Balance Sheets as on 31st March 2020

Liabilities	Amount ₹	Assets		Amount ₹
Capital		Furniture		14,000
Seeta	90,000	Plant		65,000
Geeta	40,000	Trademark		8,000
Sundry Creditors	35,000	Sundry Debtors	48,000	
Bank Loan	15,000	Less - R. D. D.	3,000	45,000
		Stock		30,000
		Cash in hand		10,000
		Advertisement Suspense		8,000
	1,80,000			1,80,000

Additional Information :

1. Plant and Stock taken over by Seeta ₹ 78,000, and ₹ 22,000 respectively
2. Debtors Realised 90% of the Book Value and Trademark at ₹ 5,000. and Goodwill was realised for ₹ 27,000.
3. Unrecorded assets estimated ₹ 4,500 was sold for ₹ 1,500.
4. ₹ 1,000 Discount were allowed by creditors while paying their claim.
5. The Realisation Expenses amounted to ₹ 3,500

You are required to prepare Realisation A/c, Cash A/c and Partners Capital A/c

(Ans : Realisation Loss - ₹ 7,800, Cash A/c Total - ₹ 89,340,
Amount paid to Geeta - ₹ 36,840. Amount received from Sita - ₹ 26,640)

6. **Sangeeta, Anita and Smita were in partnership sharing Profits and Losses in the ratio 2:2:1. Their Balance Sheet as on 31st March 2019 was as under :**

Balance Sheets as on 31st March 2019.

Liabilities	Amount ₹	Assets	Amount ₹
Capital :		Land	2,10,000
Sangeeta	60,000	Plant	20,000
Anita	40,000	Goodwill	15,000
Smita	30,000	Debtors	1,25,000
Sangeeta's Loan A/c	1,20,000	Loans and Advances	15,000
Sundry Creditors	1,20,000	Bank	5,000
Bills Payable	20,000		
	3,90,000		3,90,000

They decided to dissolve the firm as follows :

1. Assets realised as; Land recovered ₹ 1,80,000; Goodwill for ₹ 75,000; Loans and Advances realised ₹ 12,000; 10% of the Debts proved bad;
2. Sangeeta took Plant at book value.
3. Creditors and Bills payable paid at 5% discount.
4. Sandhya's Loan was discharged along with ₹ 6,000 as Interest.
5. There was a contingent Liability in respect of bills of ₹ 1,00,000 which was under discount. Out of them, a holder of one bill of ₹ 20,000 became insolvent.

Show Realisation Account, Partners Capital Account and Bank Account.

(Ans : Realisation Loss - ₹ 4,500, Bank - ₹ 3,84,500,

Amount paid to Sangeeta - ₹ 38,200, Anita ₹ 38,200, Smita ₹ 29,100.)

7. **Saiesh, Sumit and Hemant were in partnership sharing Profits and Losses in the ratio 2:2:1. They decided to dissolve their partnership firm on 31st March 2019 and their Balance Sheet on that date stood as;**

Balance Sheets as on 31st March 2019.

Liabilities		Amount ₹	Assets	Amount ₹
Capital :			Plant	1,20,000
Saiesh	90,000		Debtors	45,000
Sumit	60,000		Stock	75,000
Hemant	30,000	1,80,000		
Loan		12,000		
Sundry Creditors		9,000		
Bank Overdraft		39,000		
		2,40,000		2,40,000

It was agreed that;

1. Saiesh to discharge Loan and to take Debtors at book value.
2. Plant realised ₹ 35,000.
3. Stock realised ₹ 72,000.
4. Creditors were paid off at a discount of ₹ 45

Show Realisation A/c, Partners' Capital A/c and Bank A/c

(Ans : (Realisation Profit - ₹ 12,045, Bank - ₹ 2,07,000,

Amount paid to Saiesh - ₹ 61,818, Sumit ₹ 64,818, Hemant ₹ 32,409.)

(When one Partner Became Insolvent)

8. **Sitaram, Gangaram and Rajaram are partners sharing Profits and Losses in the ratio of 4:2:3. On. 1st April 2019 they agreed to dissolve the partnership, their Balance Sheet was as follows :**

Balance Sheets as on 31st March 2019

Liabilities	Amount ₹	Assets	Amount ₹
Captital :		Building	55,000
Sitaram	65,000	Machinery	25,000
Gangaram	45,000	Furniture	12,000
Rajaram	7,000	Investment	15,000
Reserve Fund	18,000	Bills Receivable	3,500
Profit and Loss Account	5,400	Sundry Debtors	21,000
Loan from Tukaram	10,000	Stock	28,000
Sundry Creditors	12,000	Cash in hand	5,500
Bills Payable	4,600	Cash at Bank	2,000
	1,67,,000		1,67,000

The assets realised : Building ₹ 46,750 Machinery ₹ 18,550 Furniture ₹ 9,600; Investment ₹ 10,650 Bill Receivable and Debtors ₹ 20,750; All the liabilities were paid off. The cost of realisation was ₹ 800. Rajaram becomes bankrupt and ₹ 1,100 only was recovered from his estate.

Show Realisation Account, Bank Account and Capital Account of the partners.

(Ans : Realisation Loss - ₹ 54,000, Bank - ₹ 1,14,900,
Amount paid to Sitaram - ₹ 50,000, Gangaram ₹ 37,500)

9. **Following is the Balance Sheet of Vaibhav, Sanjay and Santosh**

Balance Sheets as on 31st March 2019

Liabilities	Amount ₹	Assets	Amount ₹
Captital Accounts :		Machinery	6,000
Vaibhav	36,000	Goodwill	9,000
Sanjay	27,000	Stock and Debtors	57,000
Creditors	12,000	Profit and Loss Account	18,000
Bank Overdraft	18,000	Santosh's Capital	3,000
	93,000		93,000

Santosh is declared insolvent so firm is dissolved and assets realised as follows :

1. Stock and Debtors ₹ 54,000, Goodwill - NIL, Machinery at Book value.
2. Creditors allowed discount at 10%.
3. Santosh could pay only 25 paise in rupee of the balance due.
4. Profit sharing ratio was 8:4:3.
5. A contingent liability against the firm ₹ 9,000 is cleared.

Give Ledger Account to close the books of the firm.

(Ans : (Realisation Loss - ₹ 19,800, Bank - ₹ 62,640,
Amount to Vaibhav - ₹ 10,560, Sanjay ₹ 14,280)

(When Two Partners become Insolvent)

10. Shweta, Nupur and Sanika are partners sharing Profits and Losses in the ratio of 3:2:1. Their Balance Sheet as on 31st March 2019 was as follows :

Balance Sheets as on 31st March 2019.

Liabilities	Amount ₹	Assets	Amount ₹
Captital A/c		Sundry Assets	1,60,000
Shweta	65,000	Cash at Bank	5,000
Nupur	15,000	Capital A/c : Sanika	10,000
Sundry Creditors	95,000		
	1,75,000		1,75,000

The firm is dissolved as on 31st March 2019. Sundry Assets realised @ 60% of its book value. Realisation expenses ₹ 2000 paid by Shweta, Nupur and Sanika both are insolvent.

Nupur's private estate has got a surplus of ₹ 3,000 and that of Sanika ₹ 8,000.

Show necessary ledger accounts to close the books of the firm.

(Ans : Realisation Loss - ₹ 66,000, Bank - ₹ 1,12,000, Deficiency of Nupur - ₹ 4,000, Sanika ₹ 13,000, Amount paid to Sweta - ₹ 17,000)

(When All partner become insolvent)

11. Following is the Balance Sheet as on 31st March, 2019 of a firm having Three equal partners Priti, Priya and Prachi.

Balance Sheets as on 31st March 2019.

Liabilities	Amount ₹	Assets	Amount ₹
Capital		Machinery	23,000
Priti	40,000	Furniture	16,000
Priya	35,000	Stock	47,000
Prachi	25,000	Cash at Bank	10,000
Trade Creditors	50,000	Profit and Loss Account	84,000
Loan (secured by Machinery)	30,000		
	1,80,000		1,80,000

The firm was dissolved due to insolvency of all the partners. Machinery was sold for ₹ 18,000, while Furniture fetched ₹ 14,000, Stock realised ₹ 35,000. Realisation expenses amounted to ₹ 2,000. Nothing could be recovered from Priya and Prachi, but ₹ 3,400 could be collected from Priti's private estate.

Close the books of accounts of the firm.

(Ans. : Realisation Loss - ₹ 21,000, Bank - ₹ 80,400, Deficiency of Priti - ₹ 8,400, Prachi ₹ 10,000)

12. **Shashwat and Shiv are equal partners. Their Balance Sheet stood as under :**

Balance Sheets as on 31st March 2019.

Liabilities	Amount ₹	Assets	Amount ₹
Shaswat's Captital A/c	6,000	Plant and Machinery	14,750
Creditors	39,000	Furniture	4,000
		Debtors	5,000
		Stock	6,250
		Cash at Bank	3,000
		Shiv's Capital	12,000
	45,000		45,000

Due to weak financial position all partners were declared bankrupt.

The Assets were realised as follows :

Stock ₹ 3,500, Furniture ₹ 2,000, Debtors ₹ 5,000 and Machinery ₹ 7,000

The cost of collection and distributing the estate amounted to ₹ 1,500. Shashwat's private estate in not sufficient even to pay his private debts, whereas in Shiv's private estate there is a surplus of ₹ 500

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

(Ans : Realisation Loss - ₹ 14,000, Bank - ₹ 21,000,
Deficiency of Shashwat- ₹ 1,000, Prachi ₹ 18,500)

Activity :

1. Visit any Chartered Accountant's (C. A.) office and collect the information about the procedure of dissolved partnership firm.
2. Visit any Chartered Accountant (C. A.) office to know the practical reasons of dissolution and its impact on Accounting.
3. Write a report on settlement of Liabilities and its sequence in case of disslolution of a firm.

7 Bills of Exchange

Content

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- *G. Honour/Dishonour of new bill.*
- *H. Insolvency of the acceptor & settlement of his account.*
- *I. Retirement of bill.*
- *J. Journal entries & Ledger (Only Drawer's A/c / Drawee's A/c.)*

Competency Statements

❏ *Students are able to :*

- *Know the meaning of bill of exchange*
- *Understand the different concepts used in bills of exchange.*
- *Prepare a draft of bill of exchange & know the various types of bills of exchange*
- *Understand retaining, sending bill for collection, discounting, endorsing, honour, renewal & retiring of the bill.*
- *Learn various accounting treatment of bills of exchange.*

7.1 Introduction :

The ability of a customer to obtain goods or services before payment, based on trust. When goods or services are obtained and payment will be made in the future it is known as credit transaction. Credit transaction play a significant role in the world of business. Credit motivates the customers to increase the amount of their spending. Moreover, business enterprises offer credit to gain a competitive advantage in the market. To balance the potential for increased sales with the risk of decreased cash flow and large outstanding debts the seller requires some sort of commitment or promise from the costumer that he would pay the amount of goods, due from him on a particular date in future. To avoid any conflict or misunderstanding about payments, instruments of credit like Bill of Exchange and Promissory Notes are issued. In India instruments of credit have been in use a long time and are popularly known as Hundies.

7.1 a. Necessity :

Commercial practice has flourished to treat bill of exchange and promissory notes as valuable instruments of credit to an extent that when a written promise is made in proper form and on proper stamp paper it is understood that the customer has discharged his debt and the seller has received payment. Also, these written promises are accepted by bank and money is advanced against it. Moreover, the instruments being negotiable instruments, can be transferred from one person to another.

7.1 b. Meaning :

Negotiable instrument Act, 1881 states that Negotiable instrument means promissory note, bill of exchange or cheque payable either to order or bearer. A bill of exchange is a written acknowledgment of debt and also a promise to pay the debt according to the terms of the bill. A bill of exchange is generally drawn by the creditor on his debtor and should be accepted by the debtor.

7.1 c. Definition of Bill of Exchange and Promissory Note :

Section 5 of the Negotiable Instruments Act, 1881 defines Bill of Exchange as :

"A bill of exchanges is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay certain sum of money only to, or to the order of a certain person, or to the bearer of the instrument".

Features of Bill of Exchange :

1. It should be in writing.
2. It must be stamped as per the Indian Stamp Act, 1899.
3. It must be dated.
4. It must contain an order to pay certain sum of money.
5. The order must be unconditional.
6. The amount must be payable either to a certain person or his order to the bearer of the bill.
7. It must be signed by the maker.

Section 4 of he Negotiable instruments Act, 1881defines Promissory Note as :

"A Promissory Note is defined as an instrument in writing, not being a bank note or a currency note, containing an unconditional undertaking signed by the maker, to pay a certain sum money only to or to the order of certain person, or the bearer".

7.2 Parties to a Bill Exchange :

1. **Drawer :** Drawer is person who draws or makes the bill and signs on it. He is the creditor, who is entitled to receive the money from debtor. For the Drawer the instrument is his "Bills Receivable", since he has to receive the amount of the bill.
2. **Drawee :** Drawee is the person on whom the bill is drawn. He has to accept the bill drawn on him. He is the debtor who has to pay money to creditor. For the Drawee the instrument is his "Bills payable", since he has to pay the amount of the bill.
3. **Payee :** Payee is the person to whom the payment is to be made.

Parties to a Promissory Note :

1. **Maker or Drawer :** He is person who draws the promissory note. He is the one who promises to pay a certain amount as specified in the promissory note. He is also called the promiser.
2. **Drawee or Payee :** He is the person in whose favor the promissory note is drawn. He is also called the promisee.

> **Additional Information**
>
> **There are varieties of hundies used in our country like Shahjog hundi, Darshani hundi, Muddati hundi, Nam-jog hundi, Dhani-jog-hundi, Jawabee Hundi etc.**

Contents of format of Bill of Exchange :

1. **Date :** The date on which bill has been drawn must be written at the top right-hand corner below the address of Drawer. Date of bill is essential for calculation of maturity date. A bill without date has no meaning.
2. **Term :** Term of bill must be specified in months or in days.
3. **Amount :** Amount of bill in figures should be specified below the stamp and amount in words must be specified in the body of the bill.
4. **Stamp :** Stamp of proper value according to Indian Stamp ACT, 1889 should be affixed.
5. **Parties :** Name of the Drawer, Drawee and Payee and their addresses must be mentioned in the bill of exchange.
6. **'For value received' :** Law does not consider agreements that are made without consideration. Consideration means in lieu of, and in context of bill of exchange, it means that the bill is issued in exchange of some benefit received.
7. **Acceptance :** A bill of exchange drawn by Drawer is termed as draft. It must be presented to the Drawee of acceptance. When Drawee signs with his name along with date across the face of the bill, with the words "Accepted", the bill is said to be accepted and this act of Drawee is called acceptance of bill. Drawee cannot be made liable for payment of bill before the acceptance of bill. Only on acceptance the draft becomes a bill of exchange.

> **Additional Information**
>
> **The Indian stamp Act of 1899 of the Government of India is in force for the charging stamp Duty on instruments recording transactions.**

Specimen of a bill of exchange :

BILL OF EXCHANGE

STAMP

______________ (Drawer's Name)

______________ (Drawer's Address)

______________ (Date of bill drawn)

₹ (Amount in figures) ....

______________ **after date, pay Mr. /Ms.** ______________________________

(Period of bill) *(Name and address of payee)*

______________ **or his / her order, the sum of Rupees** ______________

______________________________ **only for the value received.**

(Amount in words)

Sd. /-

____

(Drawer's Name)

(Drawee's Name) (Accepted)

______________ ______________

(Drawee's Address) (Drawee's Name)

______________ ______________

Date of bill accepted

Types of Acceptance :

a. **General Acceptance :** When the Drawee accepts the draft without any charges or condition, it is called general acceptance. It is also known as unconditional acceptance.

b. **Qualified Acceptance :** When Drawee accepts the bill with certain qualifications, to the order of the Drawer it is called qualified acceptance.

Following are the types of qualified Acceptance :

i) **Qualified as to time :** When Drawee accepts the bill subject to change in tenure or term of bill it is known as qualified acceptance as to time.

ii) **Qualified as to Place :** When the Drawee mentions that bill will be payable at a particular place only, it is known as qualified acceptance as to place.

iii) **Qualified as to amount :** When the Drawee accepts the bill, for a part of the amount of the bill it is known as qualified as to amount.

iv) **Qualified as to parties :** When the Drawee is not ready to pay the amount of bill to the payee named in the bill, it is known as qualified acceptance as to parties.

v) **Qualified as to condition :** When the Drawee accepts the bill subject to certain conditions being fulfilled by the Drawer it is known as qualified acceptance as to conditions.

Illustration 1. (Format of After Date Bill with General Acceptance)

From the following details prepare a format of bill of exchange.

1. Drawer : Mr. Prakash Rao, 648, Coral Plaza, S. B. Road, Pune
2. Drawee : Mr. Rahul Deo, 236, Rajapur Road, Jalgaon.
3. Amount ₹ 44,500.
4. Tenure or term :Three months.
5. Date of Bill : 3rd June, 2019.
6. Date of acceptance : 7th June, 2019.

Bill of Exchange

STAMP

Mr. Prakash Rao,
648 A, Coral Plaza,
S. B. Road, Pune.
Date : 3rd June, 2019.

₹ 44,500

Three months after date pay to me or my order the sum of Rupees Forty Four Thousand Five Hundred only, for the value received.

Sd/-
(Prakash Rao)

To,
Rahul Deo,
236, Rajapur Road,
Jalgaon.

"Accepted"
Sd/-
(Mr. Rahul Deo)
Date : 7th June, 2019.

Illustration 2. (Format of After Date Bill with General Acceptance and Payee's name is given)

From the following details prepare a format of bill of exchange.

1. Drawer : Mr. Mukund Desai, No.14, Heritage Heights, Nagpur.
2. Drawee : Mr. Yogesh Tilak, Narayan Peth, Pune.
3. Amount ₹ 30,000.
4. Tenure or term :90 days.
5. Date of Bill : 16th July, 2019.
6. Date of acceptance : 20th July, 2019.
7. Payee : Shravan Dave, Panvel.

Bill of Exchange

STAMP

Mr. Mukund Desai,
No. 14, Heritage Heights,
Nagpur
Date : 16th July, 2019.

₹ 30,000

Ninety days after date pay to Shravan Dave, Panvel, or his order the sum of Rupees Thirty Thousand Only, for the value received.

Sd/-
(Mr. Mukund Desai)

To,
Mr. Yogendra Tilak,
Narayan Peth,
Amravati.

"Accepted"
Sd/-
(Mr. Yogendra Tilak)
Date : 20th July, 2019.

Illustration 3. **(After Sight Bill)**

Anuratha Patil, 37-A ICC Towers, Goregaon, Mumbai drew a bill on 23rd January, 2020 for 57,450 Bill was drawn for 2 months 'After Sight' on Shanti Vishwakarma, No. 43, Bhosalenagar, Solapur, payable to Shyamala Kate, Nashik. The bill was accepted on 27th January, 2020.

From the above details prepare the format of bill of exchange.

Bill of Exchange

STAMP

Anuratha Patil,
37-A ICC Towers,
Goregaon, Mumbai.
Date : 23rd January, 2020.

₹ 57,450

Two months after sight pay to Shyamala Kate, Nashik, or her order a sum of Rupees Fifty Seven Thousand Four Hundred and Fifty only, for the value received.

Sd/-
(Anuradha Patil)

To,
Shanti Vishwakarma,
No. 43, Bhosalenagar,
Solapur,

"Accepted"
Sd/-
(Shanti Vishwakarma)
Date : 27th Januay, 2020.

Illustration 4. (Qualified Acceptance as to Amount)

Prepare a format bill of exchange from the following details.

Mr. Amol Sane, 42, Gangadham, M. G. Road, Ratnagiri draws a 45 days bill on Mrs. Sagarika Mane, 345, Kumthekar Road, Pune, for ₹ 18,750 on 1st March, 2020 which was accepted on 4th March, 2020 for ₹ 15,000 only, by Mrs. Sagarika Mane.

Bill of Exchange

STAMP

Mr. Amol Sane,
42, Gangadham,
M. G. Road, Ratnagiri
Date : 1st March, 2020.

₹ 18,750

Forty Five days after date pay to me or my order a sum of Rupees Eighteen Thousand Seven Hundred and Fifty only, for the value received.

Sd/-
(Amol Sane)

To,
Mrs. Sagarika Mane,
345, Kumthekar Road,
Pune,

Accepted for ₹ 15,000 only
Sd/-
(Sagarika Mane)
Date : 4th March, 2020.

Illustration 5. **(Qualified Acceptance as to time)**

Partners of Neerja Publishing House, Nariman Point, Mumbai, Sameer Gupta, draws a bill of exchange for 1 month on 9th February, 2020 for ₹ 62,000 on Namrata Kokil, Panvel Road, Kharghar, payable to M/s Vidya Traders, Lonavala. The bill was accepted on the same day for 2 months.

From the above details prepare a format of bill of exchange.

Bill of Exchange

STAMP

Neerja Publishing House,
Nariman Point,
Mumbai

₹ 62,000

Date : 9th February, 2020.

One month after date pay to M/S Vidya Traders, Lonavala, or their order a sum of Rupees Sixty Two Thousand only, for the value received.

Sd/-
(Sameer Gupta)
Partner for Neerja Publishing House

To,
Namrata Kokil,
Panvel Road,
Kharghar

Accepted for Two months
Sd/-
(Namrata Kokil)
Date : 9th February, 2020.

Illustration 6. (Demand Bill)

Prepare a format of bill of exchange from the following details.

1. Drawer : Kedar Pandit, 22/1, Kalpataru Estate, Pirangut, Pune.
2. Drawee : Gauri Mulay, Vashi, Navi Mumbai.
3. Date of Bill : 14th August, 2019.
4. Date of acceptance : 17th August, 2019.
5. Amount ₹ 38,740

Bill of Exchange

STAMP

Kedar Pandit,
22/1, Kalpataru Estate,
Pirangut, Pune.
Date : 14th August, 2019.

₹ 38,740

On demand pay to me or my order a sum of Rupees Thirty Eight Thousnad Seven Hundred and Forty only, for the value received.

Sd/-
(Kedar Pandit)

To,
Gauri Mulay,
Vashi,
Navi Mumbai.
Date 17th August, 2019.

Accepted
Sd/-
(Gauri Mulay)
Date 17th August, 2019.

(Note : Period of bill is not mentioned in a Demand Bill. Amount is to be paid by the acceptor on presentation of bill by the Drawer)

Format of Promissory Note

Promissory Note

STAMP	Mamta Samant, 13/A, Business Centre, L. B. S. Road, Mulund, Mumbai.
₹ 20,000	Date : 10th January, 2019.

Three months after date I promise to pay Beena Sharma or her order a sum of Rupees Twenty Thousand only, for the value received.

Sd/-

(Mamta Samant)

To,
Sunita Karve,
M. G. Road,
Surat.

Important trems of Bill of Exchange :

1. **Term or Tenor or Tenure of bill :** The term of bill is period of time after which a bill becomes payable. Term of bill may be in months or days.
2. **Draft :** A bill before acceptance is known as draft.
3. **Days of grace :** Three extra days allowed by law over and above the term of bill to the Drawee in order to make arrangement for payment of the amount of the bill is known as days of grace.

   However, days of grace is not allowed for bill payable on 'Demand' or 'At Sight'.
4. **Date of maturity or Due date of bill :** The date on which a bill falls due for payment is known as date of maturity or due date.

   If the due date falls on a public holiday the payment of bill is to be made on the preceding working day. For example, if the due date of a bill is 26th January or 15th August which is a public holiday then the payment of the bill be made on the preceding day i.e. 25th January or 14th August.

   However, if the due date for some reason has been declared as emergency holiday the payment of bill must be made on the immediate or next working day.

Types of due date :

a. **Nominal Due Date :** Date which is calculated without adding days of grace to the period of bill is known as nominal due date.

b. **Legal Due Date :** Date which is arrived at after adding three days of grace to nominal due date is known as legal due date.

Calculation of due date :

A) In case of Bills Payable 'After Date'

i) Tenure of bill given in months :

A bill dated 12^{th} June, 2019 is payable 2 months after date. Calculate the due date of the bill.

	DAY	MONTH	YEAR
Date of Bill	12	6	2019
(+) Tenure of bill		2 (months)	
Nominal due date	12	8	2019
(+) Days of grace	3		
Legal due date	15	8	2019

i.e. 15^{th} August, 2019
Since 15^{th} August is a public holiday on account of Independence Day the bill will fall due for payment on 14th August 2019.

ii) Tenure of bill given in days :

A bill dated 14^{th} December, 2019 is payable 90 days after date. Calculate the due date of the bill.

MONTH	Actual days	Unexpired Days
December 2019	31	(31-14) 17
January 2020	31	31
February 2020	29	29
March 2020	31	13
		Total 90 days

Thus, Nominal due date = 13^{th} March, 2020
(+) Grace days + 3
Therefore, Legal due date = 16^{th} March, 2020

B) In case of Bills Payable 'After Sight' :

Method of calculation of due date is same of 'After Date' and 'After Sight' bill. The only difference is that the term of bill is counted from the date of acceptance and not from the date of drawing in case of Bills Payable 'After Sight'.

A bill dated 27^{th} December, 2019 is payable 2 months after sight. It was accepted on 31^{st} December, 2019. Calculate the due date of the bill.

Date of acceptance = December, 2019

Therefore, 31st December, 2019 to 31st January, 2020 = 1 month

31st January, 2020 to 29th February, 2020 = 2 months

Nominal due date is 29th February, 2020

(+) Grace days = 3 days of March

Therefore, Legal due date is 3rd March, 2020.

5. **Holder:** Any person who is in possession of bill of exchange, and is entitled in his own right to receive the amount thereon is known as holder.

6. **Holder in due course :** A holder in due course is a person who obtains a negotiable instrument,
   i) for valuable consideration,
   ii) in good faith and
   iii) before maturity.

7. **Types of Bill of Exchange :**

   i) **Trade Bill :** A bill of exchange which is drawn by a creditor on his debtor with valuable consideration is known as trade bill. It is a bill drawn and accepted for genuine trade transactions.

   ii) **Accommodation Bill :** A bill of exchange which has been drawn for mutual financial accommodation of parties involved in is known as accommodation bill. Such bills are drawn and accepted without any valuable consideration. The main objective of such bill is to oblige friends.

   iii) **Inland Bill :** A bill of exchange which is drawn between two parties that are located or reside in the same country and thus, are made payable in the same country is known as inland bill of exchange.

   iv) **Foreign Bill :** A bill which is drawn in one country and made payable in another country is known as foreign bill. For example, a bill drawn in India and is made payable in Australia or vice versa.

   A further classification of Bill of Exchange are as follows :

   i) **After Date Bill :** After date bill is payable at a fixed period. The due date of this bill is calculated from the date of drawing. Grace period of three days are allowed on these bills.

   ii) **After Sight Bill :** The due date of this bills calculated from the date of acceptance. Grace period of three days are allowed on these bills.

   iii) **Bill payable on Demand or At sight :** These bills are payable immediately on presentation to the Drawee. Time period is not mentioned for these bills. Also grace days are not allowed for such bills.

7.3 **Honouring of Bill of Exchange :** A bill of exchange drawn for a certain period becomes due for payment on the due date. If the Acceptor or Drawee pays the amount of the bill on the due date it is known as honouring of bill. The bill must be presented by the holder to the acceptor for payment on or before the due date. Failing to do so discharges the acceptor and every endorser of bill from the liability to pay the amount of the bill.

Dishonouring of Bill of Exchange : If the accepter does not or is not able to pay the amount of bill to the holder of the bill it is known as dishonour of bill.

A bill may be dishonoured in two ways;

i) **Dishonour by non-acceptance :** i.e. when Drawee does not accept the bill.

ii) **Dishonour by non-payment :** i.e. when Drawee makes default in payment on due date.

On dishonour of bill acceptor becomes liable to pay the amount along with legal expenses if any incurred by the holder on account of dishonour.

Noting of dishonour : Noting means recording of the fact of dishonour of bill of exchange by a Notary Public. When a bill of exchange is dishonoured the holder can, after giving due notice of dishonour, sue the Drawee. But before filling such a suit holder will require some authenticated proof of the fact to be put up before the court that the bill is actually dishonoured. The holder takes the bill to the Notary Public who in turn makes a demand for acceptance or payment upon the Drawee formally and on his refusal to do so, notes the same on the bill. Noting should be done within reasonable time after dishonour.

Protesting : After getting the fact of dishonour of bill authenticated by getting it noted the Notary Public then certifies the same. This certificate is known as protest. Thus, protest is a certificate which is formal in nature and attests the fact of dishonour of a bill based on noting.

Notary Public : A Notary Public is a legal practitioner or other public servant appointed by Central or State Government under Section 3 of the Notaries Act, 1952. He is entrusted with the power of attestation of foreign documents and of noting and protesting of dishonoured bills exchange and promissory notes.

Noting Charges : The holder of the bill has to get the fact of dishonour noted by the Notary Public. Noting of bill is done by recording the fact of dishonour, date of dishonour and reasons of dishonour. For this the Notary Public, charges certain fees which is known as Noting Charges. Noting Charges are initially paid by the holder of the bill, who gets the bill noted for dishonour and subsequently recovers the amount from the person from whom the bill has been received. Noting Charges are ultimately borne by the person who is primarily liable for it. Thus, Noting Charges are paid by the holder and borne by the Drawee.

Classification of Bills for Accounting :

Bills Receivable : A bill of exchange is treated as Bills Receivable by the person who draws the bill. Bills Receivable is an asset for the Drawer.

Bills Payable : A bill of exchange is treated as Bills Payable by the person who accepts the bill drawn on him. Bills Payable is a liability to the Drawee.

Specimen of Bills Receivable Book

No. of Bill	Date received	Date of Bill	From whom received	Drawer	Acceptor	Where payable	Term	Due date	Ledger folio	Amount ₹	Cash Book Folio	Remarks

Specimen of Bills Payable Book

No. of Bill	Date of Bill	To whom given	Drawer	Payee	Where payable	Term	Due Date	Ledger folio	Amount paid ₹	Date	Cash Book Folio	Remarks

Accounting treatment of Bill of Exchange

Bills Receivable being an asset can be dealt in the following ways by the Drawer :

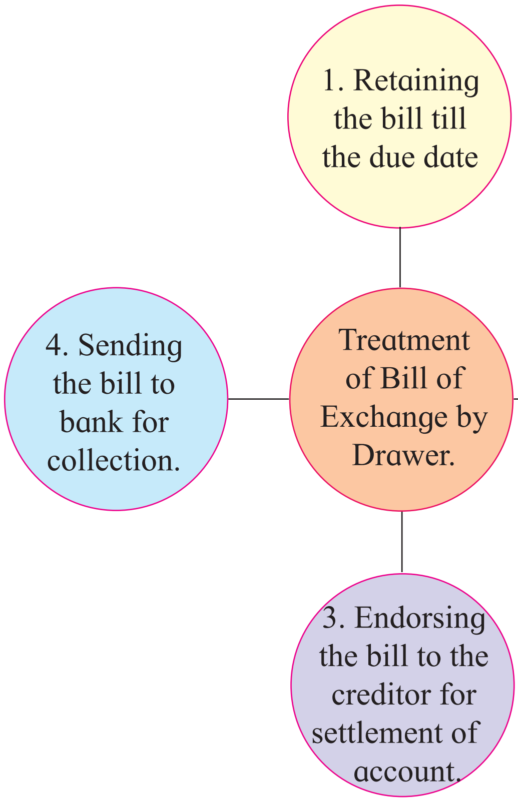
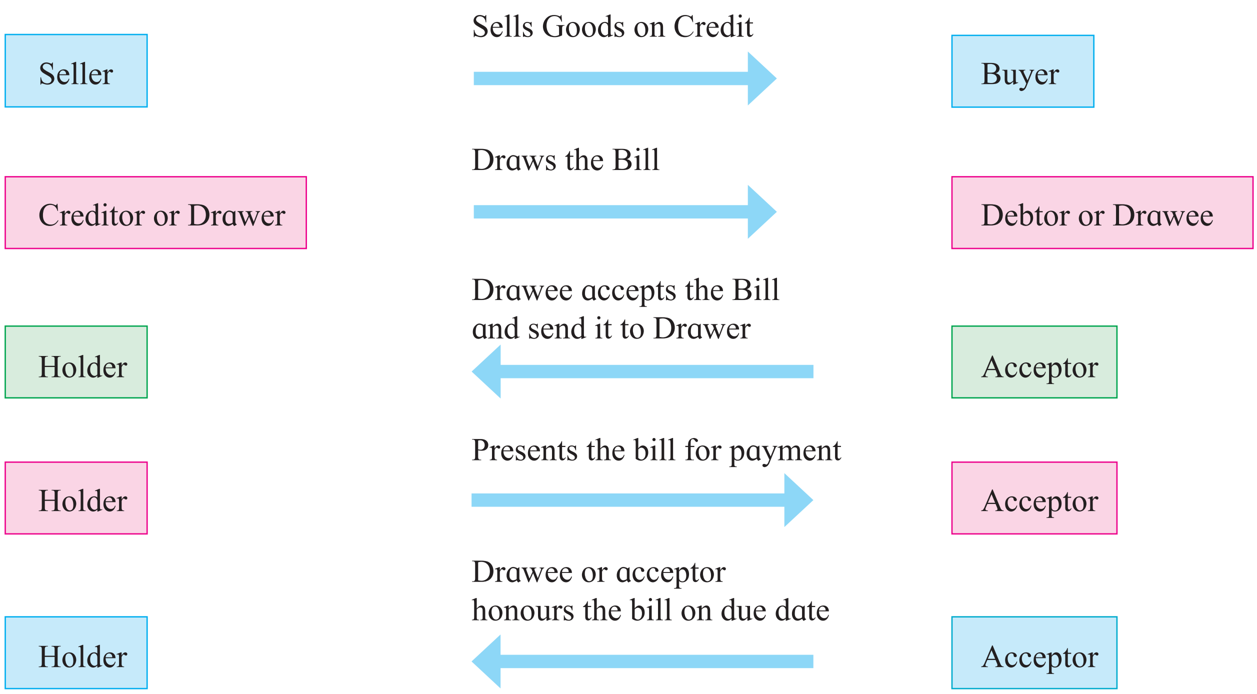


Fig.7.3 (a)

1. **Retaining the bill till the due date :** Drawer can retain the bill till the due date. On the due date he presents the bill to the Drawee for payment which can be honoured or dishonoured by the Drawee.



Accounting treatment in the books of Drawer and Drawee :

	Transaction	Books of Drawer / Creditor	Books of Drawee / Debtor
1	Creditor sells goods on credit	Debtor's A/c Dr. To Sales A/c (Being goods sold on credit)	Purchases A/c Dr. To Creditor's A/c (Being goods purchased on credit)
2	Creditor or Drawer draws a bill and acceptance received	Bills Receivable A/c Dr. To Drawee's A/c (Being bill drawn and acceptance received)	Drawer's A/c Dr. To Bills Payable A/c (Being acceptance given)
3	Retained bill honoured on the due date.	Cash / Bank A/c Dr. To Bills Receivable A/c (Being retained bill duly honoured on the due date	Bills Payable A/c Dr. To Cash / Bank A/c (Being our acceptance honoured)
4	Retained bill dishonoured on the due date.	Drawee's A/c Dr. To Bills Receivable A/c (Being retained bill dishonoured on the due date.)	Bills Payable A/c Dr. To Drawee's A/c (Being our acceptance dishonoured on the due date)
5	Retained bill dishonoured on the due date and noting charges paid by Drawer.	Drawee's A/c Dr. To Bills Receivable A/c To Cash A/c (Being retained bill dishonoured on the due date and Noting Charges paid	Bills Payable A/c Dr. Noting Charges A/c Dr. To Drawer's A/c (Being our acceptance dishonoured and Noting Charges payable)

When retained bill is dishonoured, the duty of establishing the fact that the bill was presented to Drawee for payment is of the Drawer. Drawer pays the Noting Charges which will ultimately be recovered from Drawee.

Illustration on Retained Bill

On 1st June, 2019 Pratap sold goods to Sujit worth ₹ 82,000. Sujit accepted a bill drawn upon him by Pratap for 2 months for ₹ 82,000. Give Journal entires in the book of Pratap and Sujit for the following cases :

a) Bill is honoured on the due date.

b) Bill is dishonoured on the due date.

c) Bill is dishounoured on the due date and Noting charges ₹ 250 paid by Pratap.

In the books of Pratap

Journal

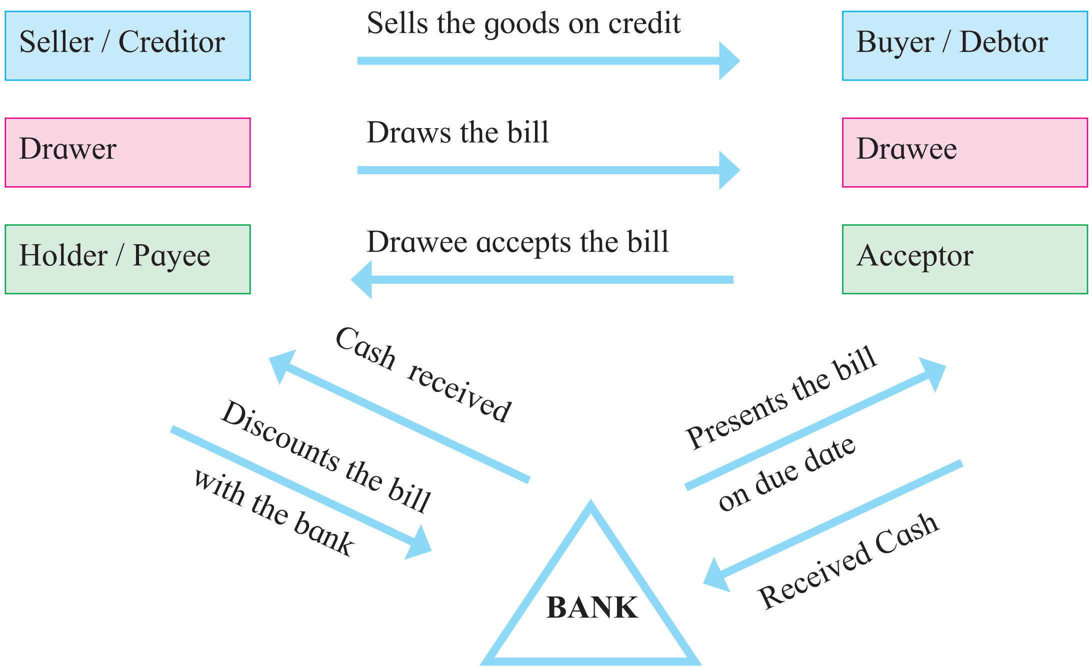
Date	Particulars	L. F.	Debit Amount ₹	Credit Amount ₹
2019 June 1	Sujit's A/c ....Dr. To Sales A/c (Being goods sold on credit)		82,000	 82,000
June 1	Bills Receivable A/c ....Dr. To Sujit's A/c (Being bill drawn and acceptance received)		82,000	 82,000
a) Aug. 4	Cash / Bank A/c ....Dr. To Bill Receivable A/c (Being Sujit's acceptance honoured on the due date)		82,000	 82,000
b) Aug. 4	Sujit's A/c ....Dr To Bills Receivable A/c (Being Sujit's acceptance dishonoured on the due date)		82,000	 82,000
c) Aug. 4	Sujit's A/c ....Dr. To Bills Receivable A/c To Cash A/c (Being Sujit's acceptance dishonoured and Noting charges paid)		82,250	 82,000 250

In the books of Sujit

Journal

Date	Particulars	L. F.	Debit Amount ₹	Credit Amount ₹
2019 June 1	Purchases A/c ....Dr. To Pratap's A/c (Being goods purchased on credit)		82,000	 82,000
June 1	Pratap's A/c ....Dr. To Bills Payable A/c (Being our acceptance given)		82,000	 82,000
a) Aug. 4	Bills Payable A/c ....Dr. To Cash / Bank A/c (Being our acceptance honoured on the due date)		82,000	 82,000
b) Aug. 4	Bills Payable A/c ....Dr. To Pratap's A/c (Being our acceptance dishonoured on the due date)		82,000	 82,000
c) Aug. 4	Bills Payable A/c ....Dr. Noting Charges A/c To Pratap's A/c (Being our acceptance dishonoured and Noting charges paid)		82,000 250	 82,250

2. **Discounting the Bill of Exchange :** A bill is drawn for a particular term and the acceptor pays the amount of bill on the due date. Drawer or Holder can obtain payment from bank before its due date by discounting the bill. Discounting is a device to convert the bill into its present value. A bill can be generally discounted with the bank where the Drawer has an account. Bank deducts certain amount of bill for the services rendered which is known as discounting charges. Discount being an expense for Drawer is debited in his books of accounts.



Calculation of Discount

Illustration 1 :

Rahul draws a bill on Atul for ₹ 15,000 on 1st April, 2019 payable after 4 months. Calculate the amount of discount in the following cases :

i) The bill has been discounted @ 10% p.a. on 1st April, 2019.

ii) The bill has been discounted @ 10% p.a. on 1st June, 2019.

Solution :

i) Discount = Amount of Bill $\times \frac{\text{Rate}}{100} \times \frac{\text{Unexpried months}}{12}$

$= 15{,}000 \times \frac{10}{100} \times \frac{4}{12}$

= ₹ 500

(Note: The bill is with the bank for 4 months)

ii) Discount = Amount of Bill $\times \frac{\text{Rate}}{100} \times \frac{\text{Unexpried months}}{12}$

$= 15{,}000 \times \frac{10}{100} \times \frac{2}{12}$

= ₹ 250

(Note : The bill is with the bank for 2 months only)

Illustration 2 :

Shivam drawn a bill on Ganesh for 21,900 on 15th May, 2019 for 60 days. He discounts the bill on the same day with his Bank at 8% p.a. Calculate the amount of discount.

Solution :

$$\text{Discount} = \text{Amount of Bill} \times \frac{\text{Rate}}{100} \times \frac{\text{Unexpried days}}{365}$$

$$= 21{,}900 \times \frac{8}{100} \times \frac{60}{365}$$

$$= ₹\ 288$$

Illustration 3 :

Pankaj drawn a bill on Sanjay for ₹ 25,620 on 1st March, 2020 for 90 days. He discounts the bill on the same day with his back at 10% p.a. Calculate the amount of discount.

Solution :

$$\text{Discount} = \text{Amount of Bill} \times \frac{\text{Rate}}{100} \times \frac{\text{Unexpried days}}{366}$$

$$= 25{,}620 \times \frac{10}{100} \times \frac{90}{366}$$

$$= ₹\ 630$$

(Note 2020 is a leap year, therefore it is 366 days)

Accounting Treatment in the Books of Drawer and Drawee :

	Transaction	Books of Drawer	Books of Drawee
1	Drawer discount the bill with the bank	Bank A/c Dr. Discount A/c Dr. To Bills Receivable A/c (Being Drawee's acceptance discounted with the bank)	There will be no entry because Drawee is not a party to the transaction.
2	Discounted bill honoured on the due date	There will be no entry because Drawer has already received the Cash	Bills Payable A/c Dr. To Cash / Bank A/c (Being our acceptance honoured)
3	Discounted bill dishonoured on the due date	Drawee's A/c Dr. To Bank A/c (Being discounted bill dishonoured on the due date)	Bills PayableA/c Dr. To Drawer's A/c (Being our acceptance dishonoured)
4	Discounted bill dishonoured and noting charges paid by bank	Drawee's A/c Dr. To Bank A/c (Being discounted bill dishonoured on the due date and Noting Charges paid by bank) Amount = Amount of bill + Noting Charges)	Bills Payable A/c Dr. Noting Charges A/c Dr. To Drawer's A/c (Being our acceptance dishonoured and Noting Charges payable)

Additional Information
A bill broker is a discount house, a firm which buys and sells bills of exchange for a fee.

Illustration on Discounting the bill with the bank

Ajinkya owes ₹ 45,000 to Ashwin. On 12th July, 2019 Ashwin received a crossed cheque of ₹ 15,000 from Ajinkya and for the balance ₹ 30,000 Ajinkya accepted a bill for 3 months. Ashwin got the bill discounted with his bank at 15% p. a. on the same day. Give journal entries in the books of Ashwin and Ajinkya for the following cases :

a) Bill honoured on due date.

b) Bill dihonoured on due date.

c) Bill dishonoured on due date and noting charges ₹ 300 paid by bank.

In the books of Ashwin
Journal

Date	Particulars	L. F.	Debit Amount ₹	Credit Amount ₹
2019	Bank A/c ....Dr.		15,000	
July 12	Bill Receivable A/c ....Dr.		30,000	
	To Ajinkya's A/c			45,000
	(Being cheque received and for balance bill drawn and acceptance received)			
July 12	Bank A/ ....Dr.		28,875	
	Discount A/c..........Dr.		1,125	
	To Bills Receivable A/c			30,000
	(Being Ajinkya's acceptance discounted with the bank)			
a) Oct. 15	No Entry			
b) Oct. 15	Ajinkya's A/c ....Dr.		30,000	
	To Bank A/c			30,000
	(Being Ajinkya's acceptance discounted with bank dishonoured)			
c) Oct. 15	Ajinkya's A/c ....Dr.		30,300	
	To Bank's A/c			30,300
	(Being Ajinkya's acceptance discounted with bank dishonoured and Noting charges paid by Bank)			

Note : Noting Charges paid by bank is added to the amount.

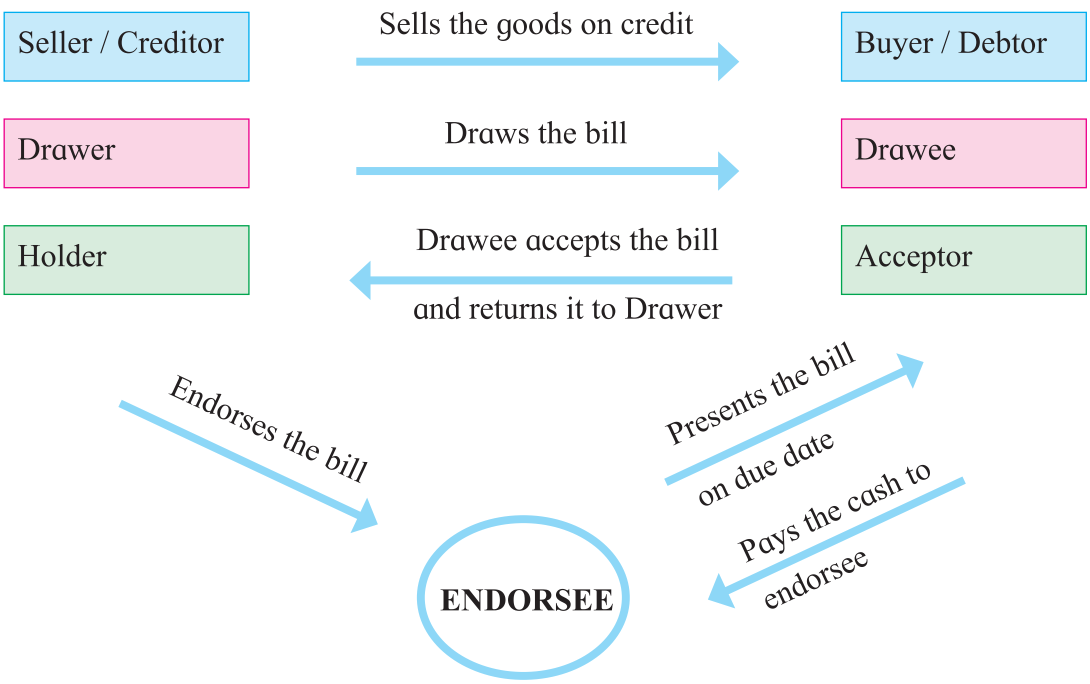
In the books of Ajinkya

Journal

Date	Particulars	L. F.	Debit Amount ₹	Credit Amount ₹
2019 July 12	Ashwin's A/c ....Dr.		45,000	
	To Bank A/c			15,000
	To Bills payable A/c			30,000
	(Being paid by cheque and accepted a bill for balance)			
July 12	Bills payable A/c....................Dr.		30,000	
	To Cash/Bank A/c			30,000
	(Being our acceptance dishonoured on the due date)			
b) Oct. 15	Bills payable A/c....................Dr.		30,000	
	To Ashwin's A/c			30,000
	(Being our acceptance dishonoured)			
c) Aug. 4	Bills payable A/c ....Dr.		30,000	
	Noting charges A/c....................Dr.		300	
	To Ashwin's A/c			30,300
	(Being our acceptance dishonoured and Noting charges payable)			

3. Endorsement of Bill of Exchanges :

A further use of exchange is to settle a debt that Drawer or holder owes to their creditors. Endorsement is words written at the back of the bill of exchange along with signature of transferor for transferring the title of bill. A bill of exchange being negotiable instrument can be transferred from one person to another in due course. The holder who transfers the title of the bill is called endorser and the person in whose favor the bill is transferred is called endorsee. The process of endorsement may continue till the due date



Accounting Treatment in the Books of Drawer, Drawee and Endorsee :

1	Drawer endorses the bill to Endorsee		
	Books of Drawer / Endorser	**Books of Drawee**	**Books of Endorsee**
	Endorsee's A/c Dr. To Bills Receivable A/c (Being Drawee's acceptance endorsed to our creditor)	There will be no entry as Drawee is not a party to the transaction	Bills Receivable A/c Dr. To Endorser's A/c (Being Bills Receivable received from our debtor)
2	**Endorsed bill honoured on the due date**		
	Books of Drawer /	**Books of Drawee Endorser**	**Books of Endorsee**
	There will be no entry as Drawer is not a party to the transaction	Bills Payable A/c Dr. To Cash / Bank A/c (Being our acceptance honoured)	Cash / Bank A/c Dr. To Bills Receivable A/c (Beign Bills Receivable received honoured)
3	**Endorsed bill dishonoured on the due date**		
	Books of Drawer /	**Books of Drawee Endorser**	**Books of Endorsee**
	Drawee's A/c Dr To Endorsee's A/c (Being endorsed bill dishonoured on the due date)	Bills Payable A/c Dr. To Drawer's A/c (Being our acceptance dishonoured)	Endorser's A/c Dr. To Bills Receivable A/c (Being Bills Receivable received dishonoured)
4	**Endorsed bill dishonoured and noting charges paid by Endorsee**		
	Books of Drawer /	**Books of Drawee**	**Books of Endorsee**
	Drawee's A/c Dr. To Endorsee's A/c (Being endorsed bill dishonoured and Noting Charges paid by endorsee) (Amount = Amount of bill and Noting Charges)	Bills Payable A/c Dr. Noting Charges A/c Dr. To Drawer's A/c (Being our acceptance dishonoured and Noting Charges payable)	Endorser's A/c Dr. To Bills Receivable A/c To Cash A/c (Being Bills Receivable received dishonoureed and Noting Charges paid)

Illustration on Endorsement of Bill

Pallavi sold goods of ₹ 25,000 to Vandana at 10% Trade discount on 16th Feb. 2019. On the same day Vandana accepted a bill drawn on her for the amount due for 3 months. Pallavi endorsed the bill to her creditor Purva on 18th Feb. 2019.

Give journal entries in the books of Pallavi, Vandana and Purva for the following :

a) Bill was honoured on the due date

b) Bill was dishonoured on the due date

c) Bill was dihonoured on the due date and noting charges paid by Purva ₹ 175.

In the books of Pallavi

Journal

Date	Particulars	L. F.	Debit Amount ₹	Credit Amount ₹
2019 Feb. 16	Vandana's A/c ....Dr. To Sales A/c (Being goods sold on credit at 10% Trade Discount)		22,500	 22,500
Feb. 16	Bills Receivable A/c ....Dr. To Vandana's A/c (Being bill drawn and acceptance received)		22,500	 22,500
Feb. 18	Purva's A/c....................Dr. To Bills Receivable A/c (Being Vandana's acceptance endorsed)		22,500	 22,500
a) May 19	No Entry			
b) May 19	Vandana's A/c....................Dr. To Purva's A/c (Being Vandana's acceptance endorsed dishonoured)		22,500	 22,500
c) May 19	Vandana's A/c....................Dr. To Purva's A/c (Being Vandana's acceptance endorsed dishonoured and noting charges paid by Purva)		22,675	 22,675

In the books of Vandana

Journal

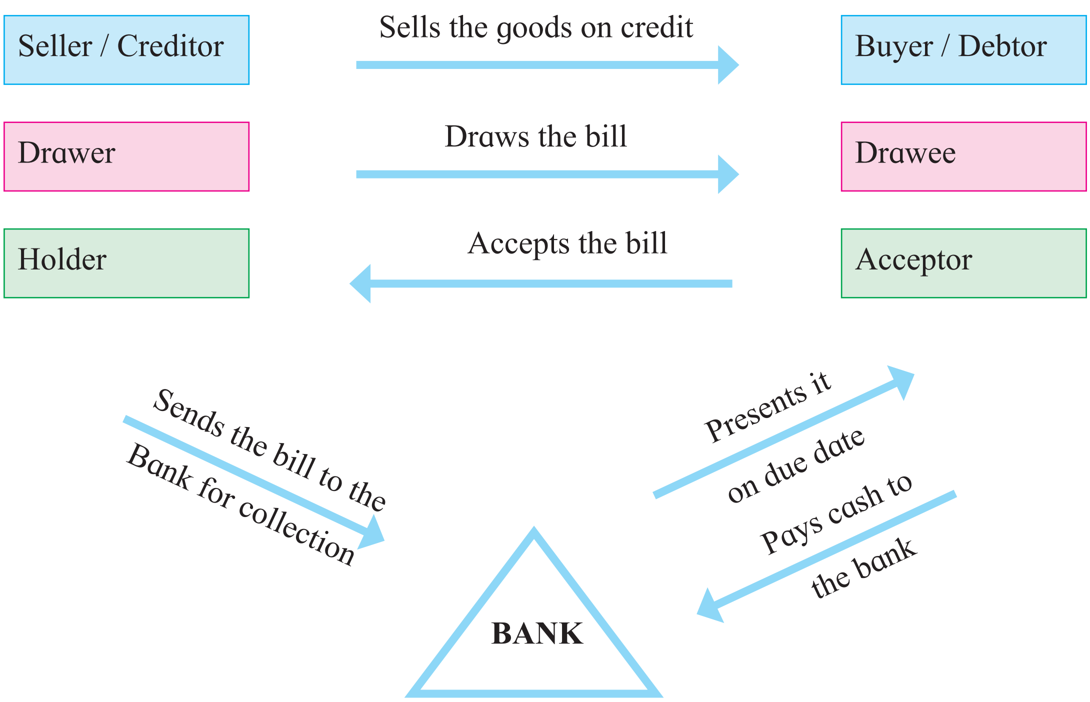
Date	Particulars	L. F.	Debit Amount ₹	Credit Amount ₹
2019 Feb. 16	Purchases A/c .... Dr. To Pallavi's A/c (Being goods purchased on credit at 10% Trade Discount)		22,500	 22,500
Feb. 16	Pallavi's A/c .... Dr. To Bills Payable A/c (Being our acceptance given)		22,500	 22,500
a) May 19	Bills Payable A/c .... Dr. To Cash / Bank A/c (Being our acceptance honoured on the due date)		22,500	 22,500
b) May 19	Bills Payable A/c .... Dr. To Pallavi's A/c (Being our acceptance dishonoured on the due date)		22,500	 22,500
c) May 19	Bills Payable A/c .... Dr. Noting Charges A/c.................... Dr. To Pallavi's A/c (Being our acceptance dishonoured and Noting Charges payable		22,500 175	 22,675

In the books of Purva
Journal

Date	Particulars	L. F.	Debit Amount ₹	Credit Amount ₹
2019 Feb. 18	Bills Receivable A/c ....Dr.		22,500	
	To Pallavi's A/c			22,500
	(Being Bills Receivable received)			
a) May 19	Cash / Bank A/c ....Dr.		22,500	
	To Bills Receivable A/c			22,500
	(Being cash received on Bills Receivable)			
b) May 19	Pallavi's A/c..Dr.		22,500	
	To Bills Receivable A/c			22,500
	(Being Bills Receivable dishonoured)			
c) May 19	Pallavi's A/c..Dr.		22,675	
	To Bills Receivable A/c			22,500
	To Cash A/c			175
	(Being Bills Receivable dishonoured and Noting Charges paid)			

4. Bills sent to Bank for Collection

Holder of the bill can send the bill to bank for collection. In business enterprises a large number of bills receivable are received regularly and it is difficult to remember to present various bill to different Drawees on different due dates. In such cases the Drawer sends the bill to his/her bank who will collect the amount of these bills on due date on behalf of the Drawer. For this service bank charges certain fees known as Bank Charges. Drawer opens a temporary account for this purpose known as "Bill sent for collection A/c". This account closes on the due date of the Bill.



Accounting Treatment in the Books of Drawer and Drawee :

	Transaction	Books of Drawer	Books of Drawee
1	Bill sent to bank for collection	Bill sent for collection A/c ...Dr. To Bills Receivable A/c (Being bill sent to bank for collection)	There will be no entry because Drawee is not a party to the transaction.
2	Bill sent to bank for collection honoured on the due date and Bank charges debited by bank.	Bank A/c ....Dr. Bank Charges A/c ....Dr. To Bill sent for collection A/c (Being bill honoured)	Bills Payable A/c .... Dr. To Cash / Bank A/c (Being our acceptance honoured)
3	Bill sent to bank for collection dishonoured on the due date	Drawee's A/c.........................Dr. To Bill sent for collection (Being bill sent for collection dishonoured)	Bills PayableA/c............ Dr. To Drawer's A/c (Being our acceptance dishonoured)
4	Bill sent to bank for collection dishonoured on due date and Noting Charges paid	Drawee's A/c.........................Dr. To Bill sent for collection A/c To Bank A/c (Being bill sent for collection dishonoured and Noting Charges paid)	Bills Payable A/c Dr. Noting Charges A/c Dr. To Drawer's A/c (Being our acceptance dishonoured and Noting Charges payable)

Illustration on Bill sent to the Bank for collection

Anita sold goods to Nita ₹ 33,500 8th May 2019. On the same day Anita draws a bill of ₹ 22,500 on Nita for 4 months was accepted by Nita. On 4th April 2019 Anita sent the bill to bank for collection.

a) Bill is honoured on the due date and Anita paid bank charges ₹ 200.

b) Bill is dishonoured on the due date.

c) Bill is dishonoured on the due date and noting charges paid ₹ 150.

In the books of Anita

Journal

Date	Particulars	L. F.	Debit Amount ₹	Credit Amount ₹
2019 Mar. 8	Nita's A/c ....Dr.		33,500	
	To Sales A/c			33,500
	(Being goods sold for cash)			
Mar. 8	Bills Receivable A/c ....Dr.		22,500	
	To Nita's A/c			22,500
	(Being bill drawn and acceptance received)			
Apr. 4	Bill sent to Bank for Collection A/c ....Dr.		22,500	
	To Bills Receivable A/c			22,500
	(Being bill sent to bank for collection)			
a) Jul. 11	Bank A/c ....Dr.		22,300	
	Bank Charges A/c ....Dr.		200	
	To Bill sent to Bank for Collection A/c			22,500
	(Being bill honoured and bank charges paid)			
b) Jul. 11	Nita's A/c ....Dr.		22,500	
	To Bill sent to Bank for Collection A/c			22,500
	(Being bill sent to Bank for collection dishonoured)			
c) Jul. 11	Nita's A/c ....Dr.		22,650	
	To Bill sent to Bank for Collection A/c			22,500
	To Cash / Bank A/c			150
	(Being bill sent to bank for collection dishonoured and Noting Charges paid			

In the books of Nita

Journal

Date	Particulars	L. F.	Debit Amount ₹	Credit Amount ₹
2019 Mar. 8	Purchases A/c ....Dr.		33,500	
	To Anita's A/c			33,500
	(Being goods purchased on credit)			
Mar. 8	Anita's A/c A/c....................Dr.		22,500	
	To Bills Payable A/c			22,500
	(Being our acceptance given)			
a) Jul. 11	Bills Payable A/c ....Dr.		22,500	
	To Cash A/c			22,500
	(Being our acceptance hounoured on the due date)			
b) Jul. 11	Bills Payable A/c ....Dr.		22,500	
	To Anita's A/c			22,500
	(Being our acceptance dishounoured on the due date)			
c) Jul. 11	Bills Payable A/c ....Dr.		22,500	
	Noting Charges A/c....................Dr.		150	
	To Anita's A/c			22,650
	(Being our acceptance dishounoured and Noting Charges payable)			

Renewal Bill of Exchange

Cancellation of bill on maturity in return of a new bill for an extended period of credit is known as renewal of bill of exchange. When the acceptor of the bill after acceptance has some doubt that he would not be able to honour the bill on the due date, he requests the Drawer to cancel the original bill and to draw a fresh bill on him for a further period of time. If the Drawer agrees to such on offer the Drawee gets extra time of credit for which Drawee has to pay interest. Amount of interest can be paid along with part payment or with the new bill.

Steps in Renewal of Bill

i. Cancellation or Dishonour of old bill.
ii. Interest due on balance.
iii. Receiving / Paying of part payment.
iv. Drawing and acceptance of new bill.

Accounting Treatment in the Books of Drawer and Drawee :

	Transaction	Books of Drawer	Books of Drawee
1	Cancellation of old bill or Dishonour of bill	Drawee's A/c.......................... Dr. To Bills Receivable A/c **or** To Bank A/c **or** To Bill Sent for Collection A/c **or** To Endorsee's A/c (Being old bill cancelled for renewal)	Bill Payable A/c............ Dr. To Drawer's A/c (Being our acceptance cancelled for renewal)
2	Interest due on balance amount	Drawee's A/c.......................... Dr. To Interest A/c...................... Dr. (Being Interest due)	Interest A/c..................... Dr To Drawer's A/c (Being Interest due)
3	Receving / Paying part payment	Cash / Bank A/c........................ Dr. To Drawee's A/c (Being part payment received along with interest) **(Amount of interest will be added to this amount if interest is received along with part payment)**	Drawer's A/c................ Dr. To Cash / Bank A/c (Being part payment made along with interest)
4	Drawing and acceptance of new bill	Bills Receivable A/ .... Dr. To Drawee's A/c (Being new bill drawn and acceptance received) **(Amount of interest will be added to this amount if interest is receivable along with new bill)**	Drawer's A/c................ Dr. To Bills Payable A/c (Being new bill accepted for the balance)

Note : Whenever the bill is dishonoured Drawee's account is always debited.
Bills Receivable account is credited if the bill is retained.
Bank account is credited if the bill is discounted with the bank.
Bill sent for collection account is credited if the bill is sent to bank for collection.
Endorsee's account is credited if the bill is endorsed.

Different ways to pay interest, part payment and acceptance of new bill.

a. Amount of interest paid in cash.
   New bill drawn and accepted for full amount.

b. Part payment including interest.
   New bill drawn and accepted for the balance amount.

c. Part payment excluding interest.
   New bill drawn and accepted for the balance amount along with interest.

Alternate Accounting Treatment (When interest paid in cash immediately)

	Transaction	Books of Drawer	Books of Drawee
1	Cancellation of old bill	Drawee's A/c Dr. To Bills Receivable A/c **or** To Bank A/c **or** To Bill sent for collection A/c **or** To Endorsee's A/c (Being old bill cancelled for renewal)	Bill Payable A/c Dr. To Drawer's A/c (Being our acceptance cancelled for renewal)
2	Interest paid in cash along with part payment	Cash / Bank A/c Dr. To Drawee's A/c To Interest A/c (Being part payment received along with interest)	Drawee's A/c Dr. Interest A/c Dr. To Cash / Bank A/c (Being part payment made along with Interest)
3	New bill drawn for the balance and acceptance received	Bill Receivable A/c Dr. To Drawee's A/c (Being new bill drawn and acceptance received)	Drawer's A/c Dr. To Bill payable A/c (Being acceptance given)

Retirement of Bill under Rebate :

Making payment of bill well before the date of maturity is known as retirement of bill. When the acceptor of bill makes payment to the holder before the due date it is known as retiring a bill. Drawer allows some Discount or Rebate to the Drawee for the unexpired period. This rebate in an expense to the Drawer or Holder and income to the Drawee or Acceptor.

Accounting Treatment in the Books of Drawer and Drawee :

Books of Drawer	Books of Drawee
Cash / Bank A/c Dr. Rebate / Discount A/c Dr. To Bills Receivable A/c (Being bill retired and rebate allowed)	Bills Payable A/c Dr. To Cash / Bank A/c To Rebate / Discount A/c (Being our acceptance retired and rebate received)

Insolvency of Drawee :

Person whose liabilities are more than the assets and is not in a position to pay off his liabilities is known as insolvent person. When the Acceptor or Drawee is declared insolvent by the court, bills accepted by him will obviously be dishonoured. In this case entry for cancellation of bill will be passed in the books of Drawer and Drawee. Drawer may receive some amount from the Drawee's estate which is called final dividend. The amount which is not recoverable will be written off in the books of Drawer as bad debts. The same amount will appear in the books of Drawee as deficiency.

Accounting Treatment in the Books of Drawer and Drawee :

	Transaction	Books of Drawer	Books of Drawee
1	Cancellation of old bill	Drawee's A/c Dr. To Bills Receivable A/c or To Bank A/c or To Bill sent for collection A/c or To Endorsee's A/c (Being old bill cancelled)	Bill Payable A/c Dr. To Drawer A/c (Being our acceptance cancelled)
2	Receiving final dividend and bad debts written off	Cash / Bank A/c Dr. Bad Debts A/c Dr. To Drawee's A/c (Being final dividend received and bad debts written off)	Drawer's A/c Dr. To Cash / Bank A/c To Deficiency A/c (Being final dividend paid and balance credited to deficiency account)

Illustrations

1. (Honour of bill under different circumstances)

Akash drew a bill on Deepak for 25,000 on 23rd December, 2019, for 3 months. Deepak accepted the same and returned it to Akash. On the due date the bill was duly honoured by Deepak. **Give journal entires in the books of Akash and Deepak under each to the following cases :**

a) If Aksah retained the bill till maturiry.

b) If Akash discounted the bill with the bank at 6% p.a. on the same day.

c) If Akash sent the bill to bank for collection on 23rd December, 2019.

d) If Akash endorsed the bill to his creditor Viren.

In the books of Akash

Journal

Date	Particulars	L. F.	Debit Amount ₹	Credit Amount ₹
2019 Dec. 23	Bills Receibable A/c ....Dr. To Deepak's A/c (Being bill drawn on Deepak for 3 months adn acceptance received)		25,000	 25,000
a) 2020 Mar. 26	Cash / Bank A/c ....Dr. To Bills Receivable A/c (Being Deepak's acceptance hounoured on the due date)		25,000	 25,000
b) 2019 Dec. 23	Bank A/c ....Dr. Discount A/c...Dr. To Bills Receivable A/c (Being Deepak's acceptance disounted with the bank at 6% p.a. for 3 months)		24,625 375	 25,000
c) 2019 Dec. 23	Bill sent for collection A/c ....Dr. To Bills Receivable A/c (Being Deepak's acceptance sent to the bank for collection)		25,000	 25,000
2019 Mar. 26	Bank A/ ....Dr. To Bill sent for Collection A/c (Being bill honoured on the due date)		25,000	 25,000
d) 2019 Dec. 23	Viren's A/c ....Dr. To Bill Receivable A/c (Being Deepak's acceptance endorsed to Viren)		25,000	 25,000

In the books of Deepak

Journal

Date	Particulars	L. F.	Debit Amount ₹	Credit Amount ₹
2019 Dec. 23	Akash's A/c ....Dr. To Bill Payable A/c (Being bill accepted)		25,000	 25,000
2020 Mar. 26	Bill Payable A/c ....Dr. To Cash / Bank A/c (Being our acceptance honoured on the due date)		25,000	 25,000

Note : In case of b, c and d enties in the Books of Drawee will be same as above.

2. **(Dishonour of bill under different circumstances)**

Gautam sold goods of ₹ 40,000 to Harsh on 1st May 2019. For this purpose, Gautam drew a bill on Harsh for 2 months. Harsh accepted the same and returned it to Gautam. On matutity the bill was dishonoured by Harsh. **Give journal entries in the books of Gautam and Harsh under the following circumstances :**

a) If Gautam retained the bill till maturiry.
b) If Gautam discounted the bill with the bank at 12% p.a. on 1st June, 2019.
c) If Gautam sent the bill to bank for collection on 15th May, 2019.
d) If Gautam endorsed the bill to his creditor Arnav.

In the books of Gautam
Journal

Date	Particulars	L. F.	Debit Amount ₹	Credit Amount ₹
2019 May 1	Harsh's A/c ....Dr. To Sales A/c (Being goods sold on credit)		40,000	 40,000
May 1	Bills Receivable A/c ....Dr. To Harsh's A/c (Being bill drawn and accepted by Harsh for 2 months)		40,000	 40,000
a) Jul. 4	Harsh's A/c ....Dr. To Bills Receivable A/c (Being Harsh's acceptance dishonoured on the due date)		40,000	40,000
b) i) May 1	Bank A/c ....Dr. Discount A/c ....Dr. To Bills Receivable A/c (Being Harsh's acceptance Discounted with the bank at 12% p.a. for 2 months)		39,600 400	 40,000
b) ii) Jul. 4	Harsh's A/c To Bank A/c ....Dr. (Being Harsh's acceptance discounted with the Bank dishonoured)		40,000	 40,000
c) i) May 15	Bill sent for collection A/c ....Dr. To Bill Receivable A/c (Being Harsh's acceptance sent to the bank for collection)		40,000	 40,000
c) ii) Jul. 4	Harsh's A/c ....Dr. To Bill sent for collection A/c (Being Harsh's acceptance sent to bank for collection dishonoured)		40,000	 40,000
d) i) May 1	Arnav's A/c ....Dr. To Bill Receivable A/c (Being Harsh's acceptance endorsed to Arnav) Harsh's A/c		40,000	 40,000
c) ii) Jul. 4	Harsh's A/c ....Dr. To Arnav's A/c (Being Harsh's acceptance endorsed dishonoured on the due date		40,000	 40,000

In the books of Harsh
Journal

Date	Particulars	L. F.	Debit Amount ₹	Credit Amount ₹
2019 May 1	Purchases A/c ....Dr. To Gautam's A/c (Being good purchased on credit)		40,000	 40,000
2019 May 1	Gautam's A/c ....Dr. To Bills Payable A/c (Being bill accepted)		40,000	 40,000
a) 2019 July 4	Bills Payable A/c ....Dr. To Gautam's A/c (Being our acceptance dishonoured)		40,000	 40,000

Note : In case of b, c and d entries in the Books of Drawee will be same as above.

3. Kabir owes Rahul ₹ 37,000 on 1st Dec. 2019, Kabir accepts a three months bill for ₹ 35,500 in full settlement. On the due date the bill is dishonoured by Kabir and Rahul paid noting charges ₹ 500. **Give journal entries in the book of Kabir and Rahul. Also prepare Kabir's A/c in the books of Rahul and Rahul's A/c in the books of Kabir.**

In the books of Rahul
Journal

Date	Particulars	L. F.	Debit Amount ₹	Credit Amount ₹
2019 Dec. 1	Bills Receivable A/c ....Dr. Discount A/c ....Dr. To Kabir's A/c (Being bill drawn in full settlement and acceptance received)		35,500 1,500	 37,000
2020 Mar. 4	Kabir's A/c ....Dr. To Bills Receivable A/c To Discount A/c To Cash A/c (Being Kabir's acceptance dishonoured and noting charges paid)		37,500	 35,500 1,500 500

Note : Discount previously allowed has been cancelled on dishonour.

In the books of Rahul
Kabir's A/C

Dr. **Cr.**

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2019				2019			
Dec.1	To Balance b/d		37,000	Dec.1	By Bills Receivable A/c		35,500
2020				Der. 1	By Discount A/c		1,500
Mar.4	To Bills Receivable A/c		35,500	2020			
Mar.4	To Discount A/c		1,500	Mar.4	By Balance c/d		37,500
Mar.4	To Cash A/c		500				
			74,500				74,500
Mar.4	To Balance b/d		37,500				

In the books of Kabir
Journal

Date	Particulars	L. F.	Debit Amount ₹	Credit Amount ₹
2019	Rahul's A/c..Dr.		37,000	
Dec. 1	To Discount A/c			1,500
	To Bills Payable A/c			35,500
	(Being bill accepted in full settlement)			
2020	Bills Payable A/c ....Dr.		35,500	
Mar. 4	Discount A/c..Dr.		1,500	
	Noting Charges A/c...Dr.		500	
	To Rahul A/c			37,500
	(Being our acceptance dishonoured and noting charges payable)			

In the books of Kabir
Rahul's A/C

Dr. **Cr.**

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2019				2019			
Dec.1	To Discount A/c		1,500	Dec.1	By Balance c/d		37,000
Dec.1	To Bills Payable A/c		35,500	2020			
2020				Mar.4	By Bills Payable A/c		35,500
Mar.4	To Balance c/d		37,500	Mar.4	By Discount A/c		1,500
				Mar.4	By Noting Charges A/c		500
			74,500				74,500
				Mar.4	By Balance b/d		37,500

4. Sneha receives Magha's acceptance for ₹ 15,000. Before due date of the bill Megha approaches Sneha with a request to accept ₹ 5,000 and draw a fresh bill on her for the balance for 3 months including interest at 8% p.a. Sneha agrees and draws a fresh bill which was duly accepted by Megha.

On the due date Megha meets the bill.

Give journal entires in the books of Sneha and prepare Sneha's account in the books of Megha.

In the books of Sneha

Journal

Date	Particulars	L. F.	Debit Amount ₹	Credit Amount ₹
1.	Bills Receivable A/c .... Dr. To Megha's A/c (Being bill drawn and acceptance received)		15,000	15,000
2.	Megha's A/c .... Dr. To Bills Receivable A/c (Being Megha's acceptance cancelled for renewal)		15,000	15,000
3.	Megha's A/c .... Dr. To Interest A/c (Being interest due on balance)		200	200
4.	Cash / Bank A/c ....Dr. To Megha's A/c (Being part payment received)		15,000	5,000
5.	Bills Receivable A/c ....Dr. To Megha's A/c (Being new bill drawn along with interest and acceptance received)		10,200	10,200
6.	Cash / Bank A/c ....Dr. To Bills Reveivable A/c (Being new bill duly honoured on the due date)		10,200	10,200

In the books of Megha

Sneha's A/C

Dr. **Cr.**

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
	To Bills Payable A/c		15,000		By Balance b/d		15,000
	To Cash/Bank A/c		5,000		By Bills Payable A/c		15,000
	To Bills Payable A/c		10,200		By Interest A/c		200
			30,200				30,200

Working Note :-

Calculation of interest and amount of new bill.

Amount of old bill = ₹ **15,000**

Part Payment	Balance (New Bill)
₹ 5,000	₹ 10,000
	₹ (+) 200
	₹ **10,200**

Interest on Balance $= 10{,}000 \times \frac{8}{100} \times \frac{3}{12}$

= ₹ 200 (added to new bill)

5. Amol draws a bill on Atul for ₹ 24,000 on 6th Oct. 2019 for 3 months. Atul accepts the bill on the same date. Amol sends the bill to Bank for collection on 20th Oct. 2019. Before due date Atul finds himself unable to make the payment of bill and request Amol to renew it. Amol agrees to the proposal on condition that Atul should pay ₹ 10,000 in cash along with interest ₹ 800 and accept a new bill for 2 months for the balance. Atul retired the bill on 12th Jan. 2020 by paying ₹ 13,500.

Give journal entires in the books of Amol.

In the books of Amol

Journal

Date	Particulars	L. F.	Debit Amount ₹	Credit Amount ₹
2019 Oct. 6	Bills Receivable A/c ....Dr.		24,000	
	To Atul's A/c			24,000
	(Being bill drawn and acceptance received)			
Oct. 20	Bill sent for collection A/c ....Dr.		24,000	
	To Bills Receivable A/c			24,000
	(Being Atul's acceptance sent to bank for collection)			
2020 Jan. 9	Atul's A/c ....Dr.		24,000	
	To Bill sent for collection A/c			24,000
	(Being Atul's acceptance cancelled for renewal)			
Jan. 9	Atul's A/c		800	
	To Interest A/c			800
	(Being interest due)			
Jan. 9	Cash / Bank A/c ....Dr.		10,800	
	To Atul's A/c			10,800
	(Being part payment received along with interest)			
Jan. 9	Bills Reveivable A/c ....Dr.		14,000	
	To Atul's A/c			14,000
	(Being new bill drawn and acceptance received)			

Mar. 12	Cash / Bank A/c ....Dr. Discount / Rebate A/c ....Dr. To Bills Receivable A/c (Being Atul's acceptance retired and rebate allowed)		13,500 500	 14,000

Alternate entry for Renewal (When interest is received in cash)

Date	Particulars	L. F.	Debit Amount ₹	Credit Amount ₹
2019 Oct. 6	Bills Receivable A/c ....Dr. To Atul's A/c (Being bill drawn and acceptance received)		24,000	 24,000
Oct. 6	Bill sent for collection A/c ....Dr. To Bills Receivable A/c (Being Atul's acceptance sent to bank for collection)		24,000	 24,000
2020 Jan. 9	Atul's A/c ....Dr. To Bill sent for collection A/c (Being Atul's acceptance cancelled for renewal)		24,000	 24,000
Jan. 9	Cash / Bank A/c ....Dr. To Atul's A/c To Interest A/c (Being part payment and interest received)		10,800	 10,000 800
Jan.	Bills Receivable A/c ....Dr. To Atul's A/c (Being new bill drawn and acceptance received)		14,000	 14,000
Mar. 12	Cash / Bank A/c ....Dr. Discount / Rebate A/c ....Dr. To Bills Receivable A/c (Being Atul's acceptance retired and rebate allowed)		13,500 500	 14,000

6. Nisha sold good to Asha worth ₹ 34,000, Asha paid ₹ 10,000 immediately and accepted the bill for the balance ₹ 24,000 at 2 months. Nisha discounted the bill with Bank of Maharashtra after one month at 15% p. a. The bill was dishonoured on the due date and Asha requested Nisha to accept ₹ 4,000 and interest in cash on remaining amount at 11% p.a. for 3 months. Nisha agreed and for the balance Asha accepted a new bill at 3 months. But Asha became insolvent and only 40% could be recovered her estate.

   Prepare Journal of Nisha.

In the books of Nisha
Journal

Date	Particulars	L. F.	Debit Amount ₹	Credit Amount ₹
1.	Asha's A/c ....Dr. To Sales A/c (Being goods sold on credit)		34,000	 34,000
2.	Bills Receivable A/c ....Dr. Cash A/c ....Dr. To Asha's A/c (Being part of the amount received in cash and for balance bill drawn and acceptance received)		24,000 10,000	 34,000
3.	Bank of Maharashtra A/c ....Dr. Discount A/c ....Dr. To Bills Receivable A/c (Being Asha's acceptance discount for 1 month @ 15% p.a.)		23,700 300	 24,000
4.	Asha's A/c ....Dr. To Bank of Maharashtra A/c (Being Asha's acceptance dishonoured)		24,000	 24,000
5.	Asha's A/c ....Dr. To Interest A/c (Being interest due from Asha)		550	 550
6.	Cash / Bank A/c ....Dr. To Asha's A/c (Being part payment received along with interest)		4,550	 4,550
7.	Bills Receivable A/c ....Dr. To Asha's A/c (Being new bill drawn for balance and acceptance received)		20,000	 20,000
8.	Asha's A/c ....Dr. To Bills Receivable A/c (Being Asha's acceptacne dishonoured)		20,000	 20,000
9.	Cash / Bank A/c ....Dr. Bad Debts A/c ....Dr. To Asha's A/c (Being amount received in full settlement and bad debts written off)		8,000 12,000	 20,000

Working Note :-

Calculation of interest and amount of new bill.

Amount of old bill = **₹ 24,000**

Part Payment		Balance (New Bill)
	₹ 4,000	₹ 20,000
(+)	₹ 550 Interest	
	₹ 4,550	

Interest on Balance $= ₹\ 20{,}000 \times \frac{11}{100} \times \frac{3}{12}$

$= ₹\ 550$ (added to part payment)

7. On 15th September, 2019 Kunal purchased goods from Kishorilal for ₹ 38,000 and Kunal gave his acceptance after sight for 60 days on18th September, 2019 for the amount due. Kishorilal deposited the bill into bank for collection on the same day. Kunal honoured his acceptance on the due date. Bank charged ₹ 150 as bank charges.

Give journal entries in the books of Kishorilal and Kunal.

In the books of Kishorilal

Journal

Date	Particulars	L. F.	Debit Amount ₹	Credit Amount ₹
2019 Sept. 15	Kunal's A/c ....Dr. To Sales A/c (Being goods sold on credit)		38,000	 38,000
Sept. 18	Bills Receivable A/c ....Dr. To Kunal's A/c (Being after sight bill drawn and acceptance received)		38,000	 38,000
Sept. 18	Bills sent for collection A/c....................Dr. To Bills Receivable A/c (Being Kunal's acceptance sent to bank for collection)		38,000	 38,000
Nov. 20	Bank A/c ....Dr. Bank Charges A/c ....Dr. To Bill sent for collection A/c (Being bill sent for collection honoured on the due date and bank charges debited)		37,850 150	 38,000

In the books of Kunal

Journal

Date	Particulars	L. F.	Debit Amount ₹	Credit Amount ₹
2019 Sept. 15	Purchases A/c.................... Dr. To Kishorilal's A/c (Being goods purchased on credit		38,000	 38,000
Sept. 18	Kishorilal's A/c .... Dr. Bills Payable A/c (Being acceptance given to bill drawn on us)		38,000	 38,000
Nov. 20	Bills Payable A/c .... Dr. To Cash / Bank A/c (Being our acceptance duly honoured on the due date)		38,000	 38,000

8. Shalini owes ₹ 26,000 to Anand. Anand draws a bill for ₹ 21,000 on Shalini for 3 months period and received the balance by a crossed cheque. The bill was duly accepted and returned to Anand. On the same day Anand endorsed Shalini's acceptance to Vikram. On the due date Vikram informed Anand that Shalini dishonoured her acceptance and noting charges ₹ 280 were paid. Anand then drew a new bill for 1 month on Shalini including noting charges and interest ₹ 650. On the due date Shalini honoured her acceptance by cheque.

Give journal entries in the books of Anand and prepare Anand's account in the books of Shalini.

In the books of Anand

Journal

Date	Particulars	L. F.	Debit Amount ₹	Credit Amount ₹
1.	Bills Receivable A/c ....Dr.		21,000	
	Bank A/c ....Dr.		5,000	
	To Shalini's A/c			26,000
	(Being cheque and acceptance of bill received)			
2.	Vikram's A/c .... Dr.		21,000	
	To Bills Receivable A/c			21,000
	(Being Shalini's acceptance endorsed in favour of Vikram)			
3.	Shalini's A/c... Dr.		21,280	
	To Vikram's A/c			21,280
	(Being endorsed bill dishonoured)			
4.	Shalini's A/c... Dr.		650	
	To Interest A/c			650
	(Being interest due)			
5.	Bills Receivable A/c .... Dr.		21,930	
	To Shalini's A/c			21,930
	(Being new bill drawn along with noting charges and interest and acceptance received)			
6.	Bank A/c .... Dr.		21,930	
	To Bills Receivable A/c			21,930
	(Being Shalini's acceptance duly honoured on the due date)			

In the books of Shalini

Anand's Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
	To Bank A/c		5,000		By Balance b/d		26,000
	To Bills Payable A/c		21,000		By Bills Payable A/c		21,000
	To Bills Payable A/c		21,930		By Noting Charges A/c		280
					By Interest A/c		650
			47,930				47,930

9. On 3rd July, 2019 Ravi drew a bill of ₹ 12,000 for 90 days after date on Dhruv which was accepted by Dhruv. On 9th July, 2019 Ravi endorsed the bill to Harish in full settlement of his account ₹ 12,750. On the same day Harish discounted the bill with bank for ₹ 11,750.

Government declared emergency holiday on the due date and as per the provisions of Negotiable Instruments Act the bill was duly met by Dhruv.

Give journal entries in the books of Ravi, Dhruv and Harish.

In the books of Ravi

Journal

Date	Particulars	L. F.	Debit Amount ₹	Credit Amount ₹
2019	Bills Receivable A/c .... Dr.		12,000	
July 3	To Dhruv's A/c			12,000
	(Being bill drawn and acceptance received)			
July 9	Harish 's A/c .... Dr.		12,750	
	To Bills Receivable A/c			12,000
	To Discount A/c			750
	(Being bill endorsed in full settlement)			

In the books of Dhruv

Journal

Date	Particulars	L. F.	Debit Amount ₹	Credit Amount ₹
2019	Ravi's A/c .... Dr.		12,000	
July 3	To Bills Payable A/c			12,000
	(Being our acceptance given)			
Oct. 5	Bills Payable A/c .... Dr.		12,000	
	To Cash / Bank A/c			12,000
	(Being our acceptance honoured)			

In the books of Harish

Journal

Date	Particulars	L. F.	Debit Amount ₹	Credit Amount ₹
2019	Bills Receivable A/c .... Dr.		12,000	
July 3	Discount A/c.. Dr.		750	
	To Ravi's A/c			12,750
	(Being Bills Receivable received in full settlement and Discount allowed)			
July 9	Bank A/c .... Dr.		11,750	
	Discount A/c .... Dr.		250	
	To Bills Receivable A/c			12,000
	(Being bill discounted with the bank)			

Calculation of due date :

Bill drawn on 3rd July for 90 days.

Unexpired days of July	=	28
No. of days in Aug.	=	31
No. of days in Sep.	=	30
No. of days in Oct.	=	01
		90

1st Oct. 2019 + 3 days of grace = 4th Oct. 2019

But 4th Oct. 2019 has been declared emergency holiday therefore, the due date will be the next Working date i.e. 5th Oct. 2019.

10. On 18th June, 2019 Rohan sold goods on credit for ₹ 40,000 to Navin. Rohan draws a bill for the amount due for 3 months on the same day. Navin accepted the bill and returned it to Rohan. On 19th June, 2019 Rohan discounted the bill with the bank at 15% p. a.

    On the due date Navin dishonoured his acceptance and bank paid noting charges ₹ 350. Navin then requested Rohan to renew the bill. Rohan agreed on the condition that Navin should pay interest on balance at 12% p.a. plus noting charges by cheque and should accept a new bill for the balance for 2 months.

    These arrangements were carried through. But before the due date Navin was declared insolvent. Rohan received 60 paise in a rupee as first and final dividend from the private estate of Navin on 23rd Dec. 2019.

    Give journal entires in the books of Navin.

In the books of Navin
Journal

Date	Particulars	L. F.	Debit Amount ₹	Credit Amount ₹
2019 June 18	Purchases A/c ....Dr.		40,000	
	To Rohan's A/c			40,000
	(Being goods bought on credit)			
June 18	Rohan's A/c ....Dr.		40,000	
	To Bills Payable A/c			40,000
	(Being our acceptance given)			
Sep. 21	Bills Payabe A/c ....Dr.		40,000	
	Noting Charges A/c ....Dr.		350	
	To Rohan's A/c			40,350
	(Being our acceptance dishonoured and noting charges payable)			
Sep. 21	Interest A/c ....Dr.		800	
	To Rohan's A/c			800
	(Being interest due)			
Sep. 21	Rohan's A/c ....Dr.		1,150	
	To Bank A/c			1,150
	(Being interest and Noting charges paid to Rohan)			
Sep. 21	Rohan's A/c ....Dr.		40,000	
	To Bills Payable A/c			40,000
	(Being acceptance given to new bill drawn)			
Nov. 24	Bills Payable A/c ....Dr.		40,000	
	To Rohan's A/c			40,000
	(Being our acceptance dishonoured due to insolvency)			
Dec. 23	Rohan's A/c ....Dr.		40,000	
	To Cash A/c			24,000
	To Deficiency A/c			16.000
	(Being 60% paid as full and final settlement and amount credited to deficiency account)			

11. Nishant draws a bill for ₹ 25,000 on Abhinav for 3 months on 17th July, 2019. Nishant discounts the bill with his Bankers at 12.5% p.a. on the same day. On the due date of bill Abhinav requested Nishant to accept a crossed chequee of ₹ 5,800 including ₹ 1,800 for interest and to draw bill for the balance for 3 months. Nishant agrees to this proposal. Before due date of new bill Abhinav retires the bill for ₹ 20,250 one month before the due date.
Pass necessary journal entries in the books of Nishant.

In the books of Nishant

Journal

Date	Particulars	L. F.	Debit Amount ₹	Credit Amount ₹
2019	Bills Receivable A/c ....Dr.		25,000	
July 17	To Abhinav's A/c			25,000
	(Being bill drawn and acceptance received)			
July 17	Bank A/c ....Dr.		24,219	
	Discount A/c...Dr.		781	
	To Bills Payable A/c			25,000
	(Being Abhinav's acceptance discounted with bank at 12.5% p.a. for 3 months)			
Oct. 20	Abhinav's A/c .... Dr.		25,000	
	To Bank A/c			25,000
	(Being discounted bill dishonoured)			
Oct. 20	Abhinav's A/c ....Dr.		1,800	
	To Interest A/c			1,800
	(Being interest due)			
Oct. 20	Bank A/c ....Dr.		5,800	
	To Abhinav's A/c			5,800
	(Being Cheque received)			
Oct. 20	Bills Receivible A/c ....Dr.		21,000	
	To Abhinav's A/c			21,000
	(Being acceptance given to new bill drawn)			
Dec. 20	Cash / Bank A/c ....Dr.		20,250	
	Rebate / Discount A/c ....Dr.		750	
	To Bills Receivable A/c			21,000
	(Being new bill retired one month before due date and rebate allowed)			

12. Sanjay sold goods of ₹ 45,000 to Govind at 10% Trade discount. Govind paid 1/3rd of the amount immediately at a cash discount of ₹ 1,000 and for the balance accepted a bill for 3 months. Sanjay endorsed the bill to Aadesh on the same day in full settlement of his account ₹ 27,500. On the due date the bill was dishonoured by Govind and noting charges paid by Aadesh ₹ 450. Govind requested Sanjay to renew the bill. Sanjay agreed on condition that Govind should pay ₹ 5,250 immediately along with noting charges and for the balance Govind should accept a new bill for 2 months alosg with interest ₹ 1,500. Govind agreed to these contritions and these arrangements were carried through. Sanjay paid Aadesh balance due to him. On the due date of the new bill Govind dishonoured the bill.

    Give journal entries in the books of Sanjay and prepare Sajnay's account in the books of Govind.

In the books of Sanjay
Journal

Date	Particulars	L. F.	Debit Amount ₹	Credit Amount ₹
1.	Govind's A/c ....Dr. Cash A/c ....Dr. Discount A/c ....Dr. To Sales A/c (Being goods sold on credit and cash subject to Trade discount and cash discount)		27,000 12,500 1,000	40,500
2.	Bills Receivable A/c ....Dr. To Govind's A/c (Being acceptance received)		27,000	27,000
3.	Aadesh's A/c ....Dr. To Bill Receivable A/c To Discount A/c (Being Govind's acceptance endorsed in full settlement)		27,500	27,000 500
4.	Govind's A/c ....Dr. Discount A/c To Aadesh's A/c (Being Govind's acceptance endorsed in full settlement dishonoured and discount cancelled)		27,450 500	27,950
5.	Govind's A/c ....Dr. To Interest A/c (Being interest due)		1,500	1,500
6.	Cash / Bank A/c ....Dr. To Govind's A/c (Being cash received along with noting charges)		5,700	5,700
7.	Bills Receivable A/c ....Dr. To Govind's A/c (Being new bill drawn along with interest and acceptance received)		23,250	23,250
8.	Aadesh's A/c ....Dr. To Cash / Bank A/c (Being cash paid to Aadesh)		27,950	27,950
9.	Govind's A/c ....Dr. To Bills Receivable A/c (Being Govind's acceptance dishonoured)		23,250	23,250

In the books o Govind

Sanjay's Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
	To Bills Payable A/c		27,000		By Purchases A/c		27,000
	To Cash A/c		5,700		By Bills Payable A/c		27,000
	To Bills Payable A/c		23,250		By Noting Charges A/c		450
	To Balance c/d		23,250		By Interest A/c		1,500
					By Bills Payable A/c		23,250
			79,200				79,200
					By Balance b/d		23,250

Problems on single Drawer and multiple Drawees

13. Give journal entries the books of Bipin.

1. Sonal's acceptance for 3 months of ₹ 20,000 was discounted with Bank of India at ₹ 19,750.
2. Brinda's acceptance of ₹ 14,400 retired one month before the due date at rebate of 12% p.a.
3. Rekha's acceptance of ₹ 8,500 is endorsed in favour of Gayatri in full settlement of her account ₹ 8,650.
4. Sold goods to Vinaya ₹ 20,000 at 8% Trade Discount. Received half the amount immediately on which 10% Cash Discount was allowed. For the balance a bill was drawn on Vinaya which was accepted by her.

In the books of Bipin

Journal

Date	Particulars	L. F.	Debit Amount ₹	Credit Amount ₹
1.	Bank of India's A/c .... Dr.		19,750	
	Discount A/c .... Dr.		250	
	To Bills Receivable A/c			20,000
	(Being Sonal's acceptance discounted with the Bank)			
2.	Cash A/c .... Dr.		14,256	
	Discount A/c .... Dr.		144	
	To Bills Receivable A/c			14,400
	(Being Brinda's retired at 12% p.a. for one month)			
3.	Gayatri's A/c .... Dr.		8,650	
	To Bill Receivable A/c			8,500
	To Discount A/c .			150
	(Being Rekha's acceptance endorsed in full settlement)			

4. (a)	Vinaya's A/c....................Dr. Discount A/c....................Dr. Cash A/c....................Dr. To Sales A/c (Being goods sold on cash and credit)		9,200 920 8,280	 18,400
4.(b)	Bill Receivable A/c ....Dr. To Vinaya's A/c (Being bill drawn and acceptance received)		9,200	 9,200

Calculation for transaction No. 4

Gross Price = ₹ 20,200
(-) 8% T. D. = ₹ 1,600

₹ 18,400

	Cash	Credit (50%)
(50%)	₹ 9,200	₹ 9,200
(-) C.D.10%	₹ 920	
Cash received	₹ 8,280	

14. Jouranlise the following transactions in the books of Mayur.

1. Vishwas renewed his acceptance to Nitesh for ₹ 22,000 by paying ₹ 12,000 in cash and accepting a fresh bill for the balance with interest @12% p.a. for 2 months.
2. honoured our acceptance to Ashwin of ₹ 17,750 by endorsing Hari's acceptance of ₹ 17,500 in full settlement.
3. Prakash who accepted Mayur's bill for ₹ 21,000 was declared insolvent and only 25% of the amount could be recovered from his esatae.
4. Bank informed us that Shailaja's acceptance for ₹ 32,000 sent to bank for collection had been dishonoured and noting charges paid were ₹ 275.

In the books of Mayur
Journal

Date	Particulars	L. F.	Debit Amount ₹	Credit Amount ₹
1. (a)	Vishwas's A/c....................Dr. To Bills Payable A/c (Being bill cancelled for renewal		22,000	 22,000
(b)	Vishwas's A/c....................Dr. To Interest A/c (Being part payment received)		200	 200
(c)	Bank A/c ....Dr. Vishwas's A/c (Being part payment received)		12,000	 12,000

(d)	Bill Receivable A/c ....Dr.		10,200	
	To Vishwas's A/c			10,200
	(Being new bill drawn and acceptance received along withe interest)			
2	Bill Payable's A/c ....Dr.		17,750	
	To Bill Receivable A/c			17,500
	To Discount A/c			250
	(Being our acceptance honoured by giving acceptance received from Hari and discount received)			
3 (a)	Prakash's A/c ....Dr.		21,000	
	To Bill Receivable A/c			21,000
	(Being Prakash's acceptance cancelled on account of insolvency)			
(b)	Bank A/c ....Dr.		5,250	
	Bad Debts A/c ....Dr.		15,750	
	To Prakash's A/c			21,000
	(Being 25% received in final settlement and bad debts written off)			
4.	Shailaja's A/c..Dr.		32,275	
	To Bill sent for collection A/c			32,000
	To Bank A/c			275
	(Being bill sent for collection dishonoured and noting charges paid)			

15. Jouranlise the following transactions in the books of Aaditya.

a) Bank informed that Surya's acceptance for ₹ 15,750 sent to bank for collection has been honored and bank charges debited ₹ 150.

b) Asha informs Aditya that Nisha's acceptance for ₹ 23,000 endorsed to Asha, has been dishonoured. Noting charges paid by Asha amounted to ₹ 330.

c) Bank informed that Jaydeep's acceptance of ₹ 32,400 which was discounted with bank was dishonoured, bank paid Noting charges ₹ 460.

d) Shrikant's acceptance of ₹ 19,800 was honoured which was deposited with bank for collection.

In the books of Aditya

Journal

Date	Particulars	L. F.	Debit Amount ₹	Credit Amount ₹
a)	Bank A/c ....Dr.		15,600	
	Bank Charges A/c ....Dr.		150	
	To Bill sent for collection A/c			15,750
	(Being bill sent to bank for collection honoured and bank charges paid)			
b)	Nisha A/c ....Dr.		23,330	
	To Asha's A/c			23,330
	(Being ednorsed bill dishonoured and noting charges paid by Asha)			
c)	Jaydeep's A/c ....Dr.		32,860	
	To Bank A/c			32,860
	(Being Jaydeep's acceptance discounted with bank, dishonoured and bank paid noting charges)			
d)	Bank A/c ....Dr.		19,800	
	To Bill sent for collection A/c			19,800
	(Being bill sent to Bank for collection honoured on the due date)			

16. Journalise the following transactions of Arvind as on 24th October, 2019.

a) Renewed Sainath's acceptance of ₹ 18,000 with interest of ₹ 380 for 2 months.

b) Sahil informs Arvind that Meenal's acceptaance of ₹ 13,000 endorsed to Sahil was dishonoured and noting charges paid ₹ 195.

c) Accepted a bill of ₹ 16,400 at 2 months drawn on Chand and Sons for the amount due to them ₹ 19,000 and balance paid in cash.

d) Bank informed that Vidya's acceptance of ₹ 14,000 which was discounted was dishououred and bank paid noting charges ₹ 105. Renewed bill on Vidya's request for 2 months with interest ₹ 295.

e) Nandita retired her acceptance to Arvind of ₹ 13,550 by paying cash ₹ 13,000.

In the books of Arvind

Journal

Date	Particulars	L. F.	Debit Amount ₹	Credit Amount ₹
2019 a) i) Oct. 24	Sainath's A/c ....Dr. To Bills Receivable A/c (Being Sainath's acceptance cancelled)		18,000	 18,000
ii) Oct. 24	Sainath's A/c ....Dr. To Interst A/c (Being interest due)		380	 380
iii) Oct. 24	Bills Receivable A/c ....Dr. To Sainath's A/c . (Being new bill drawn along with interest for 2 months and acceptance received)		18,380	 18,380
b) Oct. 24	Meenal's A/c ....Dr. To Sahil's A/c (Being endorsed bill dishonoured and noting charges paid)		13,195	 13,195
c)	Chand and Sons A/c..Dr. To Bills Payable A/c To Cash A/c (Being bill accepted and cash paid)		19,000	 16,400 2,600
d) i)	Vidya's A/c..Dr. To Bank A/c (Being discounted bill dishonoured and noting charges paid)		14,105	 14,105
ii)	Vidya's A/c..Dr. To Interest A/c (Being Interest due)		295	 295
iii)	Bills Receivable A/c ....Dr. To Vidya's A/c (Being bill drawn along with interest and acceptance received)		14,400	 14,400
e)	Cash A/c...Dr. Rebate / Discount A/c ....Dr. To Bills Receivable A/c (Being Nandita's acceptance retired and rebate allowed)		13,000 550	 13,550

17. Journalise the following transactions in the books of Apoorva.

a) Prashant's acceptance for 60 days ₹ 12,750 deposited into bank for collection.

b) Apoorva sold goods to Kirti for ₹ 20,000 and received her acceptance for the same amount for 2 months. The bill was endorsed to Rekha.

c) Received 30% of the amount due from the private estate of Mukta who was declared insolvent. Mukta had dishonoured her acceptance of ₹ 23,850 and noting charges paid were ₹ 150.

d) Apoorva renews her acceptance of 36,000 to Anuradha by paying cheque of 6,000 and accepting a new bill for 2 months for balance along with interest @ 14.5% p. a.

In the books of Apoorva

Journal

Date	Particulars	L. F.	Debit Amount ₹	Credit Amount ₹
a)	Bill sent for collection A/c ....Dr.		12,750	
	To Bills Receivable A/c			12,750
	(Being bill deposited into bank for collection)			
b) i)	Kirti's A/c...Dr.		20,000	
	To Sales A/c			20,000
	(Being goods sold on credit)			
ii)	Bill Receivable A/c ....Dr.		20,000	
	To Kirti's A/c .			20,000
	(Being drawn and accepted)			
iii)	Rekha's A/c...Dr.		20,000	
	To Bills Receivable A/c ....Dr.			20,000
	(Being Kirti's acceptance endorsed)			
c) i)	Mukta's A/c...Dr.		24,000	
	To Bills Receivable A/c			23,850
	To Cash A/c			150
	(Being Mukta's acceptance dishonoured and Noting Charges paid)			
ii)	Cash / Bank A/c ....Dr.		7,200	
	Bad Debts A/c ....Dr.		16,800	
	To Mukta's A/c			24,000
	(Being amount received and bad debts written of on account of insolvency)			
d) i)	Bills Payable A/c ....Dr.		36,000	
	To Anuradha's A/c			36,000
	(Being our acceptance dishonoured)			
ii)	Interest A/c ....Dr.		725	
	To Anuradha's A/c			725
	(Being Interest due)			

iii)	Anuradha's A/c ....Dr.		6,000	
	To Cash Bank A/c			6,000
	(Being part payment paid)			
iv)	Anuradha's A/c ....Dr.		30,725	
	To Bills Payable A/c			30,725
	(Being acceptance given to new bill drawn along with interest)			

EXERCISE - 7

Objective Questions

A. Select the correct option and rewrite the sentence:-

1) The person on whom a bill is drawn is called a ____________.
   a) Drawee b) Payee c) Drawer d) Acceptor.

2) Before acceptance the bill is called a ____________.
   a) Order b) Request c) Draft d) Instrument.

3) When the due date of bill drawn falls due on a public holiday, the payment must be made on the ____________ day.
   a) Same b) preceding c) next d) any.

4) The due date of the bill drawn for 2 months on 23rd Nov. 2019 will be
   a) 23rd Jan. 2020 b) 25th Jan. 2019 c) 26th Jan. 2019 d) 25th Jan. 2020.

5) Nothing charges are borne by ____________.
   a) Notary Public b) Drawee c) Drawer d) Endorsee.

6) There are ____________ parties to bill of exchange.
   a) five b) four c) three d) two.

7) When a bill is drawn for 2 months after date on 3rd Jan. 2020, its due date will be ____________.
   a) 3rd Jan. 2020 b) 3rd Mar. 2020 c) 5th Mar. 2020 d) 6th Mar. 2020.

8) Notary Public is ____________.
   a) Govt. Officer b) Drawer c) Payee d) Endorsee

9) When Acceptor or Drawee does not pay the amount of bill to the holder on the due date it is known as ____________ the bill.
   a) returning b) discounting c) honouring d) dishonouring.

10) The person who accepts the bill treats the bill as ____________.
    a) Bills Payable b) Promissory note c) Draft d) Bills Receivable.

B. Give one word / phrase / term which can substitute each of the following ststements:-

1) Three extra days which are allowed over and above the term of bill.
2) Fees charged by Notary Public for getting the fact of dishonour noted.
3) A person who is entitled to receive the amount of bill of exchange.
4) A person in whose favour a bill endorsed.

5) Officer appointed by goverment for noting of dishonour of bill.
6) Cancellation of bill on maturity in return of a new bill for extended period of credit.
7) Bill of exchange drawn and accepted without any valuable consideration.
8) Person who is in possession of Bill of Exchange.
9) Conversion of Bill of Exchange into its present value.
10) Amount which is not recoverable from Drawee on account of insolvency.

C. State True or False with reasons:-

1) Inland bill is one which is drawn in one country and payable in another country.
2) Retirement of bill means payment of the bill before due date.
3) Drawee can transfer the ownership of Bill.
4) Acceptance of bill without making any changes in the terms of bill is called qualified acceptance.
5) Discounting is a device to convert the bill into its present value.
6) A bill of exchange must be presented to the acceptor on the due date.
7) If a bill is discounted by the holder, no entry is passed in his book when bill is honoured on the due date.
8) Noting charges are to be borne by the drawer.
9) If a bill is drawn payable "on demand" no grace days are allowed.
10) There are three parties to a Promissory Note.

D. Find the odd one:-

1) a) Retaining b) Noting
   c) Discounting d) Endorsing
2) a) Trade bill b) Accommodation bill
   c) After date bill d) Demand bill.
3) a) Notary Public b) Drawer
   c) Drawee d) Payee.
4) a) Discounting charges b) Rebate
   c) Bank charges d) Noting charges.
5) a) Stamp b) Acceptance
   c) Draft d) Amount.

E. Complete the sentence:-

1) Making payment of bill before the due date of maturity is known as ....
2) Person whose liabilities are more than his assets and is not in position to pay off his liabilities is ....
3) Amount that cannot be paid by acceptor on account of inslovency is known as ....
4) A bill of exchange payable after certain period is known as ....
5) A bill which is drawn and accepted with valuable consideration is known as ....
6) A person who draws the bill of exchange is known as ....
7) A bill whose due date is calculated from the date of acceptance is known as ....

8) Recording the fact of dishonour of Bill is known as ....

9) When Drawee accepts the bill payable at a particular place only, it is known as ....

10) Fees charged by the bank for collection of bill on behalf of holder is ....

F. Answer in sentence:-

1) What do you mean by bill of exchange?
2) What are days of grace?
3) What do you mean by discounting a bill of exchange?
4) What is noting of the bill?
5) What are noting charges?
6) What is relationship between Drawer and Drawee?
7) Who is payee of the bill?
8) What do you mean by rebate?
9) What is legal due date?
10) What is bills payable on demand?

G. Do you agree or disagree with the following statements:-

1) A bill of exchange is a conditional order.
2) The party which is ordered to pay the amount is known as payee.
3) The person in whose favour the bill is endorsed is known as endorsee.
4) Rebate or discount given on retiring a bill is an income to the Drawee.
5) A bill from the point of view of debtor is called Bills payable.
6) In case of bill drawn payable 'on demand' no grace days are allowed.
7) A bill is required to be accepted by Drawer.
8) A bill of exchange need not be dated.
9) A bill before acceptance is called Promissory Note.
10) Renewal is request by Drawee to extend the credit period of the bill.

H. Calculations:-

1) Ganesh draws a bill for ₹ 40,260 on 15th Jan. 2020 for 50 days. He discounted the bill with Bank of India @15% p.a. on the same day. Calculate the amount of discount.

2) Shefali Traders drew a bill on Maya for ₹ 30,000 on 1st Oct. 2019 payable after 3 months. Calculate amount of discount in the following cases:-
   i) Shefali Traders discounted the bill on the same day @ 12% p.a.
   ii) Shefali Traders discounted the bill on 1st Nov. 2019 @ 12% p.a.
   iii) Shefali Traders discounted the bill on 1st Dec. 2019 @ 12% p.a.

3) Veena who had accepted Sudha's bill for ₹ 28,000 was declared bankrupt and only 35 paise in a rupee could be recovered from her estste. Calculate the amount of bad debts.

4) Nitin renewed his acceptance for ₹ 72,000 by paying ₹ 22,000 in cash and accepting a new bill for the balance plus interest @ 18% p.a. for 4 months. Calculate the amount of new bill.

5) Nisha's acceptance for ₹ 16,850 sent to bank for collection was honoured and bank charges debited were ₹ 125. Find out the amount actually received by Drawer.

6) A bill of ₹ 16,000 was drawn by Keshav on Gopal on 12th June 2019 for 2 months. What will be the due date, if all of sudden, the legal due date is declared as emergency holiday?

I. Prepare the following Specimens :-

1) Prepare a bill of exchange form the following information :

Drawer : Shankar, Vadodara, Gujrat.

Drawee : Vinayak, Somwarpeth, Pune.

Amount : ₹ 16,000

Period : 3 months

Date of Bill : 6th Sept. 2019.

Date of acceptance : 11th Sept. 2019.

2. Prepare a bill of exchange from the following information :

Drawer : Dinesh, P. R. Road, Andheri West.

Drawee : Mahesh, L. B. S. Road, Mulund.

Payee : Amit, Thane West.

Amount : ₹ 9,500

Period of Bill : 4 months after sight.

Date of Bill : 26th Nov. 2019.

Date of acceptance : 29th Nov. 2019.

3. Kantilal, 343/D, Palm Heights, Jogeshwari, drew a bill on 10th Oct. 2019 for ₹ 63,490 for 45 days after date on Shantilal, B2, Himalaya Towers, Baramati, payable to Priyanksa, Satara.\
The bill was accepted on 13th Oct. 2019 for 60 days.

Prepare a format of bill of exchange from the above detalis.

4. Prepare a format of bill exchange from the following details :

Rahul Sane, 86-D, Raviwar Peth, Nagpur accepted the bill drawn on him by Prithviraj, Icon Heights, Wardha for ₹ 87,000 on 30th July 2019.

The bill was drawn on 26th July 2019 for ₹ 1,00,000 for 90 days after date.

5. Prepare a format of bill of exchange from the followings.

Drawer : Kashmira Shah, Partner M/S Shah and Shah, 2-C, Matruchaya Building, Akola.

Drawee : Dhanashree Traders, Bangalore Road, Belgaum. (Signed by Jayashree, Partner)

Payee : M/S Janki Traders, Akola.

Amount : ₹ 64,500

Period of Bill : 3 months

Date of drawing : 12th Sept. 2019

Date of acceptance : 15th Sept. 2019

6. Prepare a demand bill with imaginary Drawer, Drawee, Address , Amount and Date.

J. Complete the following Table

1.

	Date of Drawing	Date of Acceptance	Payable	Due Date
i.	30.1.2019	1.2.2019	60 days after date	
ii.	17.8.2019	21.8.2019	3 months after sight	
iii.	23.12.2019	26.12.2019	1 months after date	
iv.	28.1.2019	28.1.2020	1 months after date	
v.	30.6.2019	2.7.2019	45 days after date	

2.

Sr. No.	DATE OF DRAWING	Date of acceptance	Tenure	Type	Nomi-nal due date	Legal due date
i)	3rd January, 2020	5th January,2020	45 days	after date	?	?
ii)	9th April, 2019	12th April, 2029	4 months	After sight	?	?
iii)	23rd November 2019	23rd November, 2029	2 months	after date	?	?
iv)	16th August, 2019	20th August, 2019	4 months	After sight	?	?
v)	23rd December, 2018	24th December, 2018	60 days	after date	?	?

Practical Problems

1. On 1st Jan. 2020 Hemant sold goods of ₹ 18,500 to Nitin. On the same date Hemant drew a bill of exchange for ₹ 18,500 at 2 months. On the due date the bill was duly honoured.

   Give Journal Entries in the Books of Hemant and Nitin. Prepare Hamant's account in the books of Nitin.

2. Neha sold goods to Rohan ₹ 42,000 on 6th Sept. 2019. Neha drew a bill of exchange at 3 months for the amount which was accepted by Rohan. Neha disounted the bill with her bankers at ₹ 41,000. On the due date of the bill Rohan dishonoured the bill and bank paid ₹ 300 as Noting Charges.

   Show Journal Entries in the Books of Neha and Rohan.

3. Jyoti owes ₹ 31,000 to Swati for which was draws a bill on Jyoti for 2 months. The bill was duly accepted by Jyoti. Swati sends the bill to bank for collection. Jyoti honoured the bill on the due date and bank charges ₹ 475 as bank charges.

   Give Journal Entries in the Books of Swati.

4. Pankaj purchased goods of ₹ 20,000 from Omprakash on credit on 15th April 2019. Omprakash draws After Sight bill for the amount due on Pankaj for 3 months which was accepted by Pankaj on 18th April, 2019. On 20th April, 2019 Omprakash endorsed the bill to his creditor Jagsish in full settlement of his amount ₹ 21,000. On the due date the bill was dishonoured by Pankaj.

   Give Journal Entires in the Books of Omprakash, Pankaj and Jagdish.

5. Siddhant sold goods to Sudhir of ₹ 43,800 on 18th March, 2019. Siddhant draws a bill on Sudhir on the same day for ₹ 43,800 for 3 months which was duly accepted by Sudhir. Siddhant discounted the bill on the same day at 8% p.a. the bill was dishonoured on the due date and Sudhir requested Siddhant to accept ₹ 13,800 and interest in cash on remaining amount at 12% p.a. Siddhant agreed and for the balance amount accepted a new bill at 2 months. Before the due date of new bill Sudhir retired the bill by paying ₹ 29,700.

   Pass necessary Journal Entries in the Books of Siddhant.

6. Sangeeta accepted a bill for ₹ 18,000 drawn by Geeta at 3 months. Geeta discounted the bill for ₹ 17,400. Before the due date Sangeeta approached Geeta for renewal of the bill. Geeta agreed on the condition that Sangeeta should pay ₹ 6,000 immediately and for the balance she should accept a new bill for 4 months along with interest ₹ 550. The arrangements were carried through. But on the due date of new bill Sangeeta became insolvent and 35 paise in a rupee could be recovered from her estate.

   Give Journal Entries in the Books of Sangeeta and prepare Sangeeta's account in the books of Geeta.

7. Priyanka owed Meena ₹ 18,000, Priyanka accepted a bill drawn Meena for the amount at 4 months. Meena endorsed the same bill to Sagar. Before due date Priyanka approached Meena for renewal of bill. Meena agreed on condition that ₹ 6,000 be paid immediately together with interest on the remaining amount of 8 % p. a. for 3 months and Priyanka should accepte a new bill for the balance amount. These arrangements were carried through. However, before the due date Priyanka became insolvent and only 50 % of the amount could be recovered from her estate.

   Give Journal Entries in the Books of Meena.

8. Seema purchased goods from Roma on credit on 1st August, 2019 for ₹ 37,000, Seema accepts bill for 2 months drawn by Roma for the same amount on the same day Roma discounts the bill with the bank for ₹ 36,200 on 3rd August 2019. On the due date the bill is dishonoured and Noting Charges of ₹ 160 is paid by the bank. Seema pays ₹ 19,000 and Noting Charges in cash immediately. A new bill is drawn by Roma for the balance including interest ₹ 650 for 2 months, which is accepted by Seema. The new bill is retired one month before the due date at a rebate of ₹ 300.

   Give Journal Entries in the Books of Seema and prepare Seems's Account in the books of Roma.

9. Uday purchased goods from Shankar on credit for ₹ 35,000 at 10 % Trade discount. Uday paid ₹ 1,500 immediately and for the balance accepted a bill for 3 months. Before due date Uday approached Shankar with a request to renew the bill. Shankar agreed but with condition that Uday should accept a new bill for 3 months including interest at 12 % p.a.

   Give Journal Entries in the Books of Shankar.

10. Sagar drawn an after sight bill on 21st Nov. 2019 for ₹ 21,000 at 3 months on Prasad. The bill is discounted by Sagar at 8 % p. a. with his bank. On maturity, Prasad finds himself unable to make payment of the bill and requests Sagar to renew it. Sagar accepts the request and draws a new bill at one month for ₹ 21,750 including interest which was duly accepted by Prasad. Sagar deposits the bill into bank for the collection. Prasad honours the bill on the due date and Bank charges ₹ 250 as Bank Charges.

    Pass necessary Journal Entries in the Books of Sagar and prepare Sagar's account in the books of Prasad.

11. **Journalise the following transaction in the books of Abhishek :-**

    a) Siddhant informs Abhishek that Vineet's acceptance for ₹ 23,000 endorsed to Siddhant has been dishonoured. Nothing Charges amounted to ₹ 430.

    b) Kajal renews her acceptance to Abhishek for ₹ 39,000 by paying 3,000 in cash and accepting a fresh bill for the balance along with interest at 11.5 % p.a. for 3 months.

    c) Radhika retired her acceptance to Abhishek for ₹ 23,000 by paying ₹ 22,250 by cheque.

    d) Abhishek sent a bill of Subodh for ₹ 9,000 to bank for collection. Bank informed that the bill has been dishonoured by Subodh.

12. **Journalise the following transactions in the books of Narendra: -**

    a) Narendra retires his acceptance to Upendra by paying ₹ 4,000 in cash and endorsing a bill accepted by Ramlal for ₹ 5,000.

    b) Vikram's acceptance to Narendra ₹ 6,000 retired one month before the due date at rebate of 12% p.a.

    c) Dilip renews his acceptance to Narendra for ₹ 12,000 by paying ₹ 4,000 in cash and accepting a fresh bill for the balance plus interest at 12% p.a. for 3 months.

    d) Bank informed Narendra that, Kartik's acceptance for ₹ 13,000 to Narendra, discounted with the bank was dishonoured and Noting Charges paid by bank ₹ 140.

13. **Journalise the following transactions in the books of Bharti:-**

    a) Bank informed that Amit's acceptance for ₹ 15,750 sent to bank for collection was honoured and bank charges debited were ₹ 150.

    b) Nitin renewed his acceptance for ₹ 22,200 by paying ₹ 2,200 in cash along with interest on balance amount at 10% and accepted a fresh bill for the balance for 3 months.

    c) Dhanshri who had accepted Bharti's bill for ₹ 17,500 was declared insolvent and only 40% of the amount due could be recovered from his estate.

    d) Discharged our acceptance to Savita for ₹ 9,450 by endorsing Pravin's acceptance to us ₹ 9,000.

14. **Journalise the following transactions in the books of Sudha:-**

a) Endorsed Sonali's acceptance at 2 months for ₹ 6,000 in favour of Urmila and paid cash ₹ 3,500 in full settlement of her account ₹ 10,000.

b) Discounted 2 months acceptance of Surya for ₹ 7,800 with bank at 10% p.a.

c) Bank informed that Anuradha's acceptance of ₹ 4,800 which was discounted was dishonoured and bank paid Noting Charges ₹ 125.

d) Pooja honoured her acceptance of ₹ 16,400 which was deposited into bank for collection.

15. **Journalise the following transactions in the books of Mrunal :-**

a) Bank informed that Aishwarya's acceptance of ₹ 24,000 which was discounted had been dishonoured and bank paid Noting Charges ₹ 220. Bill was renewed at the request of Aishwarya for 2 months with interest of ₹ 480.

b) Received ₹ 4,630 from private estate of Ankur who was declared insolvent against bill accepted by him for ₹ 6,000.

c) Accepted a bill of ₹ 15,000 at 3 months drawn by Anushka for the amount due to her ₹ 20,000 and balance paid by cheque.

d) Dishonoured our acceptance to Vivek ₹ 27,000 and Noting Charges paid by Vivek ₹ 700.

Activity

1. Visit retailers near your college and home and find out if they are using bill of exchange.
2. Visit any Bank and find out if they are performing the function of discounting bill of exchange.
3. Visit Banks and find out the rate of discount changed by bank for discounting bill of exchange.
4. Find out Indian names of bill of exchange.
5. Collect specimens of Bill of Exchange and Promissory Note.

8 Company Accounts : Issue of Shares

Content

Competency Statements

❑ *The Students will be able to :*

- *Learn the types of Share and Share Capital.*
- *Understand the Concept of Public Subscription and Private Placement.*
- *Know Concept of under and over valuation of Shares and accounting of Shares issued at par, at premium and at discount.*
- *Know the different accounting treatment for under and over Subscription of Shares as well as call in arrears and call in advance.*

Company Accounts
(Issue of Shares)

Introduction -

Capital is the life blood of any business organisation. A sole trader introduces capital out of his own pocket. Similarly the partners also bring capital from their own pockets. But is case of company form of business organisation, the capital is raised through the issue of shares.

Industrial Revolution brought significant changes in the size of business-structure. Joint Stock Company as a modern form of business organisation emerged to meet the requirements of large sized business to remove the main defects or limitation of the partnership form of organisation. i.e.

unlimited liability and shortage of funds. It was therefore felt necessary to collect the capital from the public at large and to encourage the public to contribute capital, here the principal of limited liability was adopted.

8.1 Share and Share Capital

8.1.1 Meaning

As per Section 2(84) of companies Act 2013 "Share is the share in the capital of a company and includes stock as well." 'Share Capital' means the capital raised by a company by issue of shares. In case of Company is divided into small parts known as shares. This is why it is known as 'Share Capital'.

-According to Companies Act, Company can issue two types of shares namely Equity Shares and Preference Shares.

Equity Shares - A share which is not a preference share is an equity share. It means that if the shareholder is not entitled to a fixed dividend or have priority at the time of repayment of capital will be treated as Equity Share Capital. Equity shareholders participate in profits of a company after all preferential rights have been satisfied. Equity shareholders are the risk bearers and therefore the real owners of the company and can get dividend after payment of all expenses and dividend to preference shareholders.

Preference Shares - Preference shares are those shares which have right with respect to payment of dividend and repayment of capital of winding of the company. Thus preference shareholders enjoy preferential rights in case of payment of dividend and repayment of Capital. Preference shareholders get fixed rate of dividend before giving dividend to equity shareholders. On the basis of additional rights or benefits preference shares can be further classified as follows -

a) Cumulative and Non-cumulative Preference Shares

b) Redeemable and Irredeemable Preference Shares

c) Participative and Non-participative Preference Shares

d) Convertible and Non-convertible Preference shares

As the above classification of Preference shares does not effect on the accounting entires, detail explanation is not given here.

8.1.2 Types of Share Capital

The different types of share capital are as follows -

i) Authorised Capital - The Authorised Capital is the amount of share Capital which a company is authorised to issue by its Memorandum of Association. The amount of Authorised capital is determined after taking into consideration the future requirements of capital of the company. This capital is also known as "Nominal Capital" or "Registered Capital". This is the maximum amount which a company is authorised to raise by the issue of shares. The Authorised Capital can be increased or decreased by adopting the prescribed legal procedure.

ii) Issued Capital - Issued Capital is that part of the Authorised Capital which is offered to the public for subscription. If the company issue all its shares, Issued Capital will be equal to Authorised Capital. Generally, company issues such number of shares which are sufficient to meet the requirements of the company at the time of their issue. The part of Authorised capital which is not issued to the public is known as Unissued Capital.

iii) Subscribed Capital - Subscribed Capital is that part of Issued Capital which is actually subscribed by the public. When the shares issued for subscription are wholly subscribed, issued capital would be the same as the subscribed capital. The part of issued capital which is not subscribed by the public are known as unsubscribed capital.

iv) **Called up Capital -** It is that part of the subscribed capital which is actually called up from the shareholders. The company demands only that portion of the value of the shares which it considers sufficient for the time being. It should be noted that Called up Capital may be equal to Subscribed Capital. The part of subscribed capital which is not called up by the company are known as UN-Called Capital.

v) **Paid up Capital -** It is that portion of the Called up Capital which has actually been paid by the shareholders, as it is likely that some shareholders may not pay all the amount demanded and due on their shares. Paid up capital can be equal or lesser than the Called up Capital but it cannot be more than the Called up Capital. The difference between Called up Capital and Paid up Capital is known as Calls-in-Arrears.

vi) **Reserve Capital -** It is that portion of Subscribed Capital which has been called up and which the company by special resolution had decided not to called up except in the event of and for the purpose of winding up.

8.1.3 Treatment of Share Capital in Balance Sheet

Example - A company was formed with an Authorised Capital of ₹ 10,00,000 divided into ₹10,000 equity shares of ₹ 100 each. It issued to the public 7,500 equity shares payable as ₹ 30 on application, ₹ 30 on allotment and balance on Final call. Applications were received for ₹ 6,000 equity shares. The amount of allotment was duly received except one shareholder holding 500 equity shares did not pay allotment money. The company did not make final call.

How will you show the different categories of share capital in Balance Sheet?

Solution :

In the Books of A Company

Balance Sheet as on ......

Liabilities	Amount ₹	Assets	Amount ₹
Authorised Capital :		Cash at Bank	3,45,000
10000 equity shares of ₹ 100 each	10,00,000		
Issued Capital :			
7500 equity shares of ₹ 100 each	7,50,000		
Subscribed Capital :			
6000 equity shares of ₹ 100 each	6,00,000		
Called-up Capital :			
6000 equity shares of ^ 100 each, ₹ 60 per share called-up	3,60,000		
Paid-up Capital : 6000 equity shares of ₹ 100 each ₹ 60 per share called-up 360000			
Less Calls in arrears (500 x 30) 15,000	3,45,000		
Total	**3,45,000**	**Total**	**3,45,000**

Types/Methods of Issue of Share Capital -

1. Right Issue {Sec. 62) to equity shareholders.
2. Employee Stock option scheme (Sec. 62 (1) (b) to employees. (ESOS)
3. Any person (Sec. 62 (l)(c))
   a) i) Private placement of shares (Sec. 42)
      ii) Preferential Allotment of shares (R 13 of co. SCO Rules) to shareholders only. Public Issue of shares
   c) Sweat Equity Shares (Sec. 54) issued to Directors or employees.
4. Issue of Bonus shares to members/shareholders (Sec, 63 (1))

Issue of Share Capital

Sr. No.	Type of Securities	Private Company	Public Company	Meaning	Accounting Treatment
1.	**Right Issue**	✓	✓	Right shares are issued by the company to its existing shareholders usually at a discounted price. Existing shareholders are given priority or right of purchasing those shares.	Accounting entries in the books of the company for right Issue are the same as those for issue of ordinary shares to the public
2.	**Empolyees Stock Option Scheme**	✓	✓	These shares are allotted to the employees at the rate less than the market price. This scheme encourages its employees to acquire ownership in the form of shares.	Accounting value is based on fair value and intrinsic value of option Employees compensation expenses account. Deferred employees compensation expenses etc. are the new accounts opened.
3.	**a. Private Placement**	✓	✓	Any offer or invitation to subscribe or issue of securities to any selected person or group of person.	These transaction avoid the time consuming process of having securities registered for sale to the general public through SEBI.
	b. Public Offer	✗	✓	Public offer is the offering of securities which are listed on a stock exchange to general public.	Generally, company issue its shares on IPO. The capital collected recorded as stockholder equity in the Balance Sheet.

	c. Sweat equity share	✓	✓	As per Section 2(88) of the companies Act 2013 "Sweat Equity Shares" means such as issued by a company to its directors or employees at a discount or for consideration, other than cash for providing their know-how or making available rights in the nature intellectual property rights or value additions by whatever by whatever name called.	If the consideration is not by way of cash, which does not make that form of an asset that can be carried to the balance sheet of the company as per the accounting standards.
4.	**Bonus Issue**	✓	✓	Bonus shares are distributed by a company to its current shareholders as fully paid shares free of charge.	A Bonus Issue is just re-composition of reserves. It decreases the reserves on one hand and causes increase in share capital. So it is just the amounts are transferred from redemption reserve, capital reserve, security premium etc. to equity share capital.

As Public Issue of shares is included in XIIth syllabus only that method is explained in detail here.

8.2.1

Public Issue of Shares : It is the most common and popular practice of Public Limited Companies to raise the share capital by issuing its shares to public in Primary Market. Following procedure is followed by the company to issue its shares to the Public.

1. **Issue of Prospectus :** The Company issues a Prospectus which provides complete information about the company to the prospective investors. The Prospectus specifies the number of shares offered to the Public, the face value of shares and the amount to be paid on Application, Allotment and Calls.
2. **Receipt of Applications :** The intending subscriber to the shares are required to send their application form together with the application money by the specified date. The company makes its application forms available to the public through its brokers and banks. As per sec 39(2} of the companies Act 2013, the amount payable on application on every security/shares shall not be less than 5% of the nominal amount of the share or such other percentage or amount as may be specified by SEBI by making regulations in this behalf.

3 **Allotment of Shares -** As per Sec 39(1) of Companies Act 2013, no allotment of any shares of a company offered to the public for subscription shall be made unless the amount stated in the Prospectus as the minimum amount has been subscribed and the sums payable on application for the amount so stated have been paid to and received by the company by cheque or other instrument complying all the legal requirements the Directors of the Company proceeds for the allotment procedure. Allotment letters are send to those who are allotted certain number of share, while regret letter is sent to those who have not allotted any share and their application money is refunded. On shares being allotted, the second installment is demanded it is called Allotment Money.

4. **Calls on Shares -** After receiving allotment, the company makes the call due. If the calls are more than one, they are serially numbered as First call, Second call etc. and the last call as Final call. A call is a demand by the company to pay remaining amount other than application and allotment money on a share. At least 14 days notice must be given to shareholders for payment of the call.

Basic Accounting Entries for Issue of shares -

The procedure for accounting for the issue of equity and preference shares is the same. However the words Equity or Preference is prefixed to the shares installments in order to differentiate between the two.

Accounting Entries :

1. **On receipt of Share Application money**

Bank A/c..Dr.

To Share Application A/c

(Being application money on ... shares @.... Per share received)

Share Application money is part of share capital of the company, so it is to be transferred to share capital account.

2. **On transfer of application money to share capital**

Share Application A/c ....Dr.

To Share Capital A/c

(Being share application money on .... Shares @ ₹ .... capital A/c)

3. **On Share Allotment due**

Share Allotment A/c ....Dr.

To Share Capital A/c

(Being share allotment money on Shares @ ₹ .... per share due)

4. **On Allotment money received**

Bank A/c..Dr.

To Share Allotment A/c

(Being share allotment money on .... Shares @ ₹ .... per share received)

5. **On first call due**

Share first call A/c...Dr.

To Share capital A/c

(Being share first call money on .... Shares @ ₹ .... per share due)

6. **On first call money received**

Bank A/c..Dr.

To Share first call A/c

(Being share first call money on .... Shares @ ₹ .... per share received)

7. On second call due

Share second call A/c ....Dr.

To Share capital A/c

(Being share second call money on .... Shares @ ₹ .... per share due)

8. On second call money received

Bank A/c...Dr.

To Share second call A/c

(Being share second call money on .... Shares @ ₹ .... per share received)

9. On Third& Final call due

Share Third & Final call A/c.......................................Dr.

To Share Capital A/c

(Being Share Third & Final call money on .... Shares @ ₹ .... per share due)

10. On Third & Final call money received

Bank A/c...Dr.

To Share Third & Final Call A/c

(Being share Third & Final call money on .... Shares @ ₹ .... per share received)

Illustrations

1. Gajanan Ltd. Issued 60,000 equity shares of ₹ 10 each payable as Application, ₹ 3 on Allotment, ₹ 3 on First Call, ₹ 2 on final call. The shares subscribed and all the amount due was received. **Pass necessary Journal the book of Gajanan Ltd.**

Solution :

Date	Particulars	L.F.	Debit ₹	Credit ₹
1.	Bank A/c ....Dr. To Equity Share Application A/c (Being equity share application money on 60,000 share @ ₹ 2 per share received)		1,20,000	 1,20,000
2.	Equity Share Application A/c ....Dr. To Equity Share Capital A/c (Being application money on 60,000 equity shares @ ₹ 2 per share transferred to equity share capital)		1,20,000	 1,20,000
3.	Equity Share Allotment A/c ....Dr. To Equity Share Capital A/c (Being allotment money on 60,000 equity shares @ ₹ 3 due)		1,80,000	 1,80,000
4.	Bank A/c ....Dr. To Equity Share Allotment A/c (Being Equity share Allotment money on 60,000 shares @ ₹ 3 received)		1,80,000	 1,80,000

5.	Equity Share First Call A/c................................Dr. To Equity share capital A/c (Being Equity share first call money on 60000 shares @ ₹ 3 due)		1,80,000	1,80,000
6.	Bank A/c ....Dr. To Equity Share First call A/c (Being Equity share first call money on 60,000 equity shares @ ₹ 3 received)		1,80,000	1,80,000
7.	Equity share Second & Final call A/c ....Dr. To Equity Share Capital A/c (Being final call money on 60,000 equity shares @ ₹ 2 per share due		1,20,000	1,20,000
8.	Bank A/c ....Dr. To Equity share Second & Final call A/c (Being Final Call money on 60,000 equity shares @ ₹ 2 per share received)		1,20,000	1,20,000

2. Honesty Ltd, Issued 20000 Preference shares of ₹ 10 each payable
₹ 4 on Application
₹ 2 on Allotment
₹ 4 on 1st and Final call.
Shares were fully subscribed and all amount were received.
Pass necessary Journal Entries in the Books of Honesty Ltd.

Solution :

Journal Entries in the Books of Honesty Ltd.

Date	Particulars	L.F.	Debit ₹	Credit ₹
1.	Bank A/c ....Dr. To Preference Share Application A/c (Being application money on 20,000 Preference shares @ ₹ 4 per share received)		80,000	80,000
2.	Preference Share Application A/c.......................Dr. To Preference Share Capital A/c (Being application money on 20,000 Preference shares @ ₹ 4 per share transferred to preference share capital account)		80,000	80,000
3.	Preference Share Allotment A/c.........................Dr. To Preference Share Capital A/c (Being allotment money on 20,000 Preference shares @ ₹ 2 per share due)		40,000	40,000
4.	Bank A/c ....Dr. To Preference Share Allotment A/c (Being Allotment money on 20,000 Preference shares @ ₹ 2 per share received)		40,000	40,000

5.	Preference Share First & Final Call A/c.............Dr. To Preference Share Capital A/c (Being 1st & final call money on 20000 Preference shares @ ₹ 4 per share due)		80,000	80,000
6.	Bank A/c ....Dr. To Preference Share First & Final call A/c (Being First & Final call money on 20,000 equity shares @ ₹ 4 per share received)		80,000	80,000

Issue of Shares at a Premium

A company can issue its shares at more than its face value. Excess of issue price of share over its face value is termed as Share Premium. If a share of ₹ 10 is issued at ₹ 13 per share the excess of ₹ 3 i.e. 13 - 10 will be termed as Share Premium or Securities Premium. The amount of premium received is credited to a separate account known as Share Premium Account which is shown on the liability side of the Balance Sheet as a separate item.

Share Premium Account should be treated to be on share allotment unless otherwise mentioned. Share Premium Account may be credited at the time of making allotment due or receiving allotment money.

Journal entry

Share Allotment A/c............................Dr
 To Share Capital A/c
 To Share Premium / Securities Premium A/c

3. Ankita Ltd. Offered for public 10,000 equity shares of ₹ 10 each at a premium of ₹ 12 per share payable as under

On Application - ₹ 4

On Allotment - ₹ 4 (including premium)

On First & Final call - Balance amount

Company received all the money. The issue was fully subscribed. **Give Journal entries to record the above transactions and also show Balance Sheet.**

Solution :

Journal Entires in the Books of Ankita Ltd.

Date	Particulars	L.F.	Debit ₹	Credit ₹
1.	Bank A/c ....Dr.	`	40,000	
	To Equity Share Application A/c			40,000
	(Being application money on 10,000 Equity shares @ ₹ 4 per share received)			
2.	Equity Share Application A/c ....Dr.		40,000	
	To Equity Share Capital A/c			40,000
	(Being application money on 10,000 Equity shares @ ₹ 4 per share transferred to preference share capital)			
3.	Equity Share Allotment A/c ....Dr.		40,000	
	To Equity Share Capital A/c			20,000
	To Share Premium A/c			20,000
	(Being allotment money on 10,000 equity shares @ ₹ 4 per share due)			
4.	Bank A/c ....Dr.		40,000	
	To Equity Share Allotment A/c			40,000
	(Being allotment money on 10,000 equity shares @ ₹ 4 per share received)			
5.	Equity Share First & Final Call A/c ....Dr.		40,000	
	To Equity Share Capital A/c			40,000
	(Being Equity share first & final call money on 10,000 equity shares @ ₹ 4 per share due)			
6.	Bank A/c ....Dr.		40,000	
	To Equity Share First & Final call A/c			40,000
	(Being Equity share 1st & Final call money on 10,000 equity shares @ ₹ 4 per share received)			

Balance Sheet of Ankita Ltd.

Liabilities	Amount ₹	Assets	Amount ₹
Share Capital		Bank	1,20,000
10,000 Eq. shares of 10 each	1,00,000		
Share Premium / Securities Premium A/c	20,000		
	1,20,000		1,20,000

Issue of Shares at Discount -

When a company issues shares at a price less than the face value of the shares, it is known as issue of shares at discount Normally, shares are not issued at discount by a company because the discount allowed is a loss to the company which no company would like to incur. The loss on issue of shares is to be debited to 'Discount on Issue of shares Account/ The amount of discount will be shown on the asset side of Balance Sheet till it is completely written off. The entry for discount should be passed at the time of allotment along with the transfer entry for allotment because the loss on account of discount is incurred as soon as the shares have been allotted.

Journal entry :

Share Allotment A/c.................................... Dr.

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

To Share Capital A/c

Note : As per new provisions of issued by government Act (2013) Public issue of shares can not be at a Discount.

4 Ashwini Ltd invited applications from the public for subscribing for 10,000 equity shares of ₹ 15 each at a discount of ₹ 1 per share payable, ₹ 5 on application, ₹ 9 Allotment. All the shares were applied and allotted. Money due on allotment was received.

Pass Journal Entries in the Books of Ashwini Ltd. and prepare Balance Sheet.

Journal Entries in the Books of Ashwini Ltd.

Date	Particulars	L.F.	Debit ₹	Credit ₹
1.	Bank A/c ....Dr.		50,000	
	To Equity Share Application A/c			50,000
	(Being application money on 10,000 Equity shares @ ₹ 5 per share received)			
2.	Equity Share Application A/c ....Dr.		50,000	
	To Equity Share Capital A/c			50,000
	(Being application money on 10,000 Equity shares @ ₹ 5 per share transferred to preference share capital)			
3.	Equity Share Allotment A/c ....Dr.		90,000	
	Discount on Issue of Shares A/c ....Dr.		10,000	
	To Equity Share Capital A/c			1,00,000
	(Being allotment money on 10,000 equity shares @ ₹ 9 per share, after allowing discount of ₹ 1 per share due)			
4.	Bank A/c ....Dr.		90,000	
	To Equity Share Allotment A/c			90,000
	(Being allotment money on 10,000 equity shares @ ₹ 9 per share received)			

Balance Sheet of Ashwini Ltd.

Liabilities	Amount ₹	Assets	Amount ₹
Share Capital		Bank	1,40,000
10,000 Equity shares of 15 each	1,50,000	Discount on Issue of Shares	10,000
	1,50,000		1,50,000

8.2.4

Over subscription and Under subscription of Shares

(A) Over subscription of Shares -

When the number of shares applied for is more than the number of shares the company has offered / issued to the public it is known as 'Over subscription'. In the case of Over subscription there may be three possibilities-

1. Some applicants may be allotted the full number of shares they have applied which is known as 'Full Allotment'. In this case there is no excess application money received.
2. Some applicants may not be allotted shares in which case their applications are treated as rejected. In such a case the whole amount will have to be refunded to the applicants.

Journal entry :

Share Application A/c Dr.

To Bank A/c

3. Some applicants may be allotted less number of snares than they have applied for, which is known as 'Partial Allotment'. In this case the excess amount received on application may be utilised towards the money due on allotment by transferring the excess amount from the Share Application Account to Share Allotment Account.

5 Vaishali Ltd. Issued 10000 equity shares of ₹ 10 each at par payable ₹ 3 on Application, ₹ 4 on Allotment and ₹ 3 on First and Final call. The company received applications for 15000 shares.

The Board of Directors rejected 5000 applications and application money was refunded. All the money was duly received.

Show Journal Entries in the Books of Vaishali Ltd.

Solution :

Journal Entries in the Books of Vaishali Ltd

Date	Particulars	L.F.	Debit ₹	Credit ₹
1.	Bank A/c ....Dr. To Equity Share Application A/c (Being application money on 15,000 Equity shares @ ₹ 3 per share received)		45,000	45,000
2.	Equity Share Application A/c ....Dr. To Equity Share Capital A/c (Being application money on 10,000 Equity shares @ ₹ 3 per share transferred to preference share capital)		30,000	30,000
3.	Equity Share Application A/c ....Dr. To Bank A/c (Being application money on 5,000 equity shares @ ₹ 3 per share refunded)		15,000	15,000
4.	To Equity Share Allotment A/c..........................Dr. To Equity Share Capital A/c (Being allotment money on 10,000 equity shares @ ₹ 4 per share due)		40,000	40,000

5.	Bank A/c ....Dr. To Equity Share Allotment A/c (Being allotment money on 10,000 equity shares @ ₹ 4 per share due)		40,000	40,000
6.	Equity share First and Final call A/c..................Dr. To Equity Share Capital A/c (Being Equity share first & Final call on 10,000 equity shares @ ₹ 3 per share due)		30,000	30,000
7.	Bank A/c ....Dr. To Equity share First and Final call A/c (Being equity share first & final call money on 10,000 equity shares @ ₹ 4 per share due)		30,000	30,000

Pro-rata/Proportionate Allotment

When the application received for shares is more than the number of shares that can be issued, the Directors may reduce the number of shares to be alloted each applicant proportionately on the basis of total application received and the number of shares issued. Thus under this case each applicant gets the shares but less than those demanded applied by him.

Alternatively it can reject certain applications and refund the application money, allow full shares to some applicants and make pro-rata allotment to others. In case of pro-rata allotment company will adjust excess application money received against allotment money demanded from the shareholders.

Journal Entry :

a) Share Application A/c Dr.

To share Allotment A/c

or

b) Share Application A/c Dr.

To Share Capital A/c

To Share Allotment A/c

(Being extras application money adjusted with allotment money)

6 Sanika Company Ltd issued 10000 equity shares to the public of ₹ 10 each. Payable as ₹ 2 on Application, ₹ 5 on Allotment, and ₹ 3 on 1st and Final Call. All the calls were made and money received.

Company received applications for 20,000 shares. Directors decided to allot shares to all applicants on pro-rata basis.

Pass Journal Entries in the Books of Sanika Co. Ltd.

Solution :

Journal Entries in the Books of Sanika Ltd

Date	Particulars	L.F.	Debit ₹	Credit ₹
1.	Bank A/c ....Dr. To Equity Share Application A/c (Being application money on 20,000 Equity shares @ ₹ 2 per share received)		40,000	 40,000
2.	Equity Share Application A/c ....Dr. To Equity Share Capital A/c To Equity Share Allotment A/c (Being application money on 10,000 Equity shares transferred to equity share capital and application money on 10000 equity shares adjusted against share allotment A/c)		40,000	 20,000 20,000
3.	Equity Share Allotment A/c ....Dr. To Equity Share Capital A/c (Being allotment money on 10,000 equity shares @ ₹ 5 per share due)		50,000	 50,000
4.	Bank A/c ....Dr. To Equity Share Allotment A/c (Being share allotment money on 10,000 equity shares after adjusting excess application money)		30,000	 30,000
5.	Equity share First and Final Call A/c ....Dr. To Equity Share Capital A/c (Being Equity share first & Final Call on 10,000 shares @ ₹ 3 per share due)		30,000	 30,000
6.	Bank A/c ....Dr. To Equity Share First & Final Call A/c (Being Equity share first & Final call Money received)		30,000	 30,000

Note - Company has issued 10000 shares to the public, but applications were received for 20000 shares i.e. excess applications for 10000 shares.

Working Note No. 1 -

Total Application money received 20000 shares @ ₹ 2	₹ 40,000
Less : Application money on 10000 share @ ₹ 2 which were issued to public	₹ 20,000
Excess Application money received	₹ 20,000

Therefore, excess application money received on 10,000 equity shares @ ₹ 2 per share adjusted with allotment money.

Working Note No. 1 -

Allotment money received	=	Allotment money demanded
	=	excess application money
	=	50,000 - 20000
		₹ 30,000

(B) Under Subscription of Shares-

When number of shares applied by the public are less than the number of shares issued or offered to the public it is called as under subscription of shares. In this case journal entries are made on the number of shares applied and allotted only.

7 XYZ & Company Ltd. issued 4000 shares of ₹ 100 each payable as follows -

₹ 25 on Application
₹ 60 on Allotment
₹ 15 on first and final call

Public applied for 3000 shares. All the money on allotment and call were received.

Give necessary Journal Entries.

Solution :

Journal Entries in the Books of XYZ & Co. Ltd.

Date	Particulars	L.F.	Debit ₹	Credit ₹
1.	Bank A/c ....Dr. To Equity Share Application A/c (Being application money on 3000 Equity shares @ ₹ 25 per share received)		75,000	75,000
2.	Equity Share Application A/c ....Dr. To Equity Share Capital A/c (Being application money on 3000 shares @ ₹ 25 per share transferred to share capital A/c)		75,000	75,000
3.	Equity Share Allotment A/c ....Dr. To Equity Share Capital A/c (Being allotment money on 3000 equity shares @ ₹ 60 per share due)		1,80,000	1,80,000
4.	Bank A/c ....Dr. To Equity Share Allotment A/c (Being share allotment money on 3000 equity shares @ ₹ 60 per share received)		1,80,000	1,80,000
5.	Equity share First and Final Call A/c ....Dr. To Equity Share Capital A/c (Being Equity share 1st & Final Call on 3000 shares @ ₹ 15 per share due)		45,000	45,000
6.	Bank A/c ....Dr. To Equity Share First & Final Call A/c (Being share first & Final call on 3000 shares @ ₹ 15 per share received)		45,000	45,000

8.2.5 Calls in Arrears & Calls in Advance

(A) Call in Arrears

If the company accept the application and allots the shares to the person he becomes the shareholder and the shareholder is liable to pay the entire amount of shares. In case he fails to pay the allotment and calls on shares held by him the unpaid amount is known as Calls in Arrears.

The unpaid amount on allotment and calls may be kept in their respective accounts for the balance not received or may be transferred to a new account i.e. Calls in Arrears Account. The Calls in Arrears Account has debit balance which is shown as a deduction from the Paid up Share Capital on liabilities side of Balance sheet.

8 Girish & Co. Ltd. Invited applications for 25000 equity shares of ₹ 10 each payable as

₹ 2.50 on Application

₹ 5 on Allotment

₹ 2.50 on First & Final call

₹ Applications were received for 30000 equity shares and pro-rata allotment were made to all. All the money was duly received except First and Final call on 2500 equity shares.

Enter the above transactions in the books of a company and show the Balance sheet.

Solution :

Journal Entries in the books of Girish Co, Ltd.

Date	Particulars	L.F.	Debit ₹	Credit ₹
1.	Bank A/c ....Dr.		75,000	
	To Equity Share Application A/c			75,000
	(Being application money on 30,000 Equity shares @ ₹ 2.5 per share received)			
2.	Equity Share Application A/c ....Dr.		75,000	
	To Equity Share Capital A/c			62,500
	To Share Allotment A/c			12,500
	(Being application money on 25,000 shares @ ₹ 2.50 per share transferred to share capital A/c and excess application money on 500 shares @ ₹ 2.50 per share adjusted)			
3.	Equity Share Allotment A/c ....Dr.		1,25,000	
	To Equity Share Capital A/c			1,25,000
	(Being allotment money on25,000 equity shares @ ₹ 5 per share due)			
4.	Bank A/c ....Dr.		1,12,500	
	To Equity Share Allotment A/c			1,12,500
	(Being share allotment money on 25000 equity shares @ ₹ 5 per share received)			

5.	Equity share First and Final Call A/c ....Dr. To Equity Share Capital A/c (Being Equity share 1st & Final Call Money on 25000 shares @ ₹ 2.50 per share due)		62,500	 62,500
6.	Bank A/c ....Dr. Calls in Arreas A/c..Dr. To Equity Share First & Final Call A/c (Being share first & Final call on 22,500 shares @ ₹ 2.50 per share received)		56,250 6,250	 62,500

Balance Sheet of Girish & Co. Ltd.

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Share Capital Less : Calls in Arrears	2,50,000 6,250	 2,43,750	Bank		2,43,750
		2,43,750			2,43,750

Note - Entry for the receipt of First & Final Call can also be made as follows -

Bank A/c Dr. 56,250

To Equity Share First & Final call A/c 56,250

(B) Calls in Advance -

Company may receive Call in Advance. The amount paid by the shareholder of a company before the particular call is made is known as Calls in Advance. It is the liability of the company and should be transferred to Calls in Advance Account. It is adjusted with the respective call made in future, till then it is shown as a liability in the Balance Sheet.

9 Archana Ltd. issues 10000 shares of ₹ 10 each at ₹ 12 payable as

₹ → 3 on Application

₹ → 5 on Allotment (with premium)

₹ → 4 on First Final Call

Applications were received for 8000 shares only. Ketan a holder of 400 shares made the full payment at the time of Allotment.

Record the above transactions in the Books of Archana Ltd.

Solution:

Journal Entries in the Books of Archana Ltd.

Date	Particulars	L.F.	Debit ₹	Credit ₹
1.	Bank A/c ....Dr.		24,000	
	To Share Application A/c			24,000
	(Being application money on 8,000 shares @ ₹ 3 per share received)			
2.	Share Application A/c.......................................Dr.		24,000	
	To Share Capital A/c			24,000
	(Being application money on 8,000 shares @ ₹ 3 per share transferred to share capital A/c)			
3.	Share Allotment A/c..Dr.		40,000	
	To Share Capital A/c			24,000
	To Share Premium A/c			16,000
	(Being allotment money on 8,000 shares @ ₹ 5 per share due)			
4.	Bank A/c ....Dr.		41,600	
	To Share Allotment A/c			40,000
	To Calls in Advance A/c			1,600
	(Being share allotment money on 8000 equity shares @ ₹ 5 per share & share First & Final call money on 400 shares @ ₹ 4 per share received)			
5.	Share First and Final Call A/c ....Dr.		32,000	
	To Share Capital A/c			32,000
	(Being share First & Final Call Money on 8000 shares @ ₹ 4 per share due)			
6.	Bank A/c ....Dr.		30,400	
	Calls in Advance A/c ....Dr.		1,600	
	To Share First & Final Call A/c			32,000
	(Being share First & Final call on 7600 shares @ ₹ 4 per share received & on 400 shares adjusted)			

8.2.6 Issue of Shares for Consideration other than Cash

A company can issue its shares for cash or for consideration other than cash. Such as against purchase of Land & Building, Plant & Machinery etc. The company purchase certain assets from vendors (sellers or suppliers) on credit. Instead of making payment to vendors in cash, the company issues them certain agreed number of shares at the agreed rate at a consideration of assets purchased.

Journal Entries-

1. Purchase of Asset on Credit

Assets A/c Dr.

To Vendor A/c

(Being Asset purchased from the vendor)

2. **Allotment of share to**

Vendor A/c Dr.

To Share Capital A/c

(Being allotment of.... shares of ₹ ... each fully paid to vendors)

Sometimes a company rewards its promoters for their services by issuing shares to them without any payment. Such an issue of shares also comes under the issue of shares for consideration other than cash. The full amount of the shares issued to promoters for their services is regarded on the cost of goodwill and the entry shall be just the same on the purchase of any asset. The entry is

Goodwill A/c Dr. ...

To Share Capital A/c

(Allotment of ... shares of ₹ ... each fully paid to promoters)

8.3.1 Forfeiture of Shares

If the shareholder fails to pay allotment or call money or both, the company send reminder to the shareholders to make the payment of calls in arrears. If Shareholder does not respond to reminders and fails to pay money then, the Directors can forfeit his shares as per the provisions of Articles of Association of a company.

When shares are forfeited the share capital is debited with the amount called upto the date of forfeiture in respect of shares forfeited and credit will be given to

i) Share Forfeiture Account with the amount already received and

ii) The respective unpaid calls in account (or calls in arrears account, if unpaid calls have already been transferred to Calls in Arrears Account) in respect of such shares. It should be noted that the share capital account should be debited only with the amount called in respect of such share; and not with their total nominal value unless full amount per share has been called.

Journal Entry

Share Capital A/c Dr.

To Share Forfeitted A/c

To Calls in Arrears A/c

(A) When shares were Originally issued at a Premium

Where the forfeited shares are originally been issued at Premium and premium on forfeited shares has already been received and the Share Premium Account will not be debited because once the premium is received law does not allow to refund or cancel the premium, but if the premium on shares has not been received because it formed part of the installment which remain unpaid, then premium on shares will be debited. The Journal Entry for forfeiture will be -

a) If premium is already received

Share Capital A/c Dr.

To Forfeitted Shares A/c / Share forfeiture A/c

To Calls in Arrears A/c

b) Premium in not received

Share Capital A/c Dr.

Share Premium/ Securities Premium A/c Dr.

To Calls in Arrears A/c

To Share forfeiture A/c / Forfitted Shares A/c

10 Suman Ltd. issued equity shares of ₹ 10 each at a Premium of ₹ 3 per share, Payable as follows-

₹ 3 on application

₹ 5 on Allotment (including Premium)

₹ 2.50 on 1st call

₹ 2.50 on final call

One shareholder Mr. Ashok failed to pay Allotment money and 1st call money on 200 shares. Directors forfeited his share after first call. While another shareholder Mr. Atul failed to pay 1st call and final call money on 100 shares and his shares were forfeited after final call. Show Journal Entries for forfeiture of shares of Mr. Ashok & Mr, AtuI

Solution :

Date	Particulars	L.F.	Debit ₹	Credit ₹
1.	Share Capital A/c..Dr.		1,500	
	Share Premium A/c ....Dr.		600	
	To Share Allotment A/c			1,000
	To Share First call A/c			500
	To Share Forfeiture A/c			600
	(Being forfeiture of 200 equity share due to non-payment of Allotment money on first call money)			
2.	Share Capital A/c..Dr.		1,000	
	To Share First Call A/c			250
	To Share Final Call A/c			250
	To Share Forfeiture A/c			500
	(Being forfeiture of 100 equity shares due to non-payment of first call and final call money)			

Working Note No. 1 -

Shares Forfeited & Premium not collected

Share Capital = No of forfeited shares × Called up value including premium

No. of forfeited shares = 200

$200 \times 7.5 = 1{,}500$

Security premium = 200 × 3 = 600 (No. of shares premium per share)

Share allotment = 200 × 5 = 1,000 (No. of share Allotment money)

1st Call = 200 × 2.5 = 500 (No. of share Call Money)

Forfeited shares = Bal. Amount

Working Note No. 2 -

Share forfeited premium is collected

Share Capital = No. of shares × called up value (including premium)

= 100 × 10 = 1,000

First Call = No. of shares × Call Money

= 100 × 2.5 = 250

Second Call = No. of shares × Call

= 100 × 2.5 = 250

Forfeited Shares = Balance Amount

11 Shraddha Ltd. issued 100000 equity shares of ₹ 10 each at a premium of ₹ 2 per share payable as -

₹ → 3 on Application

₹ → 5 on Allotment

₹ → 4 on first& final call

Applications were received for 1,20,000 equity shares and pro-rata allotment was made to all the applicants. The excess application money was adjusted with allotment.

Vinita who was allotted 200 shares failed to pay First & Final call and her shares were forfeited.

Pass Journal Entries in the books of Shraddha Ltd. and show the Balance Sheet

Journal Entries in the Books of Shraddha Ltd.

Date	Particulars	L.F.	Debit ₹	Credit ₹
1.	Bank A/c ....Dr.		3,60,000	
	To Equity Share Application A/c			3,60,000
	(Being application money on 1,20,000 Equity shares @ ₹ 3 per share received)			
2.	Equity Share Application A/c ....Dr.		3,60,000	
	To Equity Share Capital A/c			3,00,000
	To Equity Share Allotment A/c			60,000
	(Being application money on 1,00,000 shares transferred to share capital A/cand remaining money adjusted against allotment)			
3.	Share Allotment A/c...Dr.		5,00,000	
	To Share Capital A/c			3,00,000
	To Share Premium A/c			2,00,000
	(Being allotment money on 1,00,000 equity shares @ ₹ 5 per share including premium due)			
4.	Bank A/c ....Dr.		4,40,000	
	To Equity Share Allotment A/c			4,40,000
	(Being share allotment money received after adjusting excess application money received)			
5.	Equity Share First and Final Call A/c ....Dr.		4,00,000	
	To Equity Share Capital A/c			4,00,000
	(Being Equity share first & Final Call Money on 1,00,000 shares @ ₹ 4 per share due)			

6.	Bank A/c ....Dr.		3,99,200	
	To Share First & Final Call A/c			3,99,200
	(Being share first & Final call on 99800 shares @ ₹ 4 per share received)			
7.	Equity Share Capital A/c ....Dr.		2,000	
	To Equity Share First & Final call A/c			800
	To Share Forfeiture A/c			1,200
	(Being forfeiture of 200 equity shares due to non-payment of first & final call)			

Balance Sheet of Shraddha Ltd.

Liabilities	Amount ₹	Assets	Amount ₹
Share Capital	9,98,000	Bank	11,99,200
Share Premium Allotment	2,00,000		
Share Forfeiture Allotment	1200		
	11,99,200		11,99,200

(B) When shares were originally issued at discount

When the forfeited shares originally been issued at a discount. The Discount on issue of shares amount should be credited. Journal Entry -

Share Capital A/c Dr

To Calls in Arrears A/c

To Discount on Issue of Shares A/c

To Share forfeiture A/c

12 Subhash Ltd. issued equity share of ₹ 10 each at 10% discount to the public payable, ₹ 3 on Application, ₹ 2 on Allotment, ₹ 2 on 1st call and balance ₹ 2 on final call.

Neeta who was allotted 300 equity shares paid only application money and her shares were forfeited after First call.

Sanjay who was allotted 400 equity shares paid application and allotment money only his shares were forfeited after final call.

Show the Journal entries in the books of the company regarding forfeiture of shares of Neeta and Sanjay.

Solution :

Journal Entries

Date	Particulars	L.F.	Debit ₹	Credit ₹
1.	Equity Share Capital A/c ....Dr.		2,400	
	To Equity Share Allotment A/c			600
	To Equity Share First Call A/c			600
	To Discount on Issue of Shares A/c			300
	To Share Forfeiture A/c			900
	(Being forfeiture of 300 equity share due to non-payment of Allotment money, first call money)			
2.	Equity Share Capital A/c ....Dr.		4,000	
	To Equity Share First Call A/c			800
	To Equity Share Final Call A/c			800
	To Discount on Issue of Shares A/c			400
	To Share Forfeiture A/c			2,000
	(Being forfeiture of 400 equity shares due to non-payment of first call and final call money)			

Working Note No. 1 -

Neeta

Capital = No. of Shares Called up value including discount

Allotment 300 × 8 = ₹ 2,400

A/c = 300 × 2 = ₹ 600

First call = 300 × 2 = ₹ 600

Discount = 300 × 1 = ₹ 300

Working Note No. 2 -

Sanjay

Discount = 400 × 1 = ₹ 400

First call = 400 × 2 = ₹ 800

Final call = 400 × 2 = ₹ 800

Capital = 400 × 10 = ₹ 4,000

8.3.3 Reissue of forfeited shares

The directors can re-issue the forfeited shares either at par, premium or at discount, usually re-issued as fully paid and they are issued at a discount. However the amount of discount allowed on reissue should not exceed the amount which has already been received (the forfeited amount) in respect of these shares on their original issue and the same should be debited to Share Forfeiture Account. In case of all the forfeited shares are re-issued balance of share forfeiture account is transferred to Capital Reserve Account.

13 Company forfeited 1000 share of ₹ 10 each for non-payment of final call of ₹ 2. All the forfeited shares were issued at ₹ 6 per share fully paid.

Pass the Journal Entries in the Books of a company for forfeiture and re-issue of shares.

Solution :

Journal Entries in the Books of a Company

Date	Particulars	L.F.	Debit ₹	Credit ₹
1.	Equity Share Capital A/c ....Dr.		10,000	
	To Share Forfeiture A/c			8,000
	To Calls in Arrears A/c			2,000
	(Being forfeiture of 1000 Equity shares ₹ 10 for non-payment of final call of ₹ 2 per share)			
2.	Bank A/c ....Dr.		6,000	
	Share Forfeiture A/c		4,000	
	To Share Capital A/c			10,000
	(Being re-issue of 1000 Forfeiture shares @ ₹ 6 per share)			
3.	Share Forfeiture A/c..Dr.		54,000	
	To Capital Reserve A/c			4,000
	(Being balance of Share Forfeiture Account Account transferred to Capital Reserve Account)			

14 Preeti Company Limited invited applications for 50000 Equity Shares of ₹ 100 each at par, payable as follows

On Application ₹ 30

On Allotment ₹ 40

On First & Final Call ₹ 30

The public applied for 35,000 shares and all these were allotted. All money due were collected with an exception of first & final call on 4000 shares, these were forfeited. All forfeited shares were re-issued by the Directors at ₹ 80 per share.

Pass Journal Entries in the Books of Preeti Company Limited.

In the Books of Preeti Co. Ltd.
Journal Entries

Date	Particulars	L.F.	Debit ₹	Credit ₹
1.	Bank A/c ....Dr.		10,50,000	
	To Share Application A/c			10,50,000
	(Being Application money on 35000 Equity shares ₹ 30 per share received)			
2.	Equity Share Application A/c ....Dr.		10,50,000	
	To Equity Share Capital A/c			10,50,000
	(Being equity share application money on 35000 shares transferred to Equity share Capital)			

3.	Equity Share Allotment A/c ....Dr. To Equity Share Capital A/c (Being equity share allotment money on 35000 shares ₹ 40 per share due)		14,00,000	14,00,000
4.	Bank A/c ....Dr. To Equity Share Allotment A/c (Being equity share allotment money on 35000 shares ₹ 40 per share received)		14,00,000	14,00,000
5.	Equity Share First & Final Call A/c ....Dr. To Equity Share Capital A/c (Being equity share allotment money on 35000 shares ₹ 30 per share due)		10,50,000	10,50,000
6.	Bank A/c ....Dr. To Equity Share First & Final Call A/c (Being equity share first & final call money on 31000 shares @ ₹ 30 per share received)		9,30,000	9,30,000
7.	Equity Share Capital A/c ....Dr. To Equity Share First & Final Call A/c To Share Forfeiture A/c (Being forfeiture of 4000 equity shares due to non-payment of first & final call)		4,00,000	1,20,000 2,80,000
8.	Bank A/c ....Dr. Share Forfeiture A/c..Dr. To Equity Share Capital A/c (Being re-issue for 4000 forfeited shares @ ₹ 80 per share)		3,20,000 80,000	4,00,000
9.	Share Forfeiture A/c..Dr. To Capital Reserve A/c (Being balance on share forfeiture A/c transferred to capital reserve A/c		2,00,000	2,00,000

15 The Subscribed Capital of Parag Limited is 30,000 Equity Shares of ₹ 100 each and 50,000 Preference shares of ₹ 100 each. On both of these shares ₹ 80 per share were called-up.

The Directors forfeited 500 equity shares held by Ashish who failed to pay First and Second Call of each ₹ 20 per share. They also forfeited 500 preference shares of Ashok who failed to pay ₹ 20 per share on allotment, ₹ 20 per share on First call and ₹ 20 per share on Second call.

The Director re-issued these forfeited shares of Ashish at ₹ 60 per share ₹ 80 paid up and those of Ashok at ₹ 72 per share ₹ 80 paid up All re-issued shares were taken up by Anagha.

Pass Journal Entries to record the forfeiture and re-issue of shares in the books of Parag Ltd.

Journal Entries In the Books of Parag Ltd.

Date	Particulars	L.F.	Debit ₹	Credit ₹
1.	Equity Share Capital A/c ....Dr.		40,000	
	To Equity Share First Call A/c			10,000
	To Equity Share Second Call A/c			10,000
	To Equity Share forfeiture A/c			20,000
	(Being forfeiture of 500 equity share for failure to pay First and Second Call)			
2.	Preference Share Capital A/c..............................Dr.		40,000	
	To Preference Share Allotment A/c			10,000
	To Preference Share First Call A/c			10,000
	To Preference Share Second Call A/c			10,000
	To Preference Share Forfeiture A/c			10,000
	(Being forfeiture of 500 Preference shares due to non-payment of Allotment money, First call & Second call money)			
3.	Bank A/c ....Dr.		30,000	
	Equity Share Forfeiture A/c ....Dr.		10,000	
	To Equity Share Capital A/c			40,000
	(Being re-issue of 500 forfeited shares ₹ 60 per share due)			
4.	Bank A/c ....Dr.		36,000	
	Preference Share Forfeiture A/c..........................Dr.		4,000	
	To Preference Share Capital A/c			40,000
	(Being re-issued 500 forfeited preference shares ₹ 72 per share)			
5.	Equity Share Forfeiture A/c ....Dr.		10,000	
	Preference Share Forfeiture A/c..........................Dr.		6,000	
	To Capital Reserve A/c			16,000
	(Being Balance of share forfeiture account transferred to capital reserve)			

16 Rakesh Ltd. issued 2000 equity shares of ? 100 each at a premium of ₹ 20 per share payable as follows :

On Application	₹ 20
On Allotment	₹ 50 (including Premium)
On first Call	₹ 20
On final Call	₹ 30

Applications were received for 3000 shares, 2000 share allotted to the applicants for 2400 shares. The remaining applications for 600 shares being refused and application money there on was refunded. Excess money received on application was adjusted against allotment.

All amounts were duly received except Mr. Mandar to whom 80 shares were alloted.

Mandar fails to pay First and Final call. His shares were forfeited and were reissued to Mr. Ketan as fully paid at ₹ 80 per share.

Journalise the transactions in the books of the company.

Journal Entries In the Books of Rakesh Ltd.

Date	Particulars	L.F.	Debit ₹	Credit ₹
1.	Bank A/c ....Dr.		60,000	
	To Equity Share Application A/c			60,000
	(Being equity share application money on 3000 equity shares @ ₹ 20 per share received)			
2.	Equity Share Application A/c ....Dr.		40,000	
	To Equity Share Capital A/c			40,000
	(Being application money on 2,000 shares @ ₹ 20 per share transferred to capital A/c)			
3.	Equity Share Application A/c ....Dr.		20,000	
	To Equity Share Allotment A/c			8,000
	To Bank A/c			12,000
	(Being excess application money on 400 shares adjusted against allotment and on 600 shares refunded)			
4.	Equity Share Allotment A/c ....Dr.		1,00,000	
	To Equity Share Capital A/c			60,000\
	To Share Premium A/c			40,000
	(Being Allotment money on 2,000 equity shares @ ₹ 50 per share including premium due)			
5.	Bank A/c ....Dr.		92,000	
	To Equity Share Allotment A/c.			92,000
	(Being equity share allotment money received)			
6.	Equity Share First Call A/c...............................Dr.		40,000	
	To Equity Share Capital A/c			40,000
	(Being share first call money on 2,000 shares @ ₹ 20 per share due)			
7.	Bank A/c ....Dr.		38,400	
	To Equity Share First Call A/c			38,400
	(Being equity share first call money on 1920 shares @ ₹ 20 per share received)			
8.	Equity Share Final Call A/c..............................Dr.		60,000	
	To Equity Share Capital A/c			60,000
	(Being equity share final call money on 2,000 shares @ ₹ 30 per share due)			
9.	Bank A/c ....Dr.		57,600	
	To Equity Share Final Call A/c			57,600
	(Being share first call money on 1920 shares @ ₹ 30 per share received)			

10.	Equity Share Capital A/c ....Dr.		8,000	
	To Equity Share First Call A/c			1,600
	To Equity Share Final Call A/c			2,400
	To Share Forfeiture A/c			4,000
	(Being forfeiture of 80 shares due to non-payment of first & final call)			
11.	Bank A/c ....Dr.		6,400	
	Share Forfeiture A/c		1,600	
	To Equity Shares Capital A/c			8,000
	(Being reissue of 80 forfeited shares @ ₹ 80 per share)			
12.	Share Forfeiture A/c..Dr.		2,400	
	To Capital Reserve A/c			2,400
	(Being balance on Share Forfeiture A/c transfer to Capital Reserve A/c)			

17 Show Journal Entries in the following cases -

(a) Prashant Trading Company Ltd. Forfeited 100 equity shares of ₹ 100 each due to nonpayment of Final Call of ₹ 30 and the same were re-issued at ₹ 50 per share fully paid.

(b) Swanand Trading Company Ltd. forfeited 1000 equity shares of ₹ 10 each on which application money ₹ 2 and allotment money of ₹ 4 per share was paid. The first call money of ₹ 2 per share remained unpaid. The company re-issued all the forfeited shares @ ₹ 5 per share, ₹ 8 paid-up.

Journal Entries

(a)

Date	Particulars	L.F.	Debit ₹	Credit ₹
1.	Equity Share Capital A/c ....Dr.		10,000	
	To Equity Share Final A/c			3,000
	To Share Forfeiture A/c			7,000
	(Being forfeiture of 100 equity shares due to non-payment of final call of ₹ 30 per share)			
2.	Bank A/c ....Dr.		5,000	
	Share Forfeiture A/c...Dr.		5,000	
	To Equity Share Capital A/c			10,000
	(Being re-issue of 100 forfeited shares @ ₹ 50 per share fully paid)			
3.	Share Forfeiture A/c...Dr.		2,000	
	To Capital Reserve A/c			2,000
	(Being balance on share forfeiture A/c transferred to Capital Reserve)			

(b)

Date	Particulars	L.F.	Debit ₹	Credit ₹
1.	Equity Share Capital A/c ....Dr. To Share Forfeiture A/c To Equity Share First Call A/c (Being forfeiture of 1000 equity shares due to non-payment of first call of ₹ 20 per share)		8,000	 6,000 2,000
2.	Bank A/c ....Dr. Share Forfeiture A/c..Dr. To Equity Share Capital A/c (Being re-issue of 1000 forfeited shares @ ₹ 5 per share, @ ₹ 8 per share called-up)		5,000 3,000	 8,000
3.	Share Forfeiture A/c..Dr. To Capital Reserve A/c (Being balance on share forfeiture A/c transferred to Capital Reserve)		3,000	 3,000

18 Dhananjay Electronic Caompany Ltd. Forfeited 500 equity shares of ₹ 10 each on which ₹ 6 per share were received. Show journal entries regarding re-issue of all these shares if -

(a) Shares are re-issued at ₹ 8 per share fully paid-up

(b) Share are re-issued at ₹ 7, ₹ 8 called up

(c) Shares are re-issued at ₹ 5.50, ₹ 7 celled up

Journal Entries in the books of Dhananjay Electronics Co.

Date	Particulars	L.F.	Debit ₹	Credit ₹
1.	Equity Share Capital A/c ....Dr. To Calls in Arrears A/c To Share Forfeiture A/c (Being forfeiture of 500 equity shares due to non-payment of first call of ₹ 5 per share)		5,000	 2,000 3,000

(a)

Date	Particulars	L.F.	Debit ₹	Credit ₹
1.	Bank A/c ....Dr. Share Forfeiture A/c..Dr. To Equity Share Capital A/c (Being re-issue of 500 forfeited shares @ ₹ 8 per share fully paid)		4,000 1,000	 5,000
2.	Share Forfeiture A/c..Dr. To Capital Reserve A/c (Being balance on share forfeiture A/c transferred to Capital Reserve)		2,000	 2,000

(b)

Date	Particulars	L.F.	Debit ₹	Credit ₹
1.	Bank A/c ....Dr. Share Forfeiture A/c..Dr. To Equity Share Capital A/c (Being re-issue of 500 equity shares @ ₹ 7 per share, @ ₹ 8 per share called-up)		3,500 500	 4,000
2.	Share Forfeiture A/c.......... Dr. To Capital Reserve A/c (Being balance on share forfeiture A/c transferred to Capital Reserve)		2,500	 2,500

(c)

Date	Particulars	L.F.	Debit ₹	Credit ₹
1.	Bank A/c ....Dr. Share Forfeiture A/c..Dr. To Equity Share Capital A/c (Being re-issue of 500 equity shares @ ₹ 5.50 per share, @ ₹ 8 per share called-up)		2,750 750	 3,500
2.	Share Forfeiture A/c..Dr. To Capital Reserve A/c (Being balance on share forfeiture A/c transferred to Capital Reserve)		2,250	 2,250

EXERCISE - 8

Q.1 Objective Questions :

(A) Select he appropriate answer from the alternative given below and rewrite the sentence.

1. The balance of Share Forfeiture A/c is transferred to .... account after re-issue of these share.
   a) Reserve Capital b) Capital Reserve
   c) Profit & Loss d) Share capital
2. Premium received on issue of shares is shown to
   a) Liability side of Balance Sheet b) Asset side of Balance Sheet
   c) Profit & Loss Account debit side d) Profit & Loss A/c credit side.
3. Shareholders get .... on shares.
   a) Interest b) Commission
   c) Rent d) Dividend
4. The document inviting to subscribe the shares of a company is ....
   a) Prospectus b) Memorandum of Association
   c) Articles of Association d) Share certificate

5. As per SEBI guidelines minimum amount payable on share application should be .... of Nominal Value of shares.

   a) 10% b) 15%

   c) 2% d) 5%

6. When shares are forfeited the Share Capital Account is ....

   a) credited b) debited

   c) Neither debited nor credited d) Non of the above

7. The liability of shareholder in Joint Stock Company is ....

   a) Joint and Several b) Limited

   c) Unlimited d) huge

8. The Share Capital which a company is authorised to issue by its Memorandum of Association is ....

   a) Nominal capital/Authorised capital b) Issued capital

   c) Paid up capital d) Reserve capital

9. The unpaid amount on allotment and calls may be transferred to .... account.

   a) calls in advance b) calls

   c) calls in arrears d) allotment

10. There must be provision in .... for forfeiture of shares,

   a) Articles of Association b) Memorandum of Association

   c) Prospectus d) Balance Sheet

(B) Give one word/term/phrase for each of the following statements.

1. Amount called-up on shares by the company but not received.
2. Issue of share at its face value
3. The person who purchase the shares of a company.
4. The form of business organisation where huge amount of capital can be raised.
5. The capital which is subscribed by the public.
6. The shares having preferential right at the time of winding up of the company.
7. The shares on which dividend is not fixed.
8. The part of subscribed capital which is not called-up by the company.

(C) State true or false with reasons

1. Directors can forfeit the shares for any reason.
2. Once the application money is received, directors can immediately proceed for allotment of shares.
3. Joint stock company form of business organisation came into existence after industrial revolution.
4. Equity shareholders get guaranteed rate of dividend every year.
5. Face value of shares and market value of shares is always same.
6. Sweat shares are issued to public.

(D) State whether you agree or disagree with following statements

1. In case of Pro-rata allotment the excess application money received must be refunded.
2. Calls in Advance account is shown on the Asset side of the Balance sheet.
3. The Authorised capital is also known as Nominal Capital.
4. Paid-up capital can be more than Called up Capital.
5. Joint Stock company can raise huge amount of capital.
6. When shares are forfeited Shares Capital Account is credited.
7. Directors can re-issue forfeited shares.
8. When the issued price of share is ₹ 12 and face value is ₹ 10, the share is said to be issued at premium.
9. Public limited company can issue its share without issuing its prospectus.
10. Shares can be issued for consideration other than cash.

(E) Answer in one sentence only.

1. What is Preference shares?
2. What is Registered Capital?
3. What is Reserve Capital?
4. What is Over subscription of shares?
5. Which account is debited when share first call money is received?
6. When are shares allotted on pro-rata basis?
7. What is forfeiture of shares?
8. What is Calls in Arrears?
9. What do you mean by shares issued at Premium?
10. What is Paid-up Capital?

(F) Complete the following sentences

1. When face value of the share is ₹ 100 and issued price is ₹120, then it is said that the shares are issued at ....
2. .... Capital is the Capital which a company is authorised to issue by its Memorandum of Association.
3. The difference between Called-up Capital and Paid-up Capital is known as ______.
4. .... share holders get fixed rate of dividend.
5. .... share holders are the real owners of the company.
6. .... form of business organisation in which Capital is raised through the issue of shares.
7. .... Capital is the part of issued capital which is subscribed by the public.
8. The part of Authorised Capital which is not issued to the public is known as .... Capital.

(G) Calculate the following.

1. One shareholder holding 500 equity shares paid share application money @ ₹ 3 Allotment money @ ₹ 4 per share and failed to pay final call of ₹ 3 per share, his shares were forfeited. Calculate the amount of share forfeiture.

2. 10000 equity shares of ₹ 10 each issued at 10% premium. Calculate the total amount of share premium.
3. Company received excess application for 5000 shares @ ₹ 4 per share. Applications of 1000 shares were rejected and pro-rata allotment was made. Calculated the amount of application money adjusted with allotment.
4. 80000 Equity shares of ₹ 10 each issued and fully subscribed and called up at 20% premium. Calculate the amount of Equity share Capital.
5. Directors issued 20000 equity shares of ₹ 100 each at par. These were fully subscribed and called up. All money were received except one shareholder holding 100 equity shares failed to pay final call of ₹ 20 per share. Calculate the amount of paid up capital of the company.
6. Company send Regret letter for 100 shares and Allotment letter to 25000 shareholders. Application money was ₹ 20 per share. Calculate the amount of application money which company is refunding.

Practical Problems

1. Vijay Ltd. was registered with an authorised capital of ₹ 15,00,000 divided into 1,50,000 equity shares of ₹ 10 each.

Company issued 1,00,000 equity shares of ₹ 10 each at a premium of ₹ 2 per share. Company received applications for 80,000 equity shares and were allotted the shares.

Company received application money ₹ 3 per share, allotment money ₹ 4 per share

(Including premium) and first call money ₹ 3 per share.

The Directors have not made final call of ₹ 2 per share. All money were received except one shareholder holding 500 shares did not pay first call.

Show Authorised Capital, Issued Capital, Subscribed Capital, Called-up Capital, Paid-up Capital, Calls in Arrears and Share Premium amount in company balance sheet.

(Ans : Calls in Arrears ₹ 1,500 Share premium ₹ 1,60,000, Paid-up capital ₹ 6,38,500. Balance Sheet total ₹ 7,98,500)

2. Anand Company Limited issued 1,00,000 Preference shares of ? 10 each payable as - On

On Application ₹ 4

On Allotment ₹ 3

On First call ₹ 2

On Second & Final call ₹ 1

Company received application for all these share and received all money.

Pass Journal Entries in the books of Anand Company Ltd.

3. Rohini Company Limited issued 25000 equity shares of ₹ 100 each payable as follows -

On Application ₹ 20

On Allotment ₹ 30

On First call ₹ 20

On Second & Final call ₹ 30

Applications were received for 22,000 equity shares and allotment of shares were made to them. All money was received by the company.

Pass Journal Entries in the books of Rohini Co. Ltd.

(Ans : Application ₹ 4,40,000, Allotment ₹ 6,60,000, First call ₹ 4,40,000, Final call ₹ 6,60,000)

4. Deepak Manufacturing co. Ltd. issued a prospectus inviting applications for 1,00,000 equity shares of ₹ 10 each payable as follows

₹ 2 on Application

₹ 4 on Allotment

₹ 2 on first call

₹ 2 on final call

Application were received for 1,20,000 equity shares. The Directors decided to reject excess applications and refunded application money on that. Company received all money.

Pass Journal Entries in the books of a company.

(Ans : Application Money refunded ₹ 40,000)

5. Sucheta Company Limited issued ₹ 20,00,000 new capital divided into ₹ 100 equity shares at a Premium of ₹ 20 per share payable as ₹ 10 on Application ₹ 40 on Allotment and ₹ 10 premium ₹ 50 on Final call and ₹ 10 premium.

The issue was oversubscribed to the extent of 26000 equity shares. The applicants on 2000 shares were sent letter of regret and their application money was refunded.

Remaining applicants were alloted share on pro-rata basis. All the money due on Allotment and Final call was duly received.

Make necessary Journal entries in the books of Sucheta Company Ltd.

(Ans : Application money refunded ₹ 20,000, Adjusted ₹ 40,000)

6. Suhas Limited issued 10000 equity shares of ₹ 10 each at a premium of ₹ 2 per share payable ₹ 3 on application, ₹ 5 (including premium) on allotment and the balance in two calls of equal amount.

Applications were received for ll,000 equity shares and pro-rata allotment was made for all the applicants. The excess application money was adjusted towards allotment.

Mrs. Shobha who were allotted 200 equity shares failed to pay F/F/C and her shares were forfeited after the final call.

Show Journal entries in the books of Suhas Ltd. and also show its presentation in Balance sheet.

(Ans : Amount of forfeiture ₹ 800, Balance sheet total ₹ 1,19,200)

7. Subhash Company Limited issues 2000 Equity shares of ₹ 100 each payable as ₹ 30 on application, ₹ 30 on allotment, ₹ 40 on first and final call.

All the shares were subscribed and duly allotted. Company made all the calls. All cash was duly received except the first & final call on 100 equity shares. These shares were forfeited by company and were re-issued as fully paid for ₹ 75 per share.

Show the Journal entries in the books of Subhash Company Ltd.

(Ans : Amount of forfeiture ₹ 6,000 Capital Reserve ₹ 3,500)

8. **Pass Journal entries for the forfeiture and re-issue of shares in the following cases.**

A) Asha Ltd. forfeited 100 equity shares of ₹ 20 each fully called up for non-payment of first call of ₹ 3 per share and final call of ₹ 5 per share. 80 shares of these were reissued at ₹ 15 per share fully paid.

B) Bhakti Ltd. forfeited 100 equity shares of ₹ 10 each, ₹ 6 called-up on which the shareholder paid application and allotment of ₹ 5 per share. Of these 80 shares were re-issued as fully paid-up for 16 per share.

C) Konark Ltd. forfeited 50 shares of ₹ 10 each, ₹ 8 called-up. The shareholder failed to pay first call of ₹ 3 per share. Later on 30 shares of these were re-issued at ₹ 7 per share.

Ans : A) Amount of forfeiture ₹ 1200, Capital Reserve ₹ 560

B) Amount of forfeiture ₹ 500, Capital Reserve ₹ 400

C) Amount of forfeiture ₹ 250, Capital Reserve ₹ 120

Activity

1. Obtain Prospectus issued by any Company for issue of shares and write a report on the procedure as mentioned in the Prospectus.
2. Visit any Stock Broker and find out the procedure of purchase and sale of shares through Demat Account.

9 Analysis of Financial Statements

Content

Competency Statements

- ❑ *The students will be able to:*
- *Understand the meaning, objectives and limitation of financial statement analysis.*
- *Learn various tools for Financial statements analysis.*
- *Understand objectives and classification of Accounting Ratios and Ratio analysis.*

Introduction to Ratios :

(A)	Balance Sheet Ratio	:	(1)	Current Ratio
			(2)	Liquid Ratio
(B)	Income Statement Ratio	:	(1)	Gross Profit Ratio
			(2)	Operating Profit Ratio
			(3)	Net Profit Ratio
			(4)	Operating Ratio
(C)	Combined/Mixed Ratio	:	(1)	Return On Capital Employed (ROCE)
			(2)	Return on Investment (ROI)

9.1 Meaning

The Financial Statements are those which are prepared periodically. Generally at the end of financial year all the information recorded in the Books of Accounts of business is summarized in Financial Statements.

"The Statements which are prepared by the business to find out profitability, efficiency, solvency, growth of business to judge the financial strength and status are called as Financial Statements." These statements give complete picture of financial positions and managerial performance. Financial Statements are prepared for the purpose of presenting Annual Report.

The Financial Statements are prepared by the profit concern as well as Non Profit concern organisations.

There are two important Financial Statements.

(1) Balance Sheet / A Position Statement

(2) Profit and Loss A/c / An Income Statement

Financial Statement analysis includes two aspects

(a) Analysis of Data : It provides methodical classification of financial statement

(b) Interpretation of Data : It means explanation of meaning and significance of data.

Objectives of Financial Statement Analysis

The Financial Statements are the source of information to various users e.g. Share holders, Investors, Suppliers, Govt, etc. The main objectives of Financial Statement are as follows :

(1) To help in planning

(2) To assist in estimating the earnings of business.

(3) To assist in investment making decision

(4) To help management in assessing the efficiency of the organisation.

(5) To provide financial information about economic resources.

(6) To provide information about changes in net resources arising out of business activities.

(7) To disclose other information that is relevant to the need of the users of the Financial Statement.

Thus the objectives of Financial Statement is to provide information about the financial position, performance and changes in financial position of an enterprises that is useful to wide range of users in making economic decisions.

Limitations of Financial Statement Analysis :

Financial Statement is a powerful mechanism which helps in ascertaining the strength and weakness in the operations and financial position of an enterprise. Analysis of financial statements depends upon the data and information supplied by the Financial Statement about the economic result and financial position of the business.

The main limitations of the analysis of Financial Statement are :

(1) Qualitative informations are ignored : Only the information which can be represented in monetary terms are shown in financial statement. Other important feature relating to quality which cannot be expressed in monetary terms are ignored. Such as goodwill, harmony, efficiency of management, competitions etc.

(2) Historical cost : Financial statements are prepared on historical cost and book values of Assets. They do not present the effect of change in prices.

(3) Based on accounting concepts and conventions: Financial Statements are prepared on the basis of certain accounting concepts and conventions. This means that these statements are far away from reality and there analysis cannot be of much use.

(4) Influenced by personal judgment: Financial Statements and conclusions are affected by personal decisions. There are so many items which are decided by accountant themselves. For example : Depreciations method, valuation of stock, writing off of deferred expenses etc.

(5) Being Uncomparable : Differences in date of preparation, nature of business, method of Accounting etc. make the financial statement uncomparable.

(6) **Static statement :** Financial Statements are static in nature. They represent absolute figures. They do not present the process by which the figures are arrived.

(7) **Affected by window dressing :** Sometimes management displays rosy picture through financial statement. In order to show excellent profit sales may be increased, closing stock may be overvalued, purchases at the end of the year may not be shown. This may be known as window dressing It is clear from the above limitations that the result obtained from analysis of Financial Statements should not be taken as true indicator of financial strength and weakness of the business.

These limitations must be kept in mind while taking decisions on the basis of analysis of Financial Statements.

Analysis of Financial Statements.

1. **Balance Sheet:** The balance sheet need to be arranged in vertical format which is suitable for further analysis. Its format is given below :

.... Company Ltd.

Balance Sheet as on ....

Particulars	Amount ₹	Amount ₹
I) Sources of Funds		
A) Owners Fund/Shareholders Fund.		
a) Share Capital		
Equity share capital	xxx	
Preference share capital.	xxx	
b) Add : Reserves and surplus		
Profit & Loss A/c	xxx	
General reserve	xxx	
Securities Premium.	xxx	
c) Less : Fictitious Assets	xxx	
Net Worth/Owners Fund.	(xxx)	xxx
B) Borrowed Funds		
Bank Loan	xxx	
Debentures	(xxx)	
Total Fund Available		xxx
II) Application of Funds		
1) Fixed Assets	xxx	
Land and Building	xxx	
Plant and Machinery	xxx	
Furniture	xxx	
Vehicle.	xxx	xxx
2) Investment		
3) Working Capital		xxx
Current Assets		
Quick Assets		
Cash	xxx	
Bank	xxx	

Debtors	xxx	
Bill Receivable	xxx	
Total Quick Assets		xxx
Non-Quick Assets		
Stock	xxx	
Prepaid expenses	xxx	
Advances	xxx	xxx
Total Non-quick Assets		
Total Current Assets (Quick + Non Quick Asset)		xxx
Less Current Liabilities		
Quick Liabilities		
Creditors	xxx	
Outside Expenses	xxx	
Bill Payable	xxx	xxx
Total Current Liability		
Non-Quick Liability		
Bank overdraft	xxx	xxx
Total Current Liabilities		
Working Capital (Current Assets Less Current Liabilities)		xxx
Total Funds Employed /Applied		xxx

Illustrations

1 : Convert following Balance Sheet into Vertical Balance Sheet

Balance Sheet as on 31/3/2019

Liabilities	Amount ₹	Assets	Amount ₹
Capital	50,000	Fixed Assets	60,000
Reserves	15,000	Investment	10,000
12% Loan	30,000	Current Assets	55,000
Current Liabilities	30,000		
	1,25,000		**1,25,000**

Solution No. 1 **Vertical Balance Sheet as on 31/3/2019**

Particulars	Amount ₹	Amount ₹
1) Sources of Funds		
a) Owners Fund Capital	50,000	
(+) Reserves	15,000	
(-) Fictitious Assets	Nil	
Net Worth		65000
b) Borrowed Funds		
12% Loan		30,000
Total Fund available		95,000

2) Application Funds		
Fixed Assets		60,000
Investment		10,000
Working Capital		
Current Assets	55,000	
Less : Current Liabilities	(-) 30,000	25,000
Total Fund Applied		**95,000**

2 : Convert following Balance Sheet into Vertical Balance Sheet

Balance Sheet as on 31st March, 2020

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital	80,000	Fixed Assets	75,000
Reserves and Surplus	20,000	Investment	20,000
12%Loan	24,000	Current Assets	44,000
Current Liabilities	15,000		
	1,39,000		**1,39,000**

Solution No. 2

Vertical Balance Sheet as on 31st March, 2020

Particulars	Amount (₹)	Amount (₹)
I) Sources of Funds (Owners Fund)		
1) Capital	80,000	
+ Reserves	20,000	
Net Worth		1,00,000
2) Borrowed Funds		
12% Loan		+24,000
Total Fund Available		1,24,000
II) Application of Funds		
3) Fixed Assets		75,000
4) Investment		20,000
5) Working Capital		
Current Assets	44,000	
Less : Current Liabilities	(−)15,000	29,000
Total Fund Applied		**1,24,000**

2) **Income Statement:** The Profit & Loss account need to be arranged in vertical format which is suitable for further analysis. It is also called as vertical Income Statement. Its format is given below :

______________ Company Ltd.

Vertical Income Statement for the year ended ________

Particulars	Amount (₹)	Amount (₹)
Income		
Sales	xxx	
(-) Sales Return	xxx	
Net Sales		xxx
Less Cost of Goods Sold		
Opening Stock	xxx	
Add : Purchases	xxx	
Add : Wages	xxx	
Add : Carriage Inward	xxx	
Add : Direct Exp.	xxx	xxx
Less Closing Stock	xxx	
Net Cost of Goods Sold		xxx
Gross Profit Net Sales - Net Cost of Goods Sold)	xxx	
Less : Operating Exp.		
a. Administrative Exp.	xxx	
b. Finance Exp.	xxx	
c. Selling Exp.	xxx	
Total Operating Expenses		xxxx
Operating Profit (Gross Profit - Operating Expenses)		xxxx
Add : Non-operating Income		xxx
Less : Non-operating Exp.		(xxxx)
Net Profit Before Tax		xxx
Less : Tax (Charged on Net profit Before Tax)		xxx
Net Profit After Tax		xxx

3 : Convert following Trading and Profit and Loss Account into vertical income statement

Trading and Profit and Loss A/c for year ended 31/3/2019

Particulars	Amount (₹)	Particulars	Amount (₹)
To Op. Stock	3,50,000	By Sales	11,00,000
To Purchases	7,00,000	By Closing Stock	2,00,000
To Wages	50,000		
To Gross Profit c/d.	2,00,000		
	13,00,000		13,00,000
To Office Exp.	1,00,000	By Gross Profit b/d.	2,00,000
To Selling Exp.	50,000		
To Finance Exp.	20,000		
To Net Profit c/d	30,000		
	2,00,000		2,00,000

Solution 3 :

Vertical Income statement as on 31/3/2019

Sr. No.	Particular	Amount (₹)	Amount (₹)
1.	Sales		11,00,000
2.	(-) Cost of Goods Sold		
	Opening Stock	3,50,000	
	(+) Purchases	7,00,000	
	(+) Wages	50,000	
		11,00,000	
	(-) Closing Stock	2,00,000	9,00,000
3.	Gross Profit		2,00,000
4.	(-) Operating Exp.		
	Admin Exp.	1,00,000	
	Selling	50,000	
	Finance Exp.	20,000	
5.	Total Operating Exp.		1,70,000
6.	Net Profit		30,000

4 : Convert following Trading and Profit and Loss Account into Vertical Income statement

Trading and Profit & Loss Account for the year ended 31st March 2020.

Particular	Amount (₹)	Particular	Amount (₹)
To Opening Stock	2,00,000	By Sales	12,00,000
To Purchases	9,00,000	By Closing Stock	3,00,000
To Wages	1,00,000		
To Gross Profit c/d	3,00,000		
Total	15,00,000	Total	15,00,000
To Office Expenses	1,25,000	By Gross Profit b/d	3,00,000
To Selling Expenses	1,00,000		
To Finance Expenses	30,000		
To Net Profit c/d	45,000		
Total	3,00,000	Total	3,00,000

Solution 4 :

Income statement in vertical Form :

Sr. No.	Particular	Amount (₹)	Amount (₹)
1.	Sales		12,00,000
2.	Less : Cost of Goods Sold		
	Opening Stock	2,00,000	
	Purchases	9,00,000	
	Wages	1,00,000	
		12,00,000	
	Less : Closing Stock	3,00,000	9,00,000
3.	Gross Profit		3,00,000
4.	Operating Expenses		
	Office Expenses	1,25,000	
	Selling Expenses	1,00,000	
	Finance Expenses	30,000	
5.	Total Operating Expenses		2,55,000
6.	Net Profit		45,000

9.2 Tools for Financial Statement Analysis :

Financial Statement gives absolute figures of Assets, Liabilities, Revenue, Expenses and Profits or Loss of business. They do not give the earning capacity, liquidity and financial soundness of business.

The main tools or techniques of financial analysis are as follows :

(A) Comparative Financial Statement

(B) Common Size Statement

(C) Cash Flow Analysis

9.2.1 Comparative Financial Statement :

Comparative statement compares financial data at two points of time and helps in deriving the meaning and conclusions regarding the changes in financial positions and operating results.

Meaning : Statement showing financial data for two or more than two years placed side by side to facilitate comparisons are called Comparative Financial Statement.

Methods for comparisons of Financial Statement :

(1) Comparative Balance Sheet

(2) Comparative Income Statement.

(1) Comparative Balance Sheet : Comparative Balance Sheet as on two or more different dates can be used for comparing assets and liabilities and finding out any increase or decrease in those items.

According to Faulke : Comparative Balance Sheet is the study of the trend of the same items and compared items in two or more Balance Sheet of same business enterprise of

different dates." Such comparison throws light on changes and progress made in respect of each item of Assets and Liabilities.

The main purpose of Comparative Balance Sheet is to measure the short term and long term solvency position of business.

Methods of preparing comparative Balance Sheet :

Comparative Balance Sheet is prepared by comparing the individual items of assets and liabilities and finding out absolute and percentage increase or decrease in them.

Following steps have to be taken to prepare the comparative Balance Sheet :

Step 1 : Enter the details of Assets and Liabilities in the first column.

Step 2 : Enter the amount of Previous years Balance Sheet in second column.

Step 3 : Record the amount of Current years Balance Sheet in third column.

Step 4 : Record the absolute changes (i.e. difference between column of current year and previous year) in fourth column.

Formula for Absolute Change = Current Year – Previous Year

Step 5 : Record the percentage changes (i.e. expressing absolute change in percentage of figures of previous year) in fifth column.

Formula for % of change $= \dfrac{\textbf{Absolute Change}}{\textbf{Previous Year}} \times \mathbf{100}$

The Comparative Balance sheet need to be prepared in the format of Vertical Balance Sheet given above.

5. : Following is the Balance Sheet of Varun Company Ltd. as on 31.3.2019 and 31.3.2020 is given below :

Liabilities	31-3-2019 (₹)	31-3-2020 (₹)	Assets	31-3-2019 (₹)	31-3-2020 (₹)
Share Capital	2,50,000	3,70,000	Fixed Assets	3,50,000	5,70,000
Reserve and Surplus	60,000	1,00,000	Investment	1,20,000	1,70,000
Secured Loans	1,00,000	1,60,000	Current Assets	1,30,000	1,20,000
Unsecured Loans	90,000	1,40,000			
Current Liabilities	1,00,000	90,000			
	6,00,000	**8,60,000**		**6,00,000**	**8,60,000**

You are required to prepare Comparative Balance Sheet of Varun Company Ltd. as on 31.3.2019 and 31.3.2020.

Solution : Comparative Balance Sheet of Varun Company Ltd. as on 31.3.2019 and 31.3.2020

Particulars	1 31.3.19 (₹)	2 31.3.20 (₹)	3 Absolute Change (₹)	4 Percentage Change
I. Sources of Funds				
a. Share capital	2,50,000	3,70,000	1,20,000	48% Increase
b. Reserves & Surplus	60,000	1,00,000	40,000	66.67% Increase
(A) Net Worth	3,10,000	4,70,000	1,60,000	51.61% Increase
B. Borrowed Funds				
a. Secured Loan	1,00,000	1,60,000	60,000	60% Increase
b. Unsecured Loan	90,000	1,40,000	50,000	55.55% Increase
Total Borrowed Fund	1,90,000	3,00,000	1,10,000	57.89% Increase
Total Fund Available (A + B)	5,00,000	7,70,000	2,70,000	54% Increase
II. Application of Funds				
A. Fixed Assets	3,50,000	5,70,000	2,20,000	62.86% Increase
B. Investment	1,20,000	1,70,000	50,000	41.67% Increase
C. Working Capital				
1. Current Assets	1,30,000	1,20,000	(10,000)	(7.69%) decrease
Less : 2 Current Liabilities	1,00,000	90,000	(10,000)	(10%) decrease
Working Capital (Current Asset Less Current Liabilities)	30,000	30,000	Nil	Nil
Total Fund Applied (A + B + C)	5,00,000	7,70,000	2,70,000	54% Increase

Percentage of Change for Share Capital

$$\frac{\textbf{Amount of Absolute Change}}{\textbf{Amount of Previous Year}} \times 100$$

$$\frac{1,20,000}{2,50,000} \times 100 = 48\%$$

Comparative Income Statement : The income statement shows the Net Profit or Net Loss. A comparative income statement will show the absolute figures of two or more periods i.e. absolute change from one period to another. Since the figures for two or more periods are shown side by side, the reader can quickly ascertain whether sales have increased or decreased, whether cost of sales, has increased or decreased etc.

Methods of preparing comparative Income statement :

Comparative Income statement shows increase or decrease in various Trading and Profit and Loss Account.

Preparation of comparative Income statement includes the following steps :

Step 1 : Enter the Amount of Income and Expenditure in First Column.

Step 2 : Enter the figures of previous years income statement in Second Column.

Step 3 : Enter the figures of current year income statement in Third Column.

Step 4 : Enter the absolute changes (i.e. difference between figures of current year and previous year) in fourth column.

Formula for Absolute Change = Current Year – Previous Year

Step 5 : Enter the percentage changes (i.e. expressing absolute changes as percentage of figure of previous year) in Fifth Column.

$$\textbf{Formula for \% of change} = \frac{\textbf{Amount of Absolute Change}}{\textbf{Amount of Previous Year}} \times 100$$

The Comparative Income Statement should be prepared in the format of Vertical Income Statement as given above.

6 : Income Statement of ABC Limited for the year ended 31.3.2019 and 31.3.2020 is given below. Prepare Comparative Income Statement

Particulars	31.3.2018 (₹)	31.3.2019 (₹)
Sales	4,00,000	6,00,000
Less : cost of sales	2,20,000	3,60,000
Gross Profit	1,80,000	2,40,000
Less : Indirect Expenses	80,000	1,00,000
Net Profit before Tax	1,00,000	1,40,000
Less : Income Tax 50%	50,000	70,000
Net profit after Tax	50,000	70,000

Solution :

Comparative Income Statement of ABC Limited for the year ended 31.3.2018 and 31.3.2019

Particulars	31.3.2018 (₹)	31.9.2019 (₹)	Absolute Change (₹)	% change
Sales	4,00,000	6,00,000	2,00,000	50% Increase
Less : Cost of Sales	2,20,000	3,60,000	1,40,000	63.64% Increase
Gross Profit	1,80,000	2,40,000	60,000	33.33% Increase
Less : Indirect Expenses	80,000	1,00,000	3,20,000	25% Increase
Net Profit before Tax	1,00,000	1,40,000	40,000	40% Increase
Less : Tax 50%	50,000	70,000	20,000	40% Increase
Net Profit after Tax	50,000	70,000	20,000	40% Incre. ase

Percentage of Change for Sales

$$= \frac{\textbf{Amount of Absolute Change}}{\textbf{Amount of Previous Year}} \times 100$$

$$= \frac{2,00,000}{4,00,000} \times 100 = 50\%$$

9.2.2 Common Size Statement

Meaning - Common Size Statements are those in which individual figures are converted into percentage to some common base. Percentage of each individual item shows its relation to its respective total i.e., Total Assets or Total Liabilities or Total Net Sales. In the income statement the sales figure is assumed to be 100 and all figures are expressed as a percentage of this total. In case of Balance Sheet Total Fund Available are considered as 100 and all figures are expresses as a percentage of this total. For example: If the Total Fund available in of Balance Sheet is ₹ 16,00,000 and Building is ₹ 4,00,000

$$\textbf{Formula} = \frac{\textbf{Amount of Building}}{\textbf{Total Fund Available}} \times 100$$

$$= \frac{4,00,000}{16,00,000} \times 100 = 25\%$$

Steps to Prepare Common Size. Balance Sheet.

(1) Enter the number of items in Balance Sheet.

(2) Enter the absolute amount of different types of Assets and Liabilities of previous years Balance Sheet.

(3) Enter the absolute amount of different items of Assets and Liabilities of current year Balance Sheet.

(4) Enter the percentage relations of different items Balance Sheet to total Assets/Liabilities of previous year which are taken as 100.

(5) Enter the percentage relation of different items of current year Balance Sheet to total Assets/Liabilities of Current year which are taken as 100.

7 : Balance Sheet of XYZ Ltd for the year ending 31.3.20 is given below.

Balance-sheet as on 31.3.2020

Liabilities	Amount (₹)	Assets	Amount (₹)
Equity Share Capital	9,00,000	Fixed Assets	9,00,000
Preference Share Capital	80,000	Investment	1,50,000
Reserve & surplus	1,50,000	Current Assets	7,30,000
Secured Loans	3,00,000		
Unsecured Loans	2,00,000		
Current Liabilities	1,50,000		
	17,80,000		**17,80,000**

You are required to preapare Common Size Statement for the year ending 31.3.2020

Solution: Common Size Statement for the year ending 31.3.2020

Common size Balance sheet as on 31.3.2020

Particular		Amount (₹)	%
1) Sources of Fund			
1) Owners Equity		9,00,000	55.22
Eq. St. Capital		80,000	4.91
Pref. Sr. Capital		1,50,000	3.20
Reserve and surplus		11,30,000	69.33
(2) Borrowed Fund			
Secured loans		3,00,000	18.40
Unsecured loans		2,00,000	12.27
		5,00,000	30.67
Total Borrowed fund		16,30,000	100%
3) Application of fund			
1) Fixed Assets		9,00,000	55.21
2) Investment		1,50,000	9.20
3) Working Capital			
A) Current Assets	7,30,000 (44.78%)		
Less B) Current Liabilities	1,50,000 (9.20%)		
Net working capital		5,80,000	35.59
Total Fund Applied		16,30,000	100%

$$\text{Common Size \%} = \frac{\text{Amount of Item}}{\text{Total Fund Employed}} \times 100$$

8. : Prepare Common Size Income Statement for the year ended 31.3.2019 and 31.3.2020 from the following information.

Particulars	31.1.2019 (₹)	31.3.2020 (₹)
Net Sales	5,00,000	6,00,000
Less cost of goods sold	3,00,000	3,60,000
Gross Profit	2,00,000	2,40,000
Less: Office and Administrative expences	55,000	72,000
Selling and Distribution Expense	52,500	66,000
Net Profit	92,500	1,02,000

Solution No. 8

Common size Income Statement for the year ended 31.3.2019 and 31.3.2020

Particulars	Amount(₹)	Percentage %	Amount (₹)	Percentage %
Net Sales	5,00,000	100%	6,00,000	100%
Less → Cost of Sales	3,00,000	60%	3,60,000	60.0%
Gross Profit	2,00,000	40%	2,40,000	40,0%
Less → Office and Administrative Expense	55,000	11%	72,000	12%
Selling and Distribution Expense	52,500	10.5%	66,000	11%
Net Profit	92,500	18.5%	1,02,000	17%

Net Sales is to be taken as base. At the year ending 31.3.2019. Net Sales ₹ 5,0,000 is taken as base i.e. 100% sales. At the year ending 31.3.2020. Net Sales ₹ 6,00,000 is taken as base 100%

For 31.3.2019 % of Cost Goods Sold $= \dfrac{\text{Cost of Goods Sold}}{\text{Net Sales}} \times 100$

$$= \frac{3,00,000}{5,00,000} \times 100 = 60\%$$

For 31.3.2020 % of Cost of Goods Sold $= \dfrac{\text{Cost of Goods Sold}}{\text{Net Sales}} \times 100$

$$= \frac{3,60,000}{6,00,000} \times 100 = 60\%$$

Advantages / Benefits of Common Size Statement

(1) Common size business statement denotes the trend in different items of Balance Sheet and income so, it is very useful for comparing the profitability and Financial position fo two or more business firms.

(2) It is useful for inter firm comparison. This is because the financial statements of different firms can be converted into uniform common size of individual items.

(3) The Relationship can be established between various items of the Profit and Loss Account i.e. Income statements to sales and various items of Balance Sheet to total Assets or Total Liabilities. Meaningful conclusions can be drawn by studying the changes in relationsship.

9.2.3 Cash Flow Statement :

Cash Flow Analysis is another important technique of financial analysis. It shows the sources and applications of cash by preparing Cash Flow Statement. It is inflows (Receipts) and outflows (Payments) of cash from various activities during the particular period. It analyses the reasons for changes in balance of cash between the dates of two Balance Sheet. Cash Flow Analysis is more useful for short-term planning.

Thus cash flow statement can be defined as a "Statement which summarises sources of cash inflows and uses for cash outflows during a particular period."

Importance of Cash Flow Statement :

Primary objective of Cash flow statement is to help management in taking decisions and making a plan by providing current information on cash inflow and out flow of any accounting period.

Importance of Cash flow Statement:

1) **Useful in Short term financial planning and decision making :** Cash flow statement provides importance of uses of cash and equivalents for a specific period, which is useful of management plan, operating, financial and investment requirement of the business enterprise.

2) **Helps is analysis of liquidity positions :** Cash flow statement is prepared on monthly basis or quarterly basis which helps to find out liquidity in a better way. Analysis of liquidity is important for banks and financial Institutions as it shows the ability of the business to pay its Current liabilities.

3) **Help in efficient cash management :** Cash flow statement gives information relating to surplus or deficit of cash which helps the business enterprise to decide on the short term investment of surplus and arrange short term credit of deficit.

4) **Helps is comparative study :** A Comparison of Cash Flow statement with cash budget will indicate the extent to which cash resources of business were generated and used according to cash budget. Causes of different between the Cash flow statement and Cash Budget can be analysed and necessary corrective measures can be taken.

5) **Helps in study of Receipts and Payments :** Cash Flow Statement gives the speed at which Cash is generated from debtors, stock and other current asset and the speed at which current liabilities are paid off. This enables the management to find the true position of Cash in future.

6) **Helpful in dividend declaration :** Before declaring dividend the management goes through the Cash Flow statement ascertain the position of cash generated from operating activities which can be used for payment of dividend.

7) **Tools of Planning :** Cash Flows statement can be used for projecting future investing and financial plans by the management of a business enterprise.

Uses of cash Flow Statement :

Cash Flow Statement is useful tool of historical analysis and help to answer many questions such as

(1) What is the liquidity position of the business?

(2) Why the net profit has gone up even though cash balance is decreased?

(3) Why the cash balance is increased even if there is a net loss?

(4) How the working capital needs were met by the fund generated from current operations?

(5) Did the firm use external sources of finance to meet its needs of funds?

(6) Did the firm sell any of its non - current assets?

Presentation of Cash Flow Statement :

According to AS - 3 Cash Flow Statement should be presented in a manner that it reports inflows and out flows of cash by classifying business transactions of a specific period into three categories e.g. Operating, Investing financing, etc.

Format for Cash Flow for the year ended _____________

		₹	₹
I]	<u>Cash Flow from Operating Activities</u>	xxx	
	<u>Net Profit</u>		
	Adjust Non Cash/Non operating Items		
	+ Depreciation	xxx	
	+ Interest Paid	xxx	
	+ Loss on Sale of Asset	xxx	
	(-) Interest/Dividend Received	xxx	
	(-) Profit on sale of Asset	xxx	
	<u>Adjust working capital changes</u>		
	Add - Increase in current Liabilities	xxx	
	Add - Decrease in current Assets	xxx	
	Less - Increase in current Assets	xxx	
	Less - Decrease in current Liabilities	xxx	
	Cash generated from operations		xxx
II]	<u>Cash Flow from Investing Activities</u>		
	Add :- 1) Interest/Dividend received	xxx	
	2) Sale of Asset/Investment	xxx	
	Less :- 1) Purchase of Fixed Asset/Investment	xxx	
	Net cash from Investing Activities.		xxx
III]	<u>Cash Flow from Financing Activities</u>		
	Add :- 1) Issue of Shares/Debentures	xxx	
	2) Loan borrowed	xxx	
	Less :- 1) Redemption of Share/Debentures	xxx	
	2) Loan Repaid	xxx	
	3) Interest/Dividend paid	xxx	xxx
	Net Cash from Financing Activities		xxx
	Add :- Cash of beginning (op Bal. of cash + Bank)		xxx
	Cash of end (Cl. Bal of cash + Bank)		xxx

Practical Problems on Cash Flow Statement.

Illustration I

From the following information prepare the cash flow statement:

Particulars	Amount (₹)
Opening Cash Balance	30,000
Closing Cash Balance	34,000
Decrease in Stock	16,000
Increase in Bills Payable	24,000
Sale of fixed Assets	60,000
Payments of long term Loan	1,00,000
Net Profit for the year	4,000

Solution :

Cash Flow Statement

Particulars		Amount (₹)	Amount (₹)
A)	Cash flow from Operating Activities : Net Profit before taxation		4,000
	Add : Decrease in Current Assets : Stock	16,000	
	Add : Increase in Current liabilities : Bills payable	24,000	40,000
	Net Cash from Operating Activities : (A)		44,000
B)	Cash Flow from Investing Activities : Sale of fixed Assets	60,000	
	Net Cash from Investing Activities (B)		60,000
C)	Cash Flow from Financing Activities : Repayment of Long term Loan	1,00.000	
	Net Cash used in Financing Activities (C)		1,00,000
	Net Increase in Cash and Cash Equivalents (A + B − C)		4,000
	Cash and Cash Equivalents at the beginning of Period		30,000
	Cash and Cash Equivalents at the end of Period		34,000

Illustration 2:

From the following Balance Sheet of Mr. Anand as on 1st April 2018 & 31st March 2019. prepare the Cash Flow Statement.

Liabilities	1st April 2018 (₹)	31st March 2019 (₹)	Assets	1st April 2018 (₹)	31st March 2019 (₹)
Capital	1,48,000	1,49,000	Stock	25,000	22,000
Sundry Creditors	36,000	41,000	Debtors	35,000	38,400
Long Term Loan	30,000	45,000	Cash	4,000	3,600
			Buildings	50,000	55,000
			Machinery	80,000	86,000
			Land	20,000	30,000
	2,14,000	2,35,000		2,14,000	2,35,000

Solution :

Cash Flow Statement

For the year ended 1st April 2018 and 31st March 2019

Particulars	Amount (₹)	Amount (₹)
(A) Cash Flow from Operating Activities : Profit for the year (1,49,000 - 1,48,000)	1,000	
Add : Decrease in Current Assets : Stock	3,000	
Add : Increase in Current Liabilities : Sundry Creditors	5,000	
	9,000	
Less : Increase the Current Assets : Debtors	(3,400)	
Net Cash From Operating Activities (A)		5,600
(B) Cash Flow from Investing Activities		
Purchase of Land	10,000	
Purchase of Machinery	6,000	
Purchase of Building	5,000	
Net Cash used in Investing Activities (B)		21,000
(C) Cash Flow from Financial Activities		
Borrowing of Long Term Loan	15,000	
Net Cash from Financial Activities (C)		15,000
Net Decrease in Cash and Cash Equivalents (A + C − B)		(400)
Cash Equivalent at the begining of Period		4,000
Cash Equivalent at the end of Period		3,600

9.3 Ratio Analysis - Meaning, Objectives and Classification of Ratios.

Meaning :

Ratio is a mathematical number that measures the relationship between two accounting figures. It is also called as "Financial ratio". It can be expressed as fraction proportion or percentage in between two accounting figures.

The use of different types of accounting ratios to evaluate the financial performance of business is called Ratio Analysis.

Example :

If gross profit of business is 30000 and sales is 1,20,000 calculate Gross Profit Ratio.

Solution : Gross Profit Ratio $= \dfrac{\text{Gross profit}}{\text{Net Sales}} \times 100$

$$= \frac{30,000}{1,20,000} \times 100 = 25\%$$

Thus it express " quantitative" relationship between two items or group of items.

Objectives of ratios : Ratio analysis provide financial information and points out the areas which require more application of arithmetical relationship to simplify the complex data. Following are the objectives of Ratios

(1) Ratios are helpful for comparative analysis of profitability liquidity and solvency of business.

(2) It helps to know the changes occurring in the business.

(3) It helps to understand whether the business unit has taken right kind of operating, investing and financing decisions. It shows how far it is helpful to improve the performance.

(4) Ratios are helpful for various comparison

  (a) Intra-firm comparison : Comparison within the firm itself - over number of years.

  (b) Inter firm comparison : Comparison between two different firms over a number of years and Comparison between two firms when particular standard for firm / industry is set up.

Classification of Ratios : Ratios are classified into various groups based on the purpose for which ratio is computed as follows.

Ratio

- Balance Sheet Ratio
  - Current Ratio
  - Liquid Ratio
- Income Statement Ratio
  - Gross Profit Ratio
  - Operating Expenses Ratio
  - Net Profit Ratio
- Combined / Mixed Ratio
  - Returne on Capital Employed (ROCE)
  - Returne on Investment (ROI)

(A) Balance - Sheet - Ratio :

(1) Current Ratio : This ratio compare the current Assets with Current Liabilities. The ideal current ratio is 2:1 which indicates that Current Assets are twice the Current Liabilities. It measures short term solvency of business enterprises

Current Ratio : $\dfrac{\text{Current Assets}}{\text{Current liabilities}}$

Current Assets includes	Current Liability includes
(1) Sundry Debtors	(1) Sundry Creditors
(2) Loose Tools	(2) Bill Payable
(3) Bill Receivable	(3) Bank Overdraft
(4) Cash and Bank Balance	(4) Income Received in Advance
(5) Investment in Marketable Securities	(5) Short Term Loan
(6) Short term Loans and Advances	(6) Provision for Taxation
(7) Stock and Inventories	(7) Outstanding Expenses
(8) Prepaid Expenses etc.	(8) Unclaimed dividend etc.

(2) Liquid Ratio / Quick Ratio / Acid Test ratio :

The Ratio of quick assets to Current Liability is called quick ratio or acid test ratio or liquid Ratio. The Assets which can be converted into cash immediately or at short notice are called Quick Assets. All current Assets except Stock and Prepaid Expenses are considered as quick Assets.

The ideal Quick Ratio is 1:1. It measures the liquidity position of business enterprises.

Note : Prepaid Expenses, Advance taxes etc. are excluded because they cannot be converted into cash. Stock is excluded because it is uncertain as to when and how much it will realises

$$\text{Liquid ratio} = \frac{\text{Liquid Assets / Quick Assets}}{\text{Current Liabilities}}$$

Liquid Assets / Quick Assets = Current Asset - (stock + Prepaid Expense)

Liquid Assets = Cash Balance + Bank Balance + Debtors + Bills Receivable + Marketable securities

Liquid Liabilities = Current Liabilities - (Bank Overdraft and Advance Received)

(B) Income Statement Ratio / Turnover or Margin ratio :

(1) Gross Profit ratio : This ratio measure relationship between Gross Profit and Net Sales. It is calculated to measure the efficiency of production department. It is usually expressed in the form of percentage.

Gross Profit = Net Sales - Cost of Goods Sold

Cost of Good Sold = Opening Stock + Purchase + Direct Expense - Closing Stock

Gross Profit = Net Sales - Cost of Goods Sold

Cost of Good Sold = Opening Stock + Purchase + Direct Expense - Closing Stock

Net Sales = Sales - Sales Return

$$\text{Gross Profit Ratio} = \frac{\text{Gross profit}}{\text{Net Sales}} \times 100$$

Expenses may be divided into two parts :

(a) Operating Expenses : Expenses which are incurred by the business for routine operation of business are called Operating Expenses. For Example - Office and Administrative Expenses, Selling and Distribution Expenses.

Operating Profit = Gross Profit - Operating Expenses

(b) Non Operating Expenses : Includes loss on sale of fixed assets, loss by fire Goodwill written off, Discount on issue of shares and Debentures, Preliminary Expenses etc. Operating profit ratio shows the operational efficiency of business.

Net Profit Ratio : Net profit ratio shows the relationship between Net Profit and Net Sales. It is expressed in percentage. This ratio measures the overall efficiency of business.

a) $$\text{Net Profit Ratio} = \frac{\text{Net Profit}}{\text{Net Sales}} \times 100$$

b) $$\text{Net Profit Ratio} = \frac{\text{Net Profit Before Tax}}{\text{Net Sales}} \times 100$$

c) Net Profit Ratio $= \dfrac{\text{Net Profit After Tax}}{\text{Net Sales}} \times 100$

Profit = Operating Profit + Non Operating Income - Non Operating Expenses

Non Operating Income : It includes income from non trading activities e.g. Interest received, Dividend received, Compensation received, Refund received, Profit on Sale of Fixed Assets and Investments. Such net profit can be taken before tax paid or after tax paid.

The main purpose of this ratio is to understand return on investment.

Operating Profit Ratio :

Meaning : Operating Profit Ratio indicates the relationship between operating profit and the net sales. It is usually expressed in the form of a percentage and is also known as Net Operating Profit Ratio.

Formula :

$$\text{Operating Profit} = \frac{\text{Operating Profit}}{\text{Net Sales}} \times 100$$

Where (OP) = Gross Profit - Operating Expenses

Net Sales (S) = Sales - Return - Allowances

4. Operating Ratio

Meaning : It expresses the relationship between total operating costs and net sales and is expressed by way of percentage

Formula :

$$\text{Operating Ratio} = \frac{\text{Cost of Goods Sold + Operating Expenses}}{\text{Net Sales}} \times 100$$

Where cost of Goods Sold = Opening stock + Purchases + Wages -Cl. Stock

Operating Expenses =
1. Office and Administrative Expenses
2. Selling and Distribution Expenses
3. Finance Expenses (Excluding Interest on Loans and Debentures)

Net Sales = Sales - Returns - Allowances.

(C) Combine Mixed Ratio :

(A) Return on investment (ROI) : This ratio measures net profit before tax and interest and capital invested. This ratio is computed to measure the overall efficiency or profitability of business.

Return on capital investment :

$$\frac{\text{Profit before Tax, Interest and Dividend}}{\text{Capital Employed}} \times 100$$

Considering 12th syllabus does not have company act in detail

$$\text{ROI should be} = \frac{\text{Net Profit}}{\text{Capital Employed}} \times 100$$

Capital Employed : Equity Share Capital + Preference Share Capital + Reserves and Surplus + Debenture Capital and Other Long Term Loans

Capital Employed = Fixed Assets + Current Assets - Current Liabilities.

This ratio indicates the ability of company to generate the profit per rupee of capital Employed.

(B) Return on Capital Employed (ROCE) : This ratio measures a relationship between net profit before interest and Tax and share holders fund. The funds are supplied Equity and Preference Share holders.

$$\text{Return on Capital Employed} : \frac{\text{Net Profit before interest and Tax}}{\text{Net Capital Employed/ Equity}}$$

Net Capital Employed = Total Assets - Current Liabilities

= Fixed Assets + Current Assets - Current Liabilities

This ratio indicates whether share holders fund is efficiently used or not.

This ratio should be higher than ROI.

Illustrations

(A) Balance Sheet Ratio:

1 : A company had following Current Assets and Current Liabilities

Debtors - ₹ 60,000, Creditors ₹ 30,000, Bills Payable ₹ 20,000, Stock ₹ 30,000, Loose Tools ₹ 10,000, Bank Overdraft = ₹ 10,000 Calculate current ratio

Solution 1 :

(1) **Current Assets** = Debtors + Stock + Loose Tools

= 60,000 + 30,000 + 10,000

= ₹ 1,00,000

(2) **Current Liabilities** = Creditors + Bills payable + Bank Overdraft

= 30,000 + 20,000 + 10,000

= 60,000

$$\textbf{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$= \frac{1,00,000}{60,000} = \frac{10}{6} = \frac{5}{3} \text{ i.e. } 5:3$$

Activity 1: A company had following Current Assets and Current Liabilities. Debtors 90,000, Creditors 45,000, Bills Payable 10,000, Stock 40,000, Loose Tools 20,000, Bank Overdraft 20,000. Calculate Current Ratio. (Ans = 2:1)

2 : Current Liabilities of company were * 1,50,000 and its current ratio is 3:1 Find Current Assets.

Solution 2 :

Current Ratio $= \dfrac{\text{Current Assets}}{\text{Current Liabilities}}$

$\dfrac{3}{1} = \dfrac{\text{Current Assets}}{1{,}50{,}000}$

Current Assets $= 3 \times 1{,}50{,}000$

$=$ ₹ 4,50,000

Activity 2 : Current Assets of company is ₹ 6,00,000 and its Current Ratio is 2: 1. Find Current Liabilities. (Ans = ₹ 3,00,000)

3 :

Total Assets = ₹ 2,20,000

Fixed Assets = ₹ 1,00,000

Capital Employed ₹ 2,00,000

There were no long term investments. Calculate Current Ratio.

Solution 3 : Calculation of Current Ratio

Current Ratio $= \dfrac{\text{Current Assets}}{\text{Current Liabilities}}$

Current Assets = Total Assets - Fixed Assets

= 2,20,000 - 1,00,000

= ₹ 1,20,000

Current Liabilities = Total Assets - Capital Employed

= 2,20,000 - 2,00,000

= 20,000

Current Ratio $= \dfrac{120{,}000}{20{,}000}$

= 6:1

4 : Calculate the Quick ratio from the following

Working Capital ₹ 50,000, Current Assets ₹ 60,000, Stock ₹ 10,000 Prepaid Expense ₹ 4,000

Solution : Quick Assets = Current Assets - Stock - Prepaid Expense

= 60,000 – 10,000 - 4,000

= 46,000

∴ **Quick Liabilities** = Current Assets - working Capital

= 60,000 – 50,000

= 10,000

Quick Ratio $= \dfrac{\text{Quick Assets}}{\text{Quick liabilities}}$

$= \dfrac{46{,}000}{10{,}000} = \dfrac{46}{10} = 4.6 : 1$

5 : (Quick ratio) :

Current Liabilities ₹ 1,50,000, Bank Overdraf ₹ 50,000

Working Capital ₹ 4,00,000 and inventory ₹ 1,00,000.

Calculate Quick Ratio.

Solution : Current Assets = Current Liabilities + Working Capital

= 1,50,000 + 4,00,000

= ₹ 5,50,000

Quick Assets = Current Assets - Inventory

= 5,50,000 - 1,00,000

= ₹ 4,50,000

Quick Liabality = Current Liabilities - Bank Overdraft

= 1,50,000 - 50,000

= 1,00,000

Quick Ratio $= \dfrac{\text{Quick Assets}}{\text{Quick liabilities}}$

$= \dfrac{4,50,000}{1,00,000} = 4.5 : 1$

(B) Income Statement Ratio :

6 : (Gross Profit Ratio)

Calculate the Gross Profit Ratio

Sales ₹ 5,40,000,	Net purchase ₹ 3,00,000
Sales Return ₹ 40,000	Closing stock ₹ 50,000
Opening stock ₹ 90,000	

Solution :

Cost of goods sold = Opening Stock + Purchases - Closing Stock

= 90,000 + 3,00,000 - 50,000

= ₹ 3,40,000

Net Sales = Sales - Sales Return

= 5,40,000 - 40,000

= 5,00,000

Gross Profit = Net Sales - Cost of Goods Sold

= 5,00,000 - 3,40,000

= ₹ 1,60,000

Gross Profit Ratio $= \dfrac{\text{Gross Profit}}{\text{Net Sales}} \times 100$

$= \dfrac{1,60,000}{5,00,000} \times 100 = 32\%$

7 : (Gross Profit Ratio)

Compute Gross Profit Ratio from the following information sales ₹ 5,00,000, Gross Profit Ratio 25% on cost.

Solution : Gross Profit is 25% on cost

Therefore Goods costing ₹ 100 must have been sold for ₹ 125.

Hence, if sales are ₹ 125. G.P. is ₹ 25.

If sales are ₹ 5,00,000, then G.P. will be as follows :

$$\text{G.P.} = 5{,}00{,}000 \times \frac{25}{125} = ₹\ 1{,}00{,}000$$

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100$$

$$= \frac{1{,}00{,}000}{5{,}00{,}000} \times 100 = 20\%$$

8 : Net Profit Ratio

Calculate the net profit ratio from the following data

Sales = ₹ 7,60,000

Cost of goods sold = ₹ 5,20,000.: .

Indirect Expenses = ₹ 1,20,000

Solution : Sales = ₹ 7,60,000

Less cost of goods sold	=	₹ 5,20,000
Gross Profit	=	₹ 2,40,000
Less Indirect Expenses	=	₹ 1,20,000
Net profit	=	₹ 1,20,000,

$$\text{Net Profit Ratio} = \frac{\text{Net Profit}}{\text{Sales}} \times 100$$

$$= \frac{1{,}20{,}000}{7{,}60{,}000} \times 100 = 15.79\ \%$$

9 : Net Profit Ratio

Gross Profit of Komal Limited for the year 2019-20 is ₹ 5,60,000 from the following information. Calculate Net Profit Ratio.

Administrative Expenses	=	₹ 1,60,000
Selling and Distribution Expense	=	₹ 1,20,000
Interest on Debentures	=	₹ 80,000
Income Tax	=	₹ 60,000
Sales	=	₹ 20,00,000

Calculation of Net Profit

Gross Profit	₹	5,60,000 (₹)
Less : Administrative Expenses	1,60,000	
Selling and Distribution Expenses	1,20,000	
Interest on Debentures	80,000	3,60,000
Net Profit		2,00,000

Net Profit Ratio $= \dfrac{\text{Net Profit}}{\text{Sales}} \times 100$

$= \dfrac{2,00,000}{20,00,000} \times 100 = 10\%$

10 : Operating Ratio Calculate Operating Ratio

Cost of goods sold ₹ 7,00,000
Operating Expenses ₹ 60,000
Sales ₹ 10,00,000
Sales Return ₹ 60,000

Operating Ratio : $= \dfrac{\text{Cost of Goods Sold + Operating Expenses}}{\text{Net Sales}} \times 100$

Net Sales = Sales - Sales Return

= 10,00,000 - 60,000

= ₹ 9,40,000

$= \dfrac{7,00,000 + 60,000}{9,40,000} \times 100 = 80.85\%$

.

11 : From the following details Calculate Operating Ratio

Sales ₹ 5,00,000
Sales Return ₹ 50,000
Opening stock ₹ 60,000
Purchases ₹ 2,20,000
Closing Stock ₹ 40,000
Office and Administrative Expenses ₹ 34,000
Selling and Distribution Expenses ₹ 36,000

Operating Ratio $= \dfrac{\text{Cost of Goods Sold + Operating Expenses}}{\text{Net Sales}} \times 100$

Cost of goods sold = Opening Stock + Purchases - Closing Stock

= 60,000 + 2,20,000 - 40,000

= 2,40,000

Net Sales = Sales - Sales Return

= 5,00,000 - 50,000

= ₹ 4,50,000

Operating Expense = Office and Admin. Expense + Selling and Distribution Expenses

= 34,000 + 36,000 = ₹ 70,000

Operating Ratio = $\frac{2,40,000 + 70,000}{4,50,000} \times 100 = 68.89\ \%$

12 : Operating Ratio

Following is the Trading and Profit and Loss account of Noha firm for the year ending 31 March 2020.

Trading and Profit and Loss Account :

Particulars	(₹)	Particulars	(₹)
To Opening Stock	40,000	By Sales	4,20,000
To Purchases	2,30,000	By Closing Stock	60,000
To Wages	8000		
To Gross Profit c/d	2,02,000		
	4,80,000		4,80,000
To Admin Exp.	12,000	By Gross Profit b/d	2,02,000
To Selling and Distribution Expense	14,000		
To Loss on sale of plant	40,000		
To Net Profit	1,36,000		
	2,02,000		2,02,000

Calculate Operating Ratio

Solution : Operating Ratio = $\frac{\text{Cost of Goods Sold + Operating Expenses}}{\text{Net Sales}} \times 100$

Cost of goods sold = Sales - Gross profit

= 4,20,000 - 2,02,000

= ₹ 2,18,000

= $\frac{2,18,000 + (12,000 + 14,000)}{4,20,000} \times 100$

= $\frac{2,44,000}{4,20,000} \times 100$

= 58.09 %

C) Combined Ratio/Mixed Ratio /Composite Ratios.

13 : Return on Investment/Return on Capital Employee from following details you are required to calculate Return on investment

Profit earned = ₹ 50,000

Capital = ₹ 2,00,000

Reserve = ₹ 1,00,000

Loan = ₹ 2,00,000

$$\text{ROI} = \frac{\text{Net Profit}}{\text{Capital Employed}} \times 100$$

Capital Employed = 2,00,000+1,00,000+2,00,000

= 5,00,000

$$= \frac{50,000}{5,00,000} \times 100 = 10\%$$

14 : Calculate Return on Capital Employed from following information.

Sales - 10,00,000

Cost of goods Sold = 5,00,000

Operating Exp. = 3,00,000

Capital Employed = 5,00,000

$$\text{ROCE} = \frac{\text{Net Profit}}{\text{Capital Employed}} \times 100$$

Net Profit = 10,00,000-5,00,000-3,00,000=2,00,000

$$= \frac{2,00,000}{5,00,000} \times 100 = 40\%$$

Comparative Balance Sheet

From the following Balance Sheet of Noha Textiles Limited prepare comparative Balance Sheet and comment upon the changes.

Balance Sheet as on 31.3.2018 & 31.3.2019

Liabilities	31.3.2018 (₹)	31.3.2019 (₹)	Assets	31.3.2018 (₹)	31.3.2019 (₹)
Current Liabilities	2,00,000	4,00,000	Fixed Assets Less Accumulated	12,00,000	18,00,000
Reserves	3,00,000	2,00,000	depreciation	20,000	3,00,000
12% Bank loan	5,00,000	8,00,000		10,00,000	15,00,000
Share Capital	5,00,000	10,00,000	current assets	5,00,000	9,00,000
	15,00,000	24,00,000		15,00,000	24,00,000

Solution :

Comparative Balance sheet of Noha Textiles Ltd. as on 31.3.2018 & 31.3.2019.

Particular	31.3.2018 (₹)	31.3.2019 (₹)	Absolute increase or decrease (₹)	Product increase and decrease
Fixed Assets	12,00,000	18,00,000	6,00,000	50%
Less : Accumulated depreceation	2,00,000	3,00,000	1,00,000	50%
(A) Net Fixed Assets	10,00,000	15,00,000	5,00,000	50%
Current Assets	5,00,000	9,00,000	4,00,000	80%
Less : Current Liabilities	2,00,000	4,00,000	2,00,000	100%
(B) Working Capital	3,00,000	5,00,000	2,00,000	66.67%
(C) Capital Employed	13,00,000	2,00,000	7,00,000	53.55%
(D) Less : 12% Bank Loan	5,00,000	8,00,000	3,00,000	60%
(E) Share holders Fund	8,00,000	12,00,000	4,00,000	50%
C-D				
Share Capital	5,00,000	10,00,000	5,00,000	100%
Reserves	3,00,000	2,00,000	(1,00,000)	33.33%
Share holders fund	8,00,000	12,00,000	4,00,000	50%

Working Note : Calculation of percentage of increase or decrease is as follows

$$\frac{\text{Absolute change over 2019}}{\text{Absolute figure of 2018}}$$

1) $\frac{6,00,000}{12,00,000} \times 100 = 50\%$ increase

2) $\frac{1,00,000}{2,00,000} \times 100 = 50\%$ increase

Comments : The analysis of above comparative Balance Sheet gives the following conclusions.

1) Total fixed assets have increased by ₹ 6,00,000, 50% increase.

2) Purchased of fixed assets was financed partly by issue of shares for ₹ 5,00,000 and partly by increase in loan.

3) Share Capital has increased by ₹ 5,00,000 i.e. 100% increase it has strengthned in financial position of the company.

4) Reserve have decreased by ₹ 1,00,000 i.e. 33.33% decrease, which reflect loss in the business during the current year.

5) Current Liabilities have increased by ₹ 2,00,000 i.e. 100% interest but current Assets have also increased by 4,00,000 i.e. 80% increase. It has resulted in the increase of working capital of the firm by ₹ 2,00,000 which has been financed by increase in loan.

Comparative Income Statement

15 : From the following information, prepare comparative income statement of Shri Shalni LTD

Particulars	2018 (₹)	2019 (₹)
Sales	6,00,000	4,50,000
Sales Return	1,00,000	50,000
Gross Profit ratio	40%	50%
Office and Admin Expenses	50,000	40,000
Selling and Distribution Expenses	50,000	40,000
Other income	25,000	15,000
Other Expenses	5,000	5,000
Tax rate	50%	50%

Solution : Shri Shalini LTD

Comparative income statement

Particulars	2018 (₹)	2019 (₹)	Absolute change (₹)	Precentage change (₹)	Increase and Decrease
Gross Sales	6,00,000	4,50,000	(1,50,000)	25%	Decrease
Less : Sales Return	1,00,000	50,000	(50,000)	50%	Decrease
	5,00,000	4,00,000	(1,00,000)	(20%)	Decrease
Less : Cost of goods sold	3,00,000	2,00,000	(1,00,000)	33.33%	Decrease
A		2,00,000	-	-	
Less : Opearting Expense	2,00,000				
Office and Admin.Expenses	50,000	40,000	10,000	20%	Decrease
Selling and Distribution Expenses	50,000	40,000	10,000	33.33%	Decrease
B	1,00,000	80,000	20,000	20%	Decrease
Operating profit	1,00,000	1,20,000	20,000	20%	Decrease
Add : Operating income Expenses	25,000	15,000	(10,000)	40%	Decrease
Less : Non Operating Expenses	5,000	5,000	-	-	
Expenses	1,20,000	1,30,000	10,000	8.33	Decrease
Less : Tax 50%	60,000	65,000	5,000	8.33	Decrease
Net Profit after Tax	60,000	65,000	5,000	8.33	Decrease

At a Glance of Formulas

I. Comparative Statement

1. Absolute Change = Current Year − Previous Year

2. $\% \text{ Change} = \dfrac{\text{Absolute Change}}{\text{Previous Year}} \times 100$

II. Common Size Statement

1. Balance Sheet

   $\text{Formula} = \dfrac{\text{Amount of Individual Item}}{\text{Total Fund Available}} \times 100$

2. Income Statment

   $\text{Formula} = \dfrac{\text{Amount of Individual Item}}{\text{Net Sales}} \times 100$

III. Ratio Analysis

1. Balance Sheet Ratios

   a) $\text{Current Ratio} = \dfrac{\text{Current Assets}}{\text{Current Liabilities}}$

   b) $\text{Quick Ratio} = \dfrac{\text{Quick Assets}}{\text{Quick Liabilities}}$

2. Income Statment Ratios

   a) $\text{Gross Profit Ratio} = \dfrac{\text{Gross Profit}}{\text{Net Sales}} \times 100$

   b) $\text{Operating Profit Ratio} = \dfrac{\text{Operating Profit}}{\text{Net Sales}} \times 100$

   c) $\text{Net Profit Ratio} = \dfrac{\text{Net Profit Before Tax}}{\text{Net Sales}} \times 100$

   $\text{Alternate Formula} = \dfrac{\text{Net Profit Before Tax}}{\text{Net Sales}} \times 100$

   d) $\text{Operating Ratio} = \dfrac{\text{Cost of Goods Sold + Operating Expense}}{\text{Net Sales}} \times 100$

3. Combine Ratios / Mixed Ratios

   a) $\text{Return on Capital Employed} = \dfrac{\text{Net Profit Before Interest and Tax}}{\text{Net Capital Employed}} \times 100$

   b) $\text{Return on Investment} = \dfrac{\text{Net Profit Before Tax}}{\text{Capital Employed}} \times 100$

EXERCISE - 9

Objective Questions

A. Select the most appropriate alternative from those given below and rewrite the sentences :

1. Gross Profit Ratio indicates the relationship of gross profit to the ....
   a. Net-Cash b. Net-Sales
   c. Net Purchases d. Gross Sales

2. Current Ratio $= \dfrac{\text{..............................}}{\text{Current Liabilities}}$
   a. Quick Assets b. Quick Liabilities
   c. Current Assets d. None of these

3. Liquid Assets = ...
   a. Current Assets + Stock b. Current Assets-Stock
   c. Current Assets - stock + prepaid Expenses d. None of these

4. Cost of goods sold ....
   a. Sales - Gross profit b. Sales - Net Profit
   c. Sales Proceeds d. None of these

5. Net-Profit Ratio is equal to ....
   a. Operating ratio b. Operating net-profit ratio
   c. Gross Profit Ratio d. Current Ratio

6. The Common Size Statement requires ....
   a. Common base b. Journal Entries
   c. Cash Flow d. Current Ratio

7. Bill Payable is ....
   a. Long term loan b. Current Liabilities
   c. Liquid Assets d. Net Loss

8. Generally Current Ratio should be ....
   a. 2:1 b. 1:1
   c. 1:2 d. 3:1

9. From financial statement analysis the creditors are specially interested to know ....
   a. Liquidity b. Profits
   c. Sale d. Share Capital

B. Give one word/term/phrase for each of the following statement.

1. The statement showing profitability of two different periods
2. The ratio measures the relationship between Gross Profit and Net Sales.
3. Critical evaluation of financial statement to measure profitability.
4. A particular mathematical number showing relationship between two accounting figures.
5. An asset which can be converted into cash immediately.
6. The ratio measuring the relationship between net profit and ownership Capital Employed.
7. The statement showing financial position for different periods or previous year and current year.

8. Statement showing changes in cash and cash equivalent during a particular period.
9. Activity related to acquisition of long term assets and investment.
10. The ratio that establishes relationship between Quick Assets and Current Liabilities

C. State true or false with reasons.

1. Financial Statement includes only Balance Sheet.
2. Analysis of financial statement is a tool but not a remedy.
3. Purchase of Fixed Assets is operating cash flow.
4. Dividend paid is not a source of fund.
5. Gross Profit depends upon Net Sales. ,
6. Payment of cash against purchase of stock is use of fund.
7. Ratio Analysis is useful for inter firm comparison.
8. The short term deposits are considered as cash equivalent.
9. Activity Ratios Turnover Ratios are the same.
10. Current Ratio measures the liquidity of the business.
11. Ratio analysis measures profitability efficiency and financial soundness of the business.
12. Usually current ratio should be 3:1.

D. Answer in one sentence only.

1. Mention two objectives of comparative statement.
2. State three examples of cash in flows.
3. State three examples of cash out flows.
4. Give the formula of Gross Profit Ratio.
5. Give the formula of gross profit
6. State any three examples of current assets.
7. Give the formula of current ratio.
8. Give the formula of quick assets.
9. State the formula of cost of goods sold.
10. State the formula of Average Stock.

Practical Problems

1. From the Balance Sheet of Amar Traders as on 31st March 2018 and 31st March 2019 prepare comparative Balance Sheet.

Liabilities	31.3.2018 (₹)	31.3.2019 (₹)	Assets	31.3.2018 (₹)	31.3.2019 (₹)
Capital	60,000	72,000	Fixed Assets	1,20,000	1,50,000
Reserves and Surplus	24,000	30,000	Current Assets	28,000	27,000
Loans					
Creditors	34,000	51,000			
	30,000	24,000			
	1,48,000	1,77,000		1,48,000	1,77,000

2. **From the following Balance Sheet of Alpha Limited prepare a comparative Balance Sheet as on 31st March 2018 and 31st March 2019.**

Balance Sheet

As on 31st March 2018 and 31st March 2019

Liabilities	31.3.2018 (₹)	31.3.2019 (₹)	Assets	31.3.2018 (₹)	31.3.2019 (₹)
Equity Share Capital	2,00,000	2,50,000	Land	80,000	1,00,000
12% Preference Shares	80,000	80,000	Building	60,000	90,000
Reserves and Surplus	1,00,000	1,40,000	Plant and Machinery	73,000	1,73,000
15% Debentures	60,000	51,000	Stock	1,50,000	1,10,000
Creditors	50,000	80,000	Debtors	1,28,000	1,40,000
Bills Payable	10,000	6,000	Bank	34,000	37,000
Provision for Taxation	25,000	43,000			
	5,25,000	6,50,000		5,25,000	6,50,000

3. **Prepare Comparative Balance Sheet for the year ended 31.3.18 and 31.3.19**

Assets & Liabilities as follows

Particulars	31.3.18 (₹)	31.3.19 (₹)
1) Fixed Assets	120,000	1,50,000
2) Share Capital	60,000	72,000
3) Current Assets	28,000	27,000
4) Reserve & Surplus	24,000	30,000
5) Loan	34,000	57,000
6) Current liabilities	30,000	24,000

4. **Prepare Comparative Balance Sheet for the year ended 31.3.17 and 31.3.18**

Particulars	31.3.17 (₹)	31.3.18 (₹)
1) Current liabilities	60,000	48,000
2) Fixed Assets	2,40,000	3,00,000
3) Loan	68,000	1,02,000
4) Share Capital	1,20,000	1,44,000
5) Reserve & Surplus	48,000	60,000
6) Current Assets	56,000	54,000

5. **Prepare Comparative Income Statement of Noha Limited for the year ended 31.3.17 and 31.3.18**

Particulars	31.3.17 (₹)	31.3.18 (₹)
Sales	2,00,000	3,00,000
Income Tax	50%	50%
Cost of Sales	1,20,000	80,000
Indirect Expenses	8,000	12,000

6. **Prepare comparative Income Statement of Sourabh Limited for the year ended 31.3.17 and 31.3.18**

Particulars	31.3.17 (₹)	31.3.18 (₹)
Sales	4,00,000	6,00,000
Indirect Expenses	16,000	24,000
Cost of Sales	24,000	56,000
Income Tax	50%	50%

7. **Following is the Balance Sheet of Sakshi Traders for the year ended 31.3.17 and 31.3.18**

Liabilities	31.3.17 (₹)	31.3.18 (₹)	Assets	31.3.17 (₹)	31.3.18 (₹)
Equity Share Capital	80,000	80,000	Fixed Assets	1,20,000	1,44,000
Pref. Share Capital	20,000	20,000	Investment	20,000	20,000
Reserve & Surplus	20,000	24,000	Current Assets	60,000	48,000
Secured Loan	40,000	16,000			
Unsecured Loan	20,000	36,000			
Current Liabilities	20,000	36,000			
	2,00,000	2,12,000		2,00,000	2,12,000

Prepare common size Balance-Sheet for the year 31.3.17 and 31.3.18

8. **Prepare common size Income Statement for the year ended 31.3.17 and 31.3.18**

Particulars	31.3.17 (₹)	31.3.18 (₹)
Sales	2,00,000	2,50,000
Cost of goods sold	1,50,000	1,70,000
Office and Administrative Expenses	4,000	6,000
Selling and Distubution Expenses	6,000	1,000

9. **Following is the Balance Sheet of Sakshi Limited. Prepare cashflow statement.:**

Liabilities	31.3.17 (₹)	31.3.18 (₹)	Assets	31.3.17 (₹)	31.3.18 (₹)
Share Capital	2,00,000	3,00,000	Cash	20,000	30,000
Creditors	60,000	90,000	Debtors	1,40,000	2,50,000
Profit and Loss A/c	40,000	70,000	Stock	80,000	70,000
			Land	60,000	1,10,000
	3,00,000	4,60,000		3,00,000	4,60,000

Answer 1) Cash flow from Operational Activities ₹ 30,000

2) Cash flow from Investing Activies (Land) ₹ 5,000

3) Cash flow from Financing Activities ₹ 1,00,000

10. From the following Balance Sheet of Konal Traders prepare cash flow statement.

Liabilities	31.3.17 (₹)	31.3.178 (₹)	Assets	31.3.17 (₹)	31.3.18 (₹)
Share Capital	2,00,000	2,50,000	Cash	30,000	47,000
Creditors	70,000	45,000	Debtors	1,20,000	1,15,000
Profit and Loss A/c	10,000	23,000	Stock	80,000	90,000
			Land	50,000	66,000
	2,80,000	3,18,000		2,80,000	3,18,000

Answer 1) Cash flow from Operating Activities ₹ 17,000
(13,000+5,000-1000)
2) Cash flow from Investing Activies (Land) ₹ 5,000
3) Cash flow from Financing Activities ₹ 1,00,000

11. A Company had following Current Assets and Current Liabilities

Debtors	₹ 1,20000	Creditors	₹ 60,000
Bills Payable	₹ 40,000	Stock	₹ 60,000
Loose Tools	₹ 20,000	Bank overdraft.	₹ 20,000

Calculate Current Ratio

(**Answer :** Current Ratio = 5:3)

12. Current Assets of Company ₹ 6,00,000 and its Current Ratio is 2:1

Find Current Liabilities

(**Answer :** Current Liabilities = ₹ 3,00,000)

13. Current Liabilities = ₹ 3,00,000
Working Capital = ₹ 8,00,000
Inventory ₹ 2,00,000

Calculate Quick Ratio

(**Answer :** Quick Ratio = 3:1)

14. Calculate the Gross Profit Ratio

Sales = ₹ 2,70,000
Net purchases = ₹ 1,50,000
Sales Ratio = ₹ 20,000
Closing Stock = ₹ 25,000
Operating Stock = ₹ 45,000
(**Answer :** G. P. Ratio = 32%)

15. Calculate Net Profit Ratio
from the following

Sales = ₹ 3,80,000
Cost of good sold = ₹ 2,60,000
Indirect Exp. = ₹ 60,000
(**Answer :** Net Profit Ratio = 15.79%)

16. Calculate Operating Ratio

Cost of good sold	=	₹ 3,50,000
Operating Exp.	=	₹ 30,000
Sales	=	₹ 5,00,000
Sales Return	=	₹ 30,000

(Answer : Operating Ratio = 80.85%)

17. Calculate

1)	Current Assets	=	₹ 3,00,000
2)	Current Liabilities	=	₹ 1,00,000

What is current Ratio

(Answer : Current Ratio = 3:1)

Activity :

1. Obtain a Balance Sheet published in Newspaper /Annual Report and prepare comparitive Balance Sheet of the company.
2. Obtain a Balance Sheet and Profit & Loss Account of a company published in Newspaper / Annual Report and calculate different ratios.

10 Computer In Accounting

Content

10.1 Concept of Computerized Accounting system (CAS)

10.2 Features of computerized Accounting System.

10.3 Importance of Computerized Accounting System.

10.4 Components of Computerized Accounting System.

10.5 Comparison between manual accounting process and Computerized accounting process.

10.6 Sourcing of Accounting Software

10.7 Legal Vs. Pirated Accounting Software

Competency Statements

❑ *The students will be able to:*
- *Understand the computerised Accounting & its Components.*
- *Understand Features Importance & Limitations of Computerised accounting System.*
- *Learn Application of Computerised Accounting Statements.*
- *Learn various Accounting Packages.*

10.1 Concept of Computerized Accounting System (CAS).

The usage of computers and Information Technology in accounting processes has revolutionized the modern business concepts so that the process of decision making has become quick, accurate timely and much easier. A computerized accounting system helps to implement accounting process and makes it user friendly with automation. Computerized accounting systems are software programs which help to store data / information in the accounting system. It is connected via computer, network server or remote accessed device with Internet. The company or firm prepares various reports and statements with the help of computerized accounting software.

The most important thing is company or firm prepares its reports as per Generally Accepted Accounting Principles (GAAP) under this system.

10.2 Features of Computerized Accounting System

1) **Integrated Date & Information :** Computerized Accounting system is designed to make it user friendly automated and integrated for all business process such as purchase, sales, finance, inventory, payroll and manufacturing. With computerized accounting system we can keep accurate, up-to-date business information within time limit. Computerized accounting is mixed with Management Information System (MIS) with Multilingual and Data organization capabilities to support the company. All the business operations are easy and cost effective.

2) **Accuracy & Speed :** Computerized accounting has various customized templates and software for users which allows fast and accurate data entry and transaction operations. Thus, after recording the business transactions it generates the various information and reports automatically.

3) **Quick Decision Making :** The Computerized Accounting System generates real-time information for quick decision. The company or firm can plan, its activities with the help of comprehensives MIS reports and instant access to complete and critical information of the Company.

4) **Modern and Integrated :** It helps to save time in recording business transactions as compared to manual accounting system. Various financial statements such as Trial Balance. Profit & Loss A/c, Balance Sheet can be derived at any point of time within fraction of seconds.

5) **Immediate availability of Books of Accounts :** In Computerized Accounting system Books and Registers like Cash Book, Bank Book, Purchase Register, Sales, Register and Statement of Account like Receivables and Payables are readily available at any point of time.

6) **Security :** The Computerized Accounting System is more secured. Data and information can be kept confidential as compared to the traditional accounting system. In this security system user can create multiple user security control for the various users.

7) **Transparency :** Computerized accounting system helps the business organization to keep greater transparency in the day to day business operations.

8) **Grouping of Accounts :** Appropriate grouping of accounts is required to be done in computerized accounting system. Normally ledger accounts are classified under groups like Assets, Liabilities, Income and Expenditure. As per requirement these groups are further divided into sub groups as per convenience of the user.

10.3 Importance of Computerized Accounting System.

Computerized accounting systems are very important to various types of business organizations, firms, company etc.

1) **Automation :** All the calculations are automatically done by the accounting software with minimum time as compared to manual accounting calculations.

2) **Multi-user-Facilities :** Multi-user-facility enable the business man access accounting information online or off line with more user controls outside of the office or within office. In big business houses this facility is useful as data entry can be done by many operators on different computers simultaneously.

3) **Accuracy :** Computerized accounting software is more accurate as compared to human being. All calculations, like additions, subtractions and statistical calculations are automatically done by software.

4) **Speed :** Computerized accounting software work faster than manual accounting process. It generates all financial statements and reports speedily as per user requirements.

5) **Reduction in Cost :** As the financial records are to be entered only once in the system the accountant will save his time in maintaining the records. This will enable the business organization to employ few accounting personnel.

6) **Systematic and up to date records :** Computerized accounting system ensures systematic and up to date financial records of the business organization.

7) **Huge Storage Capacity :** In case of manual accounting it is required to maintain separate Books and Registers for each financial year. In case of computerized system one computer software can store the accounting records for many years.

8) **Compact :** No matter how voluminous the financial data is the computer can store it in a compact way. The financial information can be stored on the hard disk and if required back - up can be taken on the external storage devices which requires very little space.

9) **Transferability / Sharing Information :** Computerized accounting system allow the business organization to share the financial information with the interested parties. The information can be shared with the help of printouts or can also be shared with soft copy i.e through pen drive or Internet transfer.

10.4 The Following components form the Computerized Accounting System :

(a) Hardware

(b) Software

(c) Company Personnel

a) **Hardware :** Hardware is the electronic equipment that includes computers, disk drives, monitors, printers and the network that connects with them. Most modern accounting systems require a network, the system of electronic linkages that allow different computers to share the information within network.

In the network system, many computers can be connected to the main computer, or server, which stores the program and the data. With the right communication of hardware and software, an auditor in Maharashtra can access the data of a client located in Kerala. The result is a speedier audit for the client, often at lower cast than the cost incurred it the auditor had to perform all the work on site in India.

b) **Software :** Software is the set of programs that direct the computer to perform the desired task. Accounting software accepts, edits (alters), and stores transactions and data, generates the reports.

c) **Personnel :** Personnel are critical to the success of any endeavor because people operate the system. Modern accounting system gives non-accounting personnel access to parts of the system.

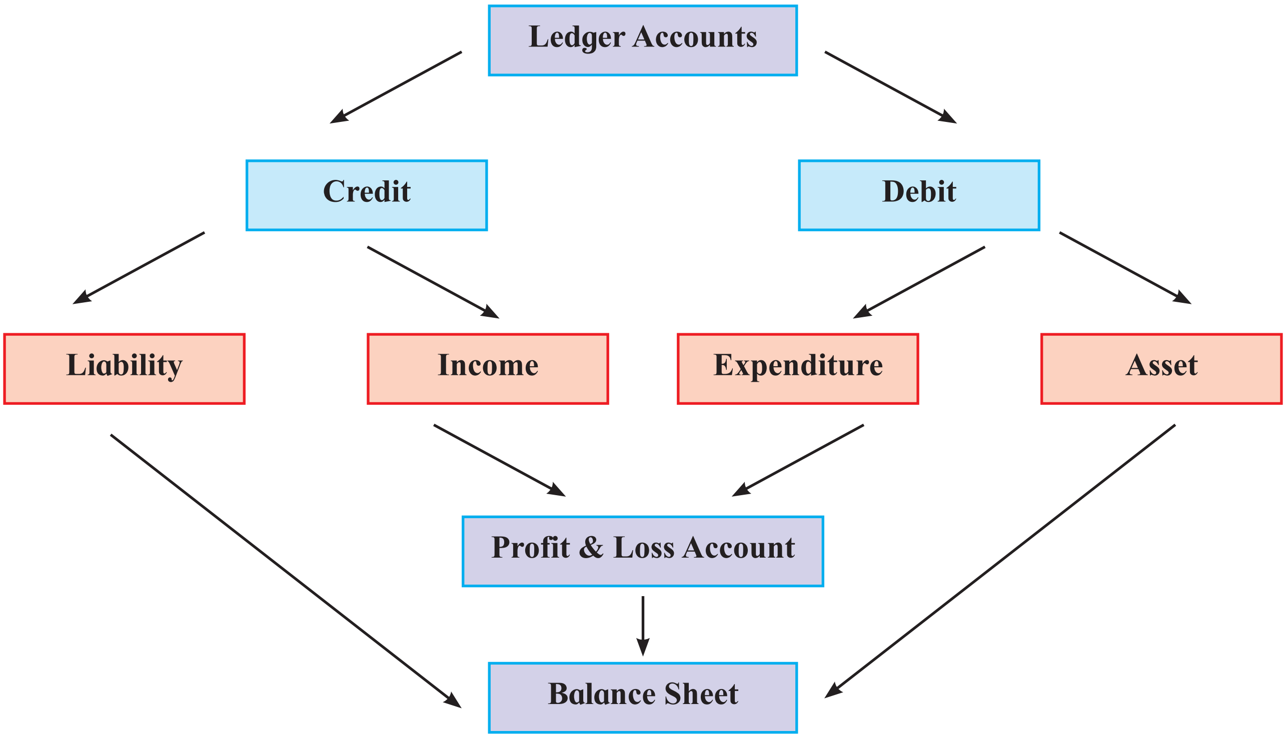
Management of a computerized accounting system requires careful planning of data security and grooming of the people in the organization who will have access to the data. Security is sought by using passwords, codes that permit access to computerized records.

10.4.1 Creation of Accounting Documents :

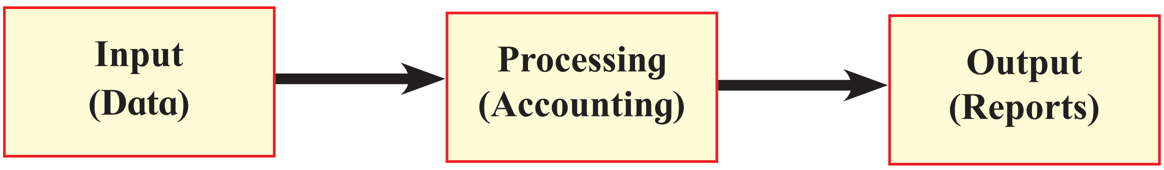
In accounting software generally the following components are used.

a) **Creation of accounting documents :** Computer software helps in creating different accounting documents like cash memos, vouchers, receipts, invoices etc.

b) **Recording of Transactions :** Computerized accounting software are used to record the day to day business transactions. It reduces paper work.



c) **Preparation of Trial Balance and Financial Statement :** After recording the transactions the data is automatically transferred into ledger through the software. Vouchers are prepared on the basis of data recorded into the computer. Trading and Profit and Loss Account and Balance Sheet is automatically prepared.



Input represents data form source documents, such as sales receipts, bank deposit slips, Purchase orders etc. Computerized accounting systems require that data inputs be arranged in specific formats. Transactions with missing dates, account numbers or other critical information are not accepted by the system.

Outputs are the reports generated for decision making. These may be like statements of debtors, creditors, inventory, Trial Balance, income statement, balance sheet and so on.

10.5 Comparison between manual accounting process and Computerized accounting process.

Basis of Difference	Manual Accounting	Computerized Accounting
1. Meaning	Manual accounting is the system in which we maintain physical register of journal and ledger for keeping the records of each business transactions.	In this system of computerized accounting, we use computer and different accounting software for digital record of each business transactions.

2. Calculation make total of	In this system, all calculations are done manually. For example, to find the balance of any ledger account. We will make total of the debit and credit side and then we will find its difference for showing balance.	In computerized accounting system, our duty is to record the business transactions manually in the database. All the calculations are done by computer system. We need not calculate each account's balance, it is calculated automatically by computerized accounting system.
3. Ledger Accounts	Ledger accounts are prepared by posting transactions in appropriate ledger manually with the help of journal. There may be mistakes while transferring the amount manually.	In computerized accounting system, once a voucher is entered it will automatically be printed. Thus there is no chance of taking or transferring wrong amount.
4. Trial Balance	In this system of accounting, we have to take the balances of all ledger A/c, in Trial Balance Statement.	Computerized accounting system will produce Trial Balance automatically.
5. Adjustment Entries Record	Both adjustment journal entries and its posting in the ledger accounts will be done manually one by one.	Only adjustment entries will be passed in the computerized accounting system, posting in the Ledger accounts will be done automatically.
6. Financial Statements	We have to make the financial statements manually by carefully transferring Trial Balance's figures in to Trading, Profit and Loss Account and Balance Sheet.	We need not prepare financial statement manually; financial statements will be generated automatically. It will also automatically change after each voucher entry in the system. This facility is not available in the manual accounting system.
7. Closing the Books	After the year end accountants prepare financial statements for the accounting period. The balances are to be carried forward manually, to next year.	In the computerized accounting software financial reports are auto generated for the accounting period. The balances are automatically carried forward to next year.

10.6 Sourcing of accounting Software

Accounting software is an essential part of the computerized accounting system. An important factor to be considered before acquiring accounting software is the accounting expertise of people responsible in business for accounting work, People, not computers, are responsible for accounting. The need for accounting software arises in two situations :

10.6.1 Accounting Packages

Every Computerized Accounting System is implemented to perform the accounting activity (recording and storing of accounting data and information) and generate various reports as per the requirements of the user. From this perspective the accounting packages are classified into the following categories :

(a) Ready to use
(b) Customized
(c) Tailored
(d) Free & Open Source

Each of these categories offers individual features. However, the choice of the accounting software would depend upon the suitability to the organisation or firm especially in terms of accounting and financial needs.

10.6.2 Ready-to-Use :

This accounting software is suitable to those organizations or firm running small scale business where the frequency or volume of accounting transactions is very less. This is because the cost of installation is generally less and number of users is limited. Ready-to-use software is relatively easier to learn. This also implies that level of secrecy is relatively low and the software is prone to data frauds. The training needs are simple and sometimes the vendor (supplier or software) offers the training on the software free. However, this software offers little scope of linking to other information systems.

10.6.3 Customized :

This Accounting software may be customized to meet the special requirement of the user. Standardized accounting software available in the market may not suit or fulfill the user requirements, For example, standardized accounting software may contain the sales voucher and inventory status as separate options. However, when the user requires that inventory status to be updated immediately upon entry of sales voucher and report be printed, the software needs to be customized.

Customized software is suitable for large and medium businesses and can be linked to the other information systems. The cost of installation and maintenance is relatively high because the high cost is to be paid to the vendor for customization. The customization includes modification and addition to the software contents, provision for the specified number of users and their authentication, etc. Secrecy of data and software can be better maintained in customized software. Since the need to train the software users is important, the training costs are therefore high.

10.6.4 Tailored

The accounting software is generally tailored in large business organizations with multi users and geographically scattered locations. This software requires specialized training to the users. The tailored software is designed to meet the specific requirements of the users and form an important part of the organizational MIS. The secrecy and authenticity checks are robust in such software's and they offer high flexibility in terms of number of users.

10.6.5 Free & Open Source

The small business need an accounting software but they don't have a big budget, then find out accounting software available on free, open source software on the Internet. These applications you can download and install from the websites.

For examples : **GNU Khata** is the open source accounting software for small business as well as a personal finance software.

10.7 Legal / Licensed Vs. Pirated Accounting Software

There are different types of accounting software packages and applications available in the market. User can select Legal and Open source software as per its business needs.

Legal Accounting Software is fully functional and safe, Pirated Accounting Software is also full functional but its use is illegal & data can be corrupted. Always use the legal software for the accounting transaction because they can be updated as per statutory changes like VAT, GST etc.

- **Legal software -** Full functional software.
- **Demo Software -** Used for demo purpose with all major features but with a very few restrictions.
- **Pirated software -** Cracked software, nearly full functional, but illegal to use & risky considering data safety.

To select the best accounting product you will first need to decide your individual and corporate needs. Small business accounting software functions much differently in many respects that accounting software manufactured as an enterprise resources planning solution for example.

Tally ERP9, Miracle, Busy, Focus, & Wings

10.8 Practical Activity :

Practical on Application of accounting software - Creation of Company, Accounts group, Accounting Entries and generation of reports (Balance Sheet, Profit & Loss A/c, Day Book etc).

What is Accounting Software?

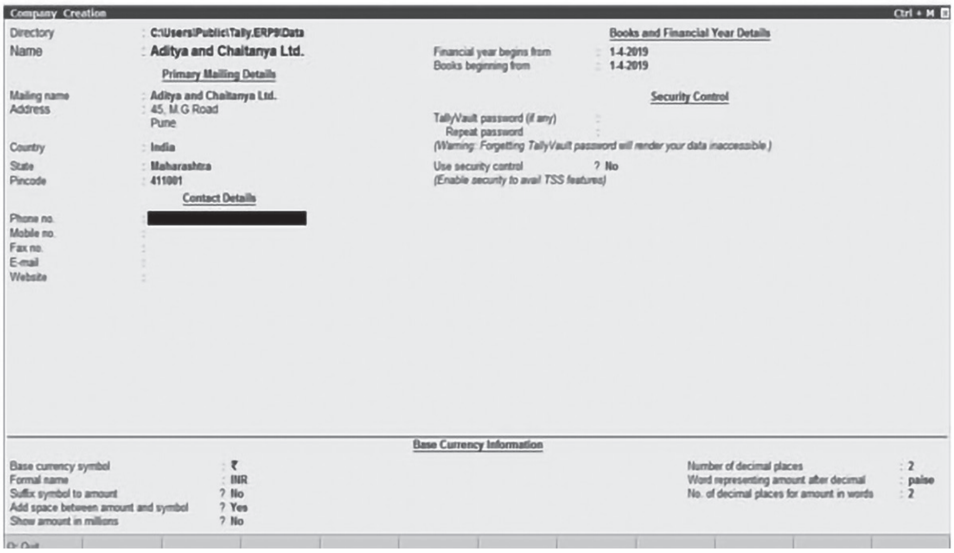
Accounting Software is used for recording day to day business transaction of a company. It maintains inventory management system with computer. It is integrated with other business applications such as Purchase. Sales, Finance, Payroll, Inventory ect. with all accounting details.

Step 1: After entering into Accounting Software Tally, double click on the option create company under company information.

To create company in Tally, follow the following navigation path **Gateway of Tally > Company Info > Create company**

Company Information
Select Company
Login as Remote User
Backup
Restore
Quit

Step 2 : The company creation window, display on the screen as shown below in the image. Fill the detail information in the company creation form.



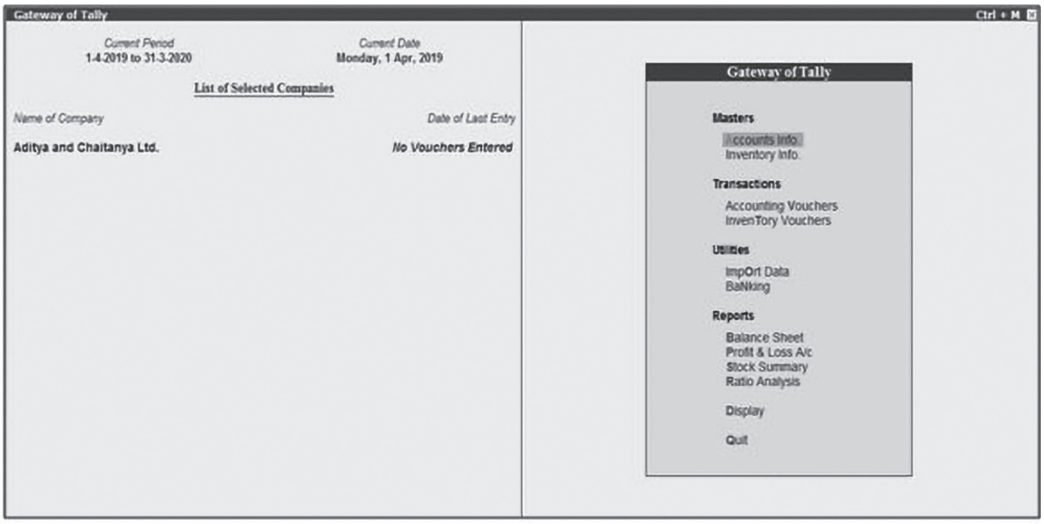
Kindly rewrite, it has no reference with the heading, or change heading.

Need to insert group creation image & its process.

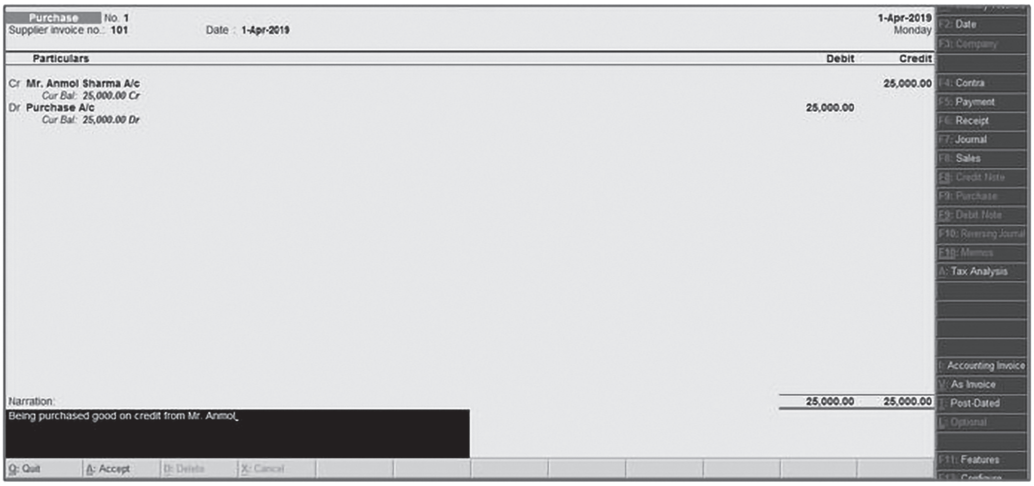
1) How to create ledger account in Tally Software

Path : Gateway of Tally - Accounts Info - Ledgers - Single Ledger - Choose Create

Step 1 : From Gateway of Tally Screen, click on accounts info



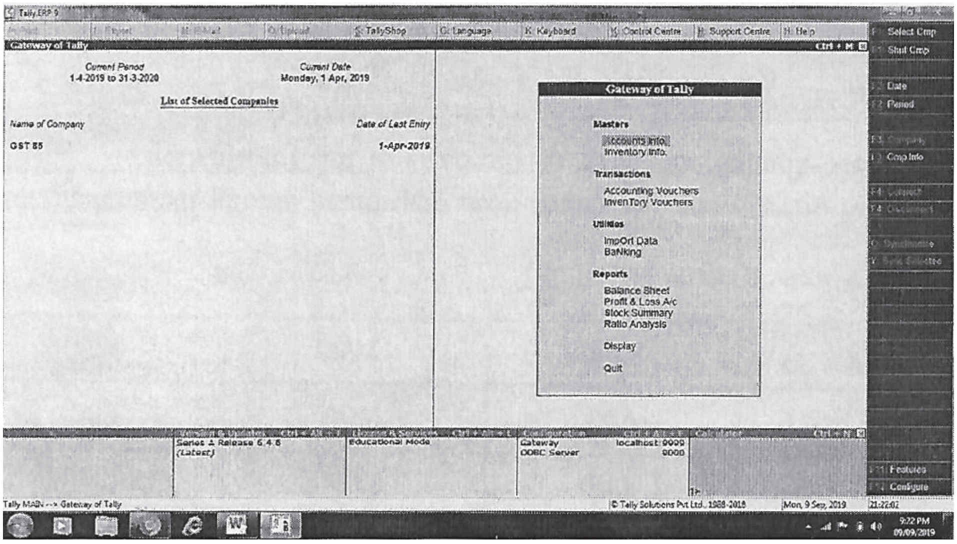
Path Gateway of Tally - Accounts Info - Ledgers - Single Ledger - Choses Create



2) How to create voucher Tally Software

For Example :

1) Purchased goods on credit from Mr. Anmol Sharma of Rs. 25000/-



Voucher Types in Tally

Voucher Types	Its Uses
F4 (Contra)	• Cash deposited in bank • Cash withdrawn from bank • Transfer from one Cash A/c to other Cash A/c. • Bank to Bank transfer
F5 (Payment)	• All types of payments are entered through this voucher type. (Cash and Bank) • Credit item of a payment voucher shall be either Cash or Bank Account only. • There can be two modes, **Single Entry Mode** or **Double Entry Mode.**

F6 (Receipt)	• There can be only two types of receipts. • Cash Receipt and Bank Receipt. • Both these receipts has to be entered here. • Debit item of Receipt Voucher will always be either Bank or Cash. • There can be two modes, **Single Entry Mode** or **Double Entry Mode.**
F7 (Journal)	• This voucher is used for non - cash transactions. • E.g. Depreciation, provisions, transfer entries, purchase of fixed assets on credit. • Journal voucher should not be used for credit sales or credit purchases.
F8 (Sales)	• This is used for cash sales as well as credit sales. • There can be two modes, **"As Invoice"** or **"As Voucher"**. • Party's A/c Name means ledger to be Debited, write Cash in case of Cash Sales.
F9 (Purchase)	• This voucher type is used for both types of purchases, Credit as well as Cash. • There can be two modes, **"As Invoice"** or **"As Voucher"**. • Party's A/c Name means ledger to be credited.

For viewing Accounting Reports in Accounting Software to click on Report option and select the Display option.

EXERCISE -10

Q.1 Objective questions :

A. Select the most appropriate alternatives from those given below and rewrite the statements.

1) The primary document for recording all financial transactions in Tally is the ....
   a) Journal   b) Trial sheet   c) Voucher   d) File

2) This displays the balance day wise for a selected voucher type.
   a) Record Book   b) Ledger book   c) Journal book   d) Day book

3) Fixed Deposit A/c comes under .... group.
   a) Investments   b) Current Liability   c) Bank A/c   d) Current Asset

B. Give the word term or phrase which can substitute each of the following statements:

1) The details of Bills Receivable are maintained in this record .
2) Tally software is classified into this category .
3) The short key used to save or accept the information .
4) It is a damaged software, cracked, nearly fully functional .
5) The process by which all the calculations are automatically done by the accounting software.

C. State whether the following statement are true or false with reason :

1) Alt + D are the short key for delete voucher entry.
2) In Tally F6 Functions key is for Payment Voucher.

3) Legal software is fully functional software without any restriction.
4) Salary Account comes under Indirect Expenses.
5) Accounting software may not be customized to meet the special requirement of the user.

D. Answer in One Sentences :

1) What is CAS?
2) Write the steps to create Ledger account in tally?
3) How to view reports in tally?
4) Explain the various type of voucher?
5) Write the steps to create a company?

Activity :

Obtain information of various Accounting Softwares and write a report including type of Software, open source / Licensed, single user / Multi user, hardware requirement, after sales service and Training to use the Software.

Answers Key

1 Introduction to Partnership and Partnership Final Accounts

Q.A Select the most appropriate alternative from the following & Rewrite the sentences :

Ans: 1) a 2) d 3) a 4) b 5) b 6) a 7) d

Q.B Write the word/phrase/term, which can substitute each one of the following sentences. :

Ans: 1) Partners 2) Drawings 3) partnership firm 4) Indian Partnership 5) Registration 6) Partnership deed 7) Fixed Capital Method 8) Profit sharing Ratio 9) Fluctuating Capital Method 10) Current Account 11) Prepaid Expences 12) Fianl Accounts 13) Current Assets an Liquid assets 14) Order of Liquidation 15) Profit and loss account 16) Asset side 17) Net Profit

Q.C State whether the following statements are True of False with reasons :

Ans: 1) False 2) False 3) True 4) True 5) False 6) False 7) False 8) False 9) True 10) False 11) True 12) True 13) False 14) False 15) False

Q. D. Find odd one out

Ans: 1. Salary 2. Purchases 3 Bills Receivable 4. Bills Payable 5. Depreciation

Q. E Complete the Sentences

Ans: 1) Equal 2) Optional 3) Lawful 4) Unlimited 5) Current 6) Profit & loss 7) joint & Several 8) Partnership deed 9) debited 10) income 11) Current 12) Credit 13) trade 14) Revenue 15) Purchases 16) prepaid expenses 17) Fixed Assets 18) direct 19) expenditure 20) advertisement

Q.G Do you agree/disagree with the following statements.:

Ans: Agree 4, 5, 6, 8, 10, 11, 15, Disagree : 1, 2, 3, 7, 9, 12, 13, 14, 16

2 Accounts of 'Not for Profit' Concerns

Q. A Select the most appropriative alternatives from those given below.

Ans: 1) Social, 2) Capital Receipts, 3) Nominal Account, 4) An Assets, 5) A liability, 6) surplus, 7) Income and Expenditure, 8) Cash and Bank Balance, 9) Service, 10) Capital

Q. B Write the Word / Term / Phrase which can substitute each of the following statements.

Ans:
1. Not for Profit Concern
2. Income and Expenditure Account
3. Specific Donation / Capital Receipt
4. Capital Receipt
5. Income and Expenditure Account
6. Receipt and Payments Account
7. Outstanding Income Account
8. Surplus
9. Capital Fund
10. Capital Receipts.

Q. C State whether the following statements are True or False with reasons.

Ans: True - 1,4,8,10 False - 2,3,5,6,7,9

Q. D Fill in the blanks

Ans: 1) Trading, 2) Service, 3) Real, 4) Cash, 5) Profit and Loss, 6) Payments, 7) Nominal, 8) Income and Expenditure, 9) Revenue, 10) Current

Q.F- I. Complete the Table

Ans: 1) ₹ 15,000 (Expenditure), 2) ₹ 4,000 (Expenditure), 3) ₹ 23,000 (Income) 4) ₹ 1,500 (Deficit) 5) ₹ 3,700 (Surplus)

Q.F- II. Salaries paid during the year

Ans: 1) ₹ 1,000 2) ₹ 700 3) ₹ 1,600 4) ₹ 1,400 5) ₹ 4,500 6) ₹ 400

Q.F-III. Rent received during the year

Ans: 1) ₹ 1,100 2) ₹ 1,800 3) ₹ 650 4) ₹ 2,900 5) ₹ 450 6) ₹ 3,100

Q. G Calculate the following

Ans: 1) Depreciation ₹ 1,250 2) ₹ 9,600 3. Stationery Consumed ₹ 23,000, 4) ₹ 15,000 5) Library Books ₹ 50,000.

Q. H Find odd one.

Ans:1) Receipts and Payments Account 2) Salaries 3) Stationery 4) Reliance Industries 5) Net Profit

3 Reconstitution of Partnership (Admission of Partner)

Q. A) Select the correct alternative

Ans:

1.	a. 12:8: 5	2.	b. Surplus Method
3.	a. Revaluation A/c	4.	d. Cash / Bank
5.	b. Capital		

Q. B) Write the word / Term / Phrase which can substitute each of the following statements.

Ans:

1)	Super Profit Method	2)	Revaluation A/c / Profit & Loss Adjustment A/c
3)	Goodwill	4)	Old Ratio
5)	Premium Method	6)	Sacrifice Ratio
7)	Normal Profit	8)	Partners Capital A/c / Current A/c
9)	Undistributed Profit / Accumulated Profit	10)	Sacrifice Ratio

Q. C) State whether the following statements are True / False.

Ans: True : 1, 2, 5, 9, 10 False : 3, 4, 6, 7, 8

Q. D) Find the odd one out

Ans: 1) Machinery 2) RDD Written off 3) Fluctuating Capital Method.

Q. E) Calculate the following

Ans: 1) New Ratio 2:1:1 2) Sacrifice Ratio 5:1 3) Sacrifice ratio 7:3

Q. G) Complete the following

Ans: 1) Average Profit 2) Capital employed
3) Stock undervalued 40,000, Cost of Stock 2,00,000

4 Reconstitution of Partnership (Retirement of Partner)

Q. A Select the most appropriate alternatives from those given below and rewrite the sentence.

Ans: 1) All the partners	**2) Debited**	**3) Loan**	**4) New**	**5) Gain**	**6) 3:2**

Q. B Write the word, term, phrase, which can substitute each of the following statement.

Ans: 1) Profit on Revaluation Accounts	**2) Gain ratio**
3) Loss on Revaluation	**4) Gain Ratio**
5) Goodwill	**6) Capital/ Current Account**

Q. C State whether the following statement are true or false with reasons.

Ans: True : 1, 2, 4 False : 3, 5, 6

Q. D Fill in the blanks and rewrite the following sentence :

Ans: 1) Old Ratio	**2) Debited**	**3) Profit and Loss Adjustment**
4) Capital	**5) Gain**	

5 Reconstitution of Partnership (Death of Partner)

Q.1 A) Select the most appropriate answer from the alternative given below and rewrite the sentences.

Ans : 1) (c) The continuing partner's benefit on retirement or death of a partner
2) (a) Gain Ratio 3) (c) Assets 4) (c) Retirement 5) (b) Legal Heir's loan / Executor loan

B) Write a word, term, phrase, which can substitute each of the following statement.

Ans : 1) Profit	2) Legal heir or executor	3) General Reserve Fund
4) Deceased Partmer	5) Gain / Benefit Ratio)	

C) State whether the following statements are True or False with reasons.

Ans : True : 2, 4 False : 1, 3, 5

D) Fill in the blanks and rewrite the following sentence.

Ans : (1) Liability 2) Gain 3) Assets 4) Old Ratio 5) Goodwill)

6 Dissolution of Partnership Firm

Q.1 A) Select the most appropriate answer from alternatives given below and rewrite the sentences.

Ans : 1) Realisation Account. 2) Cash / Bank Account 3) Profit Sharing Ratio 4) Debited 5) Realisation Account 6) Insolvent 7) Book Value 8) Dissolved 9) Credited 10) Dissolution.

B) Give the word / term / phrase which can substitute each of the following statement.

Ans : 1) Realisation on Loss /Loss 2) Dissolution 3) Realisation A/c 4) Capital deficiency 5) Realisation Profit / Profit 6) Realisation of Assets 7) Contingent Liability 8) Unrecorded Assts 9) Realisation A/c 10) Dissolution / Realisation Expenses)

C) State whether the following statements are True or False with reasons.

Ans : True : (2), (3), (6), (8), (9) False : (1), (4), (5), (7), (10)

F) Complete the table.

Ans : 1) ₹ 16,000 2) ₹ 28,000 3) ₹ 5,000 4) ₹ 34,000 5) ₹ 28,000)

7 Bills of Exchange

Q.1 A) Select the correct option and rewrite the sentences.

Ans : 1) Drawee 2) Draft 3) Preceding 4) 25th Jan. 2019 5) Drawee 6) Three 7) 6th March 2020 8) Government Officer 9) Dishonouring 10) Bills Payable

B) Give one word / phrase / term which can substitute each of the following ststements.

Ans : 1) Grace days 2) Noting charges 3) Payee
4) Endorsee 5) Notary Public 6) Renewal of bill
7) Accomodation bill 8) Holder 9) Discounting the bill
10) Bad Debts

C) State True or False with reasons.

Ans : True : (2), (5), (6), (7), (9) False : (1), (3), (4), (8), (10)

D) Find the odd one.

Ans : 1) Noting 2) Demand Bill 3) Notary Public 4) Noting charges 5) Draft

E) Complete the sentence.

Ans : 1) Retirement of bill 2) Insolvent person 3) Deficiency
4) After date bill 5) Trade bill 6) Drawer
7) After sight bill 8) Noting
9) Qualified acceptance as to place 10) Bank Charges

G) Do you agree or disagree with the following statements.

Ans : 1) Disagree 2) Disagree 3) Agree
4) Agree 5) Agree 6) Agree
7) Disagree 8) Disagree 9) Disagree
10) Agree

H) Calculations.

Ans : 1) ₹ 825 2) i) ₹ 900 ii) ₹ 600 iii) ₹ 300
3) ₹ 18,200 4) ₹ 53,000 5) ₹ 16,725
6) 16th August 2019

J) Do you agree or disagree with the following statements.

Ans : 1) i) 3rd Apr. 2019 ii) 24th Nov. 2019 iii) 25th Jan. 2020.
iv) 2nd Mar. 2020 v) 17th Aug. 2019

2. i) Nominal due date 17th Feb. 2020 and Legal due date 20th Feb. 2020.
ii) Nominal due date 12th Aug. 2020 and Legal due date 14th Aug. 2020.
iii) Nominal due date 23rd Jan. 2020 and Legal due date 25th Jan. 2020.
iv) Nominal due date 20th Dec. 2019 and Legal due date 23rd Dec. 2019.
v) Nominal due date 21th Feb. 2019 and d Legal due date 24th Feb. 2019.

8 Company Accounts : Issue of Shares

Q.1 A) Select he appropriate answer from the alternative given below and rewrite the sentence.

Ans : 1) Capital Reserve 2) Liability Side of Balance Sheet 3) Dividend 4) Prospectus 5) 10% 6) debited 7) Limited 8) Nominal/Authorised Capital 9) calls is arrears 10) Articles of Association

B) Give one word/term/phrase for each of the following statements.

Ans : 1) Calls in Arrears 2) Issue at par 3) Shareholder 4) Joint Stock Company 5) Subscribed Capital 6) Preference Shares 7) Equity Shares 8) Uncalled Capital

C) State True or False with reasons.

Ans : True : (3) False : (1), (2), (4), (5), (6)

D) State whether you agree or disagree with following statements.

Ans : Agree : 3,5,7,8,10 Disagree : 1,2,4,6,9

F) Complete the following sentences.

Ans : 1) Premium 2) Authorised 3) Calls in Arrears 4) Preference 5) Equity 6) Joint Stock Company 7) Subscribed 8) Unissued

G) State whether you agree or disagree with following statements.

Ans : 1) 3,500 2) 10,000 3) 16,000 4) 8,00,000 5) 1,99,8000 6) 2,000

9 Analysis of Financial Statments

Q. A. Select the most appropriate alternative from those given below and rewrite the sentences :

Ans: 1) Net sales 2) Current Assets 3) Current Assets - Stock 4) Sales - Gross Profit 5) Operating Ratio 6) Common Base 7) Current Liabilitie 8) 2:1 9) Liquidity

Q. B. Give one word/term/phrase for each of the following statement.

Ans:
1) Comparative Income Statement
2) Gross Profit Ratio
3) Analysis of financial statement
4) Ratio
5) Liquid assets
6) ROCE
7) Comparative Balance Sheet
8) Cash Flow Statement
9) Financing investing,
10) Liquid Ratio

Q. C. State true or false with reasons.

Ans: True : 2, 4, 5, 6, 7, 8, 9, 10, 11 False : 1, 3, 12

10 Computer In Accounting

Q.1 A) Select the most appropriate alternatives from those given below and rewrite the statements.

Ans : 1) Voucher 2) Day book 3) Investment

B) Give the word term or phrase which can substitute each of the following statements.

Ans : 1) Sundry Debtors 2) Mercantile 3) Ctrl + A
4) Pirated Software 5) Automation

C) State whether the following statement are true or false with reason.

Ans : True : 1, 3, 4 False : 2, 5

Notes

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