

1 Mark Questions

- ~~1.~~ J.F = Journal Folio
- ~~2.~~ L.F = Ledger Folio
- ~~3.~~ ICAI = Institute of Chartered Accountants of India
- ~~4.~~ SEBI = Securities Exchange Board of India
- ~~5.~~ DRR = Debenture Redemption Reserve
- ~~6.~~ DRF = Debentures Redemption Fund
- ~~7.~~ DRFI = Debentures Redemption Fund Investment
- ~~8.~~ MCA = Ministry of Corporate Affairs
- ~~9.~~ IFRS = International Financial Reporting Standards
- ~~10.~~ Ind. AS = Indian Accounting Standard
11. PAT = Profit After Tax
12. PBT = Profit Before Tax
13. SWOT = Strength-Weakness-Opportunity-Threat
14. ROCE = Return On Capital Employed
15. PBIT = Profit Before Interest and Tax
16. EPS = Earning per Share
17. RONW = Return on Net Worth
18. P/E Ratio = Price Earning Ratio
19. OPC = One Person Company
20. BOD = Bank Over Draft
21. RFO = Revenue From Operation
22. ROI = Return On Investment
23. TDS = Tax Deducted at Source
24. B/f = Balancing Figure
25. CDT = Corporate Dividend Tax
26. LLP = Limited Liability Partnership
27. AIFI = All India Financial Institutions
28. COGS = Cost of Goods Sold
29. DDT = Dividend Distribution Tax
30. IOC = Interest on Capital
31. IOD = Interest on Drawings
32. ATP = Average Time Period
33. P/L = Profit and Loss
34. B/S = Balance Sheet
35. NPSR = New Profit Sharing Ratio
36. SR = Sacrifice Ratio
37. GR = Gain Ratio
38. OR = Old Ratio
39. AS 10 = Accounting Standard 10
40. AS 26 = Accounting Standard 26
41. PDD = Provision for Doubtful Debts
42. PBD = Provision For Bad debts
43. PBDD = Provision for Bad and Doubtful Debts
- ~~44.~~ SHF = Share Holders Fund
45. NCL = Non-Current Liability
46. CL = Current Liability
47. CA = Current Assets
- ~~48.~~ NCA = Non Current Assets

Chapter - 01Accounting for Partnership
[Fundamentals or Basic Concepts]* PartnershipDefination :-

Under section 4 of the Indian Partnership act, 1932 defines partnership has "The Relation between persons who have agreed to share the profits of the business carry down by all any of them acting for all."

* Meaning :-

The Partnership results with an agreement executed by competent persons to run a business with the main object of sharing profits & losses arising from firm.

Indian Partnership Act, 1932 regulates the partnership business in India. As per this Act, it is not compulsory for the partnership firms to get registered in India. It is optional.

* Features of Partnership —1. Two or More Partners :-

These must be atleast two ^{Persons} partners to form a partnership.

2. Agreement [Deed] :-

Partnership agreement can be either oral or

in return written...

3. Lawful business :-

Business with the intention of earning profits and such business must be within the limits of law.

4. Sharing of Profits :-

The partners may share the profits in any ratio they like has per the agreement.

5. Unlimited liability :-

The liability of partners is unlimited, each partner is jointly and severally liable for all the debts of the firm.

* Partnership deed

✓

The documents which contains the terms of partnership agreement is called partnership deed. Terms may be profit sharing ratio, interest on capital and so on. It should be duly stamped as per the provision of the stamp act and signed by all the partners.

* Contents of Partnership Act

1. Name and address of the firm (partners)
2. Name and address of the partners
3. Profit and loss sharing ratio
4. The principal place of business
5. The Nature of the business
6. The date and commencement of business

* Provisions of Indian Partnership Act 1932 in the absence of partnership deed :-

1. Profit sharing proportion $\rightarrow$ [Equal]

The partners have equal shares in the profit of the firm and liable to contribute equally to the losses of the firm.

2. Interest on Capital $\Rightarrow$ Not Entitled

Partners are not entitled for interest on their capital balances.

3. Interest on drawings $\Rightarrow$ Not Entitled.

No interest to be charged on the drawings made by the partners.

4. Remuneration for Firms Work

No partner is entitled to get salary or any other remuneration for taking part in the conduct of the business of the firm.

* Maintenance of Capital Accounts of Partners

All transactions relating to partners of the firm are recorded in the books of the firm through their capital accounts. There are two methods by which the capital accounts of partners can be maintained.

1. Fixed Capital Method

2. Fluctuating Capital Method

1) Fixed Capital Method :-

Under this method the original capital invested by the partners is entered in the Capital a/c and all other adjustments like drawings, share of drawings, share of profit or loss, interest on capital, interest on drawings, salary or commission payable to partners, current a/c opened in the name of each partner.

2) Fluctuating Capital Method :-

Under this method the capital of partners fluctuates from year to year. All the adjustments such as drawings, interest on drawings, interest on capital, salary or commission to partners, share of profit or loss etc. are recorded directly on the Capital a/c of the partner.

/ Interest on Partners' Drawings

Interest on partners' drawings are calculated in three methods :-

(i) Direct Method :-

$$\text{Interest on drawing} = \frac{\text{Amount of drawings} \times \text{Rate} \times \text{No. of outstanding months}}{12}$$

(ii) Product Method :-

Product method of interest calculation is done when the partner's withdrawal amount is different dates during the accounting period at the specific rate.

Formula: Interest on drawings = Total product $\times$ Rate $\times \frac{1}{12}$

(iii) Average Period Method [Shortcut Method] :-

This Method is used when the partner withdraws the amount in uniform amount for period.

Formula: Interest on drawings = Total drawings $\times$ Average period rate $\times \frac{1}{12}$

* Sum on Direct Method [Specific period Method]

1) Mr. Kumar a partner of a firm withdrawn Rs. 6000/- on first June 2022. The rate of interest on partner's drawings is 8% per annum. The accounts of the firm are closed on 31st March 2023. Calculate interest on drawings of Mr. Kumar.

$\Rightarrow$ Interest on drawings = Amount of drawings $\times$ Rate $\times$ No. of outstanding months $\div 12$

$$= 6000 \times \frac{8}{100} \times \frac{10}{12}$$

$$= \text{Rs. } 400/-$$

$\therefore$ Interest on drawings of Mr. Kumar is Rs. 400/-

2) Shekari, a partner of a firm has withdrawn the following amounts during the year ended 31st March 2023. Calculate the interest on drawings at 6% per annum.

(i) on 1st July 2022 Rs. 5000/-

(ii) on 1st Nov 2022 Rs. 3000/-

(iii) on 31 January 2023 Rs. 2000/-

i) Interest on drawings = $\frac{\text{Amount of drawings} \times \text{Rate} \times \text{No. of outstanding months}}{12}$

$$= \frac{5000 \times 6}{100} \times \frac{9}{12}$$

$$= \text{Rs. } 225//$$

ii) Interest on drawings =

$$= \frac{\text{Amount of drawings} \times \text{Rate} \times \text{No. of outstanding months}}{12}$$

$$= \frac{3000 \times 6}{100} \times \frac{5}{12}$$

$$= \text{Rs. } 75//$$

iii) Interest on drawings

$$= \frac{\text{Amount of drawings} \times \text{Rate} \times \text{No. of outstanding months}}{12}$$

$$= \frac{2000 \times 6}{100} \times \frac{2}{12}$$

$$= \text{Rs. } 20//$$

$$\therefore \text{Interest on drawings of Mr. Shekar} = 225 + 75 + 20$$

$$\text{Rs. } 320//$$

3) Mr. Sachin, a partner has withdrawn the following

a) on July 2023 Rs. 4500

b) on 30 Sep 2023 Rs. 3600

c) on 31st Dec 2023 Rs. 2400

Interest on drawings is chargeable at 10% per annum. Calculate interest on Sachin drawing under specific period Method.

$$\begin{aligned} \text{a) Interest on Drawings} &= \text{Amount of drawings} \times \text{Rate} \times \frac{\text{No. outstanding}}{12} \\ &= 4500 \times \frac{10}{100} \times \frac{8}{12} \\ &= \underline{\underline{\text{Rs. 300}}} \end{aligned}$$

$$\begin{aligned} \text{b) Interest on drawings} &= \text{Amount of drawings} \times \text{Rate} \times \frac{\text{No. outstanding month}}{12} \\ &= 3600 \times \frac{10}{100} \times \frac{6}{12} \\ &= \underline{\underline{\text{Rs. 180}}} \end{aligned}$$

$$\begin{aligned} \text{c) Interest on drawings} &= \text{Amount of drawings} \times \text{Rate} \times \frac{\text{No. outstanding month}}{12} \\ &= 2400 \times \frac{10}{100} \times \frac{3}{12} \\ &= \underline{\underline{\text{Rs. 60}}} \end{aligned}$$

$\therefore$ Interest on drawings of Mr. Sachin is $300 + 180 + 60 = 540$

✓ 4) A and B are partners in a firm. Mr. A's drawings for the year 2023 & 2024 are given as:

- On 1st June 2023 Rs. 4000
- On 30th September 2023 Rs. 6000
- On 30th November 2023 Rs. 2000
- On 1st Jan 2024 Rs. 3000

Calculate interest on Mr. A's drawings at 8% per annum under product method.

Calculation of Interest on Drawings

Date of Drawing	Amount of Drawings	outstanding months	Total Product
01/06/23	4000	10	40,000
30/09/23	6000	6	36000
30/09/23	2000	4	8000
01/01/24	3000	3	9000
			93000

$$\text{Interest on drawings} = \text{Total Product} \times \text{Rate} \times \frac{1}{12}$$

$$= 93,000 \times \frac{8}{100} \times \frac{1}{12}$$

$$= \text{Rs. } 620//$$

$\therefore$ Interest on drawing of Mr. A & B Rs. 620//

- 5) X and Y are partners sharing profit & losses equally. According to partnership deed, interest on drawing at 10% per annum the drawings of partners during the year was as follows:-

Mr X

- i) on 1st ^{may} ~~July~~ 2023 Rs. 3000
- ii) on 31st July 2023 Rs. 2500
- iii) on 1st Jan 2024 Rs. 3500

Mr Y

- i) on 1st June 2023 Rs. 3500
- ii) on 1st August 2023 Rs. 4000
- iii) on 31st December 2023 Rs. 3800

Calculate interest on drawings of each partners on product method

Calculation on Interest of drawings of Mr. X

Date of Drawings	Amount of Drawings	outstanding month	Total Product
1/5/23	3000	11	33000
31/7/23	2500	8	20,000
01/1/24	3500	3	10,500
		Total Product	63,500

$$\text{Interest on Drawings} = \text{Total product} \times \text{Rate} \times \frac{1}{12}$$

$$= 63,500 \times \frac{10}{100} \times \frac{1}{12}$$

$$= \text{Rs. } \underline{\underline{529.16}}$$

∴ Interest on drawing of Mr. X Rs. 529.16

Mr. Y

Calculation on Interest of drawings of Mr. Y

Date of Drawings	Amount on Drawings	outstanding Month	Total Product
1/6/23	3500	10	35000
1/8/23	4000	8	32000
31/12/23	3800	3	11,400
		Total Product	78,400

$$\text{Interest on Drawings} = \text{Total Product} \times \text{Rate} \times \frac{1}{12}$$

$$= 78,400 \times \frac{10}{100} \times \frac{1}{12}$$

$$= \text{Rs. } \underline{\underline{653.33}}$$

∴ Interest on drawings of Mr. Y Rs. 653.33

- 6) Ramesh and Rakesh are partners are sharing profits and losses in the ratio of 3:2. Mr. Ramesh drew regularly ₹800 on 1st of every month for six months ending 30th Sep, 2023. Calculate interest on drawings at 8% per annum under product method.

⇒ Calculation on Interest of drawings of Mr. Ramesh

Date of Drawings	Amount of Drawing	outstanding month	Total Product
01/04/23	800	12	9600
01/05/23	800	11	8800
01/06/23	800	10	8000
01/07/23	800	9	7200
01/08/23	800	8	6400
01/09/23	800	7	5600
		Total Product	45,600

$$\text{Interest on Drawings} = \text{Total Product} \times \text{Rate} \times \frac{1}{12}$$

$$= 45,600 \times \frac{8}{100} \times \frac{1}{12}$$

$$= \text{Rs. } 304$$

∴ Interest on drawings of Mr. Ramesh Rs. 304

- 7) Mr. Suresh withdraws Rs. 800 at the middle of every month for the year ending 31st March 2023. Calculate interest on drawings of Mr. Suresh at 12% per annum under product method

⇒ Calculation on Interest of drawings of Mr. Suresh

Date of Drawings	Amount of Drawings	outstanding Month	Total Product
15/04/23	800	11.5	9,200
15/05/23	800	10.5	8,400
15/06/23	800	9.5	7,600
15/07/23	800	8.5	6,800
15/08/23	800	7.5	6,000
15/09/23	800	6.5	5,200
15/10/23	800	5.5	4,400
15/11/23	800	4.5	3,600
15/12/23	800	3.5	2,800
15/1/24	800	2.5	2,000
15/2/24	800	1.5	1,200
15/3/24	800	0.5	400
		Total Product	57,600

$$\text{Interest on Drawings} = \text{Total Product} \times \text{Rate} \times \frac{1}{12}$$

$$= 57,600 \times \frac{12}{100} \times \frac{1}{12}$$

$$= \text{Rs. } \underline{576}$$

∴ Interest on drawing of Mr. Suresh Rs. 576//

8) Mr. Prajwal, a partner withdraws Rs. 1000 for whole year ending 31st March 2024. Calculate interest on drawing at 6% per annum under product method if

- If he withdraws ^{beginning} ~~beginning~~ of every month
- If he withdraws ^{beginning} ~~beginning~~ of middle of every month
- If he withdraws last of every month.

(Beginning)

8) =>

Calculation on Interest of drawings of Mr. Prajwal

Date of drawings	Amount of Drawings	Outstanding Month	Total Product
01/4/23	1000	12	12,000
01/5/23	1000	11	11,000
01/6/23	1000	10	10,000
01/7/23	1000	9	9,000
01/8/23	1000	8	8,000
01/9/23	1000	7	7,000
01/10/23	1000	6	6,000
01/11/23	1000	5	5,000
01/12/23	1000	4	4,000
01/01/24	1000	3	3,000
01/02/24	1000	2	2,000
01/03/24	1000	1	1,000
Total Product			78,000

$$\text{Interest on drawings} = \text{Total Product} \times \text{Rate} \times \frac{1}{12}$$

$$= 78,000 \times \frac{6}{100} \times \frac{1}{12}$$

$$= \underline{\underline{\text{Rs. 390}}}$$

$\therefore$ Interest on drawings of Mr. Prajwal is Rs. 390

8) → Calculation on Interest of drawings of
Mrs. Prajwal [Middle of the every month]

Date of Drawings	Amount of Drawings	outstanding month	Total Product
15/4/23	1000	11.5	11,500
15/5/23	1000	10.5	10,500
15/6/23	1000	09.5	9,500
15/7/23	1000	08.5	8,500
15/8/23	1000	07.5	7,500
15/9/23	1000	06.5	6,500
15/10/23	1000	05.5	5,500
15/11/23	1000	04.5	4,500
15/12/23	1000	03.5	3,500
15/1/24	1000	02.5	2,500
15/2/24	1000	01.5	1,500
15/3/24	1000	0.5	500
		Total Product	72,000

$$\text{Interest on Drawings} = \text{Total product} \times \text{Rate} \times \frac{1}{12}$$

$$= 72,000 \times \frac{6}{100} \times \frac{1}{12}$$

$$= \text{Rs. } \underline{\underline{360}}$$

∴ Interest on Drawings of Mrs. Prajwal is ^{Rs.} 360/-

8=>

Calculation on Interest of Drawings of Mr. Prajwal
[End of the year last] Every month

Date of Drawings	Amount of Drawing	Outstanding month	Total Product
30/4/23	1000	11	11,000
30/5/23	1000	10	10,000
30/6/23	1000	9	9,000
30/7/23	1000	8	8,000
30/8/23	1000	7	7,000
30/9/23	1000	6	6,000
30/10/23	1000	5	5,000
30/11/23	1000	4	4,000
30/12/23	1000	3	3,000
30/1/24	1000	2	2,000
30/2/24	1000	1	1,000
30/3/24	1000	0	0
		Total Product	66,000

$$\text{Interest on Drawings} = \text{Total Product} \times \text{Rate} \times \frac{1}{12}$$

$$= 66,000 \times \frac{6}{100} \times \frac{1}{12}$$

$$= \text{Rs. } \underline{\underline{330}}$$

∴ Interest on drawings of Mr. Prajwal is ₹ 330

- 9) Ram and Mahesh are partners sharing profit & loss in the ratio of 3:2. Ram drew regularly ₹1000 for 6 months, year ending yearly 30th Sep 2023. Calculate interest on drawings of Ram at the rate of 8% per annum.

- a) If he withdrew first of every month
 b) If he withdrew middle of every month
 c) If he withdrew last of every month (End)

a) $\Rightarrow$ Calculation on Interest of drawings of M^r. Ram (First)

Date of Drawings	Amount of Drawings	outstanding month	Total Product
01/4/23	1000	6	6000
01/5/23	1000	5	5000
01/6/23	1000	4	4000
01/7/23	1000	3	3000
01/8/23	1000	2	2000
01/9/23	1000	1	1000
Total Product			21,000

$$\text{Interest on Drawings} = \text{Total Product} \times \text{Rate} \times \frac{1}{12}$$

$$= 21,000 \times \frac{8}{100} \times \frac{1}{12}$$

$$= \underline{\underline{\text{Rs. 140}}}$$

Therefore, Interest on Drawings of M^r. Ram is ₹ 140/-

b) $\Rightarrow$ Calculation on Interest of drawings of M^r. Ram (Middle of month)

Date of Drawings	Amount of Drawings	outstanding month	Total Product
15/04/23	1000	5.5	5,500
15/05/23	1000	4.5	4,500
15/06/23	1000	3.5	3,500
15/07/23	1000	2.5	2,500
15/08/23	1000	1.5	1,500
15/09/23	1000	0.5	500
Total Product			18,000

$$\text{Interest on Drawings} = \text{Total Product} \times \text{Rate} \times \frac{1}{12}$$

$$= 18,000 \times \frac{8}{100} \times \frac{1}{12}$$

$$= \text{Rs. } 120$$

$\therefore$ Interest on drawings of Mr. Ram is ₹120//

c) $\Rightarrow$ Calculation on ^{amount} Drawings of Mr. Ram (End of every month)

Date of Drawings	Amount of Drawings	Outstanding month	Total Product
30/4/23	1000	5	5000
30/5/23	1000	4	4000
30/6/23	1000	3	3000
30/7/23	1000	2	2000
30/8/23	1000	1	1000
30/9/23	1000	0	0
		Total Product	15,000

$$\text{Interest on Drawings} = \text{Total Product} \times \text{Rate} \times \frac{1}{12}$$

$$= 15,000 \times \frac{8}{100} \times \frac{1}{12}$$

$$= \text{Rs. } 100$$

$\therefore$ Interest on drawings of Mr. Ram is ₹100//

- 10) Bhariath & Shariath are partners sharing profits & losses in the ratio of 4:3. Mr. Bhariath withdrawn Rs. 3000 at the beginning of Oct in every 2 months for the year ending 31st March 24. The interest is charged on Bhariath's at 6% per annum.

⇒ Calculation on Interest on drawings of M/s. Bhavathi

Date of Drawings	Amount of Drawings	outstanding months	Total Product
1/4/23	3000	12	36,000
1/6/23	3000	10	30,000
1/8/23	3000	8	24,000
1/10/23	3000	6	18,000
1/12/23	3000	4	12,000
1/2/24	3000	2	6000
		Total Product	1,26,000

$$\text{Interest on Drawings} = \text{Total Product} \times \text{Rate} \times \frac{1}{12}$$

$$= 1,26,000 \times \frac{6}{100} \times \frac{1}{12}$$

$$= \text{Rs. } \underline{\underline{630}}$$

Therefore, Interest on drawings of M/s. Bhavathi is ₹630.

- 11) Swadesh and Mahesh are partners in a firm. Swadesh withdrawn ₹2000 at the end of June in every 2 months. Calculate Interest on drawings at 8% per annum, for the year ending 31st March 2024. Under product method.

- a) What if he withdrew middle of June in every 2 months

⇒ Calculation on Interest of Mr. Suresh [End of Every month]

Date of Drawings	Amount of Drawings	Outstanding month	Total Product
30/4/23	2000	11	22,000
30/6/23	2000	9	18,000
30/8/23	2000	7	14,000
30/10/23	2000	5	10,000
30/12/23	2000	3	6,000
1/2/24	2000	1	2,000
		Total Product	72,000

$$\text{Interest on Drawing} = \text{Total Product} \times \text{Rate} \times \frac{1}{12}$$

$$= 72,000 \times \frac{8}{100} \times \frac{1}{12}$$

$$= \text{Rs. } \underline{480}$$

Therefore, Interest on drawing of Mr. Suresh is ₹ 480/-

a) Calculation on Interest of Mr. Suresh [Middle]

Date of Drawings	Amount of Drawings	Outstanding month	Total Product
15/4/23	2000	11.5	23,000
15/6/23	2000	9.5	19,000
15/8/23	2000	7.5	15,000
15/10/23	2000	5.5	11,000
15/12/23	2000	3.5	7,000
15/2/24	2000	1.5	3,000
		Total Product	78,000

$$\text{Interest on drawing} = \text{Total Product} \times \text{Rate} \times \frac{1}{12}$$

$$= 78,000 \times \frac{8}{100} \times \frac{1}{12}$$

$$= \text{Rs. } \underline{520}$$

∴ Interest on drawings of Mr. Suresh is ₹ 520/-

- 13) Mr. A Withdrew Rs. 2000 in Each quarter
Interest is charged at 12% per annum. For the
year ending 31st March 2024. Calculate interest on
drawings.
- a. If he Withdraw middle of Every quarter
b. If he Withdraw End of Every quarter

April } Q₁ Oct } Q₃
15/05/24 May } 15/11/24 Nov }
June } Dec }

July } Q₂ Jan } Q₄
15/08/24 Aug } 15/02/24 Feb }
Sep } Mar }

⇒ Calculation on Interest of drawings of Mr. A [Middle]

Date of Drawings	Amount of Drawings	outstanding month	Total Product
15/5/24	2000	10.5	21,000
15/08/24	2000	7.5	15,000
15/11/24	2000	4.5	9,000
15/02/25	2000	1.5	3,000
		Total Product	48,000

$$\text{Interest on Drawings} = \text{Total Product} \times \text{Rate} \times \frac{1}{12}$$

$$= \cancel{488} 48,000 \times \frac{12}{100} \times \frac{1}{12}$$

$$= \underline{\underline{\text{Rs. } 480}}$$

∴ Interest on Drawings of Mr. A is ₹ 480/-

→ Calculation on Interest of drawings of Mx. A [End]

Date of Drawings	Amount of Drawings	Outstanding month	Total Product
30/5/24	2000	10	20,000
30/8/24	2000	7	14,000
30/11/24	2000	4	8000
30/2/25	2000	1	2000
		Total Product	44,000

$$\text{Interest on Drawings} = \text{Total product} \times \text{Rate} \times \frac{1}{12}$$

$$= 44,000 \times \frac{12}{100} \times \frac{1}{12}$$

$$= \text{Rs. } \underline{440}$$

Therefore, Interest on drawings of Mx. A is ₹ 440 //

* Average Period Method / Short Cut Method

Formula :-

$$\text{Average Period} = \frac{\text{longest Period outstanding} + \text{Shortest Period outstanding}}{2}$$

→ Ravi & Uday are partners sharing profits & losses equally. Mx. draw regularly ₹ 2000 at the end of every month for the half year ending 30th sep 2023 & also Uday withdraws ₹ 1000 beginning of every month for the half year. Calculate interest on drawings at 10% per annum. under short cut method.

→ Calculation on Interest of drawings of Mr. Ravi [End]

Date of Drawings	Outstanding Month
30/4/23	5
30/5/23	4
30/6/23	3
30/7/23	2
30/8/23	1
30/9/23	0

$$\left. \begin{aligned} \text{Total drawings} &= \\ &= 2000 \times 6 \text{ months} \\ &= 12000 \end{aligned} \right\}$$

Average Period

$$\text{Interest on drawings} = \frac{\text{Total drawings} \times \text{Average Period} \times \text{Rate}}{12}$$

$$= \frac{12000 \times \frac{5+0}{2} \times \frac{10}{100} \times \frac{1}{12}}$$

$$= \frac{12000 \times 2.5 \times \frac{10}{100} \times \frac{1}{12}}$$

$$= \text{Rs. } 250$$

∴ The Interest on drawings of Mr. Ravi is ₹250//

⇒ Calculation on Interest of drawings of Mr. Uday [Begin]

Date of Drawings	Outstanding Month
1/4/23	6
1/5/23	5
1/6/23	4
1/7/23	3
1/8/23	2
1/9/23	1

$$\begin{aligned} \text{Total drawings} &= 1000 \times 6 \text{ months} \\ &= \text{Rs. } 6000// \end{aligned}$$

Average Period

$$\text{Interest on drawings} = \frac{\text{Total drawings} \times \text{Average period} \times \text{Rate}}{12}$$

$$= 6000 \times \frac{6+1}{2} \times \frac{10}{100} \times \frac{1}{12}$$

$$= \text{Rs. } 175//$$

Therefore, Interest on drawings of Mr. Uday is ₹ 175//

Average Period

	1/2 Year 30/9	Full Year 31/3
Beginning of month	$\frac{6+1}{2}$	$\frac{12+1}{2}$
Mid of month	$\frac{5.5+0.5}{2}$	$\frac{11.5+0.5}{2}$
End of month	$\frac{5+0}{2}$	$\frac{11+0}{2}$

Formulas

	1/2 Year [30/9]	1 Year [31/3]
Beginning of month	$\Rightarrow \frac{\text{Total drawings} \times 7 \times \text{Rate} \times 1}{2 \times 12}$	$\Rightarrow \frac{\text{Total drawings} \times 13 \times \text{Rate} \times 1}{2 \times 12}$
Middle of month	$\frac{\text{Total drawings} \times 6 \times \text{Rate} \times 1}{2 \times 12}$	$\frac{\text{Total drawings} \times 12 \times \text{Rate} \times 1}{2 \times 12}$
End of month	$\frac{\text{Total drawings} \times 5 \times \text{Rate} \times 1}{2 \times 12}$	$\frac{\text{Total drawings} \times 11 \times \text{Rate} \times 1}{2 \times 12}$

- 2) Shariath & Bhariath are partners sharing profits & losses equally. Shariath withdrawn ₹ 1500 at the beginning of every month & bhariath withdrawn ₹ 2000 at the mid of every month for the year ending 31st march 2024.

Calculate interest on drawings at 12% per annum. Under average period method or shortcut method.

⇒ Calculation of Interest & drawings of Mrs. Shariath

Given :- Amount, ⇒ ₹ 1500

Beginning of every month, Year ending = 31/3

Rate - 12% per annum

$$\begin{aligned} \text{Total Drawings} &= 1500 \times 12 \text{ months} \\ &= 18000 \end{aligned}$$

$$\begin{aligned} \text{Interest on drawings} &= \text{Total Drawings} \times \frac{13}{2} \times \frac{\text{Rate}}{100} \times \frac{1}{12} \\ &= \text{Total drawings} \times \text{Average Period} \times \text{Rate} \\ &\quad \times \frac{1}{12} \end{aligned}$$

$$\begin{aligned} \text{Total Interest on drawings} &= \text{Total drawings} \times \frac{13}{2} \times \frac{12}{100} \times \frac{1}{12} \\ &= 18000 \times \frac{13}{2} \times \frac{12}{100} \times \frac{1}{12} \\ &= \underline{\underline{Rs. 170}} \end{aligned}$$

∴ Interest on drawings of Mrs. Shariath is ₹ 170/-

→ Calculation of Interest on drawings of Mr. Bharath

Given :- Amount → 2000

Mid of Every month

Rate 12% per annum

$$\begin{aligned}\text{Total drawings} &= 2000 \times 12 \text{ months} \\ &= 24000\end{aligned}$$

$$\text{Interest on drawings} = \text{Total drawings} \times \text{Average Period} \times \text{Rate} \times \frac{1}{12}$$

$$\text{Interest on drawings} = 24000 \times \frac{12}{2} \times \frac{12}{100} \times \frac{1}{12}$$

$$= \text{Rs. } 1440$$

∴ Interest on drawings of Mr. Bharath is ₹ 1440 //

- 3) Mr. A a partner Withdrawn ₹ 3000, at the beginning of every month & also Mr. Y a partner Withdrawn ₹ 2,800 at the end of every month. The rate of interest on partner's drawings at 6% per annum. At the end of 31st March ²⁰²³~~2022~~ - 24

⇒ Calculation on Interest of drawings of Mr. A

Given :- Amount → ₹ 3000

Beginning of every month

Rate 6%

$$\begin{aligned}\text{Total drawings} &= 3000 \times 12 \text{ months} \\ &= 36000\end{aligned}$$

$$\text{Interest on drawings} = \text{Total drawings} \times \text{Average Period} \times \text{Rate} \times \frac{1}{12}$$

$$= 36000 \times \frac{12}{2} \times \frac{6}{100} \times \frac{1}{12}$$

$$= \text{Rs. } 1080$$

∴ Interest on drawings of Mr. A is ₹ 1080 //

⇒ Calculation on Interest of drawings of Mr. Y

Given :- Amount $\Rightarrow$ ₹ 2,800

End of every month

Rate 6%

$$\begin{aligned}\text{Total drawings} &= 2,800 \times 12 \text{ months} \\ &= 33,600\end{aligned}$$

Interest on drawings = Total drawings $\times$ Average period $\times$ Rate $\times \frac{1}{12}$

$$= 33,600 \times \frac{11}{2} \times \frac{6}{100} \times \frac{1}{12}$$

$$= ₹ 924$$

∴ Interest on drawings of Mr. B is ₹ 924 //

4) A, B & C were partners sharing profits & losses equally. Mr. A withdrawn ₹ 2,250, at the beginning of every month, Mr. B withdrawn ₹ 1,750 at the middle of every month, Mr. C withdrawn ₹ 1,150 at the end of every month.

Calculate interest on drawings at the rate of 10% per annum for the year ending 31st March 2024

⇒ Calculation of Interest on drawings of Mr. A [Beginning]

Given :- Amount $\Rightarrow$ ₹ 2,250

Beginning of every month

Rate 10%

$$\begin{aligned}\text{Total Drawings} &= 2,250 \times 12 \text{ months} \\ &= 27,000\end{aligned}$$

$$\text{Interest on drawings} = \text{Total drawings} \times \text{Average period} \times \text{Rate} \times \frac{1}{12}$$

$$= 27000 \times \frac{13}{2} \times \frac{10}{100} \times \frac{1}{12}$$

$$= \text{Rs. } 1462.5$$

$\therefore$ Interest on drawings of Mr. A is Rs. 1462.5//

$\Rightarrow$ Calculation of Interest on drawings of Mr. B [Middle]

Given :- Amount $\Rightarrow$ ₹ 1,750

Mid of every month

Rate 10%.

$$\text{Total Drawings} = 1,750 \times 12 \text{ months}$$

$$= 21000$$

$$\text{Total Interest on drawings} = \text{Total drawings} \times \text{Average Period} \times \text{Rate} \times \frac{1}{12}$$

$$= 21,000 \times \frac{12}{2} \times \frac{10}{100} \times \frac{1}{12}$$

$$= ₹ 1050//$$

$\therefore$ Interest on drawings of Mr. B is Rs. 1050//

$\Rightarrow$ Calculation of Interest on drawings of Mr. C [End]

Given :- Amount $\Rightarrow$ 1,150

End of every month

Rate 10%.

$$\text{Total drawings} = 1,150 \times 12 \text{ months}$$

$$= 13,800$$

$$\text{Interest on drawings} = \text{Total drawings} \times \text{Average period} \times \text{Rate} \times \frac{1}{12}$$

$$= 13,800 \times \frac{4}{2} \times \frac{10}{100} \times \frac{1}{12}$$

$$= \text{Rs. } \underline{632.5}$$

$\therefore$ Interest on drawings of Mr. C is Rs. 632.5//

- 5) X, Y & Z were partners sharing profits & losses equally. Mr. X withdrawn ₹ 2000 at the beginning of every month, Mr. Y withdrawn ₹ 2,500 at the 15th of every month, Mr. Z withdrawn ₹ 3000 at the end of every month for the half year ending 30th Sep 2023. Calculate Interest on drawings of each partner at the rate of 12% per annum

$\Rightarrow$

	X	Y	Z
	2000	2500	3000
	12%	12%	12%
	30/9/23	30/9/23	30/9/23

$\Rightarrow$ Calculation of Interest on Drawings of Mr. X [Beginning]

$$\begin{aligned} \text{Total drawings} &\Rightarrow 2000 \times 6 \text{ month} \\ &= ₹ 12,000 \end{aligned}$$

$$\text{Interest on drawings} = \text{Total drawings} \times \text{Average period} \times \text{Rate} \times \frac{1}{12}$$

$$= 12000 \times \frac{7}{2} \times \frac{12}{100} \times \frac{1}{12}$$

$$= \text{Rs. } \underline{420}$$

$\therefore$ Interest on drawings of Mr. X is Rs. 420//

⇒ Calculation of Interest on drawings of Mr. Y [Middle]
 Total drawings $\Rightarrow 2500 \times 6 \text{ months}$
 $= 15,000$

Interest on drawings = Total drawings $\times$ Average period $\times$ Rate $\times \frac{1}{12}$

$$= 15,000 \times \frac{6}{2} \times \frac{12}{100} \times \frac{1}{12}$$

$$= \text{Rs. } 450//$$

∴ Interest on drawings of Mr. Y is Rs. 450//

⇒ Calculation of Interest on drawings of Mr. Z [End]
 Total drawings $\Rightarrow 3000 \times 6 \text{ months}$
 $= 18,000$

Interest on drawings = Total drawings $\times$ Average period $\times$ Rate $\times \frac{1}{12}$

$$= 18,000 \times \frac{5}{2} \times \frac{12}{100} \times \frac{1}{12}$$

$$= \text{Rs. } 450$$

∴ Interest on drawings of Mr. Z is Rs. 450//

imp $\checkmark$ 67 A & B were partners sharing profits & losses in the ratio of 3:2. Mr. A withdrawn ₹2,500 at the beginning of every quarter. Mr. B withdrawn ₹3000 quarterly quarterly at end the end of every quarter for the year ending 31st march 2024
 Calculate interest on drawings of each partner at the rate of 8%.

1/4/23

April

May

June

Q₁

July

Aug

Sep

Q₂

Oct

Nov

Dec

Q₃

Jan

Feb

Mar

Q₄

31/3/24

⇒ Calculation of Interest on Drawings of Mr. A [Beginning Quarter]

$$\begin{aligned}\text{Total drawings} &= 2,500 \times 4 \\ &= 10,000\end{aligned}$$

$$\text{Interest on drawings} \Rightarrow \text{Total drawings} \times \text{Average period} \times \text{Rate} \times \frac{1}{12}$$

$$= 10,000 \times \frac{12+3}{2} \times \frac{8}{100} \times \frac{1}{12}$$

$$= \text{Rs. } 500 //$$

∴ Interest on drawings of Mr. A is Rs. 500 //

⇒ Calculation of Interest on drawings of Mr. B [End]

$$\begin{aligned}\text{Total drawings} &= 3,000 \times 4 \\ &= 12,000\end{aligned}$$

$$\text{Interest on drawings} = \text{Total drawings} \times \text{Average period} \times \text{Rate} \times \frac{1}{12}$$

$$= 12,000 \times \frac{9}{2} \times \frac{8}{100} \times \frac{1}{12}$$

$$= \text{Rs. } 360 //$$

∴ Interest on drawings of Mr. B is Rs. 360 //

* Profit and loss appropriation account

Profit & loss appropriation account is an account which is extension of the profit & loss account of the firm. It starts with net profit and shows how the profits are appropriated or distributed among the partners.

* Format of Profit & loss appropriation account

Dr (-)

(+) Cr

Particulars	Amount	Particulars	Amount
To P/L alc [Net loss bld]	--	By P/L alc [Net profit bld]	--
To Salary to partner	---	By Int on drawings	
		A	-
		B	-
To Commission to Partners	--		
To Int on Capital			
A			
B			
To Partners's Capital Distribution of Profit			

1) A & B were partners commenced business with capital investments of ₹80,000 & ₹60,000 respectively. on 1st April 2023. They agreed to have ^{share} profit & losses in the ratio 3:2.

For the year ending 31st March 2024 they earned a profit of ₹24,000 before allowing the following

- a) Interest on Capital at 6% per annum
 b) Annual Salary to Mr. B Rs. 5000
 c) Interest on Drawings at 10% per

The drawings of Mr. A is Rs. 15000 & Mr. B Rs. 10000 respectively.

Prepare P&L appropriation account for the year ending 31st March 2024

Dr (-)

Cr (+)

Particulars	Amount	Particulars	Amount
To Interest on Capital		By P/L a/c	24,000
A $\Rightarrow 80,000 \times \frac{6}{100} \Rightarrow 4,800$		[Net profit b/d]	
B $\Rightarrow 60,000 \times \frac{6}{100} \Rightarrow 3,600$	8,400	By Int on drawings	
		A $\Rightarrow 15,000 \times \frac{10}{100} \Rightarrow 1,500$	
To Annual Salary to Mr. B	5000	B $\Rightarrow 10,000 \times \frac{10}{100} \Rightarrow 1,000$	2,500
To Partners Capital a/c	13,100		
[Distribution of Profit]	26,500		26,500
A $\Rightarrow 13,100 \times \frac{3}{5} \Rightarrow 7860$		By Partners Capital a/c	13,100
B $\Rightarrow 13,100 \times \frac{2}{5} \Rightarrow 5240$			

- 2) M & N are equal partners with capitals of Rs. 1,80,000 & ₹1,40,000 respectively on 1st April 2023. The partnership deed provided for interest on Capital at 5% per annum, interest on drawings being Mr. M ₹540 & Mr. N ₹360 and annual commission of Rs. 8000 to Mr. M. During the year M withdrawn ₹18,000 & N withdrawn Rs. 12,000 for their private use. The profit before adjustments was Rs. 42,000 to 42,100 for the year

ending 2024. Prepare Profit and loss etc appropriation account

Dr Cr		(+/-) Cr	
Particulars	Amount	Particulars	Amount
To Interest on Capital		By Profit & loss a/c	42100
M = $180000 \times \frac{5}{100} \Rightarrow 9000$		[Net profit b/d]	
N = $140000 \times \frac{5}{100} \Rightarrow 7000$	16000		
		By interest on drawings	
		M = 540	
		N = (+) 360	900
To Annual Commission to Mr. M	8000		
To Partnership Capital a/c	19000		
[Distribution of Profit]			
M $\Rightarrow 19000 \times \frac{1}{2} \Rightarrow 9500$	430		
N $\Rightarrow 19000 \times \frac{1}{2} \Rightarrow 9500$			
	43000		43000
		By Partnership Capital a/c	19000

- 3) A & B were partners with a Capital of Rs. 1,00,000 and Rs. 80,000 respectively. They earned a net profit for the year ending 31st March 2024 amounted to Rs. (40,000). The partners agreed to share their profits equally. Partnership deed provides the following:
- a) A and B will be allowed to get a salary of Rs. 300 & Rs. 400 per month.
 - b) Mr. B who manages the sales department will be allowed a commission equal to 10% of net profit after allowing Mr. A salary.
 - c) 7% interest will be allowed on partners fixed capital.

- d) 5% interest will be charged on partnership annual drawings. The drawings of mrs. A and B were Rs. 16,000 and Rs. 14,000 respectively.

Compute profit & loss appropriation a/c

Dr (+)

Cr (+)

Particulars	Amount	Particulars	Amount
To Salary to Partners A $\Rightarrow 300 \times 12 \Rightarrow 3600$ B $\Rightarrow 400 \times 12 \Rightarrow 4800$	8,400	By Profit & loss a/c [Net profit b/d]	40000
To Commission to Mrs. B [$(40000 - 3600) \times \frac{10}{100}$]	3640	By Interest on drawings A $\Rightarrow 16,000 \times \frac{5}{100} \Rightarrow 800$ B $\Rightarrow 14,000 \times \frac{5}{100} \Rightarrow 700$	1500
To Interest on Capital A $\Rightarrow 100000 \times \frac{7}{100} \Rightarrow 7000$			
B $\Rightarrow 80000 \times \frac{7}{100} \Rightarrow 5600$	12,600		
To Partners' Capital a/c [Distribution of Profit] A $\Rightarrow 16,860 \times \frac{1}{2} \Rightarrow 8430$ B $\Rightarrow 16,860 \times \frac{1}{2} \Rightarrow 8430$	16,860		
	41500		41500

- 4) X and Y are partners with a capital of Rs. 1,00,000 and Rs. 60,000 respectively. They agreed to share profit & losses in the proportion of opening capital. It was agreed to allow interest on capitals at 6% per annum. Mrs. Y is allowed a monthly salary of Rs. 750 per month (Mrs. X is allowed an annual commission of Rs. 7,000). During the year X and Y withdrew Rs. 12,000 and 16,000 respectively. And the interest on that

drawings amounted to Rs. 600 and Rs. 800 respectively.
The profit of the firm for the year ending before adjustments was Rs. (38,600).

Prepare profit and loss appropriation a/c

Particulars	Amount	Particulars	Amount
To Interest on Capital.		By Profit and loss a/c	38,600
$X = 1,00,000 \times \frac{10}{100} = 10,000$		[Net profit B/d]	
$Y = 60,000 \times \frac{10}{100} = 6,000$	16,000		
		By Interest on drawings	
		$X = 600$	
		$Y = 800$	1,400
To Salary to Mr. Y			
750×12	9,000		
To Commission to Mr. X	7,000		
To Partners Capital a/c	8,000		
[Distribution of Profit]			
$X = 8000 \times \frac{5}{8} = 5,000$			
$Y = 8000 \times \frac{3}{8} = 3,000$			
	40,000		40,000

5) X & Y are partners sharing profits & losses equally.
They agreed they earned a profit of Rs. 35,000 for the year ending 31st March 2024 before allowing the following adjustments

- a) Mr. X will be allowed a monthly salary of Rs. 200
- b) Mr. Y is allotted a 10% commission on net profit after allowing Mr. X salary for his sales promotion
- c) 10% interest will be allowed on Partners Capital
- d) 8% interest will be charged on Partners annual drawings
- e) The Capitals of X & Y are Rs. 70,000 & 50,000 respectively. Their annual drawings were ₹10,000 each.

Prepare profit and loss appropriation a/c

Particulars	Amount	Particulars	Amount
To Salary to Mr. X (2000 X 12 months)	2,400	By profit & loss a/c [Net profit b/d]	35,000
To Commission to Mr. Y $[(35,000 - 2,400) \times \frac{10}{100}]$	3,260	By Interest on drawings $X = 10,000 \times \frac{8}{100} \Rightarrow 800$	
To Interest on capital $X \Rightarrow 70,000 \times \frac{10}{100} \Rightarrow 7,000$ $Y \Rightarrow 50,000 \times \frac{10}{100} \Rightarrow 5,000$	12,000	$Y = 10,000 \times \frac{8}{100} \Rightarrow 800$	1600
To Partners Capital a/c $X \Rightarrow 18,940 \times \frac{1}{2} = 9,470$ $Y \Rightarrow 18,940 \times \frac{1}{2} = 9,470$	18,940		
	36,600		36,600

- 6) Arun & Varun are partners sharing profits in the proportion of $\frac{3}{5}$ & $\frac{2}{5}$ with capital of Rs. 50,000 and Rs. 30,000 respectively. Interest on Capital is agreed to be paid at 6% per annum. Mr. Varun is allowed a salary of Rs. 20,000 per annum. During the year the profits prior to the calculation on interest on Capital after charging Varun's salary amounted to ₹12,500. A provision of 5% of profits is to be made in respect of manager's Commission to Mr. Arun who manages the Sales department. Prepare profit & loss appropriation a/c

Profit & loss appropriation a/c

Particulars	Amount	Particulars	Amount
To salary to Varun	2500	By Profit & loss a/c	15000
To interest on capital		[Net profit b/d]	
		[12500 + 2500]	
Arun $\Rightarrow 50,000 \times \frac{6}{100} \Rightarrow 3000$			
Varun $\Rightarrow 30,000 \times \frac{6}{100} \Rightarrow 1800$	4800		
To Provision on Commission to Varun			
[15000 $\times 5/100$]	750		
To Partners Capital a/c	6950		
[Distribution of Profit]			
Arun $\Rightarrow 6950 \times 3/5 = 4170$			
Varun $\Rightarrow 6950 \times 2/5 = 2780$			
	15000		15000

7) A, B & C started a business on 1st April 2023 by contributing Rs. 50,000, Rs. 40,000, & Rs. 30,000 as their capital and decided to share profits ~~equally~~ in the ratio 3:2:1

- Salary payable to each partner Rs. 1000 per month
 - Interest on capital will be allowed at 6% per annum
 - Drawings during the year ₹ 60,000, ₹ 40,000 & ₹ 20,000 respectively
 - Interest on drawings charged at ₹ 5% per annum. There
- 10) The net profit for the year ending as per P/L a/c for the year ending 31st March 2024 is Rs. 3,56,600

Profit and loss appropriation a/c

Particulars	Amount	Particulars	Amount
To Salary to partners A = $1000 \times 12 = 12,000$ B = $1000 \times 12 = 12,000$ C = $1000 \times 12 = 12,000$	36000	By Profit & loss a/c [Net profit b/d]	3,56,000
To Interest on Capital A = $50,000 \times 6/100 = 30,000$ B = $40,000 \times 6/100 = 24,000$ C = $30,000 \times 6/100 = 18,000$	72,000	By Interest on drawings A = $60,000 \times 5/100 = 3000$ B = $40,000 \times 5/100 = 2000$ C = $20,000 \times 5/100 = 1000$	6000
To Partners Capital a/c [Distribution of Profit] A = $254600 \times 3/6 = 1,27,300$ B = $254600 \times 2/6 = 84,867$ C = $254600 \times 1/6 = 42,433$	254600		
	3,62,600		3,62,600

★ Guarantee of profit to a partner :-

Sometimes a partner is admitted into the firm with a guarantee of certain ~~and~~ minimum amount of profit. Such guarantee (assurance) may be given by all the old partners in a certain ratio or by any of the old partners individually to the new partner.

The minimum guaranteed amount shall be paid to such new partner when his share of profit as per the profit sharing ratio is less than the guarantee amount.

1. A, B & C are partners sharing profits in the ratio of 3:2:1. Mr. C's share in profit has been guaranteed by A & B to be a minimum sum of Rs. 8000. Profits for the year ending 31st March 2021 was Rs. 36,000. Divide profits among the partners.

→ Profit & loss appropriation a/c

Particulars	Amount	Particulars	Amount
-------------	--------	-------------	--------

I. Calculation of Profit & Deficiency

Profit of firm $\Rightarrow 36000$

$\nearrow$ A $\rightarrow \frac{3}{6}$
 $\rightarrow$ B $\rightarrow \frac{2}{6}$
 $\searrow$ C $\rightarrow \frac{1}{6}$

Distribution

$$A = 36000 \times \frac{3}{6} \Rightarrow 18000$$

$$B = 36000 \times \frac{2}{6} \Rightarrow 12000$$

$$C = 36000 \times \frac{1}{6} \Rightarrow 6000$$

II. Deficiency

Guaranteed amount for Mr. C $\rightarrow 8000$

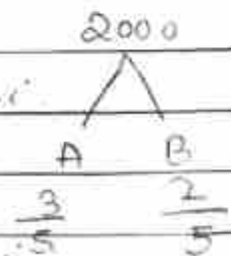
Actual Profit $\rightarrow 6000$

Deficiency $\Rightarrow 2000$

Deficiency

$$A = 2000 \times \frac{3}{5} \Rightarrow 1200$$

$$B = 2000 \times \frac{2}{5} \Rightarrow 800$$



Profit & loss appropriation a/c

To A's Capital a/c		By P/L a/c	36,000
Profit 18,000		[Net profit b/d]	
Less Deficiency to 12,000	16,800		
To B's Capital a/c			
Profit 12,000			
Less Deficiency to 800	11,200		
To C's Capital a/c			
Profit 6,000			
Add Deficiency 'A' 12,000			
Add Deficiency 'B' 800	8,000		
	36,000		36,000

2. X & Y were partners in a firm sharing profit & losses in the ratio of 3:2. They admitted Mr. Z for $\frac{1}{6}$ share in profit & guaranteed that his profit share will not be less than Rs. 25,000. Total profit of the firm was Rs. 90,000. Calculate share of profit for each partner when guarantee is given by Mr. X. New profit sharing ratio is 3:2:1. Prepare P/L appropriation a/c

→ Calculation of Profit & Deficiency

Profit of firm $\Rightarrow 90,000$

$\begin{matrix} \nearrow X \frac{3}{6} \\ \searrow Y \frac{2}{6} \\ \searrow Z \frac{1}{6} \end{matrix}$

Distribution

$$X = 90,000 \times \frac{3}{6} \Rightarrow 45,000$$

$$Y = 90,000 \times \frac{2}{6} \Rightarrow 30,000$$

$$Z = 90,000 \times \frac{1}{6} \Rightarrow 15,000$$

Deficiency

$$\text{Guaranteed Amt} \Rightarrow 25,000$$

$$\text{Actual Profit} \Rightarrow 15,000$$

$$\text{Deficiency} \Rightarrow 10,000$$

Profit & loss appropriate a/c

Particulars	Amount	Particulars	Amount
To x's Capital a/c		By P/L a/c	90000
Profit 45000		(Net profit b/d)	
~~Less~~ Deficiency 10000	35000		
To y's Capital a/c	30000		
To z's Capital a/c			
Profit 15000			
Add Deficiency 10000 for x	25000		
	90000		90000

3. X, Y & Z are partners in a firm sharing profit & losses in the ratio of 3:2:1. They admitted Mr. Z for $\frac{1}{6}$ share in profit & guaranteed that his profit share will not be less than Rs. 25,000. Total profit share will not be Rs. 90,000. Calculate share of profit for each partner when guarantee is given by both X & Y.

⇒ Calculation of Profit & Deficiency

Profit of firm $\Rightarrow$ 90,000 $\rightarrow \frac{3}{6}$

$\rightarrow \frac{2}{6}$

$\rightarrow \frac{1}{6}$

Distribution

$$X = 90000 \times \frac{3}{6} \Rightarrow 45000$$

$$Y = 90000 \times \frac{2}{6} \Rightarrow 30000$$

$$Z = 90000 \times \frac{1}{6} \Rightarrow 15000$$

Deficiency

Guaranteed Amount $\rightarrow$ 25,000

Actual Profit $\rightarrow$ 15,000

Deficiency $\rightarrow$ 10,000

Deficiency

$$X = 10000 \times \frac{3}{5} \Rightarrow 6000$$

$$Y = 10000 \times \frac{2}{5} \Rightarrow 4000$$

Profit & loss appropriation a/c

Particulars	Amount	Particulars	Amount
To X's Capital a/c		By P/L a/c	90,000
Profit 45,000		[Net profit b/d]	
less - deficiency to 6000	39,000		
To Y's Capital a/c			
Profit 30,000			
less - deficiency to 4000	26,000		
To C's Capital a/c			
Profit 15,000			
Add Deficiency 'A' 6000			
Add Deficiency 'B' 4000	25,000		
	90,000		90,000

4. A, B & C share profit & losses in the ratio of 3:2. They admitted Mr. C into their firm for 1/6 share in profit. Mr. A personally guaranteed to Mr. C's share of profit after charging interest on capital at 10% per annum could not be less than Rs. 15,000 in any year. The capital provided was as follows:-

1) Mr. A Rs. 1,35,000, Mr. B 1,00,000, Mr. C 75,000

The profit for year ending 31st March 2024 amounted to Rs. 75,000 before providing interest on capital. Show the P/L appropriation a/c if new profit sharing ratio is 3:2:1

⇒ Profit before int on Capital = 75,000
 less - int on Capital = 30,000
 45,000

$A = 45,000 \times \frac{3}{6} \Rightarrow 22,500$
 $B = 45,000 \times \frac{2}{6} \Rightarrow 15,000$
 $C = 45,000 \times \frac{1}{6} \Rightarrow 7,500$

11. Deficiency

Guaranteed Amt = 15,000

Profit = 7,500

Deficiency = 7,500

Profit & loss appropriation a/c

Particulars	Amount	Particulars	Amount
To Interest on Capital		By P/L a/c	75,000
$A = 12,500 \times \frac{10}{100} \Rightarrow 12,500$		[Net profit b/d]	
$B = 100,000 \times \frac{10}{100} \Rightarrow 10,000$			
$C = 75,000 \times \frac{10}{100} \Rightarrow 7,500$	30,000		
To A's Capital a/c			
Profit 22,500			
Less Deficiency to C 7,500	15,000		
To B's Capital a/c	15,000		
To C's Capital a/c			
Profit 75,000			
Add Deficiency 'A' 7,500	15,000		
~~Add Deficiency 'B'~~			
	75,000		75,000

5. P & Q share profit & losses in the ratio of 2:1. They admitted Mr. R into their firm who is to be given a share of 1/10 of the profit with a guaranteed minimum amount of Rs. 50,000. P & Q were agreed for the above condition. The profit of the firm for the year ending 31st March 2024 amounted to Rs. 2,40,000. New profit sharing ratio is 6:3:1. prepare p/l appropriation a/c

⇒ Calculation of Profit & Deficiency

Profit of the firm ⇒ 2,40,000

Distribution

$$P = 2,40,000 \times \frac{6}{10} = 1,44,000$$

$$Q = 2,40,000 \times \frac{3}{10} = 72,000$$

$$R = 2,40,000 \times \frac{1}{10} = 24,000$$

II Deficiency

$$P \Rightarrow 6/10$$

$$Q \Rightarrow 3/10$$

$$R \Rightarrow 1/10$$

II Deficiency

$$\text{Guaranteed Amount} = 50,000$$

$$\text{Profit} = 24,000$$

$$\text{Deficiency} = 26,000$$

Deficiency

$$P = 26,000 \times \frac{6}{10} \Rightarrow 15,600$$

$$Q = 26,000 \times \frac{3}{10} \Rightarrow 7,800$$

7333.33
8560.65

QX

Chapter - 02Reconst of a Partnership $\rightarrow$
[Admission of a partner] $\rightarrow$ Introduction

According to Section 31 of the Indian Partnership Act, 1932 any eligible person can be admitted into the partnership with the consent of all partners or unless provided in the partnership deed. The partners may be admitted into the partnership for following reasons:-

- a) To increase the capital
- b) To expand the business
- c) To improve managerial ability
- d) To increase the good will of the firm.

 $\rightarrow$ Meaning of Admission of a partner

It refers to taking a person into the partnership firm as a partner for the benefit of the firm.

 $\Rightarrow$ Ratios in connection with admission of a partner:-

- a) Sacrifice ratio
- b) New profit sharing ratio

★ Sacrifice Ratio:-

Sacrifice ratio is the ratio in which the whole partner, sacrifice or surrenders a part of

their share of profits to the new partner on admission.

$$\text{Sacrifice ratio} = \text{old share} - \text{New share}$$

CASE 1:-

WHEN THE OLD RATIO OF THE OLD PARTNERS AND THE SHARE OF NEW PARTNER IS GIVEN IN THE PROBLEM. In this case, old ratio will be the sacrifice ratio.

Problems

- 1) A & B are partners sharing profits & losses in the ratio of 2:1. They admit C into a partnership and give him $\frac{1}{5}$ th share. Calculate the sacrifice ratio.

⇒ Given :- old ratio A B
2 : 1

New partner's share C $\frac{1}{5}$ th share

$$\text{Sacrifice ratio } 2:1$$

- 2) X & Y are partners sharing profit & losses in the ratio 3:2. They admit Z into a partnership and giving $\frac{1}{4}$ th of share. Calculate sacrifice ratio.

⇒ Given :- old ratio X Y
3 : 2

New partner's share Z $\frac{1}{4}$ th share

$$\text{Sacrifice ratio : } 3:2$$

CASE 2 :-

WHEN THE OLD RATIO OF THE OLD PARTNERS. THE SHARE OF NEW PARTNER AND THE SHARE ACQUIRED BY THE NEW PARTNER ARE GIVEN

In this case, Sacrifice ratio will be share sacrificed by old partners.

Problem

- 1) X & Y are partners sharing profits & losses in the ratio of 2:1. They admit Z into the partnership and offer him $\frac{1}{4}$ th share which he acquires in the proportion of $\frac{3}{20}$ & $\frac{2}{20}$ from X & Y. Calculate sacrifice ratio.

⇒ Given :-

X Y

OR = 2 : 1

Z = $\frac{1}{4}$ th share

Share sacrificed by X & Y = $\frac{3}{20}$: $\frac{2}{20}$

SR = $\frac{3}{20}$: $\frac{2}{20}$

SR = 3 : 2

- 2) Amar & Akbar are partners sharing profit & losses in the ratio 3:2. They admit Antony into the partnership & offer him $\frac{1}{6}$ th share which he acquire in the proportion of $\frac{2}{25}$ & $\frac{3}{25}$ from Amar & Akbar. Calculate sacrifice ratio

⇒ Given :-

Amar Akbar

$$OR = 3 : 2$$

Antony $\frac{1}{6}$ th share

$$\text{Share Sacrificed by Aman \& Akbar} = \frac{2}{25} : \frac{3}{25}$$

$$SR = \frac{2}{25} : \frac{3}{25}$$

$$SR = 2 : 3$$

CASE 3 :-

When the old partners surrender a part of their share to the new partner.

In this case, Sacrificed Share = old share $\times$ Surrendered share

Problems

- 1) D & E are partners sharing P/L in the ratio 3:2. They admit F into the partnership. D agrees to surrender $\frac{1}{2}$ of his share & E agrees to surrender $\frac{1}{4}$ of his share in favour of F. Calculate sacrifice ratio.

$\Rightarrow$ Given :

$$\begin{array}{cc} D & E \\ 3 & : 2 \end{array}$$

F

$$\text{Share Surrendered by D \& E} = \frac{1}{2} : \frac{1}{4}$$

Sacrificed Share = old share $\times$ Surrendered share

$$D's \text{ Sacrificed Share} = \frac{3}{5} \times \frac{1}{2} = \frac{3}{10}$$

$$\text{E's Sacrificed Share} = \frac{2}{5} \times \frac{1}{4} = \frac{2}{20}$$

$$\text{Sacrificed Share} = \frac{3}{10} : \frac{2}{20}$$

$$\frac{6}{20} : \frac{2}{20}$$

$$6 : 2$$

$$\boxed{SR = 3 : 1}$$

$$\begin{array}{r} 10 \overline{) 10, 20} \\ 2 \overline{) 1, 2} \\ 1, 1 \end{array}$$

$$\begin{array}{l} 3 \times 20^2 \\ 10 \quad 10 \times 2 \times 1 \times 1 \\ \quad \quad = 20 \\ \frac{2}{10} \times 20 \end{array}$$

- 2) Rama & Lakshmana are partners sharing profits & losses equally. They admit Bhairappa into partnership. Ram agrees to surrender $\frac{1}{3}$ of his share & Lakshmana agrees to surrender $\frac{1}{4}$ of his share to Bhairappa. Calculate the sacrifice ratio.

⇒ Rama Lakshmana

Given OR 1 = 1

Share surrendered by Rama & Lakshmana $\frac{1}{3} : \frac{1}{4}$

Sacrificed ratio = old ratio $\times$ surrendered ^{share} ratio

$$\text{Ram's S.S} = \frac{1}{2} \times \frac{1}{3} = \frac{1}{6}$$

$$\text{Lakshmana's S.S} = \frac{1}{2} \times \frac{1}{4} = \frac{1}{8}$$

$$\text{Sacrificed ratio} = \frac{1}{6} : \frac{1}{8}$$

$$\frac{4}{24} : \frac{3}{24}$$

$$\boxed{SR = 4 : 3}$$

$$\begin{array}{r} 2 \overline{) 6, 8} \\ 3 \overline{) 3, 4} \\ 4 \overline{) 1, 4} \\ 1, 4 \end{array}$$

$$\frac{1}{6} \times 24 = 4$$

$$\frac{1}{8} \times 24 = 3$$

3) X & Y are partners sharing profits & losses in the ratio 3:2. They admit Z into partnership, X agrees to surrender $\frac{1}{3}$ of his share & Y agrees to surrender $\frac{1}{6}$ of his share to Z. Calculate the sacrifice ratio

⇒ X Y

Given :- OR = 3 : 2

Z

Share surrendered by X & Y = $\frac{1}{3} : \frac{1}{6}$

Sacrifice ratio = old ratio × surrendered share

$$X's \text{ sacrificed share} = \frac{3}{5} \times \frac{1}{3} = \frac{3}{15}$$

$$Y's \text{ sacrificed share} = \frac{2}{5} \times \frac{1}{6} = \frac{2}{35}$$

$$\text{Sacrificed share} = \frac{3}{15} : \frac{2}{35}$$

$$SR = \frac{10}{75} : \frac{6}{75}$$

$$SR = 10 : 6$$

$$SR = 5 : 3$$

		Working	
	5	5	15, 35
	$2 \times \frac{10}{75} = 10$	3	3, 3
	$\frac{10}{75}$	5	1, 5
	$2 \times \frac{6}{75} = 6$		1, 1
	$\frac{6}{75}$		5 × 3 × 5 = 75

CASE 4 :-

When old ratio & new ratio are given
In this case, sacrifice ratio, Old ^{Share} ratio, New share

1) Ganesh & Girish are partners sharing profit and losses in the ratio of 3:2. They admit Mahesh into the partnership. The profit sharing ratio is 4:3:3. Calculate sacrifice ratio of Ganesh & Girish

⇒

Given :-

Ganesh Girish

old ratio 3 : 2

New ratio 4 : 3 : 3 [Mahesh]

Sacrifice ratio = Old Share - New Share

$$\text{Ganesh SR} = \frac{3}{5} - \frac{4}{10} = \frac{6-4}{10} = \frac{2}{10}$$

$$\text{Girish SR} = \frac{2}{5} - \frac{3}{10} = \frac{4-3}{10} = \frac{1}{10}$$

$$\therefore = \frac{2}{10} : \frac{1}{10}$$

$$\begin{array}{r} 5 \mid 5, 10 \\ 2 \mid 1, 2 \\ \hline 1, 1 \end{array}$$

$$\boxed{\text{SR} = 2:1}$$

$$\begin{array}{r} 3 \times 2 = 2 \\ 5 \\ \hline = 5 \times 2 \times 1 \times 1 \\ = 10 \end{array}$$

- 2) Ram & Rahem are partners sharing profit & losses in the ratio of 5:3. They admit Robert into the partnership the new profit sharing ratio is 3:2:1. Calculate the sacrifice ratio of Ram & Rahem

Ans

Given :-

Ram Rahem

Old ratio 5 : 3

New ratio 3 : 2 : 1 [Robert]

Sacrifice ratio = Old Share - New ratio

$$= \frac{5}{8} - \frac{3}{8} = \frac{15-12}{24} = \frac{3}{24}$$

$$= \frac{3}{5} - \frac{2}{5} = \frac{9-8}{24} = \frac{1}{24}$$

$$= \frac{3}{24} : \frac{1}{24}$$

$$\boxed{\text{SR} = 3:1}$$

- 3) A & B are partners sharing profit & losses in the ratio of 4:3. They admit C into the partnership the new profit sharing ratio is 2:1:1. Calculate the sacrifice ratio of old partners.

⇒ Given :-

A B

Old ratio 4 : 3

New ratio 2 : 1 : 1 [C]

Sacrifice ratio = Old ratio - New ratio

$$A's \text{ ratio} = \frac{4}{7} - \frac{2}{4} = \frac{16-21}{28} = \frac{2}{28}$$

$$B's \text{ ratio} = \frac{3}{7} - \frac{1}{4} = \frac{12-7}{28} = \frac{5}{28}$$

$$= \frac{2}{28} = \frac{5}{28}$$

$$SR = 2:5$$

- 4) Surya & Chandra are partners sharing profits & losses in the ratio of 3:2. They admitted bhoomi into the partnership & all partners share profit & losses equally. Calculate the sacrifice ratio of old partners.

⇒ Given :-

Surya chandra

Old ratio 3 : 2

New ratio 1 : 1 : 1

Sacrifice ratio = Old share - New share

$$Surya's \text{ ratio} = \frac{3}{5} - \frac{1}{3} = \frac{9-5}{15} = \frac{4}{15}$$

$$chandra's \text{ ratio} = \frac{2}{5} - \frac{1}{3} = \frac{6-5}{15} = \frac{1}{15}$$

$$= \frac{4}{15} = \frac{1}{15}$$

$$\boxed{SR = 4:1}$$

- 5) Rashmi & Ranya are partners sharing profits & losses equally. They admitted Radha into the partnership the new profit sharing ratio 5:3:2. Calculate the sacrifice ratio of old partners.

⇒ Given :-

	Rashmi		Ranya	
old ratio	1	:	1	
new ratio	5	:	3	: 2 [Radha]

Sacrifice ratio = old share - New share

$$\text{Rashmi's} = \frac{1}{2} - \frac{5}{10} = \frac{5-5}{10} = 0$$

$$\text{Ranya's} = \frac{1}{2} - \frac{3}{10} = \frac{5-3}{10} = \frac{2}{10}$$

$$= \frac{0}{10} = \frac{2}{10}$$

$$\boxed{SR = 0:2}$$

CASE 5 :-

When the old ratio of the old partner & the share of new partner are given & also states that the ratio in which the remaining share is shared by the old partners.

In this case, first we have to calculate the remaining share. Then we should divide the remaining share between the old partners in agreed ratio. To get new ratio. Then sacrificed share is calculated by subtracting new share from old share.

New profit sharing profit. Agreed Share + Remaining Share
 Share Sacrificed ratio = old share - New share.

→ Rocky & Jockey are partners sharing profits & losses in the ratio of 7:5. They admit Vicky into the partnership & give him $\frac{1}{4}$ th share & rocky & Jockey agreed to share in the ratio of 2:1. Calculate sacrifice ratio.

→ Given :-

Rocky Jockey

Old ratio

Vicky $\frac{1}{4}$ th share

New ratio = ?

Agreed ratio = 2:1

Let profit is 1

Vicky share $\frac{1}{4}$

$$= 1 - \frac{1}{4}$$

Remaining share = $\frac{4-1}{4}$

$$= \frac{3}{4}$$

NPSR = Agreed share $\times$ Remaining share

$$\text{Rocky's NPSR} = \frac{2}{3} \times \frac{3}{4} = \frac{6}{12}$$

$$\text{Jockey's NPSR} = \frac{1}{3} \times \frac{3}{4} = \frac{3}{12}$$

$$\text{New ratio} = \frac{6}{12} : \frac{3}{12} : \frac{3}{12}$$

$$\text{New ratio} = 6:3:3 \text{ or}$$

$$2:1:1 //$$

Sacrificed ratio = Old Share - New Share

$$\text{Rocky's ratio} = \frac{7}{12} - \frac{2}{4} = \frac{7-6}{12} = \frac{1}{12}$$

$$\text{Jocky's ratio} = \frac{5}{12} - \frac{1}{4} = \frac{5-3}{12} = \frac{2}{12}$$

$$= \frac{1}{12} = \frac{2}{12}$$

$$\boxed{SR = 1:2}$$

2) P & Q are partners sharing profit & losses in the ratio of 2:1. They admit R into the partnership & give him $\frac{1}{6}$ th share. P & Q agreed to share the remaining share in the ratio 3:2 calculate the sacrificed ratio.

⇒ Given:-

P Q

old ratio 2:1

R $\frac{1}{6}$ th share

New ratio = 2

Agreed share = 3:2

let the profit is 1

R share $\frac{1}{6}$

$$= 1 - \frac{1}{6}$$

$$= \frac{6-1}{6}$$

$$\text{Remaining share} = \frac{5}{6}$$

NPSR = Agreed share x Remaining share

$$P's \text{ NPSR} = \frac{3}{5} \times \frac{5}{6} = \frac{15}{30}$$

$$Q = \frac{2}{5} \times \frac{5}{6} = \frac{10}{30}$$

$$\text{New profit sharing ratio is } \frac{15}{30} : \frac{10}{30} : \frac{5}{30}$$

$$= 15 : 10 : 5$$

$$\text{NPSR} = 3 : 2 : 1$$

$$\text{Sacrificed ratio} = \text{Old Share} - \text{New Share}$$

$$P's \text{ share} = \frac{2}{3} - \frac{3}{6} = \frac{4-3}{6} = \frac{1}{6}$$

$$Q's \text{ share} = \frac{1}{3} - \frac{2}{6} = \frac{2-2}{6} = 0$$

$$= \frac{1}{6} = 0$$

$$\text{Sacrificed ratio} = 1 : 0$$

- 3) Anu & Manu are partners sharing profits & losses in the ratio 3:2. They admit Bharu into the partnership & give him $\frac{1}{5}$ th share & Anu & Manu agreed to share remaining share in the ratio of 5:3. Calculate sacrifice ratio.

⇒ Given :-

Anu Manu

Old ratio 3 : 2

Bharu $\frac{1}{5}$ th share

Agreed share = 5 : 3

Let the profit is 1

Bharu's share $\frac{1}{5}$

$$= 1 - \frac{1}{5}$$

$$\text{Remaining share} = \frac{5-1}{5}$$

$$\text{Remaining Share} = \frac{4}{5}$$

New Profit Sharing Ratio = Agreed ratio $\times$ Remaining ratio

$$\text{Anu's New Profit Sharing Ratio} = \frac{5}{8} \times \frac{4}{5} = \frac{20}{40}$$

$$\text{Manu's New Profit Sharing Ratio} = \frac{3}{8} \times \frac{4}{5} = \frac{12}{40}$$

$$\text{New Ratio} = \frac{20}{40} : \frac{12}{40} : \frac{8}{40}$$

$$\text{New Ratio} = 20 : 12 : 8$$

$$\text{New Ratio} = 10 : 6 : 4 = 5 : 3 : 2$$

Sacrificed Ratio = Old Share - New Share

$$\text{Anu's Ratio} = \frac{3}{5} - \frac{5}{10} = \frac{6-5}{10} = \frac{1}{10}$$

$$\text{Manu's Ratio} = \frac{2}{5} - \frac{3}{10} = \frac{4-3}{10} = \frac{1}{10}$$

$$= \frac{1}{10} : \frac{1}{10}$$

$$\boxed{\text{Sacrificed Ratio} = 1 : 1}$$

* New Profit Sharing Ratio

It refers to the ratio in which all the partners share the future profit & losses of the firm. It is the difference between the old share & the share sacrificed.

$$\text{New Share} = \text{Old Share} - \text{Share Sacrificed}$$

* Purpose for Calculating, New Profit Sharing Ratio (NPSR)

- * To share the future profit & losses in the firm
- * To re-adjust the partners capital a/c. [If any]
- * To Distribute written & quotion & valued good will of the firm.

Case 1 :-

When sacrificed share of old partners are given in this case. New ratio can be calculated by subtracting sacrificed share from the old share of the old partners...

- 1) Arun & Varun are partners sharing profits & losses in the ratio 2:1. They admit Tharun into the partnership and offer him $\frac{1}{4}$ th share which he acquires in the proportion of $\frac{3}{20}$ & $\frac{2}{20}$ from Arun & Varun. Calculate the new profit sharing ratio.

=> Given :-

	Arun	Varun
Old share	2	1
Tharun	$\frac{1}{4}$ th share	
Share sacrificed by Arun & Varun	$= \frac{3}{20}$	$= \frac{2}{20}$

New Share = Old Share - Sacrificed Share

$$\text{Arun's Share} = \frac{2}{3} - \frac{3}{20} = \frac{40}{60} - \frac{9}{60} = \frac{31}{60}$$

$$\text{Varun's Share} = \frac{1}{3} - \frac{2}{20} = \frac{20}{60} - \frac{6}{60} = \frac{14}{60}$$

$$\text{New Share} = \frac{31}{60} : \frac{14}{60} : \frac{15}{60}$$

$$\boxed{\text{New Share} = 31 : 14 : 15}$$

- 2) A & B are partners sharing profit & losses in the ratio 3:2. They admit C into the partnership for $\frac{1}{5}$ th share, which he acquires in the proportion of $\frac{2}{15}$ & $\frac{1}{15}$ from A & B. Calculate the new profit sharing ratio.

⇒

Given :-

A B

old ratio 3 : 2

C $\frac{1}{5}$ th shareShare sacrificed by A & B = $\frac{2}{15} : \frac{1}{15}$

New share = Old share - Sacrificed share

$$A's \text{ share} = \frac{3}{5} - \frac{2}{15} = \frac{9-2}{15} = \frac{7}{15}$$

$$B's \text{ share} = \frac{2}{5} - \frac{1}{15} = \frac{6-1}{15} = \frac{5}{15}$$

$$C's \text{ share} = \frac{7}{15} - \frac{4}{15} = \frac{3}{15}$$

$$\boxed{\text{New share} = 7 : 5 : 3}$$

- 3) Aman & Akbar are partners sharing profit & losses in the ratio 3:2. They admit Antony into the partnership for $\frac{1}{6}$ th share, which he acquires in the proportion of $\frac{1}{24}$ & $\frac{1}{8}$ from the old partners. Calculate the new profit sharing ratio.

⇒

Given :-

Aman Akbar

old ratio 3 : 2

Antony $\frac{1}{6}$ th shareShare sacrificed by Aman & Akbar = $\frac{1}{24} : \frac{1}{8}$

New share = Old share - Sacrificed share

$$Aman's \text{ share} = \frac{3}{5} - \frac{1}{24} = \frac{72-5}{120} = \frac{67}{120}$$

$$Akbar's \text{ share} = \frac{2}{5} - \frac{1}{8} = \frac{16-5}{40} = \frac{11}{40} \times 3 = \frac{33}{120}$$

$$C's \text{ share} = \frac{67}{120} - \frac{33}{120} = \frac{34}{120}$$

$$\boxed{\text{New share} = 67 : 33 : 34}$$

$$\text{Akash's Share} = \frac{7}{12} - \frac{1}{12} = \frac{7-1}{12} = \frac{6}{12} = \frac{1}{2}$$

$$\text{Ajay's Share} = \frac{5}{12} - \frac{1}{24} = \frac{10-1}{24} = \frac{9}{24}$$

CASE 2 :-

When Sacrifice Ratio is given. In this case, first we have to calculate the share sacrificed by the old partners. It can be calculated multiplying sacrifice ratio of old partners with the share of new partner. Then the sacrifice share is subtracted from the old share to find new profit sharing ratio.

$$\text{Share Sacrificed} = \text{Sacrifice ratio} \times \text{New partner share}$$

$$\text{New share} = \text{old share} - \text{share sacrificed}$$

- 1) Asha & Usha are partners sharing profit & losses in the ratio of 5:3. They admit Nisha into the partnership and offer her $\frac{1}{6}$ th share, which she acquires in the ratio of 3:1 from the old partners. Calculate new profit sharing ratio.

⇒ Given :-

Asha Usha

Old Ratio 5 : 3

Nisha's share = $\frac{1}{6}$ th

Sacrifice ratio = 3:1

$$\text{Share Sacrificed} = \text{Sacrifice ratio} \times \text{New partner share}$$

$$\text{Asha's share} = \frac{3}{4} \times \frac{1}{6} = \frac{3}{24}$$

$$\text{Usha's share} = \frac{1}{4} \times \frac{1}{6} = \frac{1}{24}$$

New Share = Old Share - Share Sacrifices

$$\text{Abha} = \frac{5}{8} - \frac{3}{24} = \frac{15-3}{24} = \frac{12}{24}$$

$$\text{Usha} = \frac{3}{8} - \frac{1}{24} = \frac{9-1}{24} = \frac{8}{24}$$

$$\text{Nisha} = \frac{1 \times 4}{6 \times 4} = \frac{4}{24}$$

$$\frac{12}{24} : \frac{8}{24} : \frac{4}{24}$$

$$\text{New Share} = 12 : 8 : 4$$

$$\text{New Share} = 3 : 2 : 1$$

- 2) A & B are partners sharing profit & losses in the ratio 7:5. They admit C into partnership and offer him $\frac{1}{4}$ th share which he acquires equally from A & B. Calculate new profit sharing ratio.

⇒ Given :-

A, B

Old ratio 7 : 5

C's Share = $\frac{1}{4}$ th share

Sacrifice ratio = 1 : 1

Share sacrificed = Sacrifice ratio $\times$ New partner share

$$\text{A's Share} = \frac{1}{2} \times \frac{1}{4} = \frac{1}{8}$$

$$\text{B's Share} = \frac{1}{2} \times \frac{1}{4} = \frac{1}{8}$$

New Share = Old Share - Share Sacrificed

$$\text{A's Share} = \frac{7}{12} - \frac{1}{8} = \frac{14-3}{24} = \frac{11}{24}$$

$$B's \text{ Share} = \frac{5}{12} - \frac{1}{8} = \frac{10-3}{24} = \frac{7}{24}$$

$$C's \text{ Share} = \frac{1 \times 6}{4} = \frac{6}{24}$$

$$\frac{11}{24} : \frac{7}{24} : \frac{6}{24}$$

$$11 : 7 : 6$$

$$\text{New Share} = 11 : 7 : 6 //$$

- 3) X & Y are partners sharing profit & losses in the ratio of 3:2. They admit Z into the partnership and offer him $\frac{1}{4}$ th share, which he acquires in the ratio 2:3 from the old partners. Calculate NPSR.

⇒

Given:-

X Y

Old ratio 3 : 2

Z's ratio = $\frac{1}{4}$

Sacrificed ratio = 2:3

Share sacrificed = Sacrificed ratio $\times$ New partner's share

$$X's \text{ Share} = \frac{3}{5} \times \frac{1}{4} = \frac{3}{20} = \frac{2}{20}$$

$$Y's \text{ Share} = \frac{2}{5} \times \frac{1}{4} = \frac{2}{20}$$

New Share = Old Share - Share Sacrificed

$$X's \text{ Share} = \frac{3}{5} - \frac{2}{20} = \frac{12-2}{20} = \frac{10}{20}$$

$$Y's \text{ Share} = \frac{2}{5} - \frac{2}{20} = \frac{8-2}{20} = \frac{6}{20}$$

New Share = Old Share - Share Sacrificed

$$X's \text{ Share} = \frac{3}{5} - \frac{2}{20} = \frac{12-2}{20} = \frac{10}{20}$$

$$Y's \text{ share} = \frac{2}{5} - \frac{3}{20} = \frac{8-3}{20} = \frac{5}{20}$$

$$Z's \text{ share} = \frac{5}{10}$$

$$\frac{10}{20} : \frac{5}{20} : \frac{5}{20}$$

$$\text{New share} = 10:5:5$$

$$\text{New share} = 2:1:1$$

CASE 3 :-

When old partners surrender part of their share to the new partners.

In this case, we have to calculate the share sacrificed by the old partners. It can be calculated by multiplying old share & share surrendered by old partners. Then the sacrificed share is subtracted from the old share to find new share. The sum of the share sacrificed by the old partners will be the new partner share.

$$\text{Share sacrificed} = \text{old share} \times \text{surrendered share}$$

$$\text{New share} = \text{old share} - \text{share sacrificed}$$

$$\text{New share of new partner} = \text{sum of sacrificed share of old partners}$$

17. A & B are partners sharing profit & losses in the ratio of 7:3. They admit Mr. C into the partnership. Mr. A agreed to surrender $\frac{1}{2}$ of his share & Mr. B agreed to surrender $\frac{1}{4}^{\text{th}}$ of his share in favour of Mr. C. Calculate new profit sharing ratio.

⇒ Given :-

	A	B	C
old ratio	$\frac{7}{10}$	$\frac{3}{10}$	

Share's sacrificed	$\frac{1}{2}$	$\frac{1}{4}$	-
-----------------------	---------------	---------------	---

Sacrificed Share - old share $\times$ Surrendered Share

$$A's \text{ share} = \frac{7}{10} \times \frac{1}{2} = \frac{7}{20}$$

$$B's \text{ share} = \frac{3}{10} \times \frac{1}{4} = \frac{3}{40}$$

New Share = old share - share sacrificed

$$A's \text{ share} = \frac{7}{10} - \frac{7}{20} = \frac{14-7}{20} = \frac{7}{20}$$

$$B's \text{ share} = \frac{3}{10} - \frac{3}{40} = \frac{12-3}{40} = \frac{9}{40}$$

$$C's \text{ share} = \frac{7}{20} + \frac{3}{40} = \frac{14+3}{40} = \frac{17}{40}$$

$$\text{New ratio} = \frac{7}{20} \times 2 = \frac{14}{40}$$

$$\text{New ratio} = \frac{14}{40} : \frac{9}{40} : \frac{17}{40}$$

$$\boxed{\text{New ratio} = 14:9:17}$$

- 2) X & Y are partners sharing profits & losses in the ratio of 3:2. They admit Mr. Z into the partnership and agreed to surrender $\frac{1}{4}^{\text{th}}$ of their share. Calculate New profit sharing ratio

⇒ Given

	X	Y	Z
old ratio	$\frac{3}{5}$	$\frac{2}{5}$	

Share	$\frac{1}{4}$	$\frac{1}{4}$	
-------	---------------	---------------	--

Sacrificia share = old ratio $\times$ Surrendered ratio

$$X's \text{ share} = \frac{3}{5} \times \frac{1}{4} = \frac{3}{20}$$

$$Y's \text{ share} = \frac{2}{5} \times \frac{1}{4} = \frac{2}{20}$$

New share = old share - share sacrificed

$$X's \text{ share} = \frac{3}{5} - \frac{3}{20} = \frac{12-3}{20} = \frac{9}{20}$$

$$Y's \text{ share} = \frac{2}{5} - \frac{2}{20} = \frac{8-2}{20} = \frac{6}{20}$$

$$Z's \text{ share} = \frac{9}{20} + \frac{6}{20} = \frac{9+6}{20} = \frac{15}{20}$$

$$\text{New share} = \frac{9}{20} : \frac{6}{20} : \frac{15}{20}$$

$$\text{New share} = 9 : 6 : 15$$

$$\text{New share} = 3 : 2 : 5$$

CASE 4 :-

When old ratio of the old partners and the share of new partner only given.

In this case, first we have to calculate remaining share. It can be calculated by subtracting the new partner's share from 1. Then the remaining share is multiplied with old share to calculate new ratio.

- 1) A & B are partners sharing profits & losses in the ratio of 3:2. They admit Mr. C into the partnership & give him $\frac{1}{6}$ th share. Calculate new profit sharing ratio

$$\Rightarrow \text{New sharing ratio} = \text{old share} \times \text{Remaining share}$$

Given :-

A	B	C	:
old ratio	$\frac{3}{5}$	$\frac{2}{5}$	-

New share - - $\frac{1}{6}$

Let the firms share be 1

Remaining share $\Rightarrow 1 - \frac{1}{6} = \frac{5}{6}$

New share of A $\Rightarrow \frac{5}{6} \times \frac{3}{5} = \frac{15}{30}$

New share of B $\Rightarrow \frac{5}{6} \times \frac{2}{5} = \frac{10}{30}$

2) X & Y are partners sharing profits & losses in the ratio 4:3. They admit Z into the partnership and give him $\frac{2}{9}$ th share. Calculate new profit sharing ratio

$\Rightarrow$ Given :-

X	Y	Z
old ratio	$\frac{4}{7}$	$\frac{3}{7}$

New share - - $\frac{2}{9}$

Let the firms share be 1.

Remaining share $= 1 - \frac{2}{9} \Rightarrow \frac{9-2}{9} \Rightarrow \frac{7}{9}$

New sharing ratio = Old share $\times$ Remaining share

New share of X $= \frac{7}{9} \times \frac{4}{7} = \frac{28}{63}$

New share of Y $= \frac{7}{9} \times \frac{3}{7} = \frac{6}{9} = \frac{2}{3}$

New share = A B C

New share = $\frac{28}{63}$ $\frac{21}{63}$ $\frac{2 \times 7}{9} = \frac{14}{63}$

New Share = 28 : 21 : 14

New Share = 4 : 3 : 2

CASE 5:-

When the share of the partner is given and also states the ratio in which the remaining share is shared by the old partners.

In this case, First we have to calculate remaining share. It can be calculated by subtracting the new partner share from 1. Then the remaining share is divided among the old partners in the ratio in which they agreed to share the remaining share; to calculate new ratio.

New Share = Agreed Share $\times$ Remaining Share

- 1) Raja & Rani are partners sharing profits & losses in the ratio of 5:3. They admit Montai into the partnership for $\frac{1}{5}$ th share. Raja & Rani agreed to share the remaining share in the ratio of 3:2. Calculate the new profit sharing ratio.

$\Rightarrow$ Given:-

	Raja	Rani
Old Ratio	5	3
Montai Share	$\frac{1}{5}$	
Agreed Share	3:2	

Let the share be 1

Montai's share $\frac{1}{5}$

$$\text{Remaining Share} = 1 - \frac{1}{5} \Rightarrow \frac{5-1}{5} = \frac{4}{5}$$

New Share = Agreed Share $\times$ Remaining Share

$$\text{Raja's share} = \frac{3}{5} \times \frac{4}{5} = \frac{12}{25}$$

$$\text{Rani's share} = \frac{2}{5} \times \frac{4}{5} = \frac{8}{25}$$

$$\text{Monty's share} = \frac{1}{5} \times \frac{5}{5} = \frac{5}{25}$$

$$\text{New share} = \frac{12}{25} : \frac{8}{25} : \frac{5}{25}$$

$$\text{New share} = 12 : 8 : 5$$

- 2) Uma & Suma are partners sharing profits & losses in the ratio of 4:3. They admit Hema into the partnership & give her $\frac{1}{6}$ th share. Uma & Suma agreed to share the remaining share equally. Calculate the new profit sharing ratio.

⇒ Given

Uma Suma

old ratio 4 3

Hema's ratio $\frac{1}{6}$

Agreed share 1:1

Let the share be 1

Hema's share $\frac{1}{6}$

$$\text{Remaining share} = 1 - \frac{1}{6} = \frac{6-1}{6} = \frac{5}{6}$$

New share = Agreed share × Remaining share

$$\text{Uma's share} = \frac{1}{2} \times \frac{5}{6} = \frac{5}{12}$$

$$\text{Suma's share} = \frac{1}{2} \times \frac{5}{6} = \frac{5}{12}$$

$$\text{Hema's share} = \frac{1}{6} \times \frac{2}{2} = \frac{2}{12}$$

$$\text{New Share} = \frac{5}{12} : \frac{5}{12} : \frac{2}{12}$$

$$\text{New Share} = 5 : 5 : 2$$

* Adjustments in Connection With admission of a new Partner

- 1) Revaluation of assets and liabilities of the firm
- 2) Distribution of reserves and undistributed profit or loss
- 3) Capital brought by the new partner in cash or other asset
- 4) Goodwill & its treatment
- 5) Adjustment of old partners capital after admission on their new ratio on the basis of new partners capital & adjustments to be made in cash

* Revaluation of assets & liabilities of the firm

At the time of admission, retirement or death of a partner, the assets and liabilities of the firm are revalued in order to ascertain the true position of the business. On account of revaluation, the value of sum of the assets & liabilities may be increased or decreased to record the increase or decrease in the value of assets & liabilities; revaluation account is prepared.

* Meaning of Revaluation account

It is an account prepared in connection with recording of increase or decrease in the value of assets & liabilities & to find out the profit & loss on revaluation.

* Circumstances under which revaluation account is prepared

It is prepared in the following cases :-

- Admission of a Partner
- Retirement of a Partner
- Death of a Partner
- Change in Profit sharing ratio

* Preparation of Revaluation account

It is a nominal account. Increase in asset, decrease in liability and unrecorded asset is a profit; it should be credited to revaluation account. On other hand decrease in asset, increase in liability and unrecorded liability should be debited to revaluation account.

Dr

Revaluation a/c

Cr

Particulars	Amount	Particulars	Amount
To decrease in asset	xxx	By increase in asset	xxx
To increase in liability	xxx	By decrease in liability	xxx
To unrecorded liability	xxx	By unrecorded asset	xxx
To old partners capital and [Profit]	xxx	By old partners capital and [Loss]	xxx
	xxx		xxx

Profit or
Loss

1) A & B are partners sharing profits in the ratio 5:3. They admit C as a new partner, who brings ₹ 60,000 as capital & ₹ 30,000 as good will. Before C's admission, the following revaluation were made

- * Furniture was increased by ₹ 8000
- * Stock was reduced by ₹ 6000
- * A debtor of ₹ 2500 became bad debt
- * outstanding expenses of ₹ 3500 were not recorded earlier

Revaluation a/c

Particulars	Amount	Particulars	Amount
To Stock a/c (Decrease)	6000	By Furniture a/c (Increase)	8000
To Bad debts	2500		
To O/S Expenses (Unrecorded)	3500	By old Partners Capital a/c	
		A $\Rightarrow [4000 \times 5/8]$	2500
		B $\Rightarrow [4000 \times 3/8]$	1500
			4000
	12,000		12,000

2) X & Y are partners sharing profit & losses equally. They admit Z into the partnership, & asking him to bring ₹ 80,000 as capital & ₹ 40,000 as good will. Before Z's admission the following revaluations

- * Machinery increased by ₹ 15,000
 - * Stock was over valued by ₹ 5000, so it was reduced
 - * A creditor appreciated by ~~₹ 10,000~~ 7000
 - * Investments appreciated by ₹ 10,000
- Prepare revaluation a/c

Dr

Revaluation a/c

Cr

Particulars	Amount	Particulars	Amount
To Stock [Decrease]	5000	By machinery a/c [Inc]	15,000
To Creditor [Unsecured]	7000	By Investment [app]	10,000
To <u>Old Partners Capital</u> <u>a/c</u>			
X $\Rightarrow 13000 \times 1/2 \Rightarrow 6500$			
Y $\Rightarrow 13000 \times 1/2 \Rightarrow 6500$	13000		
	25000		25000

* Journal Entries in connection with recording of changes in the value assets & liabilities on account of Revaluation

* For increase in asset
Asset a/c Dr
To Revaluation a/c

* For Decrease in asset
Revaluation a/c Dr
To Asset a/c

* For increase in ^{liability} ~~asset~~
Revaluation a/c Dr
To liability a/c

* For Decrease in liability
Liability a/c Dr
To Revaluation a/c

* For recording unrecorded asset

Unrecorded asset a/c Dr

To Revaluation a/c

* For recording unrecorded liability

Revaluation a/c Dr

To Unrecorded liability a/c

* For transfer of Profit on Revaluation

Old Partners Revaluation a/c Dr

To Old Partners Capital a/c

* For transfer of loss on Revaluation

Old Partners Capital a/c Dr

To Revaluation a/c

* For recording general reserves, reserve fund or any other reserves

General reserves / Reserve fund / other reserves a/c Dr

To Old partners capital a/c

* a) For recording P & L a/c balance appearing in liability side of the balance sheet [i.e., credit balance or accumulated Profit]

Profit & loss a/c Dr

To Old Partners Capital a/c

b) P & L a/c balance appearing in asset side of the balance sheet [i.e., debit balance or accumulated loss]

Old Partners Capital a/c Dr

To P & L a/c

* Capital Brought by the new Partner

The new partner shall have right on the firm asset. It means he brings capital into the business new partner brings in capital by cash or in the form of other assets or both. In such a case new partner's capital a/c should be credited & cash or bank or concerned asset should be debited.

For Capital brought by the new partner

Cash / Bank a/c Dr

Concerned asset a/c Dr

To new Partner's Capital a/c

* Meaning of Good Will

Good Will defined as "The capacity of a business to earn profits in future is basically what is meant by the term good will".

Good Will is the value of good name or reputation of business which attracts more customers & helps the firm to earn more profits. Good Will is an intangible asset.

* Factors affecting Good Will

- * Past profits of the business
- * Location of the business
- * Earning capacity of the business
- * Nature of business
- * Efficiency of management & employees

* Methods of Valuation of good will

* Average profit method

* Super profit method

* Capitalization method

* Average Profit Method

Under this method, that given numbers of years of profits & loss are averaged and the average profit is multiplied with the agreed number of years of purchase to ascertain good will.

$$\text{Average Profit} = \frac{\text{Sum of all the years Profit}}{\text{No. of Years}}$$

$$\text{Good will} = \text{Average Profit} \times \text{No. of years of Purchase}$$

1) Good will of the firm is valued at 2 times the average profit of last 3 years. The profits for last 3 years were 16000, 12000 & 8000. Calculate Good will of the firm

$$\Rightarrow \text{Average Profit} = \frac{\text{Sum of all the years profit}}{\text{No. of years}}$$

$$= \frac{16000 + 12000 + 8000}{3}$$

$$= 12,000$$

$$\text{Good will} = \text{Avg Profit} \times \text{No. of Year of Purchases}$$

$$= 12000 \times 2$$

$$= 24,000$$

2) Good will of the firm is valued at 2 years of Purchase of the average profit for last 4 years.

The profit & loss for the 4 years was

$$2010 - 11 = ₹ 6000 \text{ profit}$$

2011-12 = ₹ 2000 Loss

2012-13 = ₹ 10000 Profit

2013-14 = ₹ 12000 Profit. Calculate Good will of the firm

$$\begin{aligned} \Rightarrow \text{Average Profit} &= \frac{\text{Sum of all the years Profit}}{\text{No. of years}} \\ &= \frac{6000 + 2000 + 10,000 + 12000}{4} \\ &= 6500 \end{aligned}$$

$$\begin{aligned} \text{Good will} &= \text{Avg Profit} \times \text{No. of years of Purchases} \\ &= 6500 \times 2 \\ &= 13000 \end{aligned}$$

* Treatment of good will on admission of Partner

- * Good will brought in cash & withdrawn
- * Good will brought in cash & credited retained
- * Good will raised & retained
- * Good will raised & withdrawn of

CASE 1

Good will brought in cash & withdrawn

Journal Entries

1) For Good will brought in cash by the new Partner

$\Rightarrow$ Cash on bank a/c ——— Dr

To Good will a/c

2) For distribution of Good will among the old Partners

$\Rightarrow$ Good will a/c Dr

To old Partners Capital a/c

[Sacrifice ratio]

3) For Withdrawing of Good Will by the old Partners
 → Old Partners Capital a/c Dr
 {Sacrificing ratio}
 to Cash / Bank a/c

* Preparation of Partners Capital a/c

Capital accounts of all partners are prepared in order to record the following

- * Capital balance of the old partners appearing in the balance sheet
- * Profit & loss on revaluation of assets & liabilities
- * Undistributed reserves & P&L a/c balance appearing in the balance sheet
- * Capital brought in by new partner in Cash & other assets
- * Distribution of good will
- * Balancing of Capital a/c

1) Ajay & Vijay are partners sharing profits & losses in the ratio 3:2. Their balance sheet as on 31st March 2023. was as follows :-

Liabilities	Amt	Amt	Assets	Amt	Amt
Sundry Creditors L		30,000	Cash Cash a/c		20,000
Bills Payable L		25,000	Stock a/c		25,000
Reserve fund P.L		25,000	Debtors a/c		20,000
Capital			Furniture a/c		20,000
Ajay P.L (3)	60,000		Machinery a/c		40,000
Vijay	40,000	1,00,000	Buildings a/c		50,000
			Investment a/c		20,000
			P&L a/c P.L Dr		5,000
		2,00,000			2,00,000

On 1-4-2023, Sujay is admitted into the Partnership on the following terms.

- He brings in ₹30,000 as Capital & ₹10,000 towards Good will for $\frac{1}{4}$ th share. In future Profits Good will amount to be withdrawn by the old Partners.
- Depreciate machinery & Furniture by 10% ✓
- Provision for doubtful debts is maintained at 5% ✓ on debts.
- Appraise buildings by ₹11,000 ✓
- Provide ₹1000 for O/S Salaries ✓
- Investments are to be valued at ₹25,000 ✓

Prepare

- Revaluation a/c
- Partners Capital a/c
- Cash a/c
- Balance Sheet of the firm after admission

Revaluation a/c

Particulars	Amount	Particulars	Amount
To Machinery a/c (Decrease) [40,000 × 10%]	4000	By building a/c (Increase)	11,000
To Furniture a/c (Decrease) [20,000 × 10%]	2000	By Investments (25,000 - 20,000)	5000
To Prov. for doubtful debts [20,000 × 5%]	1000		
To O/S Salaries	1000		
To Old Partners Capital a/c			
Ajay (8000 × $\frac{3}{5}$) ⇒ 4800			
Vijay (8000 × $\frac{2}{5}$) ⇒ 3200	8000		
	16000		16000

Partners' Capital a/c

Particulars	Ajay	Ajijay	Sujay	Particulars	Ajay	Ujjay	Sujay
To P&L a/c (3:2)	3000	2000	-	By balance b/d	60,000	40,000	-
To cash a/c	6000	4000	-	By revaluation a/c	48,000	32,000	-
(Withdrawn 6000)				(Profit)			
				By reserve fund (3:2)	15,000	10,000	-
				By cash a/c			3000
				By cash a/c			
				Good will (3:2)	6000	4000	-
To Balance c/d	76,800	57,200	30,000				
	85,800	57,200	30,000		85,800	57,200	30,000
				By balance b/d	76,800	57,200	30,000

Cash a/c

Particulars	Amount	Particulars	Amount
To Balance b/d	20,000	By Ajay's Capital a/c	6000
To Sujay's Capital a/c	30,000	By Ujjay's Capital a/c	4000
To Good Will a/c	10,000		
		By Balance c/d	50,000
	50,000		50,000
To balance b/d	50,000		

Balance sheet

Liabilities	Amount	Asset	Amount
Sundry Creditors	50,000	Cash	50,000
Bills Payable	25,000	Stock	25,000
		Debtors	20,000
<u>Capital</u>		(-) doubtful debts	1,000
Ajay	76,800		19,000
Vijay	51,200	Furniture	20,000
Sujay	30,000	(-) Depreciation	2,000
	1,58,000		3,000
		Machinery	40,000
		(-) Depreciation	4,000
o/s Salary	1,000		36,000
		Buildings	50,000
		(+) appreciation	11,000
			61,000
		Investments	20,000
		(+) increase	5,000
			25,000
	2,34,000		2,34,000

- 2) P & Q are partners in a firm. Their balance sheet as on 31st March 2024 was as follows:-

Balance sheet as on 31st March 2024

Liabilities	Amount	Assets	Amount
<u>Capitals</u>		Cash at Bank	10,000
P's F.C. 70,000	70,000	Stock 20,000	30,000
Q's 50,000	50,000	Debtors 20,000	20,000
Creditors B.S. 40,000	40,000	Motor Car 20,000	20,000
Bank loan B.S. 25,000	25,000	Plant & Machinery 30,000	30,000
Reserve fund B.S. 10,000	10,000	Buildings 60,000	60,000
		Investments 10,000	10,000
		Bills Receivable 16,000	16,000
		P & L a/c P.C. 5000	5000
	2,01,000		2,01,000

⇒ On 1-04-2024, R is admitted into the partnership on the following terms:-

a) He brings ₹ 10,000 as capital & ₹ 2,000 towards Goodwill for $\frac{1}{4}$ th share in future profits.

Goodwill is to be withdrawn by the old partners

* b) Depreciate machinery & Car by 5% & 20% respectively

c) Provision for doubtful debts is to be maintained at 5% on debtors & Bills receivable

d) Increase the value of buildings & investments by 10% & 7.5% respectively

e) Commission receivable ₹ 150

f) Outstanding expenses ₹ 300

Prepare Revolutation a/c, Partners capital a/c, Bank a/c
New balance sheet of P, Q & R.

Revaluation a/c

Particulars	Amount	Particulars	Amount
To Machinery a/c (Debit)	1,500	By Buildings (Increase)	6000
(30,000 x 5%)		(60,000 x 10%)	
To Cash (Debit)	4,000	By Investment (Increase)	750
		(10,000 x 7.5%)	
To Provision for doubtful debts			
- Dubs (20,000 x 5%) $\Rightarrow$ 1000		By Commission Receivable	150
- Billo Receivable (16,000 x 5%) $\Rightarrow$ 800	1,800		
To outstanding expenses	300	By old partners capital a/c	
		P (700 x 1/2) 350	
		Q (700 x 1/2) 350	700
	7,600		7,600

Partners' Capital a/c				Cr			
Particulars	P	Q	R	Particulars	P	Q	R
To P&L a/c (1:1)	2500	2500	-	By Balance b/d	70,000	50,000	-
To Revaluation a/c (loss)	350	350	-	By reserve fund (1:1)	8000	8000	-
To Bank a/c (Cr. W)	4,500	4,500	-	By Bank a/c (Cap)	-	-	4,500
				By Bank a/c (Cr. W)	4,500	4,500	-
To Balance c/d	75,500	55,150	40,000				
	82,500	62,500	40,000		82,500	62,500	40,000
				By Balance b/d	75,500	55,150	40,000

Bank a/c

Particulars	Amt	Particulars	Amount
To Bal b/d	10,000	By P's Capital a/c	4,500
To R's Capital a/c	40,000	By Q's Capital a/c	4,500
To P's Capital a/c	4,500		
To Q's Capital a/c	4,500	By Balance c/d	50,000
	59,000		59,000
To Balance b/d	50,000		

NB/SA

Dr

New Balance Sheet as on 01/4/24

Cr

Particulars	Amount	Particulars	Amount
Capital a/c		Cash at Bank	50,000
P 75,150		Stock	30,000
Q 55,150		Debtors 20,000	
R 40,000	1,70,300	(-) Doubtful debt 10,000	19,000

Total

New Balance Sheet as on 1/04/23			
Liabilities	Amnt.	Assets	Amnt.
Creditors 70000		Cash @ Bank	61,500
(-) CG not claimed 2000	68000	(21500 + 40000)	
Bills Payable 7500		Stock	39000
Capitals		Debtors 60000	
A = 81600		(-) PDD 3000	
B = 44400		(-) New PDD 3000	54000
C = 35000	161000	Furniture 10000	
		(-) Dep 1000	9000
		Buildings 40000	
		(+) Appreciat 8000	48000
		Machinery	25000
	2,36,500		2,36,500

PDD

 Page No.
 Date: / /

Machinery (B.S) A 25,000

Buildings (B.S) A 32,000

1,71,000

1,71,000

Dr

New Balance Sheet as on 01/4/24

Cr

Particulars	Amount	Particulars	Amount
Capital acc		Cash at Bank	50,000
P 75,150		Stock	30,000
Q 55,150		Debtors 20,000	
R 40,000	1,70,000	(-) Doubtful debts 1,000	19,000
Creditors	40,000	Motor car 20,000	
Bank loan	25,000	(-) Depreciation 4,000	16,000
		Plant & Machinery 30,000	
		(-) Depreciation 1,500	28,500
		Buildings 60,000	
		(+) Appreciation 6,000	66,000
		Investments 10,000	
		(+) Increase 750	10,750
		Bills Receivable 16,000	
		(+) Doubtful debts 800	15,200
		Commission Receivable 150	
	2,35,600		2,35,600

3) Sikh & Singh are Partners sharing Profit & losses equally. Their Balance Sheet as on 31st March 2024 should as follows.

Liabilities	Amount	Assets	Amount
Creditors	35,000	Cash at Bank Bank	12,000
Reserve fund	6,000	Motor vehicle B.S. (A)	13,000
Loan	10,000	Stock (B.S.) A	30,000
Capitals		Debtors (B.S.) A	20,000
Sikh P/c acc Cr	70,000	Computer (B.S.) A	15,000
Singh	50,000	Furniture (B.S.) A	24,000
		Machinery (B.S.) A	25,000
		Buildings (B.S.) A	32,000
	1,71,000		1,71,000

Dr. Partner's Capital a/c				Cr			
Particulars	Sikh	Singh	Sandan	Particulars	Sikh	Singh	Sandan
To Bank a/c (half withdrawn)	2000	2000	-	By Balance b/d	70,000	50,000	-
				By revaluation profit	950	950	-
				By reserve fund (1:1)	3000	3000	-
To Balance c/d	75,950	55,950	62,000	By Bank a/c	-	-	30,000
				By Machinery a/c	-	-	14,000
				By Stock a/c	-	-	8000
				By Furniture a/c	-	-	10,000
				By Bank a/c (Good will) (1:1)	4000	4000	-
	77,950	57,950	62,000		77,950	57,950	62,000
				By Balance c/d	75,950	55,950	62,000

Dr. Bank a/c

Particular	Amount	Particular	Amount
To balance b/d	12,000	By Sikh Capital	2000
To Sandan cap a/c	30,000	By Singh Capital	2000
To Sikh capital	4000	By Balance c/d	46000
To Singh Capital	4000		
	50,000		50,000
To Balance b/d	46000	N.B/s (A)	

New Balance Sheet

Particulars	Amount	Particulars	Amount
Creditors	35,000	Cash at bank	46,000
Loan	10,000	Motor Vehicle	13,000
Capital:		(-) Depreciation	1,300
Sikh	75,950	Stock	30,000
Singh	35,950	(-) Depreciation	3,000
Sardar	62,000		27,000
	1,93,900	(+) New Partner	8,000
			35,000
		Debtors	20,000
		Computer	15,000
		Furniture (24,000 + 10,000)	34,000
		Machinery	25,000
		(+) Increased	2,500
			27,500
		(+) New Partner share	14,000
			41,500
		Buildings	32,000
		(+) Appreciation	3,200
			35,200
		Unrecorded investment	500
	2,38,900		2,38,900

4) Sindu and Bindu are partners sharing profit & losses in the ratio 3:2. Their balance sheet as on 31st March 2023 was as follows:-

Liabilities	Amount	Assets	Amount
(BS(L)) Creditors	52,000	(BS) Cash at Bank	15,000
(BS(L)) Bills Payable	30,000	(BS(A)) Stock	40,000
(PA) Reserve fund	20,000	(BS) Debtors	40,000
(PA) Capitals		(-) Provision	1,000
(L) Sindu	60,000		39,000
Bindu	40,000	(AS) Furniture	10,000
(PA) P & A a/c	8,000	(BS(L)) Plant & Machinery	40,000
		(BS(A)) Buildings	50,000
		(BS(A)) Investments	5,000
		(BS(A)) Motor Vehicle	11,000

On 1/04/2023 Bindu is admitted into the partnership on the following terms

- * She brings ₹40,000 as capital at ₹10,000 towards good will for $1/5^{\text{th}}$ share in future profits
- * Half of the good will amount is to be withdrawn by old partners.
- * Depreciate plant & machinery & furniture at 10% each
- * Provision for doubtful debts is to be maintained by 10% on debtors
- * Buildings are to be valued at ₹60,000
- Make a provision for compensation to the workers who work injured in the accident ₹15,000

Prepare revaluation a/c, Partners Capital a/c, and new balance sheet.

DR

Revaluation a/c

CR

Particulars	Amount	Particulars	Amount
To Plant & Machinery a/c [₹40,000 × 10%]	4000	By Buildings a/c [₹60,000 - ₹50,000]	10000
To Furniture a/c [₹10,000 × 10%]	1000	By Partners Cap a/c	
		Sinde = $[13,000 \times \frac{3}{5}] = 7800$	
		Bindu = $[13,000 \times \frac{2}{5}] = 5200$	13000
To P.O.D a/c (Working note)	3000		
To Compensation a/c	15,000		
	23000		23000

Partners' Capital a/c:

Particulars	Sindi	Bindu	Indu	Particulars	S.	B	I
To Revaluation a/c	7800	52000	-	By bal b/d	60000	40000	-
To Bank a/c	3000	2000	-	By reserve fund (3:2)	12000	8000	-
[G/L Wd]				By P & L a/c (3:2)	1500	9200	-
To bal c/d	72000	48000	40000	By bank a/c	-	-	4000
				By bank a/c	6000	4000	-
				[3:2]			
	32800	55200	40000		32800	55200	40000

Bank a/c

Particulars	Amount	Particulars	Amount
To Indhu Cap a/c	40000	By Sindu Cap [1/2 G/L]	3000
To Sindu Cap a/c (G/L)	6000	By Bindu Cap [1/2 G/L]	2000
To Bindu Cap a/c (G/L)	4000	By Balance c/d	60000
	65000		65000
To Balance b/d	60000		

New Balance Sheet of Sindhu, Bindu & Indu on 1/4/23

Liabilities	Amount	Assets	Amount
Creditors	52000	Cash at bank	60000
Bills Payable	30000	Stock	40000
Capitals		Debtors	40000
Sindu - 72000		- Provision	4000
Bindu - 48000		Furniture	10000
Indu - 40000	160000	- Depreciation	1000
		Plant & Machinery	40000
Provision for	15000	- Depreciation	4000
Compensation (loss)		Buildings	50000
		+ Increase	10000
		Investments	5000
		Bills Receivable	11000
	257000		257000

- 5) Asha and Varsha are Partners Sharing Profit & losses in the ratio of 5:3. Their balance sheet as on 31st March 2024 as follows :-

Balance Sheet

Liabilities	Amount	Assets	Amount
Creditors	50,000	Cash	15,000
Bank overdraft	30,000	Stock	40,000
Reserve fund	20,000	Debtors	40,000
<u>Capitals</u>		(-) Provision	1,000
Asha	60,000	Furniture	10,000
Varsha	40,000	Machinery	40,000
P & L acc	8,000	Buildings	50,000
		Investments	5,000
		Bills receivable	9,000
	2,08,000		2,08,000

On 1/4/2024, Nisha is admitted into the Partnership on the following terms :-

- * She brings ₹ 26,000 as Capital & ₹ 14,000 towards goodwill for 1/5th share in the firm's future profits, which she acquires
- 5) Asha & Varsha are Partners Sharing Profits & losses in the ratio of 2:1 from old partner
- * Half of the goodwill amount is to be withdrawn by old partner
- * Stock & furniture are to be valued at 8% less than book value & depreciate machinery by 10%.
- * Provision for doubtful debts is to be increased to 10% on debtors.
- * Buildings are to be valued at ₹ 60,000
- * Interest on bank OD at 10% per annum 0/5 Since 1/4/2024
- * Prepaid Insurance ₹ 800

Revaluation a/c

Particulars	Amount	Particulars	Amount
To Stock a/c [40,000 x 8.1.]	3,200	By Building [60,000 - 50,000]	10,000
To Furniture a/c [10,000 x 8.1.]	800	By Prepaid Insurance	800
To Machinery a/c [40,000 x 10.1.]	4,000	By Old Partners' Cap a/c	
To P&L [W.N.1]	3,000	Asha [3200 x 5/8] = 2000	
To Int Bank Old [30,000 x 10.1 x 1]	3,000	Varsha [3200 x 2/8] = 1200	3,200
	1,400		1,400

Partners' Capital a/c

Particulars	Asha	Varsha	Nisha	Particulars	Asha	Varsha	Nisha
To Revaluation a/c	2000	1200	-	By balance b/d	60,000	40,000	-
To Cash a/c [1/2 G.W. 10.1]	4000	2000	-	By reserve fund [5:3]	12,500	7,500	-
				By P&L a/c [5:3]	5000	3000	-
				By Capital a/c	-	-	26000
				By cash a/c [G.W.] [2:1]	8000	4000	
	85,000	54,500	26,000		85,000	54,500	26,000

Bank a/c

Particulars	Amount	Particulars	Amount
To balance b/d	15000	By Asha Capital [1/2 G.W. 10.1]	4000
To Nish capital	26000	By Varsha cap a/c [1/2 G.W. 10.1]	2000
To Asha a/c	8000		
To Varsha a/c	4000		
		By Balance b/d	47,000
	63000		63000
To Bal b/d	47,000		

New Balance Sheet

Liabilities	Amount	Assets	Amount
Creditors	50,000	Cash	47,000
Bank old 30,000		Stock	40,000
+ols Int 3000	33,000	(-) RDD	3200
<u>Capital</u>		Debtors	40,000
Asha 79,500		(-) RDD	4000
Varsha 51,300		Furniture	10,000
Nisha 26,000	1,56,800	(-) Dec	800
		Machinery	40,000
		(-) Dep	4000
		Buildings	50,000
		(+) Increase	10,000
		Investment	5000
		Bills Receivable	9000
		Prepaid Insurance	800
	2,39,800		2,39,800

- 6) Ravi & Shankar are Partners sharing Profits & losses in the ratio of 5:3. Their Balance Sheet as on 31st March 2023 as follows

Liabilities	Amount	Assets	Amount
Creditors	50,000	Cash	10,000
Bills Payable	40,000	Bank	32,000
Reserve funds	80,000	Bills Receivable	10,000
<u>Capital</u>		Debtors	40,000
Ravi	50,000	Furniture	15,000
Shankar	35,000	Building	40,000
		Plant & machinery	40,000
		P&L a/c	80,000
	1,95,000		1,95,000

Porasad is admitted on 1/4/24 on the following terms

- * He brings ₹15,000 as a goodwill and ₹30,000 as capital. For $\frac{1}{6}$ th share which he acquires in the ratio of 2:1 from Ravi & Shankar
- * Half of the goodwill amount is to be withdrawn by old partners
- * Building is revalued at ₹55,000 maintain RDD at 10% on debtors & bills payable
- * Depreciate furniture and plant & machinery at 10%
- * outstanding legal expenses ₹500

⇒ Prepare Revaluation a/c,
Prepare Partners Capital a/c,
Cash a/c
New balance sheet, after admission

Revaluation a/c

Particular	Amount	Particular	Amount
To RDD on Debtors $(40,000 \times 10\%)$	4000	By Building	15,000
To Bills Receivable $(10,000 \times 10\%)$	1000	$[55,000 - 40,000]$	
To Furniture $[15,000 \times 10\%]$	1500		
To Plant & machinery $[40,000 \times 10\%]$	4000		
To Old Expenses	500		
To Capital			
Ravi $(4000 \times \frac{5}{8}) = 2500$			
Shankar $(1000 \times \frac{3}{2}) = 1500$	4000		
	15,000		15,000

Partners' Capital a/c

Particulars	Ravi	Shankar	Prasad	Particulars	Ravi	Shankar	Prasad
To P&L a/c	5000	3000	-	By Balance b/d	50,000	85,000	-
To Cash a/c (G.W.)	5000	2500	-	By Revaluation	2500	1500	-
				By Reserve fund (5:3)	12,500	7500	-
				By Cash a/c	-	-	30,000
				By Cash a/c (G.W.)	10,000	5000	-
To bal c/d	65,000	45,000	30,000				
	75,000	49,000	3,000	By balance b/d	65,000	45,000	30,000

Bank a/c

Particulars	Amount	Particulars	Amount
To bal b/d	10,000	By Ravi Capital a/c	5000
To Prasad Cap a/c	30,000	By Shankar Cap a/c	2500
To Ravi Cap a/c	10,000		
To Shankar Cap a/c	5000		
		By Balance c/d	47,500
	55,000		55,000
To balance b/d	47,500		

New balance sheet

Date _____ Page _____

Liabilities	Amount	Assets	Amount
Creditors	50,000	Cash	47,500
Bills Payable	40,000	Stock	32,000
Capitals		Bills Receivable	10,000
Ravi 65,000		(-) Dep	1,000
Shankar 45,500		Debtors	40,000
Prasad 30,000	1,38,500	(-) RDD	4,000
OLS Expenses	500	Furniture	15,000
		(-) Dep	1,500
		Buildings	40,000
		(+) Increase	15,000
		Plant & Machinery	40,000
		(-) Dep	4,000
	2,29,000		2,29,000

★ CASE 2 :-

Good Will brought in cash and retained

Journal Entries

- 1) For good will brought in cash by new partner

Cash / bank a/c Dr

To Good Will a/c

- 2) For Distribution of good will among the old partner is

By Good Will a/c Dr

To old partner capital a/c [sacrificing ratio]

Problem

Date: _____ Page: _____

- Q1) Anil & Sunil are partners sharing profit & losses in the ratio of 3:2. Their balance sheet as on 31st March 2024 was as follows:-

Liabilities	Amount	Asset	Amount
Creditors B.S.A	20,000	Cash at Bank	5000
Bills Payable	6000	Debtors	18000
General Reserve (P.A.)	4000	Stock B.S.A	17000
<u>Capitals</u>		Buildings B.S.A	30000
Anil	40,000	Furniture B.S.A	10,000
Sunil	30000	Machinery B.S.A	20000
	1,00,000		1,00,000

On 1/04/2024 Vimil is admitted in the Partnership on the following terms:-

- * He brings ₹25,000 as Capital and ₹8,000 towards Goodwill for 1/6th share in the profits. Goodwill amount is retained in business.
- * Depreciate machinery by 10% & furniture by 5%.
- * Provision for doubtful debts is maintained at 5% on debtors.
- * Appreciate buildings by 20%.
- * Provide ₹400 for repair charges.

Prepare necessary ledger accounts

Revaluation a/c

Particulars	Amount	Particulars	Amount
To Machinery a/c [20,000 × 10%]	2,000	By Buildings [30,000 × 20%]	6000
To Furniture a/c [10,000 × 5%]	500		
To prov. on Doubtful [18,000 × 5%]	900		
To repair charges	400		
To old Partners Capital			
Anil (2200 × 3/5) = 1,320			
Sunil (2200 × 2/5) = 880	2,200		
	6000		6000

Partners Capital a/c

Particulars	Anil	Sunil	Vimal	Particulars	Anil	Sunil	Vimal
				By Balance b/d	40,000	30,000	-
				By Rev a/c (P)	1320	880	-
				By General Reserve	2400	1,600	-
				By Bank a/c	-	-	25,000
				By Bank a/c [Cr. A], [3:2]	4800	3,200	-
To bal c/d	48,520	35,680	26,000				
	48,520	35,680	26,000		48,520	35,680	26,000
				By Balance b/d	48,520	35,680	26,000

Bank a/c

To bal b/d	5000		
To Vimal a/c	25000		
To Anil Capital	48,000		
To Sunil Capital	3,200		
		By Balance c/d	38000
	38000		38000
To Bal b/d	38000		

New Balance Sheet as on 1/04/24

Liabilities	Amount	Asset	Amount
Creditors	20,000	Cash at Bank	38,000
Bills Payable	6000	Debtors	18000
<u>Capitals</u>		(-) PDD	900
Anil	42,580	Stock	17,000
Soni	35,680	Buildings	30,000
Vimal	25,000	(+) Appreciation	6,000
Repair charges	400	Furniture	10,000
		(-) Depreciate	500
		Machinery	20,000
		(-) Depreciate	2,000
	1,35,600		1,35,600

- 2) Suman and Joseph are Partners sharing Profits & losses in the ratio of 2:1 Their balance sheet as on 31st march 2024 as follows :-

Liabilities	Amount	Asset	Amount
Sundry creditors	40,000	Cash in hand	7000
P & L a/c	12,000	Sundry debtors	20,000
<u>Capitals</u>		Stock	24,000
Suman	50,000	Buildings	36,000
Joseph	30,000	Motor Vehicle	10,000
		Machinery	20,000
		Investments	15,000
	1,32,000		1,32,000

On 1/4/24 Salma is admitted into the Partnership on the following terms

- * He brings in ₹20,000 as capital ₹10,000 towards goodwill for $1/6^{\text{th}}$ share in future profits which he acquires in the ratio 3:2 from the old partners. Goodwill amount is obtained in the business.
- * Depreciate Machinery by 10% and motor vehicle by 15%.
- * Provision for doubtful debts is to be maintained at 5% on debtors.
- * Increase buildings & stock by 10%.
- * Provide ₹900 for legal charges.
- * Prepaid Expenses ₹1,200

Prepare Necessary ledger accounts

Re

Revaluation a/c

Particulars	Amount	Particulars	Amount
To Machinery	2000	By Buildings	3,600
[20,000 × 10%]		[36,000 × 10%]	
To Motor Vehicle	1500	By Stock	2,400
[10,000 × 15%]		[24,000 × 10%]	
To Prov for doubtful	1000	By Prepaid Expenses	1200
[20,000 × 5%]			
To legal charges	900		
To Old Partners Capital			
Arman (1800 × 3/5) → 1080			
Joseph (1800 × 3/5) → 720	1,800		
	7200		7200

Partners Capital a/c

Particulars	Suman	Joseph	Salman	Particulars	Suman	Joseph	Salman
				By Balance b/d	50,000	30,000	-
				By Revaluation a/c	1080	420	-
				By P&L a/c [3:1]	2000	4000	-
				By Cash a/c	-	-	4000
				By Cash a/c [60%] [32]	6000	4000	-
				By Revaluation a/c	1200	600	-
By Balance b/d	65,200	38,600	20,000				
	65,200	38,600	20,000		65,200	38,600	20,000
				By Balance b/d	65,200	38,600	20,000

Cash a/c

Particulars	Amount	Particulars	Amount
To Salman Cap a/c	20000		
To Suman Cap a/c [60%]	6000		
To Joseph Cap a/c [32]	4000		
To balance b/d	7000		
	37,000		37,000
To balance b/d	37,000		

New Balance Sheet as on 01/04/24

Liabilities	Amount	Assets	Amount
Sundry creditors	40000	Cash in hand	37000
<u>Capitals</u>		debtors	20000
Suman 65200		(-) Less RDD	1000
Joseph 38600			19,000
Salman 20000	1,23,800	Stock	24000
Legal Charges	900	(+) Appreciation	2400
			26400
		Buildings	36000
		(+) Appreciation	3600
			39,600
		Motor Vehicle	10000
		(-) depreciation	1500
			8500

		Machinery 20000	
		(-) depreciation 2000	18,000
		Investment	15000
		Prepaid Expenses	1200
	1,67,700		1,67,700

* Capital Adjustments

> A & B are Partners in a firm the balance sheet as on 31st March 2014 is as follows

Balance Sheet as on 31st March 2014

Liabilities	Amount	Asset	Amount
Creditors BS (A)	20,000	Cash at Bank (A)	7000
Bills Payable (A)	4000	Stock BS (A)	15,000
Capitals		Debtors BS (A)	16,000
A PCA (A)	40,000	Less Provision 500	15,500
B	20,000	Furniture BS (A)	4,500
		Plant & Machinery BS (A)	18,000
		Land & Buildings BS (A)	20,000
		Patents BS (A)	4000
	84,000		84,000

On 1/4/2014 C is admitted into the partnership for 1/6th share in Profits on the following terms

- * C Pays ₹130,000 as Capital
- * Good Will of the firm is valued at ₹7000 & is to remain in business
- * Provision for doubtful debts is to be increased by ₹1,200
- * Stock & buildings are to be increased by 8%.

- * Patents & Machinery are to be reduced by 20% & ₹2000 respectively
- * The Capital accounts of all the partners be adjusted in their new profit sharing ratio that is 3:2:1, based on C's Capital.
(Adjustments to be made in cash)

Prepare A) Revaluation a/c, B) Partners' Cap a/c
C) Bank a/c & D) New Balance Sheet

Revaluation a/c

Liabilities	Amount	Asset	Amount
To PDD	1200	By Stock	1,200
To Patents (4000 × 20%)	800	[5000 × 80%]	
To Machinery	2000	By land & building (2000 × 80%)	1,600
		By old Partners' Cap	
		A (1200 × 1/2)	600
		B (1200 × 1/2)	600
	4000		1,200
			4000

Working note no 2 :-

$$C's \text{ Capital} = 13,000$$

$$\text{Share} = 1/6$$

$$\text{Total Capital} = 13000 \times 6/1 \\ = 78,000$$

$$A = 78,000 \times 3/6 = 39,000$$

$$B = 78,000 \times 2/6 = 26,000$$

$$C = 78,000 \times 1/6 = 13,000$$

$$NPSR = 3:2:1$$

Partner's Capital a/c

Particulars	A	B	C	Particulars	A	B	C
To Revaluation a/c	600	600	-	By Bal bld	40,000	20,000	-
To A Cap	-	-	833	By Bank a/c	-	-	13,000
To B Cap	-	-	834	By C's cap a/c	833	834	-
To Cash a/c (b/f)	1,233			By Cash a/c (b/f)	-	5766	1,667
To Bal bld	39,000	26,000	13,000				
[WN 2]	40,833	26,600	14,667		40,833	26,600	14,667

Cash a/c

Particulars	Amount	Particulars	Amount
To bal bld	7000	By A's cap a/c	1,233
To C's cap a/c	13,000	By Bal cld	26,200
To B's cap a/c	5,766		
To C's Cap a/c	1,667		
	27,433		27,433
To Bal. bld	26,200	→ New B/s	

New Balance Sheet as on 01/4/2014

Liabilities	Amount	Assets	Amount
Creditors	20,000	Cash at Bank	26,200
Bills payable	4000	Stock	15,000
<u>Capital a/c</u>		(-) Increase 8%	1200
A	39,000	Debtors	16,000
B	26,000	(-) Less provision	1700
C	13,000	Furniture	4,500
	78,000	Plant & machinery	12,000
		(-) Dep	2000
		Land & Building	20,000
		(+) Increase	1600
		Patent	4,000
		(-) W.N	800
	1,02,000		3,200
			1,02,000

- 2) Anagha & Archana are partners in a firm sharing profit & losses in the ratio 19:13:24. Their balance sheet as on 31st March 2024 stood as follows :-

Balance sheet as on 31st March 2024

Liabilities	Amount	Asset	Amount
Creditors	23,000	Cash in hand	8,000
Bank overdraft	8,000	Debtors	16,000
<u>Capitals</u>		(-) Less PDD 2,000	14,000
Anagha 45,000		Motor Vehicle BSN	20,000
Archana 24,000	69,000	Investments BSA	12,000
P&L a/c	7,000	Premises BSA	25,000
		Stock BSA	10,000
		Plant & machinery	18,000
	1,07,000		1,07,000

On 1/4/24 they admit Arpitha into the partnership on the following terms :-

- She brings ₹20,000 as Capital & the capitals of Anagha & Archana are to be adjusted accordingly in their NPSR.
- She brings ₹12,000 as goodwill & half of the goodwill is withdrawn by old partners.
- PDD is to be reduced by ₹900.
- Premises are to be valued at ₹29,000 R.C.
- Machinery & Motor Vehicle are to be depreciated by 10%.
- Investments are reduced by ₹1,200.
- Insurance prepaid ₹1,100.
- The NPSR are in 5:3:2 (Adjustments of capitals to be made in cash).

Revaluation a/c

Particulars	Amount	Particulars	Amount
To Machinery (18,000 × 10%)	1,800	By PDD	900
To Motor Vehicle (20,000 × 10%)	2,000	By Premises (29,000 - 25,000)	4,000
To Investment	1,200	By Prepaid Insurance	100
	5,000		5,000

Partner's Capital a/c

Particulars	Anagha	Archana	Aspita	Particulars	An	Ar	Aspita
				By Bal b/d	45,000	24,000	-
To Cash a/c	36,000	2,400	-	By P&L a/c ^(5:2)	4,200	2,800	-
Charg of the Gr.W. withdrawn				By Cash a/c (cap)	-	-	20,000
To Cash a/c (b/f)	2,800			By Cash a/c (Gr.W.)	7,200	4,800	-
To Bal c/d	50,000	30,000	20,000	By Cash (b/f)	-	800	
	56,400	32,400	20,000		56,400	32,400	20,000
				By Bal b/d	50,000	30,000	20,000

Working Note 1 :- Old RDD - 2000

↓ by 900 (Revaluation a/c)
1,100 NB/S

Working Note 2 :- Aspita = 20,000 × 2/10 = 4,000

NPSR = 5 : 3 : 2

Total Capital = 20,000 × 5/1

Total Cap = 1,00,000

5/10 3/10 2/10
50,000 30,000 20,000

Cash a/c

Particulars	Amount	Particulars	Amount
To Balance b/d	8000	By Anagha Cap a/c	3600
To Aspitha Cap a/c	20,000	By Aspitha Cap a/c	2400
To Anagha Cap a/c	7200	By Archana Cap a/c	2800
To Archana Cap a/c	4800		
To Archana Cap a/c	800		
		By Balance c/d	32000
	40,800		40,800
To Balance b/d	32,000		

New Balance Sheet as on 1/4/24

Liabilities	Amount	Asset	Amount
Creditors	23000	Cash in hand	32000
Bank overdraft	8000	Debtors	16,000
Capitals		(-) PDD	1,100
Anagha	50,000		14,900
Archana	30,000	Motor Vehicle	20,000
Aspitha	20,000	(-) Depreciation	2,000
	1,00,000		18,000
		Investment	12,000
		(-) Dep	1,200
			10,800
		Premises	25,000
		(+) Appreciation	4,000
			29,000
		Stock	10,000
		Plant & machinery	18,000
		(-) Depreciation	1,800
			16,200
		Prepaid Insurance	100
	1,31,000		1,31,000
			1,31,000

3. A & B are partners in a firm, sharing Profits & losses in the ratio 2:1. They admit C into the partnership for $\frac{1}{6}$ th share. C should bring 12000 as capital. The good will of the firm is valued at 1800 and good will should remain in business only.

As between A & B it was agreed that a

- * Land and Building are increased by 10%.
- * Machinery is reduced by 5%.
- * Provision for doubtful debts is increased by ₹300
- * A sum of ₹150 is a payable in respect of repairs
- * The capital a/c of all the Partners be adjusted in their NSPR that is 10:5:3 Based on the C's Capital

[Adjustments should be made in cash]

Their balance sheet as on 31st March 2024

Liabilities	Amount	Affect	Amount
Creditors	5,300	Cash at Bank	5,300
General Reserve	5,400	Debtors 12000	
<u>Capitals</u>		(-) less PDD 1,600	10,400
A	30,000	Machinery	15000
B	20,000	Land & Building	30,000
	60,700		60,700

Working note (Capital adjustments)

$$C's \text{ Capital} = 12,000$$

$$C's \text{ Share} = \frac{1}{6}$$

$$\text{Total Cap} = 12,000 \times \frac{6}{1}$$

$$\boxed{\text{Total Cap} = 72,000}$$

$$A = 72,000 \times \frac{10}{18} = 40,000$$

$$B = 72,000 \times \frac{5}{18} = 20,000$$

$$C = 72,000 \times \frac{3}{18} = 12,000$$

$$\text{Gr. W of the firm} = 18000 \times \frac{1}{6}$$

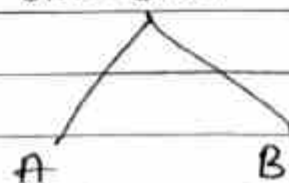
$$C's \text{ Gr. W} = 3000$$

$$= 3000 \times \frac{2}{3}$$

$$= 2000$$

$$3000 \times \frac{1}{3}$$

$$= 1000$$



Revaluation a/c

Particulars	Amount	Particulars	Amount
To Land & Building [30,000 x 10%]	3000	By Building a/c (30000 x 10%)	3000
To PDD ↑	300		
To Repair	150		
To Partners Cap			
A → $1800 \times \frac{2}{3} = 1200$			
B → $1800 \times \frac{1}{3} = 600$	1800		
	3000		3000

Partners Capital a/c

Particulars	A	B	C	Particulars	A	B	C
To A Cap a/c	-	-	200	By Balanc b/d	30,000	20,000	-
To B Cap a/c	-	-	100	By revaluation a/c	1200	100	-
				By General a/c (2:1)	3600	1800	-
				By Bank a/c	-	-	12,000
				By C's Capital a/c	200	100	-
To Cash a/c (b/d)	-	2500					
To Bal c/d	40,000	20,000	12,000	By Cash a/c (b/d)	5000		
	40,000	22,500	2,300		40,000	22,500	2,300

Cash a/c

Particulars	Amount	Particulars	Amount
To Balanc b/d	5,300	By B's Capital a/c	2,500
To C's Cap a/c	12,000	By Balanc c/d	20,100
To A's Cap a/c	5000		
To B's Cap a/c	300		
	22,600		22,600
To Balanc b/d	20,100		

New Balance Sheet ~~on~~

Liabilities		Amount	Asset		Amount
Creditors		5,300	Cash at Bank		20,100
Capital a/c			Debtors		12,000
A	40,000		⊖ PDD	1,900	
B	20,000		(1,600 + 300) →		10,100
C	12,000	72,000	Machinery	15,000	
			⊖ Dep	750	14,250
Outstanding repairs		150	Land & Building	30,000	
			⊕ Increase	3,000	33,000
		77,450			77,450

16/5/25

Chapter - 03

Reconstitution of a Partnership firm

A) Retirement of a partner

* Meaning of Retirement of a Partner

A partner is said to be retired from a firm, when his relation with the firm as a partner comes to an end due to retirement of a partner. The existing partnership deed comes to an end & in its place a new partnership deed needs to be formed, where by the remaining partners continue to do their business in the same name and style on changed terms & conditions.

* Ratios in connection with Retirement a Partner

They are :-

- a) Gain ratio or benefit ratio
- b) New Profit Sharing ratio

a) Gain Ratio :-

The gain ratio or benefit ratio of the remaining partners is the ratio in which the remaining partners gain or acquire. The share of retiring partner on his retirement.

- b) In other words, it is the ratio in which the retiring partners share of profit taken over or benefitted by the continuing partners.

* Calculation of Gain Ratio :-

There are three different cases for calculation of gain ratio. They are

Case 1 :- When old ratio and gain ratio or share gain are given.

When ratio and gain ratio are given in the problem, then no need to calculate.

The gain ratio specified in the problem can be taken as the gain ratio of the remaining partners.

1. A, B & C are partners in a firm sharing profits & losses in the ratio of 5:3:2. C retires and C's share is gained by A & B in the ratio of 3:2. Calculate the gain ratio of remaining partners.

⇒

Given :-

	A	B	C	→ Retirement
Old ratio	5	3	2	

Gain Ratio = 3:2

The above problem, the gain ratio of A & B is clearly given. So we need not calculate the gain ratio of A & B.

* Case 2 :-

When only old ratio is given. When only the old ratio is given, then remaining partners is the same as old ratio that existed prior to the retirement of a partner.

1. X, Y & Z are partners, in a firm sharing profits & losses in the ratio of 4:3:2 you are required to calculate the gain ratio

- When X retires
- When Y retires
- When Z retires

⇒ Given :- X Y Z

old ratio :- 4 : 3 : 2

- When X retires = Gain ratio of Y & Z = 3:2
- When Y retires = Gain ratio of X & Z = 4:2
- When Z retires = Gain ratio of X & Y = 4:3

* Case 3 :-

When the old ratio and new ratio's are given.

In this case, the given ratio is calculated by deducting the old ratio from the new ratio.

$\text{Gain ratio} = \text{new} - \text{old}$ $\text{ratio} \quad \text{ratio}$

OR

$\text{Share gained} = \text{New Share} - \text{Old Share}$

1. Aman, Akbar & Anthony were partners sharing profits & losses in the ratio of 3:2:1 respectively. Akbar retires, the new profit sharing ratio of Aman & Anthony will be 3:1. Calculate the gain ratio.

⇒

Given :-

	Amar ~~Akbar~~		Akbar		Anthony
Old Ratio	3	:	2	:	1
New Ratio	3	:		:	1

Given Ratio = New Ratio - Old Ratio

$$\text{Amar's GR} = \frac{3}{4} - \frac{3}{6} = \frac{9-6}{12} = \frac{3}{12}$$

$$\text{Anthony's GR} = \frac{1}{4} - \frac{1}{6} = \frac{3-2}{12} = \frac{1}{12}$$

$$\frac{3}{12} : \frac{1}{12}$$

Gain Ratio of Amar & Anthony = 3:1 //

- 2) A, B & C are partners in a firm sharing profits & losses in the ratio of 4:3:2. A retires from the firm B & C agreed to share in the ratio of 5:3 in future. Calculate gain ratio of B & C.

⇒ Given :-

	A	B	C
Old Ratio	4	3	2
New Ratio		5	3

Gain Ratio = New Ratio - Old Ratio

$$\text{B's Gain Ratio} = \frac{5}{8} - \frac{3}{9} = \frac{45-24}{72} = \frac{21}{72}$$

$$\text{C's Gain Ratio} = \frac{3}{8} - \frac{2}{9} = \frac{27-16}{72} = \frac{11}{72}$$

$$\therefore \frac{21}{72} : \frac{11}{72} = 21 : 11$$

Gain Ratio = 21:11 //

- 3) Vani, Rani & Soni are partners in a firm sharing profit & losses in the ratio of 4:3:2. Soni retires from the firm. Vani & Rani agreed to share equally in future. Calculate gain ratio of Vani & Rani.

=> Given :- Vani Rani Soni

Old Ratio 4 : 3 : 2

New Ratio 1 : 1 : 0

Gain Ratio = New Ratio - Old Ratio

$$\text{Vani's gain Ratio} = \frac{1}{2} - \frac{4}{9} = \frac{9-8}{18} = \frac{1}{18}$$

$$\text{Rani's gain Ratio} = \frac{1}{2} - \frac{3}{9} = \frac{9-6}{18} = \frac{3}{18}$$

$$\frac{1}{18} : \frac{3}{18}$$

$$1:3$$

The Gain Ratio of Vani & Rani 1:3

- 4) Aritha, Jaya & Nisha are partners sharing profit & losses in the ratio of 1:1:1. Jaya retires from the firm. Aritha & Nisha decided to continue the firm to share the profit in future 4:3. Calculate gain ratio.

=> Given :- A J N

Old Ratio 1 : 1 : 1

New Ratio 4 : 3

Gain Ratio = New Ratio - Old Ratio

$$\text{Aritha's GR} = \frac{4}{7} - \frac{1}{3} = \frac{12-7}{21} = \frac{5}{21}$$

$$\begin{array}{r} 4 \times 3 \\ \hline 12 \\ 7 \times 1 \\ \hline 7 \\ 3 \times 1 \\ \hline 3 \end{array}$$

$$\text{Ashok's Gain Ratio} = \frac{3}{5} - \frac{1}{2} = \frac{6-5}{10} = \frac{1}{10}$$

$$\text{Nisha's Gain Ratio} = \frac{3}{7} - \frac{1}{3} = \frac{9-7}{21} = \frac{2}{21}$$

$$\frac{1}{10} : \frac{2}{21} = \frac{2}{21} \times \frac{2}{2} = \frac{2}{21} = \frac{1}{10.5} : \frac{2}{21} = \frac{1}{10.5} : \frac{2}{21}$$

$$\text{Gain Ratio} = 5:2 //$$

- 4) Ashok, Anil & Vijay are partners sharing profits & losses in the ratio $\frac{1}{2}, \frac{3}{10}, \frac{1}{5}$. Anil retires from the firm. Ashok & Vijay decide to share future profits in the ratio of 3:2. Calculate the gain ratio.

⇒ Given :- Ashok Anil & Vijay

$$\text{Old Ratio} \quad \frac{1}{2} : \frac{3}{10} : \frac{1}{5}$$

$$\text{New Ratio} \quad 3 : 1 : 2$$

$$\text{Gain Ratio} = \text{New Ratio} - \text{Old Ratio}$$

$$\text{Ashok's Gain Ratio} = \frac{3}{5} - \frac{1}{2} = \frac{6-5}{10} = \frac{1}{10}$$

$$\text{Vijay's Gain Ratio} = \frac{2}{5} - \frac{1}{5} = \frac{2-1}{5} = \frac{1}{5}$$

$$\frac{1}{10} : \frac{1}{5} = \frac{1}{10} \times \frac{2}{2} = \frac{2}{20} = \frac{1}{10} : \frac{2}{20} = \frac{1}{10} : \frac{2}{10}$$

$$\text{Gain Ratio} = 1:2 //$$

- 5) A, B & C are partners sharing profits in a ratio of 2:2:1. B retires, the new ratio of A & C will be 3:1. Calculate gain ratio of A & C.

⇒ Given :- A B C

$$\text{Old Ratio} \quad 2 : 2 : 1$$

$$\text{New Ratio} \quad 3 : 1$$

$$\text{Gain Ratio} = \text{New Ratio} - \text{Old Ratio}$$

$$\begin{aligned} \text{Ashok's Gain Ratio} &= \frac{3}{4} - \frac{2}{5} \\ &= \frac{15 - 8}{20} \\ &= \frac{7}{20} \end{aligned}$$

$$\begin{array}{r|l} 2 & 4, 5 \\ \hline 2 & 2, 5 \\ 5 & 1, 5 \\ \hline & 1, 1 \end{array}$$

$$\text{E's Gain Ratio} = \frac{1}{4} - \frac{1}{5} = \frac{5 - 4}{20} = \frac{1}{20}$$

$$\begin{array}{r|l} \frac{3}{4} \times 20 & 15 \\ \hline \frac{2}{5} \times 20 & 8 \\ \hline & 7 \\ \frac{1}{4} \times 20 & 5 \\ \hline \frac{1}{5} \times 20 & 4 \end{array}$$

$$\text{Gain Ratio} = 7:1$$

* New Profit Sharing Ratio :-

It is the ratio in which the remaining partners share these future profits after the retirement of any partner.

* Purpose of Calculating NPSR :-

- * To share the future profit of the firm
- * To write of the firm's good will
- * To adjust the remaining Partners Capital

Case 1 :-

When only the old Ratio is given

- i) A, B & C are partners sharing profit & losses in the ratio of 5:3:2. Find out the NPSR of remaining partners, If
- a) A retires
 - b) B retires
 - c) C retires

=> Given :- A B C
Old Ratio 5 : 3 : 2

- a) If A Retires = New Ratio = 3:2
 b) If B Retires = New Ratio = 5:2
 c) If C Retires = New Ratio = 5:3

Case 2 :-

When Old Ratio & Share gain are given

$$\text{New Share} = \text{Old Share} + \text{Share gain}$$

- 1) M, N & O are partners sharing Profits & losses in the ratio of 4:3:2. N Retires from the business his share is gained by M & O as $\frac{2}{9}$ & $\frac{1}{9}$. Calculate the NPSR of M & O.

$\Rightarrow$ Given :- M N O

Old Ratio :- 4 : 3 : 2

Gain Ratio :- $\frac{2}{9}$ $\frac{1}{9}$

New Share = Old Share + Share gain

$$\text{M's NS} = \frac{4}{9} + \frac{2}{9} = \frac{6}{9}$$

$$\text{O's NS} = \frac{2}{9} + \frac{1}{9} = \frac{3}{9}$$

$$\frac{6}{9} : \frac{3}{9} = 6 : 3$$

$$\text{New Ratio} = 2 : 1$$

- 2) X, Y & Z are Partners sharing Profits & losses in the ratio 2:1:2. Z Retires & his share is entirely gained by Y only. Calculate New Profit sharing ratio [NPSR]

⇒ Given :- X Y Z

Old Ratio = 2 : 1 : 2

Gain Ratio = Nil $\frac{2}{5}$

New Share = Old Share + Share gain

$$X's \text{ New Share} = \frac{2}{5} + \text{Nil} = \frac{2}{5}$$

$$Y's \text{ New Share} = \frac{1}{5} + \frac{2}{5} = \frac{3}{5}$$

$$\frac{2}{5} : \frac{3}{5}$$

∴ New Ratio = 2 : 3

Case 3 :- When old ratio & gain ratio are given

When the old ratio of all the partners and gain ratio of the remaining are given in the problem then new profit sharing ratio is ascertain in three steps.

1) Share gain

2) New Share

3) New Profit Sharing Ratio

1) A, B & C are partners sharing profit & losses in the ratio of 5 : 3 : 2. A & B retire from business. His share is shared by A & C in the ratio of 2 : 1. Calculate the NPSR

⇒ Given :- A B C

Old Ratio :- 5 : 3 : 2

Gain Ratio :- 2 : 1

NPSR = Old Ratio + Share gained

$$A's = \frac{5}{10} + \frac{2}{3} = \frac{15+20}{30} = \frac{35}{30}$$

$$C's = \frac{2}{10} + \frac{1}{3} = \frac{6+10}{30} = \frac{16}{30}$$

$$\frac{35}{30} : \frac{16}{30}$$

$$\text{New Ratio} = 35:16 //$$

* Adjustments in Connection With the Retirement of a Partner:-

At the time of retirement of a partner, certain adjustments become necessary in the books of accounts of the reconstituted firm. The various adjustments in connection with the retirement of a partner are:-

- 1) Revaluation of asset & liabilities of the firm
- 2) Distribution of reserves & undistributed profit or loss.
- 3) Treatment of good will
- 4) Settlement of amount due to the retiring partner
- 5) Adjustment of continuing partner's capital

Retirement Partner

⇒ 12 Marks Problems:-

Calculation of G.W

$$\begin{aligned} \text{G.W} &= 18000 \\ (1:1:1) &\rightarrow \begin{matrix} 5 \\ 6 \\ 7 \end{matrix} \rightarrow 6000 \\ &\quad (18,000 \times \frac{1}{3}) \end{aligned}$$

Problem 6)

Revaluation a/c

Particulars	Amount	Particulars	Amount
To PDD ($20,000 \times 5\%$)	1,000	By Stock	4,000
To Machinery a/c ($32,000 \times 10\%$)	3,200	By Partners Cap a/c	
		Srikanth ($2700 \times 1/3$)	900
To Furniture a/c ($25,000 \times 10\%$)	2,500	Girish ($2700 \times 1/3$)	900
		Manju ($2700 \times 1/3$)	900
			2,700
			2,700
	6,700		6,700

Partners Capital a/c

Particulars	S	Cr	M	Particulars	S	Cr	M
To Revaluation (L)	900	900	900	By Balance b/d	60,000	50,000	30,000
To P&L a/c (1:1:1)	2,000	2,000	2,000	By Reserve fund (1:1:1)	5,000	5,000	5,000
To Manju Cap (Cr. W)	3,000	3,000	-	By S'cap a/c (W)	-	-	3,000
To Manju's loan (b/f)			38,100	By Girish Cap a/c (W)	-	-	3,000
To Bal. c/d	59,100	49,100	-				
	65,000	55,000	41,000		65,000	55,000	41,000
				By Bal. b/d	59,100	49,100	-

New Balance Sheet as on 1/4/23

Liabilities	Amount	Asset	Amount
Creditors	30,000	Cash	24,000
Bills Payable	20,000	Bills receivable	28,000
Bank overdraft	25,000	Stock	36,000
Manju loan a/c	38,100	(+) $\uparrow$	4,000
Capital			40,000
Srikant	59,100	Investment	9,000
Girish	49,100	D&S	20,000
	1,08,200	(-) PDD	1,000
			19,000
		Furniture	25,000
		(-) Dep	2,500
			22,500
		Machinery	32,000
		(-) Dep	3,200
		Building	28,800
			50,000
	2,21,300		2,21,300

Working Note 1
New PDD 4000 (NBS)
(40000 x 10%)
→ Old PDD 2000

GW: 15000 x 1/5 = 3000
(2:2:1) 3000
1,500 1,500

SURYA Gold

Date: Page:

Prblm 7

Revaluation a/c

Particulars	Amount	Particulars	Amount
To RDD (WN-1)	2000	By Stock	4000
To Machinery	2000	(20,000 x 20%)	
(20,000 x 10%)		By Buildings	10,000
To Furniture	1000	(60,000 - 50,000)	
(10,000 x 10%)			
To Partners Cap a/c			
X (90000 x 2/5)	3600		
Y (90000 x 2/5)	3600		
Z (90000 x 1/5)	18000		
	9000		
	14,000		14,000

Partners Cap a/c

Particulars	X	Y	Z	Particulars	X	Y	Z
To Z Cap a/c	1,500	1,500	-	By Balance b/d	50,000	30,000	20,000
To Z's loan a/c	-	-	29,300	By Reval a/c (P)	3600	3600	1800
To Bal c/d	61,100	41,100	-	By R/L a/c (2:2:1)	8000	8000	4000
				By P&L a/c	1000	1000	500
				By X cap a/c (GW)	-	-	1500
				By Y cap a/c (GW)	-	-	1500
	62,000	42,600	29,300		62,000	42,600	29,300
				By Bal b/d	61,100	41,100	

New B/s as on 1/4/23

Creditors	35,500	Cash	20,000
Z's loan a/c	29,300	Debtors	40,000
Capitals		(-) PDD	4000
X	61,100	Stock 20,000 + 4000	24,000
Y	41,100	Machinery 20,000 - Dep(2000)	18,000
		Furniture	10,000
		(-) Dep	1000
		Building 50,000 + 10,000	60,000
	1,67,700	(+) Increase	1,67,700

Calculation of Akbar's G.W.

$$G.W = 60000 \times \frac{2}{5} = 24000$$

24000

Amor 2/3 (6000) Anthony 1/3 (6000) SURYA Gold
Date _____ Page _____

Prblm 1)

Revaluation a/c

Particulars	Amount	Particulars	Amount
To PDD	2000	By Buildings a/c	15000
To Patents	10,000	(15000 x 10-1)	
To Partners Capital a/c			
Amor (3000 x 2/5)	1200		
Akbar (3000 x 2/5)	1200		
Anthony (3000 x 1/5)	600		
	3000		
	15,000		15,000

Partners Capital a/c

Particulars	Akbar	Amor	Anthony	Particulars	Akbar	Amor	Anthony
To Akbar's Cap a/c	16000	-	2000	By Bal bld	8000	6000	75000
To Akbar's (B/L)	-	93200	-	By reval a/c (P)	1200	1200	600
Loan a/c				By surpluses (2:2:1)	8000	8000	4000
To bal cld	73200	-	71600	By Amor Cap a/c	-	16000	-
				By Anthony Cap (G.W)	-	8000	-
	89200	93200	79600		89200	93200	79600
				By Bal bld	73200	-	71600

New Balance Sheet as on 1/4/23

Liabilities	Amount	Asset	Amount
Creditors	50000	Cash	15000
Akbar's Loan	93,200	Debtors	20000
		(-) Dep	2000
Capitals		Stock	40000
Amor	73200	Buildings	1,50,000
Anthony	71600	(+) Appreciation	15000
	144800	Machinery	50000
		Patents	10000
		(-) Dep	10000
	2,88,000		

Working note:-

O/S $\rightarrow$ 5000

$\rightarrow$ 3750

1250 $\rightarrow$ RCR

Working Note:- (G.R.) Calculation

G.R. = $6000 \times 2/6 = 2000$

(3:2:1) (3:1)

2000 $\rightarrow$ Pradeep $\rightarrow$ 1500

2000 $\rightarrow$ Sundar $\rightarrow$ 500

SURYA Gold

Date

Page

Prob 2

Revaluation a/c

Particulars	Amount	Particulars	Amount
To Machinery (8000 x 1/6)	800	By O/S Expenses (W.N-1)	1250
To Loose (5000 x 1/6)	500	By factory Premises	3050
To Old Partners Capak		(25,550 - 22,500)	
Pradeep (3000 x 3/6)	1500		
Sudeep (3000 x 2/6)	1000		
Sundar (3000 x 1/6)	500		
	3000		
	4300		4300

Partners' Capital a/c

Particulars	Pradeep	Sudeep	Sundar	Particulars	Pradeep	Sudeep	Sundar
To Sudeep Cap a/c	1500	-	500	By Balance b/d	20000	1500	10000
To Sudeep's loan	-	22000	-	By Rev a/c (P)	1500	1000	500
a/c (B/f)				By G.R (3:2:1)	6000	4000	2000
To balance c/d	26000	-	12000	By Pradeep Cap (G.W)	-	1500	-
				By Sundar's Cap (G.W)	-	500	-
	27500	22000	12500		27500	22000	12500
				By Balance b/d	26000	-	12000

New Balance Sheet as on 1/4/24

Liabilities	Amount	Asset	Amount
Trade Creditors	10000	Cash at Bank	12,500
O/S Expenses 5000		Debtors	15000
(-) Dep 1250	3750	Stock	12000
Bills Payable	3000	Factory Premises	22500
Sudeep's loan	22000	(+) Appreciation	3050
Capital a/c		Machinery	8000
Pradeep 26000		(-) Depreciation	800
Sundar 12000	38000	Loose Tools	5000
		(-) Depreciation	500
	76750		76750

Calculation of Revaluation a/c
 Cr. W = 60000 x 4/5 = 24000
 (2:2:1)
 (2:1)

Debit side
 24000

TERVA Credit

Date

Page

Page 8

Revaluation a/c

Particulars	Amount	Particulars	Amount
To PDD	2000	By old partners cap a/c	
To Patents	9000	Digvijay (11000 x 2/5)	4400
		Brijesh (11000 x 2/5)	4400
		Prakasham (11000 x 1/5)	2200
	11000		11000
			11000

Partners' Capital a/c

Particulars	Digvijay	Brijesh	Prakasham	Particulars	D	B	P
To Rev a/c (L)	4400	4400	2200	By Balance b/d	82000	60000	75500
To Brijesh cap a/c	16000	-	8000	By RE (2:2:1)	7400	7400	3700
To Brijesh loan a/c (b/f)	-	87000	-	By Digvijay cap (L)	-	16000	-
To bal c/d	69000	-	69000	By Prakasham cap (L)	-	8000	-
	89400	91400	79200		89400	91400	79200
				By balance b/d	69000	-	69000

New Balance Sheet as on 1/4/24

Liabilities	Amount	Asset	Amount
Creditors	49000	Assets Cash	8000
Brijesh's loan	87000	Debtors	19000
Capitals a/c		(-) Dep	2000
Digvijay	69000	Stock	42000
Prakasham	69000	Buildings	2,07,000
	13,800	Patents	9000
		(-) Dep	9000
	274000		Nil
			274000

Working Note: - 1 Calculation of PDD
 New PDD 600 (NBS)
 (6000 x 10%) 500
 Old PDD 100 → Revald Dr

Working Note: - 2 Calculation of Gr. W
 Gr. W = 40000 x 5/10 = 20000
 (3:3:2) 20000
 Kavitha 3 → 8000
 Sunitha 2 → 8000
 SURYA Gold
 Date _____ Page _____

1 Problem 3)

Revaluation a/c

Particulars	Amount	Particulars	Amount
To Stock (9000 x 10%)	900	By Premises (80,000 x 20%)	16000
To PDD (WN-3:1)	100	By Furniture (45000 - 40000)	5000
To Partners' Cap a/c			
Anitha (20000 x 5/10) 10000			
Kavitha (20000 x 3/10) 6000			
Sunitha (20000 x 2/10) 4000	20,000		
	21,000		21,000

Partners' Capital a/c

Particulars	A	K	S	Particulars	A	K	S
To Anitha's Cap a/c	-	12,000	8000	By Balance b/d	50,000	39,000	26,000
To Bank a/c	50,000			By revaluation a/c (Profit)	10,000	6000	4000
To Anitha's loan a/c	35,000	-	-	By General Reserve (5:3:2)	5000	3000	2000
To Balance c/d	-	27,000	18,000	By Kavitha's Cap a/c	12,000	-	-
				By Sunitha's Cap a/c	8000	-	-
	85,000	39,000	26,000		85,000	39,000	26,000
				By Balance b/d	-	27,000	18,000

New Balance Sheet as on 1/7/23

Liabilities	Amount	Asset	Amount
Sundry Creditors	15000	Debtors	6000
Bills Payable	12,000	(-) PDD	600
P. L D	6000	Stock	9000
Bank overdraft	41500	(-) dep	900
Capital a/c		Furniture	40000
Kavitha 27000		(+) Increase	5000
Sunitha 18000	45,000	Premises	8000
Anitha's loan a/c	35,000	(+) Appreciation	16000
	1,54,500		1,54,500

Calculation of Jayanti's Goodwill

$$GW = 30,000 \times \frac{2}{10} = 6000$$

SURYA Gold

Asset 3/5

Liability 2/5

Date

Page

Problem 4

Revaluation a/c

Particulars	Amount	Particulars	Amount
To Stock a/c [8000 - 1500]	3000	By Land & Building [70,000 - 60,000]	10,000
To office fur [25000 - 24000]	1000		
To P & M [42000 - 40000]	2000		
To PDD	1500		
To Partners' cap a/c			
Asati [25000 x 5/10] = 1250			
Bharati [2500 x 3/10] = 750			
Jayanti [2500 x 2/10] = 500	2500		
	10,000		10,000

Partners' Capital a/c

Particulars	Asati	Bharati	Jaya	Particulars	Asati	Bharati	Jaya
To Jayanti Cap a/c	36000	24000	-	By Balance b/d	40,000	60,000	20,000
To Cash a/c [b/f]	-	-	14,500	By Revaluation a/c	1250	750	500
To Jayanti's loan	-	-	15,000	By P & L a/c [5:3:2]	7500	4500	3000
				By Asati Cap a/c	-	-	3600
				By Bharati Cap a/c	-	-	2400
To Balance c/d	45180	62850	-				
	48750	65250	29500		48750	65250	29500
				By Balance b/d	45180	62850	-

New Balance Sheet of Asati & Bharati as on 1-4-24

Sundry Creditors	20,000	Sundry debtors (5000 - 1500)	3500
Old Telephone bills	500	Stock (18000 - dep 3000)	15000
Accounts Payable	9,500	Land & Building	60,000
Bank overdraft	9500	(-) Dep	10,000
Capital		Office furniture	25000
Asati	45,150	(-) Dep	1000
Bharati	62,850	Plant & Machinery	42000
Jayanti's loan	15000	(-) Dep	2000
	1,62,500		1,62,500

Calculation of Ashok G.L.
 $G.L. = 18000 \times 1/3 = 6000$

Anil 3000 Sunil 3000

SURYA Gold

Date _____ Page _____

1 Pblm 5

Revaluation a/c

Particulars	Amount	Particulars	Amount
To PDD [30,000 x 1/3]	1500	By Stock	6000
To Machine [50,000 x 1/3]	5000	By Partners' cap a/c	
To Furniture [25000 x 1/3]	2500	Anil [3000 x 1/3] = 1000	
		Sunil [3000 x 1/3] = 1000	
		Ashok [3000 x 1/3] = 1000	3000
	9000		9000

Partners' Capital a/c

Particulars	Anil	Sunil	Ashok	Particulars	Anil	Sunil	Ashok
To Rev a/c [1:1:1]	1000	1000	1000	By Balance b/d	60,000	50,000	30,000
To P & L a/c	2000	2000	2000	By Reserve fund (1:1:1)	5000	5000	5000
To Ashok's Capital	3000	3000	-	By Anil cap a/c	-	-	3000
To Ashok's Loan (H)	-	-	38000	By Sunil cap a/c	-	-	3000
To Balance b/d	59000	49000	-				
	65000	55000	41000		65000	55000	41000
				By Balance c/d	59000	49000	-

New Balance Sheet of Anil & Sunil as on 1/4/24

Liabilities	Amount	Asset	Amount
Creditors	30,000	Cash	26000
Bank overdraft	25000	Bills Receivable	28000
Capitals		Stock	45000
Anil	59000	(+) Increase	6000 → 51000
Sunil	49000 → 1,08,000	Debtors	30,000
		(-) Dep	1500 → 28,500
		Furniture	25000
		(-) Dep	2500 → 22,500
		To Machinery	50,000
		(-) Dep	5000 → 2,01,000
	2,01,000		2,01,000

★ Capital Adjustments

Rtn 13)

Working Note 1

A B C :
 8,000 4,000 4,000 :
 8 : 4 : 4
 OR = 2 : 1 : 1
 A B C

Working Note 2

1 New RDD 3000 $\rightarrow$ NB/s
 (20,000 $\times$ 15%)
 (-) Old RDD 1000
2,000 Revald DS

Working Note 3

Goodwill = ₹2,000
 Bhima's Share = ₹2,000 $\times$ 1/4
 = 18,000

A C
 2 : 1
 12,000 6,000

Working Note 4

Total Capital = 1,20,000
 A = 1,20,000 $\times$ 2/3 = 80,000
 C = 1,20,000 $\times$ 1/3 = 40,000

Revaluation a/c

Particulars	Amount	Particulars	Amount
To Machinery [50,000 $\times$ 20%]	1000	By Buildings [1,00,000 $\times$ 20%]	20,000
To PDD	2000		
<u>Capitals a/c</u>			
Amrit (8000 $\times$ 2/4) 4000			
Bhima (8000 $\times$ 1/4) 2000			
Chandu (8000 $\times$ 1/4) 2000	8000		
	20000		20000

Partners' Capital a/c

Particulars	Amit	Bhima	chandra	Particulars	Amit	Bhima	chandra
To Bhima Cap a/c	12,000	-	6,000	By Balance b/d	80,000	40,000	40,000
To Cash a/c (b/f)	2,000	-	2,000	By Rev a/c (P)	4,000	2,000	2,000
				By General Reserve (2:1:1)	10,000	5,000	5,000
				By Anitha's Cap a/c	-	12,000	-
				[WN 3] G.W.			
To Bhima loan a/c	-	65,000	-	By Chandra Cap a/c	-	6,000	-
(b/f)				[WN 3] Goodwill			
To Balance C/d	80,000	-	40,000				
	94,000	65,000	47,000		94,000	65,000	47,000
				By Balance b/d	80,000	-	40,000

Cash a/c

Particulars	Amount	Particulars	Amount
To Balance b/d	74,000	By ^{Amit} Anitha's Cap a/c	2,000
		By Chandra Cap a/c	1,000
		By Balance c/d	11,000
	14,000		14,000
To Balance b/d	11,000		

New Balance Sheet as on 1/04/24

Liabilities	Amount	Asset	Amount
Creditors	21,000	Buildings	1,00,000
<u>Capital a/c's</u>		(+) Appreciation	20,000
A 80,000		Machinery	50,000
C 40,000	1,20,000	(-) dep	10,000
		Stock	18,000
B's loan a/c	65,000	Debtors	20,000
		(-) PDD	3,000
		Cash @ Bank	11,000
	2,06,000		2,06,000

Prblm 11)

Working Note :- 1

Share : 40000 : 4000

8 : 4 : 4

2 : 1 : 1

Working Note : 2

New PDD : 3000 (NBIS)

(20,000 × 15%)

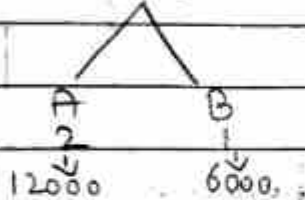
(-) Old RDD 1000

2000 → Revald
DrWorking Note : 3

Good Will = 72,000

GW = 72,000 × 1/4 = 18,000

18,000

Working Note : 4

Total Capital = 1,20,000

Anil = 12,000 × 2/3 = 80,000

Vishal = 1,20,000 × 1/3 = 40,000

Revaluation a/c

Particulars	Amount	Particulars	Amount
To Machinery	10,000	By Buildings	20,000
[50,000 × 20%]		[1,00,000 × 20%]	
To PDD [WN 2]	2000		
To Partners Cap a/c			
Anil [8000 × 2/4] = 4000			
Vishal [8000 × 1/4] = 2000			
Sumit [8000 × 1/4] = 2000	8000		
	20,000		20,000

Partners' Capital a/c

Particulars	Anil	Vishal	Sumit	Particulars	Anil	Vishal	Sumit
To Vishal cap	12000	-	6000	By Balance b/d	80,000	40,000	40,000
To Cash a/c (b/f)	2000	-	1000	By revaluation a/c (P)	4000	2000	2000
To Vishal loan		63000		By General reserve	6000	3000	3000
				By Anil's Cap a/c (b/f)		12000	
				By Sumit Cap a/c (b/f)		6000	
By Balance c/d	80,000	-	40,000				
	90,000	63000	45000		90,000	63000	45000

Cash a/c

Particulars	Amount	Particulars	Amount
To balance b/d	18000	By balance c/d	16000
To Anil Capital a/c	2000		
To Sumit Capital a/c	1000		
	16000		16000
To Balance b/d	16000		

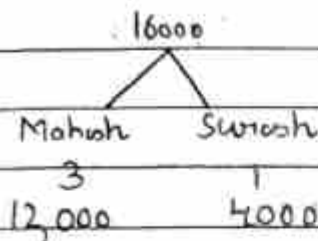
New Balance Sheet as on 1/4/2024

Liabilities	Amount	Assets	Amount
Creditors	28000	Buildings	1,00,000
Capitals		(+) Increase	20,000
Anil	80,000	Machinery	50,000
Sumit	40,000	(-) Dep	10,000
To Vishal's loan a/c	63000	Stock	18000
		Cash at Bank	16000
		Debtors	20,000
		(-) PDD	3000
	2,11,000		2,11,000

Prblm 12)

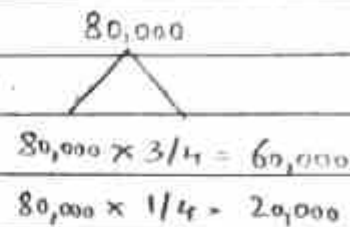
Working Note :- 1 Goodwill

$$48,000 \times \frac{2}{6} = 16,000$$

Working Note :- 2

$$\text{Total Capital a/c} = 80,000$$

$$\text{New Ratio} = 3:1$$

Revaluation a/c

Particulars	Amount	Particulars	Amount
To Machinery	2500	By Building (46500 - 45000)	1500
[25000 x 10%]		To Partners' Capital a/c	
To Prov. for PDD	2000	Mahesh [3000 x 3/6] = 1500	
		Suresh [3000 x 2/6] = 1000	
		Sandesh [3000 x 1/6] = 500	3000
	4500		4500

Dr

Partners' Capital a/c

Cr

Particulars	Mah	Sur	San	Particulars	Mah	Sur	San
To Revaluation a/c	1500	1000	500	By Balance b/d	40,000	30,000	20,000
To Suresh Cap a/c	1200		4000	By P/L a/c [3:2:1]	6000	4000	2000
To Cash a/c [b/f]	-	49,000	-	By Mahesh Cap a/c	-	12,000	-
[Settled immediately]				By Sandesh cap a/c	-	4000	-
To Balance b/d	40,000	-	20,000	By Cash a/c	27,500	-	2500
	73,500	50,000	24,500		73,500	50,000	27,500
				By Balance b/d	40,000		20,000

Cash a/c

Particulars	Amount	Particulars	Amount
To Balance b/d	25000	By Surash cap a/c	49000
To Mahesh Cap a/c	27500		
To Sandesh Cap a/c	2500		
		By Balance c/d	6000
	55000		55000
To Balance b/d	6000		

NEW Balance Sheet as on 1/4/2024

Liabilities	Amount	Asset	Amount
Sundry creditors	23000	Building	45000
Bills payable	15000	(+) Revalued	1500
<u>Capitals</u>		Machinery	25000
Mahesh 60,000		(-) Dep	2500
Sandesh 20,000	80,000	Stock	15000
		Debtors	20,000
		(-) PDD	2000
		Bills receivable	10,000
		Cash	6000
	1,18,000		1,18,000

* Death of a Partner :-

* Introduction :-

A Partnership will come to an end on the death of a partner. The partnership firm may continue the same business even after the death of a partner with a new agreement between the remaining partners. If the firm continues its business the amount payable to the deceased partner is required to be calculated.

and to be paid to his legal heirs called Executors.

Executors are the legal representatives of a deceased partner in a Partnership firm. When a partner dies, the final balance due to the deceased partner will be paid to his legal heirs called Executors.

* Accounting Treatment:-

The accounting procedure involved in case of death of a partner is almost similar to that of retirement of a partner but in case of retirement, a partner usually retires only at the end of an accounting year whereas in case of death of a partner, as the death is uncertain it may occur at any time during the year because of this factor one additional adjustment becomes necessary on a death of a partner, that is ascertainment of deceased partner's share of accrued profit & loss.

=> Format of Deceased Partner capital a/c

=> Format of Deceased Partner Executors a/c

⇒ Format of Deceased Partner Capital a/c

Dr Deceased Partner Capital a/c Cr

Particulars	Amount	Particulars	Amount
To Drawings a/c	xxx	By Balance b/d	xxx
To Int on drawings	xxx	By Revaluation a/c	xxx
To Deceased Partner's Executors a/c	xxx	By P & L a/c	xxx
[Balancing figure]		By Reserve fund	xxx
		By continuing Partner's Cap a/c	xxx
		[Share of G/L in G/L]	
		By joint life policy a/c	xxx
		By Commission a/c	xxx
		By P & L Suspense a/c	xxx
		By Int on Capital	xxx
	xxx		xxx

Deceased Partner Executors a/c

Dr

Cr

Particulars	Amount	Particulars	Amount
To Bank/cash a/c	xxx	By Deceased Partner Capital	xxx
[If Paid Immediately]		[Transfer from Cap a/c]	
	xxx		xxx

⇒ Problems

- 1) Akash & Anil, Adarsh are partners sharing profit & losses in the ratio of 3:2:1. Their capitals as on 1-4-2022 were ₹ 70,000 & ₹ 90,000 & ₹ 60,000 respectively. Akash died on 31-12-2022 and the partnership deed provide the following:-

- Interest on Akash Capital at 8% P.a
 - Akash Salary ₹ 2000 P.m
 - His share of accrued profit up to the date of death based on previous years profit. Firms profit for 2021-22 ₹ 24000
 - His share of Goodwill ₹ 12000
- Ascertain the amount payable to Akash Executors by preparing Akash Capital a/c

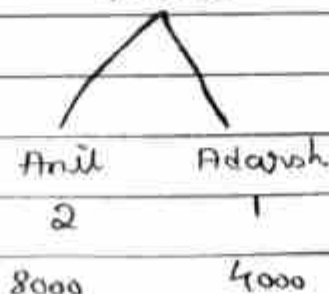
Solution:-

Akash's Capital a/c

Particulars	Amount	Particulars	Amount
To Akash Executors account	1,13,200	By Balance b/d	70,000
[Balancing figure]		By Interest on Cap	4,200
		[70,000 × 8% × 9/12]	
		By Salary	18,000
		(2000 × 9)	
		By P & L ^{Share} a/c	9000
		[24000 × 3/6 × 9/12]	
		By Anil Cap a/c	8000
		[Goodwill]	
		By Adarsh Cap a/c	4000
		[Goodwill]	
	1,13,200		1,13,200

Working Note :- 1

$$\text{Goodwill} = 1,20,000$$



Prblm 1 :- DCL -> Partners' Capital a/c

CR (+)

Particulars	Amount	Particulars	Amount
To Rakish Exclutors account	1,35,000	By Balance bld	1,00,000
(Balancing figure)		By Interest on capital [1,00,000 × 10% × 6/12]	5,000
		By Salary (2,000 × 6)	12,000
		By P & L a/c (24,000 × 3/6 × 6/12)	6,000
		By Rakesh Cap a/c (Gr)	8,000
		By Ramesh Cap a/c (Gr)	4,000
	1,35,000		1,35,000

Prblm 3 :- Dinesh's Partners' Capital a/c

Particulars	Amount	Particulars	Amount
To Drawings a/c	5,000	By Balance bld	1,00,000
To Dinesh Exclutors a/c (B/f)	15,000	By Interest on capital [1,00,000 × 12% × 9/12]	9,000
		By Mahesh Cap a/c (Gr & LNR)	2,500
		By Ramesh Cap a/c (Gr & LNR)	2,500
		By P & L ^{suppluse} a/c (20,000 × 4/10 × 9/12)	6,000
	1,20,000		1,20,000

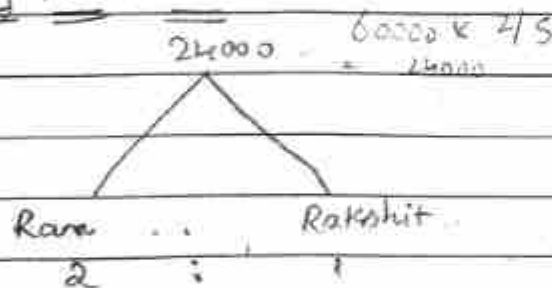
Problem 2:- Dr (-)

Rahim's capital a/c

Cr (+)

Particulars	Amount	Particulars	Amount
		By Balance b/d	60,000
		By Int on Capital a/c	1500
		[$60,000 \times 10\% \times 3/12$]	
		By Salary	6000
		[2000×3]	
		By P & L acc suspense a/c	4000
		[$40,000 \times 2/5 \times 3/12$]	
To Rahim's Excess a/c [b/f]	95,500	By Ram Capital a/c [b/w]	16000
		By Rakshit Cap a/c [b/w]	8000
	95,500		95,500

Working Note :- 1



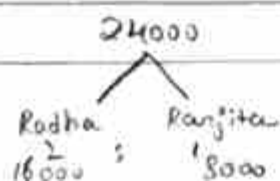
Problem 4:-

Rukmini Capital a/c

Particulars	Amount	Particulars	Amount
		By Balance b/d	50,000
		By Interest on Cap a/c	2,250
		[$50,000 \times 6\% \times 9/12$]	
		By salary [1000×9]	9000
To Rukmini's Excess a/c [b/f]	88,250	By Radha's Cap a/c	16000
		By Ranjita's Cap a/c	8000
		By Commission [$4000 \times 9/12$]	3000
	88,250		88,250

Working note :- 1

Total GH = $60000 \times 2/5$
 = 24000



Problem 6)

Raja & Rani are Partners Sharing Profit & losses in the ratio of 2:2:1. The Balance Sheet of the firm as on 31-03-2022 was as follows

Balance Sheet as on 31-03-2022

Liabilities	Amount	Assets	Amount
Creditors	40,000	Cash	20,000
Bills Payable	20,000	Stock	40,000
<u>Capitals</u>		Debtors	90,000
Raja	1,100,000	Buildings	1,00,000
Rani	60,000	Plant & Machinery	10,000
Mantri	40,000		
	2,60,000		2,60,000

Raja died on 31-12-2022, his Executors are entitled to the following

- His Capital on the date of his death
- His Share of Profit till the date of his death
Estimated Profit for the current year ₹ 80,000
- Interest on Capitals allowed at 10% per
- His drawings till death amounted to ₹ 20,000
- Salary of Raja ₹ 1000 p.m

Raja's Capital a/c

Solution:-	Particulars	Amount	Particulars	Amount
	To Drawings a/c	20,000	By Balance b/d	1,00,000
			By P&L a/c ^{80,000} $\left[80,000 \times \frac{2}{5} \right]$	24,000
			By Int on Capital ^{10%} $\left[1,00,000 \times 10\% \times \frac{9}{12} \right]$	7,500
	To Raja's Executors a/c $\left[b/f \right]$	1,20,500	By Salary $\left[1000 \times 1 \right]$	9,000
		1,40,500		1,40,500

- 17) Arun, Varun & Tharun are partners sharing Profit & losses in the ratio 2:2:1. The balance sheet of the firm as on 31-03-2022 was as follows:

Balance Sheet as on 31-03-2022

Particulars	Amount	Particulars	Amount
Creditors	20,000	Cash in hand	10,000
Bills Payable	10,000	Stock in Trade	20,000
<u>Capitals</u>		Debtors	15,000
Arun	50,000	Plant & Machinery	30,000
Varun	30,000	Buildings	45,000
Tharun	20,000	P&L a/c 10,000 x 2/5	
	1,30,000		1,30,000

Arun died on 31/12/22 his Executors are entitled to the following:-

- His Capital on the date of death
- His Share of Profit & loss a/c
- His Share of Profit till the date of death the profit of the current year is estimated at ₹40,000
- Interest on Capital is allowed at 10%.
- His drawings till death amounted to ₹10,000

Solution:-

Arun's Capital a/c

Particulars	Amount	Particulars	Amount
To P&L a/c [10,000 x 2/5]	4,000	By Balance b/d	50,000
To Drawings a/c	10,000	By P&L a/c suspense a/c [40,000 x 2/5 x 9/12]	12,000
To Arun's Executors a/c [b/f]	51,750	By Interest on Capital [50,000 x 10% x 9/12]	3,750
	65,750		65,750

- 3) ^{Vena Rani} Ramesh, Parakash, Surish were Partners in a firm sharing Profit & losses in the ratio of 5:3:2 on 31st March 2023 their balance sheet was as on

Balance Sheet as on 31st March 2023

Liabilities	Amount	Asset	Amount
-------------	--------	-------	--------

Prblm 6 :- Working Note :- Calculation of Good Will

Average Profit :- $12000 + 20,000 + 13000 + 15000$
4

$$A. P = 15000$$

Gr. W Formula :- Avg Profit $\times$ No. years of Purchase
= 15000×2

$$GW = 30000$$

Vena's = $30000 \times 5/10$
GW = 15000 Vani 4000 3/5
Rani 2/5 6000

Vena's Capital a/c

Particulars	Amount	Particulars	Amount
		By Balance b/d	30000
		By Rev. a/c (P)	5000
		By R/F $(60,000 \times 5/10)$	3000
		By Vani cap a/c	9000
		(GW W.N. $\rightarrow 1$)	
To Vena's Executor a/c (b/d)	58,550	By Rani Cap a/c	6000
		(GW W.N. $\rightarrow 1$)	
		By P&L Suspense a/c	3750
		$(15000 \times 5/10 \times 6/12)$	
		By Interest on Cap	1,800
	58,550		58,550

Problem 8 :- Working Note :- Calculation of G.W

$$\underline{A.P} = \frac{80,000 + 50,000 + 40,000 + 30,000}{4}$$

$$\underline{A.P} = 50,000$$

G.W Formula :- Average Profit $\times$ No. of Years Purchase
 $= 50,000 \times 3$

$$\underline{G.W} = 1,50,000$$

Revati's G.W :- $1,50,000 \times 1/5$
 $= 30,000$

$$\begin{array}{ccc} & \swarrow & \searrow \\ \text{Sujatha} & & \text{Sangeetha} \\ 2 & : & 2 \\ 15000 & & 15000 \end{array}$$

Revati's Capital a/c

Particulars	Amount	Particulars	Amount
		By Balance b/d	40,000
		By Reserve fund	10,000
		(50,000 $\times$ 1/5)	
		By P & L Suspense a/c	3000
To Drawings a/c	10,000	[30,000 $\times$ 1/5 $\times$ 6/12]	
		By Sujatha cap a/c	15000
		(G.W WN 1)	
To Revati's Exclusive Capital a/c [b/f]	75,400	By Sangeetha cap a/c	15000
		(G.W WN 1)	
		By Interest on capital	2,400
		[40000 $\times$ 12% $\times$ 6/12]	
	85,400		85,400

Prblm 7 :- Working Note 1 :- Calculation of Accumulated profit

$$A.P = \frac{16000 + 17000 + 15000}{3}$$

$$A.P = 16000$$

$$\text{Share of Rakshittha} = 16000 \times \frac{1}{4} \times \frac{3}{12} = 1000$$

Working Note 2 :- Calculation of Goodwill

$$G.W = A.P \times N.Y.P$$

$$= 16000 \times 3$$

$$G.W = 48000$$

$$\text{Rakshittha's} = 48000 \times \frac{1}{4}$$

$$\text{Share} = 12000$$

$$\text{Ranya 2} = 8000$$

$$\text{Bhavya 1} = 4000$$

Rakshittha's Cap a/c

Particulars	Amount	Particulars	Amount
		By Balance b/d	10,000
		By ^{Reserve fund} Revaluation a/c (P)	5000
To Drawings a/c	5000	[20,000 x 1/4]	
To Rakshittha's	23,308	By P&L Suspense a/c	1000
Excess a/c (b/f)		By I.O.C. [1000 x 12 x 3/12]	3000
		By Rakshittha Cap a/c	8000
		By Bhavya cap a/c	4000
	28,300		28,300

Rakshittha's Excess a/c

Particulars	Amount	Particulars	Amount
		By Rakshittha	23,300
		Cap a/c (to amp)	
	23,300		23,300

Q.10) :- Working note 1 :- Calculation of Average Profit

$$A.P = \frac{13000 + 12000 + 15000 + 16000}{4}$$

$$A.P = 14000$$

$$\text{Share of Parimala} = 14000 \times \frac{2}{10} \times \frac{7}{12}$$

$$= 1633.3$$

Working Note 2 :- Calculation of Goodwill

$$G.W = A.P \times N.Y.P$$

$$= 14000 \times 2.5$$

$$G.W = 35000$$

$$\text{Parimala's Share} = 35000 \times \frac{2}{10}$$

$$= 7000$$

$$\text{Deepa's} = 4375$$

$$\text{Pushpa's} = 2625$$

Parimala's Cap a/c

Particulars	Amount	Particulars	Amount
		By Balance b/d	20,000
To Cash a/c	5000	By Reserve fund	1200
		$\{6000 \times \frac{2}{10}\}$	
		By P&L Suspense a/c	1633
To Parimala	24,833	By Deepa Cap a/c (G.W)	4375
Exclusion a/c (b/f)		By Pushpa Cap a/c (G.W)	2625
	29,833		29,833

Parimala's Exclusion a/c

Particulars	Amount	Particulars	Amount
		By Parimala a/c	24,833
		(Transf.)	
	24,833		24,833

Chapter - 04

Dissolution of a Partnership Firm

* Meaning :-

It means some of the Partners terminate their connection with the firm and the remaining Partners continue the business of the firm under the another name with an agreement. In other words, it means all the Partners of the firm cut off their connections with the firm and the business of the firm is closed down.

* Definition :-

According to Section 39 of the Partnership Act, 1932 defines the dissolution of Partnership between all the Partners of a firm is called dissolution of the firm.

* Factors of Dissolution of Partnership Firm

- * Mutual Agreement
- * Insolvency of a Partner
- * Mis - Conduct of a Partner
- * Court order
- * Illegality of business

* Settlement of Accounts :-

In Case of Dissolution of a firm, the firm disposes off (that is sales) all its assets and make payment in the following manner :-

- * First, Payment of outside liability like Creditors, bills payable & Bank loan.
 - * The Payment of Partners loan
 - * Finally, Payment of Partner's Capital.
- Accounting Treatment :-

When the firm is dissolved, usually the following accounts are prepared:

- Realisation a/c
- Partner's Capital a/c
- Cash / Bank a/c

- a) Realisation a/c :-

It is an account prepared at the time of dissolution of a firm to ascertain the profit or loss on the realisation of assets and payment of liabilities. The profit or loss is transferred to partners' capital a/c in their profit sharing ratio.

- * Accounting Entries on the dissolution of Partnership firm :-

1. For Transfer of Realisable asset at book value
Realisation a/c ----- Dr
To Each asset a/c
2. For Transfer of External liabilities at book value
Each liability a/c ----- Dr
To Realisation a/c

9. For transfer of reserve fund or general reserve in profit sharing ratio

Reserve Fund / General reserve a/c ---- Dr
To Partner's Capital a/c

10. For Transfer of Profit and loss account balance in profit sharing ratio

A) In case of Credit balance

Profit or loss a/c ---- Dr
To Partner's Capital a/c

B) In case of Debit balance

Partner's Capital a/c ---- Dr
To Profit or loss a/c

11. For Transfer of fictitious assets in profit sharing ratio

Partner's Capital a/c ---- Dr
To fictitious asset a/c

12. For Payment of loan due to Partner

Partner's loan a/c ---- Dr
To cash or bank a/c

13. For Settlement of Partner's Capital a/c

A) If Capital a/c of a Partner shows Debit balance

Cash or Bank a/c ---- Dr
To Partner's Capital a/c

B) If the capital account of a Partner shows a credit balance

Partner's Capital a/c --- Dr
To Cash or Bank a/c

* Format of Realisation account

Dr		Realisation a/c		Cr	
Particulars	Amount	Particulars	Amount		
To Realisable asset at book values	xxx	By External Liabilities at book values	xxx		
To Reserve for liability	xxx	By Reserve for asset	xxx		
To Cash or bank a/c	xxx	By Cash or Bank a/c	xxx		
[Liabilities Paid]		[Asset realised]			
To Partner's Capital a/c	xxx	By Partner's Capital a/c	xxx		
[Liabilities take over partner]		[Asset taken over by partner]			
To Cash or Bank a/c	xxx	By all the Partners Capital a/c	xxx		
[Realisation expenses paid]		[Loss on Realisation]			
To all the partners Capital a/c	xxx				
[Profit on Realisation]					
	xxx			xxx	

* Format of Cash or Bank a/c

Particulars	Amount	Particulars	Amount
To Balance b/d	xxx	By Realisation a/c	xxx
To Realisation a/c	xxx	[Liabilities Paid]	
[Asset realised]		By Realisation a/c	xxx
To Partner's Capital a/c	xxx	[Realisation expenses paid]	
[Deficiency made good]		By Partner's loan a/c	xxx
		By Partner's Cap a/c [final claim paid off]	xxx

Problem :- [Sums]

Q1. Supriya & Monika are partners, who share profit in the ratio of 3:2, Following is the balance sheet as on 31/03/2023

Liabilities	Amount	Asset	Amount
Supriya's Capital	32,500	Cash at Bank	40,500
Monika Capital	11,500	Stock	7,500
Sundry Creditors	48,000	Sundry debtors	21,500
Reserve fund	13,500	(-) PDD	500
		Fixed Assets	36,500
	1,05,000		1,05,000

The firm was dissolved on 31st March 2023. Close the books of the firm with the following information

- * Debtors realised at the discount of 5%
- * Stock realised at ₹ 42,000
- * Fixed asset realised at ₹ 42,000
- * Realisation expenses ₹ 1,500
- * Creditors are paid in full
- * Prepare realisation a/c, Partners Capital a/c, Bank a/c

Dr ⇒		Realisation a/c				Cr	
Particulars	₹	Amount	Particulars	₹	Amount		
To Stock		7500	By PDD		500		
To Debtors		21,500	By 'Sundry creditors'		48,000		
To Fixed asset		36,500					
To Bank a/c			By Bank a/c				
[Liabilities Paid]			[Asset realised]				
Sundry creditors		48000	Sundry Debtors	~~21,500~~			
To Bank a/c			(-) Drs	21500			
[Realisation Expense]		1,500	1,075		20,425		
To Partners' cap a/c			(21500 x 5%)				
Supriya [9925 x 3/5]	1,175		Stock		7000		
Monika [2,925 x 2/5]	1,170	2,925	Fixed Asset		42000	69,425	
		1,17,925					1,17,925

Dr		Partners' Capital a/c				Cr	
Particulars	Supriya	Monika	Particulars	₹	₹		
			By Balance b/d	32500	4,500		
			By Realisation a/c (P)	1755	1,170		
To Balance a/c	42,355	18,070	By Reserve fund (3:2)	8100	5400		
[b/f]							
	42,355	18,070				42,355	18,070

Dr		Bank a/c				Cr	
Particulars	Amount	Particulars	Amount				
To balance b/d	40,500	By Realisation a/c	48000				
		[Liabilities Paid]					
To Realisation a/c	69,425	By Realisation a/c [Expense]	1500				
[Asset realised]		By Supriya Capital a/c	42,355				
		By Monika's Capital a/c	18,070				
	1,09,925					1,09,925	

Q1 $\Rightarrow$ Dr		Realisation a/c		Cr	
Particulars	Amount	Particulars	Amount		
To Debtors	55000	By PDD	3000		
To Stock	40000	By Bills Payable	10000		
To Furniture	15000	By Creditors	50000		
To Machinery	25000	By Reserve fund.	15000		
To Buildings	81000	By Bank [Asset Realised]			
To Bank [Liabilities paid]		Debtors	52000		
Bills payable $(10000 - 500)$ 9500		Stock	39000		
Creditors $(50000 - 2500)$ 47500	57000	Machinery	24000		
To Bank [Dissolution Exp]	4000	Buildings	81000		
		Furniture	13000	2,03,000	
		By Partner's Cap a/c			
		Medha $(11000 \times 1/2)$ 5500			
		Vidya $(11000 \times 1/2)$ 5500	11000		
	2,77,000		2,77,000		

Partners' Capital a/c

Particulars	Medha	Vidya	Particulars	Medha	Vidya
To Realization a/c [Exp]	5500	5500	By Balance b/d	60,000	80,000
To P&L a/c (1:1)	6000	6000	By Reserve fund (1:1)	7500	7500
To Bank a/c (b/f)	56000	76,000			
	67500	87500		67500	87500

Bank a/c

To Balance b/d	15000	By Realisation (LP)	57000
To Realisation a/c	2,03,000	By Realisation (DE)	4000
		By Medha Cap a/c	56000
		By Vidya Cap a/c	76000
		By Vidya Cap a/c (Loan)	25000
	2,18,000		2,18,000

Q2 => Dr

Realisation a/c

Cr

Particulars	Amount	Amount	Particulars	Amount	Amount
To Debtors		25000	By Creditors		15000
To Bills Receivable		5000	By Bills Payable		10000
To Investment		18000	By Bank loan		8000
To Machinery		25000	By Bank (Asst. scaled)		
To Furniture		16000	- Debtors	24000	
To Bank a/c ^{Liability} _{Paid}			- Bills Receivable	4000	
- Creditors (15000 - 750)	14,250		- Investment	15000	
- B.P (10000 - 500)	9500	23,750	Machinery	22000	
To Bank a/c		2,250	Unscaled ~~Investment~~	4000	69000
~~To Bank a/c~~			By Chandu Cap a/c		10000
Bank loan	8000	31,750	[Furniture + 10]		
			By Partner's Cap a/c		
			A (11000 x 2/5)	4400	4400
			C (11000 x 2/5)	4400	4400
			V (11000 x 1/5)	2200	11000
		1,23,000			1,23,000

Partner's Capital a/c

Particulars	A	C	N	Particulars	A	C	N
To Realisation (L)	4400	4400	2200	By Balance b/d	20000	20000	10000
To Real a/c	-	10000	-	By P&L a/c (2:2:1)	8800	8800	4400
To Bank a/c (H)	24,400	14,400	12,200				
	28,800	28,800	14,400		28,800	28,800	14,400

Bank a/c

To Balance b/d	21000	By Realisation a/c (L)	31,750
[16000 + 5000]		By Realisation a/c (DE)	2,250
To Realisation a/c (AR)	69000	By Arund Cap a/c	24400
		By Chandu Cap a/c	14,400
		By Vinay Cap a/c	12,200
		By Arund loan a/c	8000
	90000		90000

Q5 => Dr		Realisation a/c		Cr	
Particulars	Amount	Amount	Particulars	Amount	Amount
To Debtors		30000	By Creditors		30,000
To Stock		30000	By Bills Payable		20000
To Furniture		22000	By General Reserve		10000
To Machinery		20000	By Bank [Asset realised]		
To Buildings		50,000	- Divs ($30,000 \times \frac{10}{15}$ - 3000)	27000	
To Bank a/c [Liabilities Paid]			- Stock ($30,000 \times \frac{15}{15}$ + 4500)	34,500	
- Crs ($30000 - 1500$) 5%	28,500		Buildings	60000	1,21,500
- BP ($20000 - 1000$) 5%	19000	47,500	To Shreethi Capital a/c		20000
To Bank a/c (Dr)		1500	(Furniture taken over)		
To Partners Cap a/c			To Shilpa Capital a/c		15000
Shreethi ($5500 \times \frac{1}{5}$)	2200		(Machinery taken over)		
Shilpa ($5500 \times \frac{2}{5}$)	2200				
Shreya ($5500 \times \frac{2}{5}$)	1100	5,500			
		2,06,500			2,06,500

Partners' Capital a/c

Particulars	Shreethi	Shilpa	Shreya	Particulars	Shreethi	Shilpa	Shreya
To Realisation a/c	20,000	-	-	By Balance b/d	40,000	30,000	20,000
(Furniture taken)				By Realisation (Prof)	2200	2200	1100
To Realisation a/c	-	15000		By General Reserve	4000	4000	2000
(Machinery taken)				(2:2:1)			
To Balance b/d	26,200	21,200	23,100				
	46,200	96,200	23,100		46,200	36,200	23,100

Bank a/c

Particulars	Amount	Particulars	Amount
To Balance b/d	6000	By Realisation a/c	47,500
To Realisation a/c	1,21,500	[Liabilities Paid]	
(Assets realised)		By Realisation a/c	1500
		(Dissolution Expenses)	
		By Shroath's cap a/c	26,200
		By Shilpa cap a/c	21,200
		By Shreya cap a/c	23,100
		By Shreya loan a/c	8000
	1,27,500		1,27,500

Q6 ⇒ D8

Realisation a/c

C8

Particulars	Amount	Amount	Particulars	Amt	Amt
To Debtors		8,600	By Creditors		15,000
To Investments		10,000	By Bills Payable		1,800
To Stock		13,700	By ^{Cash} Bank (Assets realised)		
To Furniture		5,100	Debtors	8000	
To Buildings		22,900	Investments	8950	
To Cash a/c [LP]			Stock	15,600	
Creditors		15,000	Furniture	4500	37,050
To Deepa Capital a/c		1800	To Disha Capital a/c		27,750
[Liabilities taken over]			(Buildings taken over)		
To Cash a/c [R.E.]		600			
To Partners Capital					
Disha (39,000 × 1/3)	1300				
Divya (39,000 × 1/3)	1300				
Deepa (39,000 × 1/3)	1300	3900			
		81,600			81,600

Dr Partner's Capital a/c								Cr	
Particulars	Disha	Divya	Deepa	Particulars	Disha	Divya	Deepa		
To Realisation	27750	-	-	By Balance b/d	22000	12000	10000		
[Asset T/o]				By Realisation (P)	1300	1300	1300		
To Cash a/c	-	15300	15100	By R.F (1:1:1)	2000	2000	2000		
[b/f]				By Realisation a/c	-	-	1800		
				[Liabilities T/o]					
				By Cash a/c [b/f]	2450	-	-		
	27750	15300	15100		27750	15300	15100		

Dr Cash a/c				Cr	
Particulars	Amount	Particulars	Amount		
To Balance b/d	6500	By Realisation a/c (LP)	15000		
To Realisation a/c	37050	By Realisation a/c (RE)	600		
To Disha Cap a/c	2450	By Divya Cap a/c	15300		
		By Deepa Cap a/c	15100		
	46000		46000		

Q7 => Dr Realisation a/c								Cr	
To Bills receivable		10000	By Sundry crs					10000	
To Sundry Debtors		20000	By bills payable					10000	
To Stock		15000	By bank a/c (AR)						
To Machinery		15000	- B.R		7500				
To Furniture		10000	- S.R (20000 - 200)		18000				
To Goodwill		30000	- Stock (15000 - 1500)		13500				
To bank a/c (LP)			- Machinery (15000 + 750)		15750				
- B.P	10000	10000	- Goodwill		12000			66750	
S. Crs	10000	20000	By Greetha Cap a/c					8000	
To bank a/c		600	By Partners Cap a/c						
[D.E]			Rachmi (25850 x 3/5)		15510				
			Greetha (25850 x 2/5)		10340			25850	
		120600						120600	

Dr Partner's Capital a/c			Cr		
Particulars	Rashmi	Geetha	Particulars	Rashmi	Geetha
To Realisation (L)	15560	10340	By Balance b/d	30000	40000
To Realisation (AR)	-	8000	By R.F (3:2)	6000	4000
To Bank a/c (b/d)	20490	25660			
	36000	44000		36000	44000

Dr Bank a/c		Cr	
Particulars	Amount	Particulars	Amount
To balance b/d	5000	By Realisation a/c (LP)	20000
To Realisation (AR)	66750	Realisation a/c (DE)	600
		By Rashmi Cap a/c	20490
		By Geetha Cap a/c	25660
		By Rashmi Cap a/c	5000
	71750		71750

Q4 => Dr		Realisation a/c		Cr	
Particulars	Amount	Particulars	Amount		
To Debtors	15000	By Creditors	20,000		
To Stock	18000	By Bills payable	6000		
To Furniture	12000	By Bank overdraft	4000		
To Machinery	20000	By Vari's loan	5000		
To Buildings	60000	By Cash a/c ^(Asst scaled)			
To Cash a/c ^{Liabilities Paid}		- Dr's	13500		
Exp ^(20000 - 2000) 18000		Stock	19800		
Bills payable 6000		Buildings	62000		
Bank old 4000		U.R Vehicle	4000		
Interest on old 400	28,400	Machinery	20000	1,19,300	
To Divya cap a/c	5000	By Ramya cap a/c	9000		
(Vari loan t/o)		(Furniture t/o)			
To cash a/c (R.E)	4000				
To Partner's cap a/c					
Ramya (900 x 1/4) 225					
Kanya (900 x 2/4) 450					
Divya (900 x 1/4) 225	900				
	1,63,300			1,63,300	

Partner's Capital a/c

Particulars	R	K	D	Particulars	R	K	D
To Realisation a/c	9000	-	-	By Balance b/d	42000	35000	20,000
(Asst taken over)				By Realisation (P)	225	450	225
				By Reserve (1:2:1)	2000	4000	2000
				By Realisation a/c	-	-	5000
To Cash a/c	35,225	39450	27225	(Liabilities t/o)			
(b/f)							
	44225	39450	27,225		44225	39450	27,225

Cash a/c

Particulars	Amount	Particulars	Amount
To balance b/d	15000	By Realisation (LP)	28,400
To Realisation a/c [Asset realised]	1,19,300	By Realisation (PE)	4000
		By Ramya Capital a/c	35,225
		By Kavya Capital a/c	39450
		By Divya Capital a/c	27,225
	1,34,300		1,34,300

Q 11 =>

Realisation a/c

Particulars	Amount	Amount	Particulars	Amount	Amount
To Bills Receivable		6000	By sundry creditors		12000
To Debtors		25000	By Bank loan		24000
To Stock		20000	By Bank a/c [AR]		
To Investments		8000	- B R	5000	
To Furniture		10000	Debtors	23500	
To Buildings		85000	Stock	18000	
To Bank a/c [LP]			Buildings	95000	141500
Creditors	12000		By Kiran cap a/c		10000
Bank loan	24000	36000	[Don To]		
To Bank a/c (DE)		2500	By Arjun cap a/c		8000
			[Furniture taken over]		
To Partners cap a/c					
Arjun (3000 x 1/3)	1000				
Kiran (3000 x 1/3)	1000				
Arjun (3000 x 1/3)	1000	3000			
		195500			1,95,500

Dr

Partners' Capital a/c

Cr

Particulars	Arjun	Kiran	Arjun	Particulars	Arjun	Kiran	Arjun
To Real (AR)	-	10000	-	By Balance b/d	40000	30000	20000
To Real (ATC)	-	-	3000	By Real a/c (P)	1000	1000	1000
To cash a/c (b/d)	45000	25000	17000	By Reserve (1:1:1)	4000	4000	4000
	45000	35000	35000		45000	35000	25000

Dr

Cash a/c

Cr

Particulars	Amount	Particulars	Amount
To Balance b/d	6000	By Realisation a/c (LP)	36000
To Realisation (AR)	1,41,500	By Realisation a/c (DE)	2500
		By Arjun Capital a/c	45000
		By Kiran Capital a/c	25000
		By Arjun Capital a/c	17000
		By Arjun's loan	22000
	1,47,500		1,47,500

Q12 => D*

Realisation a/c

C*

Particulars	Amount	Amount	Particulars	Amount	Amount
To Debtors		9000	By Creditors		23000
To Stock		15000	By Bills Payable		17000
To Investments		5000	By Cash a/c (Asset Realised)		
To Furniture		14000	Debtors (27000 - 2700)	24,300	
To Buildings		40,000	Investments (5000 + 6000)	6000	
To Goodwill		20,000	Buildings	60000	
To Cash a/c (L.P.)			Stock	12000	
Cash (23000 - 12000)	23,750		Furniture	15000	1,17,300
B.P. (17000 - 850)	16150	39,900	By Mohan Cap a/c		15000
To Cash (R.E.)		2000	(Goodwill t/o)		
To Partners' Cap a/c					
Mohan (14000 x 4/9)	5067				
Naga (11400 x 3/9)	3800				
Prakash (11400 x 2/9)	2533	11,400			
		1,74,300			1,74,300

D*

Partners' Capital a/c

C*

Particulars	Mohan	Naga	Prakash	Particulars	M	N	P
To Realisation a/c	15000	-	-	By Balance b/d	30,000	20000	10000
(Asset taken over)				By Realisation (Prof)	5067	3800	2533
To Cash a/c	28067	29800	16,533	By Reserve fund (4:3:2)	8000	6000	4000
	43067	29800	16533		43067	29800	16533

D*

Cash a/c

C*

To Balance b/d	9000	By Realisation a/c (L.P.)	39,900
To Real a/c	1,17,300	By Realisation a/c (P.E.)	2000
(Realisation asset)		By Mohan Cap a/c	28,067
		By Naga Cap a/c	29,800
		By Prakash Cap a/c	16,533
		By Prakash loan a/c	10,000
	1,26,300		1,26,300

Q14 → D8		Realisation a/c		C8	
Particulars	Amount	Amount	Particulars	Amount	Amount
To Debtors		20000	By Creditors		20,000
To Stock		25000	By A/c A/c		2000
To Furniture		10000	By Bank a/c		
To Machinery		15000	Debtors (20000 - 2000)	18000	
To Bank ^{Liabilities Paid}			Stock (25000 + 2500)	27500	27500
Creditors (20000 - 1000)		19000	By Appu a/c		8000
To Bank a/c (R.E)		500	[Furniture t/o]		
			By Abhi a/c		12000
			[Machinery t/o]		
			To Partners' Capital		
			Appu (4000 × 1/4)	2000	
			Abhi (4000 × 1/4)	1000	
			AKash (4000 × 1/4)	1000	4000
		84500			89500

D8				Partner's Capital a/c				C8			
Particulars		Appu	Abhi	AKash	Particulars		Appu	Abhi	AKash		
To Realisation(L)		2000	1000	1000	By Bal bld		20000	15000	10000		
To Real (ATD)		8000	-	-	By P&L a/c		3000	1500	1500		
To Real (ATO)		-	12000	-							
To Bank a/c (B/L)		13000	3500	10500							
		23000	16500	11500			23000	16500	1500		

D8		Bank a/c		C8	
Particulars	Amount	Particulars	Amount	Amount	Amount
To bal bld	8000	By Realisation (LP)	19000		
To Realisation (AN)	45500	By Realisation (DE)	500		
		By Appu cap a/c	13000		
		By Abhi cap a/c	3500		
		By AKash cap a/c	10500		
		By Appu loan a/c	5000		
		By AKash loan a/c	2000		
	53500				

Q18 => D8

Realisation a/c

C8

Particulars	Amount	Amount	Particulars	Amount	Amount
To Debtors		15000	By Creditors		10000
To Stock		18000	By Bills Payable		6000
To Furniture		12000	By Bank overdraft		4000
To Machinery		20000	By Cash a/c [Asst. Realised]		
To Buildings		50000	Debtors (15000 ¹⁰¹ 1500)	13500	
To Goodwill		10000	Stock (18000 ¹⁰¹ 1800)	19800	
To Cash a/c [LP]			Building Buildings	62000	
Cash (10000 - 1000)	9000		Unrecorded Vehicle	4000	
- Bank O/D	4000		Machinery	20000	119300
- Int on O/D	500		By appu Cap a/c [Fro]		9000
- Bills Payable	6000	19500			
To Appu Cap a/c	5000	5000			
To Cash a/c [DE]		3000			
To Partner Cap a/c					
Appu (800 x 1/2)	4000				
Asau (800 x 1/2)	4000	800			
		153300			153300

D8

Partner's Capital a/c

C8

Particulars	Appu	Asau	Particulars	Appu	Asau
To Realisation (As)	9000		By Balance b/d	52000	45000
To Cash a/c [b/f]	47400	54400	By Realisation (P)	400	400
			By P & L a/c [1:1]	4000	4000
			By Realisation [L to]		5000
	56400	54400		56400	54400

D8

Bank a/c

C8

Particulars	Amount	Amount	Particulars	Amount	Amount
To Balance b/d	5000		By Realisation a/c [LP]	19500	
To Realisation a/c	119300		By Realisation a/c [DE]	3000	
[Asst. Realised]			By Appu Cap a/c	47400	
			By Asau Cap a/c	54400	
	1,24,300			1,24,300	

Q19 →

Realisation a/c

Particulars	Amount	Amount	Particulars	Amount	Amount
To Bills receivable		20000	By creditors		50000
To Stock		30000	By Bills payable		30000
To Debtors		40000	By Bank a/c (AR)		
To Buildings		50000	- Stock	30400	
To Motor car		20000	- Bills receivable	19000	
To Furniture		40000	- Furniture	33000	
To bank a/c (LP)			- D&P with int	42600	
- ~~CR~~ Creditors	50000		- Bad debt recover	2000	1,27,000
- Bills payable	30000	80000	By Ganga Cap a/c		60000
			(Building taken over)		
			By Yamuna Cap a/c		26600
To Partners's cap a/c					
Ganga $[8600 \times 1/2]$	4300				
Yamuna $[8600 \times 1/2]$	4300	8600			
		243600			243600

Partners's capital a/c

Particulars	Ganga	Yamuna	Particulars	Ganga	Yamuna
To Realisation a/c (ATo)	60000	-	By Balance b/d	75000	60000
To Realisation a/c	-	26600	By Realisation (Profit)	4300	4300
To Bank a/c (B/f)	24300	42700	By Realisation (1:1) Reserve fund	5000	5000
	84300	69300		84300	69300

Bank a/c

To Balance b/d	25000	By Realisation (LP)	80000
To Realisation a/c (Asset realised)	1,27,000	By Realisation (RF)	5000
		By Ganga Cap a/c	24300
		By Yamuna Cap a/c	42700
	1,52,000		1,52,000

Q20 =>

Realisation a/c

Particulars	Amount	Amount	Particulars	Amount	Amount
To Machinery		70000	By cxdg & loss		60000
To Investments		50000	By Bills Payable		20,000
To Stock		22000	By Bank a/c (AR)		
To Sundry Debtors		1,03,000	Debtors	5000	5000
To Bank a/c (LP)			By Tanu Cap a/c		50000
- cxdg & loss	60000		[Investments T/o]		
(Machinery Taken)			By Anu Cap a/c		
- Bills Payable	20000	80000	[50000 - 10% 5000]		45000
(Stock Taken)			To Partners' Capital		
To Bank a/c (RE)		2000	Anu (20000 x 3/5)	12000	
			Tanu (20000 x 2/5)	8000	20000
		247000			247000

Partners' Capital a/c

Particulars	Anu	Tanu	Particulars	Anu	Tanu
To Realisation (L)	12000	8000	To Balance b/d	90000	80000
To Realisation (D/o)	45000		By Reserve fund (3:2)	6000	4000
To Realisation (Int)		50000			
To Bank a/c (b/f)	38400	25600			
	96000	84000		96000	84000

Bank a/c

Particulars	Amount	Particulars	Amount
To Balance b/d	15000	By Realisation a/c	2000
To Realisation a/c	5000	(Realisation Exp)	
(Asset realised)		By Anu's Cap a/c	38400
		By Tanu's Cap a/c	25600
	60000		66000

Q13 →

Realisation a/c

Particulars	Amount	Amount	Particulars	Amount	Amount
To Bills Receivable		5000	By PDD		3000
To Stock		18000	By Creditors		25000
To Debtors		25000	By Bills Payable		10000
To Buildings		23000	By Bank a/c (AR)		
To Machinery		38000	- Stock	25000	
To Bank (LP)			- Debtors	20000	
- Bills pay (10000 - 500)	9500		- Bills Receivable	4000	
To Harish Cap a/c	25000		- Machinery	33000	
Suresh Cap a/c	2000		- Buildings	23000	1,05,000
[1000 + 1000]			By Partners Capital (L)		
			Harish (25000 x 1/2)	1250	
			Suresh (25000 x 1/2)	1250	2,500
		1,45,500			1,45,500

Partners' Capital a/c

Particulars	Harish	Suresh	Particulars	Harish	Suresh
To Realisation (L)	1250	1250	By Balance b/d	40000	30000
To Realisation a/c			By Realisation (Loss)	1250	1250
[Liabilities To]			By Reserve fund (1:1)	2500	2500
			By Realisation (L/To)	25000	-
			By Realisation (Remuneration)	-	2000
To Bank a/c (b/d)	66,250	33,250			
	67,500	34,500		67,500	34,500

Bank a/c

To Balance b/d	14000	By Realisation a/c (LP)	9500
To Realisation a/c	1,05,000	By Realisation (Reserve fund)	25000
(Asset realised)		By Harish Cap a/c	66,250
		By Suresh Cap a/c	33,250
		By Suresh loan a/c	10000
	1,19,000		1,19,000

Q8 =>

Realisation a/c

Particulars	Amount	Amount	Particulars	Amount	Amount
To Machinery		40,500	By Mrs. Y loan		10,000
To Investment		20,830	By Creditors		18,500
To Stock in trade		17,550	By Life Policy fund		14,000
To Joint Life Policy		14,000	By Investment F. Fund		6,000
To Debtors		8,700	By ~~Bank~~ [Asset realised]		
To ~~Bank~~ [Liabilities Paid]			- Joint Life Policy	12,000	
By Creditors (18,500 - 300)	15,500	15,500	- Machinery	55,000	
Life Policy fund	14,000		- Stock	15,000	
Investment F. F	6,000	35,500	- Debtors	6,150	88,150
To Mrs. Y cap a/c		10,000	By Mrs. X capital a/c		17,500
[Mrs. Y loan a/c]			[Investment T/o]		
To Bank a/c		600			
[Realisation Exp]					
To Partners' Cap					
X (26,470 x 3/6)	13,235				
Y (26,470 x 2/6)	8,823				
Z (26,470 x 1/6)	4,412	26,470			
		1,54,150			1,54,150

Partners' Capital a/c

Particulars	X	Y	Z	Particulars	X	Y	Z
To P&L a/c (3:2:1)	750	500	250	By Balance b/d	30,000	20,000	10,000
To Real a/c	17,500	-	-	By Real a/c (P)	13,235	8,823	4,412
[A/t/o]				By Real a/c (L/o)	-	10,000	-
To Bank a/c [b/f]	24,985	38,323	14,162				
	43,235	38,323	14,162		43,235	38,323	14,162

Bank a/c

Particulars	Amount	Particulars	Amount
To Bal bld	5,420	By Realisation (LP)	15,500
To Real a/c (AR)	88,150	By Real a/c (R E)	600
		By X Cap a/c	24,985
		By Y Cap a/c	38,323
		By Z Cap a/c	14,162
	93,570		93,570

Q9 ⇒

Realisation a/c

Note :- Though Life Policy fund, Investment fluctuation fund are considered as intangible liabilities where we are taking in the liabilities but these items are not considered while paying liabilities because these funds are utilized only during existing of the Partnership firm.

18Q Note :- Goodwill is an intangible asset, where it is going to be considered as asset where transfer to debit side, if Goodwill is not realising hence it is not going to consider under asset realised.

* Goodwill can also be considered only when partners are taken over.

Q16 =>

Realisation a/c

Particulars	Amount	Amount	Particulars	Amt	Amt
To Bills receivable		4000	By PDD		300
To Stock		9400	By Creditors		2400
To Debtors		3000	By Bills receivable		5400
To Land & building		12000	By Bank (Asset realised)		
To Bank a/c (LP)			Bills receivable	3850	
Creditors		2400	Debtors (3000 - 150)	2850	
To Hari Cap a/c			Unrealised asset	450	6,850
Bills payable		5400	Swri Capital a/c		13200
To Realisation Exp		450	[L & B Taken over]		
To Partners Cap a/c					
Hari (900 x 1/3)	300				
Giri (900 x 1/3)	300				
Swri (900 x 1/3)	300	900			
		37,500			37,500

Partner's Capital a/c

Particulars	Hari	Giri	Swri	Particulars	Hari	Giri	Swri
To P & L a/c (1:1:1)	300	300	300	By Balance b/d	10000	11000	6200
To Real a/c	-	-	13200	By Realisation a/c (P)	300	300	300
[Land & building]				By realisation (BP)	5400	-	-
To Bank a/c (b/f)	15400	11000	-	By Bank a/c (b/f)	-	-	7000
	15700	11300	13500		15700	11300	13500

Bank a/c

Particulars	Amount	Particulars	Amount
To Balance b/d (30.12.18)	18000	By Realisation a/c (LP)	2400
To Realisation a/c	16250	By Realisation (RE)	450
[Asset realised]		By Hari Cap a/c	15400
To Swri Cap a/c	7000	By Giri Cap a/c	11000
	29,250		29,250

Note 1 :- 50% on Inv t/o by Anitha
 $(20000 \times 50\%) = 10000$
 $(\rightarrow 10\% (10000 \times 10\%) = 1000$
9000

b) 50% on Inv t/o by Anitha
 $(20000 \times 50\%) = 10000$
 $(\rightarrow 10\% (10000 \times 10\%) = 1000$
9000

Q3 $\Rightarrow$

Realisation a/c

Particulars	Amount	Amount	Particulars	Amount	Amount
To Debtors		28000	By PBD		2000
To Stock		40000	By Bills Payable		6000
To Investment		20000	By Creditors		20000
To Furniture		14000	By Varitha's loan		5000
To Buildings		60000	By Bank (AR)		
To Bank (LP)			Draw (Debtors)	25600	
To Bills payable	6000		Stock	39000	
To creditors	20000		Buildings	66000	
To Varitha	5000	31000	Investment (WN 1b)	12000	1,42,600
To Anitha Cap a/c		2600	By Anitha Cap a/c		9000
To Partners cap			(Inv t/o) w/a		
Anitha $(1000 \times 1/2)$	500		By Anitha Cap a/c		12000
Sunitha $(1000 \times 1/2)$	500	1000	[Furniture t/o]		
		1,96,600			1,96,600

Partner's Capital a/c

Particulars	Anitha	Sunitha	Particulars	Anitha	Sunitha
To Realisation a/c	9000	-	By Balance b/d	50000	50000
(I t/o)			By Realisation (Profit)	500	500
To Realisation a/c		12000	By Reserve fund (1:1)	15000	15000
(Furniture t/o)					
To Bank a/c	59,100	53,500			
	68,100	65,500		68,100	65,500

B Cash a/c

To Balance b/d	6000	By Realisation a/c (LP)	31000
To Realisation a/c	1,42,600	By Anitha loan a/c	5000
(Assets realised)		By Anitha Cap a/c	59,100
		By Sunitha Cap a/c	53,500
	1,48,600		1,48,600

Q17 =>

Realisation a/c

Particulars	Amt	Amt	Particulars	Amt	Amt
To Stock		75000	By Sundry creditors		62000
To Sundry debtors		55000	By Bills payable		32000
To Investments		70000	By Bank Acct		50000
To Motor Car		40000	By Bank Asset Reals		
To Machinery		45000	Stock	10000	
To Fixtures		9000	Investments	76000	
To Tanu cap a/c	5	50000	Fixtures	4000	90000
(Bank loan Paid)			By Tanu cap a/c		55000
To Sonu cap a/c		30,400	(Sundry Deb +/o)		
(32000 - 1600)			By Sonu cap a/c		40000
To Bank a/c (RE)		2200	(Machinery +/o)		
			By Tanu cap a/c		60000
			(Motor Car +/o)		
			By Partners Cap a/c		
			Tanu (37600 x 5/8)	23500	
			Sonu (37600 x 3/8)	14,100	37600
		4,26,600			4,26,600

Partners' Capital a/c

Particulars	Tanu	Sonu	Particulars	Tanu	Sonu
To Tanu Cap a/c	55000	-	By Balance b/d	1,19,000	90000
To Sonu cap (M/to)	-	40000	By Realisation a/c (Loss)	23,500	14,100
To Tanu cap (M/to)	60000		By Reserve fund (5:3)	10000	6000
To Cash a/c	31500	72300			
	1,43,500	110100		1,43,500	110100

Cash a/c

Particulars	Amount	Particulars	Amount
To Balance b/d	16000	By Realisation a/c	2200
To Realisation a/c	90000	(Realisation Expenses)	
(Asset realised)		By Thanu cap a/c	31500
		By Sonu cap a/c	72300
	1,06,000		1,06,000

Q21=>

Realisation a/c

Particulars	Amount	Particulars	Amount
To Plant	90,000	By Creditors	80,000
To Debtors	60,000	By Bills payable	30,000
To Furniture	32,000	By Cash (Asset realised)	
To Stock	60,000	Plant	72,000
To Investment	70,000	Debtors	54,000
To Bills receivable	36,000	Furniture	18,000
To Cash (h.p)		Stock	54,000
- Creditors 78,700		(60,000 x 90%)	
(80,000 - 1,300)		Investments	76,000
- Bills Payable 30,000	1,08,700	Bills receivable 36,000	3,05,000
To Sundry cap a/c		To Partners's cap a/c	
Commission 3800		Sanjay (60,000 x 3/5) 36,000	
Realisation Expens 4500	18,300	Veeneth (60,000 x 2/5) 24,000	60,000
(3,05,000 x 6%)			
	4,75,000		4,75,000

Partners' Capital a/c

Particulars	Sanjay	Veneth	Particulars	Sanjay	Veneth
To Real a/c (Loss)	36000	24000	By Balance b/d	1,50,000	1,20,000
To Cash a/c (b/f)	1,32,300	96000	By Real a/c (C&RE)	18,300	-
	1,68,300	1,20,000		1,68,300	1,20,000

Cash a/c

Particulars	Amount	Particulars	Amount
To Balance b/d	32000	By Real a/c (LP)	1,08,700
To Real a/c (AR)	3,05,000	By Sanjay Cap a/c	1,32,300
		By Veneth Cap a/c	96000
	3,37,000		3,37,000

14/7/25

Chapter -

Financial Statements of a Company

* Meaning of Financial Statement :-

Financial statements are the basic and formal annual reports through which the corporate management communicates financial information to its owners and various other external parties.

These statements are divided into

- a) Positive Statement (Balance Sheet)
- b) The Statement of Profit & Loss etc.

* Nature of Financial Statements

1. It is prepared on the basis of facts in the form of past data recorded in accounting books.
2. It is prepared according to accounting conventions.
3. It is prepared to give personal judgments about the organisation.
4. It is prepared on certain basic assumptions known as Postulates.

* Objectives of Financial Statement

- * To provide information about assets & liabilities of business
- * To provide information about earning capacity of business
- * To provide information about cash & loans
- * To judge effectiveness of management
- * To provide information about activities of business affecting the society...

★ Format of Statement of P & L a/c

Statement of Profit & loss a/c

Particulars	Note No	Amount
<u>I</u> Revenue from operations		
<u>II</u> Other Income		
<u>III</u> TOTAL REVENUE (I+II)		
<u>IV</u> EXPENSES		
Cost of material consumed		
Purchase of stock in trade		
Changes in Inventories		
Work in Progress & Stock in trade		
Employee benefit expenses		
Finance cost		
Depreciation and amortisation		
Other expenses		
Total Expenses		
<u>V</u> PROFIT BEFORE TAX (III-IV)		
<u>VI</u> Tax Expense		
i) Current tax		
<u>VII</u> PROFIT AFTER TAX		

Sum

=> From the following equation Prepare
Statement of P & L a/c for the year
ended 31/3/24

Particulars	Amount
Revenue from operation	500000
Other income	20000
Employee benefit Expenses	60000
Cost of material consumed	300000
Other Expenses	40000
Income tax 30%.	

Ans :- Statement of Profit & loss a/c for Year 31-3-24

Particulars	Note No	Amount
I Revenue from Operations		500000
Other income		20000
Total revenue		520000
Expenses		
- Employee benefit Expenses		60000
- Cost of material consumed		300000
Other Expenses		40000
Total Expenses		400000
PROFIT BEFORE TAX (III-IV)		1,20,000
Tax Expenses (120000 X 30%)		36000
PROFIT AFTER TAX		84000

Problem's (6 Marks)

Note 1 EBE

Q1=>	Particulars	Note No	Amount
	Salaries to Employee		40000
	Leave Encashment		10000
			50000

Note 2 OE

Particulars	Note No	Amount
Rent & taxes		30000
Repairs to Machinery		20000
		50000

Statement of P&L a/c
for Year ending 31/03/24

Particulars	Note No	Amount
<u>I</u> Revenue from operations		5,00,000
<u>II</u> Other Income		-
<u>III</u> TOTAL INCOME		5,00,000
<u>IV</u> EXPENSES		
- Purchase of Stock in trade		3,00,000
- Employee Benefit Expenses	1	50000
- Other Expenses	2	50000
TOTAL EXPENSES		4,00,000
<u>V</u> PROFIT BEFORE TAX (III - IV)		1,00,000
(-) Tax (1,00,000 x 30%)		30000
PROFIT AFTER TAX		70000

Q2 =>

Note 1 Finance cost

Particulars	Amount
Interest on debentures	30000
Interest on Borrowing	20000
	50000

Note 2 Depreciation & amortization

Particulars	Amount
Depreciation on P & M	4000
Amort of Good Will	6000
	10000

Statement of P & L a/c

for year ending 31/03/24

Particulars	Note No	Amount
<u>I</u> Revenue from operations - Sales		3,00,000
<u>II</u> Other Income		-
<u>III</u> TOTAL INCOME		3,00,000
<u>IV</u> EXPENSES		
- Purchase of SIT	2	1,80,000
- Depreciation & Amortization	2	10,000
- Finance cost	1	50000
TOTAL EXPENSES		2,40,000
<u>V</u> PROFIT BEFORE TAX (III-IV)		60000
(-) Tax (60000 x 30%)		18000
PROFIT AFTER TAX		42000

Q3 =>

Note 1 Purchase of Stock in Trade

Particulars	Amount
Cash ~~Credit~~ Purchases	2,00,000
Credit Purchases	4,00,000
	6,00,000
(-) Purchases returns	20,000
	5,80,000

Note 2 Outstanding Expenses

Particulars	Amount
Power & Fuel	30,000
Consumption of Stores	50,000
	80,000

Statement of P & L a/c

of the year ending 31/03/24

Particulars	Note No	Amount
<u>I</u> Revenue from Operation		
- Sales		10,00,000
<u>II</u> Other Income		-
<u>III</u> Total Income		10,00,000
<u>IV</u> Expenses		
- Purchase of Stock in Trade	I	5,80,000
- Finance Cost		3,00,000
- Other Expenses	2	80,000
Total Expenses		6,90,000
<u>V</u> PROFIT BEFORE TAX (III - IV)		3,10,000
(-) Tax (3,10,000 x 30%)		93,000
<u>VI</u> PROFIT AFTER TAX		2,17,000

Q7 =>

Note 1 Finance Cost

Particulars	Amount
Interest on Loan	30000
Interest on Debentures	20000
	50000

Statement of P&L a/c for
the year ending 31/03/24

Particulars	Note No	Amount
<u>I</u> Revenue from operations		3,85,000
<u>II</u> Other Income		75000
<u>III</u> TOTAL INCOME		4,60,000
<u>IV</u> Expenses		
- Purchase of Stock in trade		97000
- Employee benefit Expenses		1,03,000
- Finance Cost		50,000
- Depreciation & Amortisation Expns		83000
- Other Expenses		1,08,000
TOTAL EXPENSES		4,41,000
<u>V</u> PROFIT BEFORE TAX (III - IV)		19000
(-) Tax (19000 x 30%)		5700
<u>VI</u> PROFIT AFTER TAX		13,300

Q8 =>

Note 1 Depreciation & Amortisation Cost

Particulars	Amount
Depreciation on tangible assets	40000
Amortisation of Intangible assets	50000
	90000

Statement of P&L a/c for
the year ending 31/03/24

Particulars	Note No	Amount
<u>I</u> Revenue from operations		
- Sales		9,47,000
<u>II</u> Other Income		-
<u>IV</u> TOTAL INCOME		9,47,000
<u>IV</u> Expenses		
- Cost of Material Consumed		3,25,000
- Employee Benefit Expenses		1,75,000
- Finance Cost		18,000
- Depreciation & Amortisation Exp		90,000
- Other Expenses		40,000
TOTAL EXPENSES		6,48,000
<u>V</u> BE+PROFIT BEFORE TAX (III-IV)		3,01,000
(-) Tax (3,01,000 x 30%)		90,300
<u>VI</u> PROFIT AFTER TAX		2,10,700

Q9 => Notul Employee Benefit Expenses

Particulars	Amount
Salaries	2,09,000
Contribution to Provident fund	50,000
	1,50,000

Note 2 Other Expenses

Particulars	Amount
Rent	25,000
Administration Expenses	50,000
	75,000

Statement of P & L a/c for
the year ending 31/03/24

Particulars	Note No	Amount
<u>I</u> Revenue from operations		6,35,500
<u>II</u> Other Income		-
<u>III</u> TOTAL INCOME		6,35,500
<u>IV</u> Expenses		
- Purchase of Stock in trade		2,72,000
- Employee benefit Expenses	1	1,50,000
- Depreciation & Amortisation Exp		60000
- Other Expenses	2	75000
TOTAL EXPENSES		5,57,000
<u>V</u> PROFIT BEFORE TAX (III-IV)		78000
- Tax (78000 X 30%)		23,400
<u>VI</u> PROFIT AFTER TAX		54,600

Q10 =>

Note 1 Other Expenses

Particulars	Amount
Rent	25000
Administration Expenses	30000
	55000

Statement of P & L a/c for
the year ending 31/03/24

Particulars	Note No	Amount
<u>I</u> Revenue from operations		8,70,000
<u>II</u> Other Income		-
<u>III</u> TOTAL INCOME		8,70,000
<u>IV</u> Expenses		
- Purchase for stock in trade		4,50,000

- Employee Benefit Expenses		95000
- Finance Cost		30,000
- Depreciation & Amortisation Exp		40,000
- Other Expenses	1	55000
- TOTAL EXPENSES		6,70,000
<u>V</u> PROFIT BEFORE TAX (III-IV)		2,00,000
(-) Tax (2,00,000 X 30%)		60000
<u>VI</u> PROFIT AFTER TAX		1,40,000

Q4=>

Note 1 Employee Benefit Expenses

Particulars	Amount
Salaries	90,000
Wages	1,10,000
	2,00,000

Note 2 Changes in Inventory

Particulars	Amount
Opening Stock	1,50,000
(-) Closing Stock	-
	1,50,000

Statement of P&L a/c

<u>I</u> Revenue from operation		10,00,000	
<u>II</u> outstanding Exp		-	
<u>III</u> TOTAL INCOME		10,00,000	
<u>IV</u> Expenses - Pur of stock		4,00,000	
Employee Benefit Expenses	1	2,00,000	
Depreciation & Amortization		16000	Finance Cost
Change in Inv	2	1,50,000	(1,00,000 X 12%)
TOTAL Expenses		7,66,000	12000
<u>V</u> PROFIT BEFORE TAX		2,34,000	
(-) Tax (2,34,000 X 30%)		70,200	
<u>VI</u> PROFIT AFTER TAX		1,63,800	

Q5 =>

Note 1 Revenue from operations

Particulars	Amount
Cash Sales	2,00,000
Credit Sales	3,00,000
	5,00,000
(-) Returns	20,000
	4,80,000

Note 2 Depreciation & Amortization

Particulars	Amount
Depreciation on Building (2,00,000 X 10%)	20000
Depreciation on machinery (1,50,000 X 10%)	15000
	35000

Statement of P&L a/c for the
Year ending 31/03/24

Particulars	Note No	Amount
<u>I</u> Revenue from operations		4,80,000
<u>II</u> Other Income		-
<u>III</u> TOTAL INCOME		4,80,000
<u>IV</u> Expenses		
Cost of material consumed		3,00,000
Depreciation & Amortization	2	35000
Other expenses (Bad debts)		5000
TOTAL EXPENSES		3,40,000
<u>V</u> PROFIT BEFORE TAX		1,40,000
- Tax (1,40,000 X 30%)		42000
<u>VI</u> PROFIT AFTER TAX		98000

Cost

12%

20

Q6 =>

Note 1 Employee Benefit Expenses

Particulars	Amount
Wages & Salaries	50,000
Contribution to provident fund	10,000
	60,000

Note 2 Depreciation & Amortisation

Particulars	Amount
- Depreciation on Plant & Mac (200,000 x 10%)	20,000
- Good Will (2,40,000 x 10%)	24,000
- Int on Debentures (3,00,000 x 10%)	30,000
	30,000

Note :- If Debentures is given in Trial balance with interest rate, Need to calculate Interest on debentures & under the head of Finance Cost.

Note 3 Finance Cost

Particulars	Amount
Interest on Debentures (3,00,000 x 10%)	30,000
	30,000

Statement of P & L a/c			*
Particulars	Note No	Amount	
<u>I</u> Revenue from operations		15,00,000	
<u>II</u> Other Income		-	
<u>III</u> TOTAL Income		15,00,000	
<u>IV</u> Expenses	1	60,000	
Employee Benefit Expenses		~~60,000~~	
Purchase Stock in Trade		10,00,000	
Finance Cost (3,00,000 x 10%)	3	30,000	
Depreciation & Amortization	2	44,000	
TOTAL EXPENSES		11,34,000	
<u>V</u> PROFIT BEFORE TAX		3,66,000	
(-) Tax (3,66,000 x 30%)		1,09,800	
<u>V</u> PROFIT AFTER TAX		2,56,200	

★ Format of Balance Sheet

Particulars	Note No	Amount
<u>I EQUITY & LIABILITIES</u>		
1) Share holder funds		
a) Share Capital		
b) Reserves & Surplus		
2) Non-current LIABILITIES		
a) Long-term borrowings		
3) CURRENT LIABILITIES		
a) Short-term borrowings		
b) Trade Payables		
c) Other current liabilities		
d) Short term Provisions		
<u>Total</u>		
<u>II ASSETS</u>		
1) Non-current Asset		
a) Fixed Asset		
i) Tangible Asset		
ii) - Intangible Assets		
b) Non-current Investment		
c) Other non current asset		
2) Current Asset		
a) Investments		
b) Inventories		
c) Trade Receivables		
d) Cash & Cash Equivalents		
e) Short-term loans & Advances		
f) Other current Asset		
<u>Total</u>		

Sums

Q2 =>

Balance Sheet of Jindal Company
limited as on 31/03/2024

	Particulars	Note No	Amount
	<u>Equity & Liabilities</u>		
	1) Share holder Fund		
	a) Share Capital		10,00,000
	b) Reserves & Surplus		5,00,000
	2) Non Current Liabilities		
Note 1 :-	a) Long term borrowings	1	5,00,000
Long term borrowings	3) Current Liabilities		-
10% Deb 5,00,000	a) Short term borrowings		-
5,00,000	b) Trade Payables	2	5,00,000
	c) Other Current Liabilities		-
Note 2 :-	d) Short term Provisions		-
Trade Payables	<u>TOTAL</u>		<u>25,00,000</u>
Creations 5,00,000	<u>II. ASSETS</u>		
5,00,000	1) Non Current Asset		
	a) Fixed Asset		15,00,000
	i) Tangible Asset		
	ii) Intangible Asset		
	b) Non Current Investment		
	c) Other non Current asset		
	2) Current Asset		
	a) Investments		2,00,000
	b) Inventories		-
	c) Trade Receivable		5,00,000
	d) Cash & Cash Equivalents		3,00,000
	e) Short term loans & advances		-
	f) Other Current asset		-
	<u>TOTAL</u>		<u>25,00,000</u>

Q1 =>

Balance sheet as on

	Particulars	Note No	Amount
	<u>I. Equity & liabilities</u>		
	1) Share holder funds		
NOTE 1 :-	a) Share Capital	1	3,60,700
Share Cap 3,60,700	b) Reserves & Surplus		50,000
Reserves 50,000	2) Non-current liabilities		
3,60,700	a) Long term borrowings	2	1,25,000
	3) Current liabilities		
NOTE 2 :-	a) Short-term borrowings		
Long term borrowings	b) Trade Payables		50,000
15% Deb 1,25,000	c) Other current liabilities		92,400
1,25,000	d) Short term provisions		
	<u>TOTAL</u>		6,87,100
	<u>II. ASSETS</u>		
	1) Non-current asset		
	a) Fixed Asset		4,05,900
	i) Tangible asset		
	ii) Intangible asset		
	b) Non-current Investment		
	c) Other non-current Investment		
	2) Current Asset		
	a) Investments		
	b) Inventories		48,500
	c) Trade receivables		95,000
	d) Cash & cash equivalent		1,37,700
	e) Short term loans & advances		
	f) Other current assets		
	<u>TOTAL</u>		6,87,100

Q10 =>

Balance Sheet

Particulars

Note No

Amount

I. Equity & liabilities

1) Share holder funds

a) Share capital

4,00,000

b) Reserves & surplus

1,24,750

2) Non-current liabilities

a) Long term borrowings

1,00,000

3) Current liabilities

a) Short-term borrowings

b) Trade payables

85000

c) Other current liabilities

d) Short term provisions

1,13,750

TOTAL

8,23,500

II. ASSETS

1) Non-current asset

a) Fixed Asset

I

4,85,500

i) Tangible Asset

ii) Intangible asset

b) Non-current Investment

c) Other non-current Investment

2) Current Asset

a) Investments

45000

b) Inventories

c) Trade receivables

1,60,000

d) Cash & cash equivalent

1,33,000

e) Short term loans & advances

f) Other current assets

TOTAL

8,23,500

Total Fixed Asset

Furniture 300000

P&M 1,85,500

4,85,500

Q8 =>

Balance sheet as on —

	Particulars	Note No	Amount
	<u>I Equity & Liabilities</u>		
	1) Share holder funds		
	a) Share Capital		9,00,000
	100,000 b) Reserves & Surplus		72,560
NOTE 1:-	2) Non-current liabilities		
Long term Borrowings	a) Long term Borrowings	01	3,00,000
8.1.2020 3,00,000	3) Current liabilities		
	a) Short term borrowings		
	b) Trade Payables		97,000
	c) Other current liabilities		63,000
	d) Short term Provisions		
	<u>TOTAL</u>		<u>14,32,560</u>
	<u>II ASSETS</u>		
	1) Non-current asset		
NOTE 2:- Fixed Asset	a) Fixed Asset	2	10,06,850
Buildings 3,25,000	i) Tangible Asset		
Furniture 3,81,850	ii) In-tangible asset		
10,06,850	b) Non-current Investment		
	c) Other non-current Investment		
	2) Current Asset		
	a) Investments		
	b) Inventories		1,23,800
	c) Trade Receivables		2,15,370
	d) Cash & Cash Equivalent		86,540
	e) Short term loans & advances		
	f) Other Current Assets		
	<u>TOTAL</u>		<u>14,32,560</u>

Note 1 :- Share Capital

Equity Share Capital 16,00,000
 Preference Share Capital 6,00,000

22,00,000

Note 2 - Fixed Asset

P & M
 L & P

34,00,000
 49

34,00,000

Q11 =>

Balance Sheet as on 31/03/24

Particulars	Note No	Amount
I Equity and Liabilities		
1) Share holder funds		
a) Share Capital	3,50,000 ⁰¹	22,00,000
b) Reserves & surplus		16,00,000
2) Non-current liabilities		
a) Long-term Borrowings		12,00,000
3) Current Liabilities		
a) Short term borrowings		2
b) Trade payables		3,50,000
c) other current liabilities		
d) Short term Provisions		2,50,000
TOTAL		46,00,000

II ASSETS

1) Non Current asset		
a) Fixed asset	02	34,00,000
i) Tangible asset		
ii) In-tangible asset		
b) Non Current Investment		
c) other non current Investments		
2) Current asset		
a) Investments		
b) Inventories		7,00,000
c) Trade & Receivables		
d) Cash & Cash Equivalent		5,00,000
e) Short term loans & advances		
f) Other current assets		
TOTAL		46,00,000

Note 1 :- Share holder fund

50	Share Capital	2,00,000
	Reserves & S.C	3,00,000
		5,00,000

Note 2 :- Fixed Asset

	T A	4,50,000
	I A	2,00,000
		6,50,000

Q4=>

Balance Sheet as of Star Ltd
for the year ending 31/03/24

Particulars	Note No	Amount
<u>I. Equity & Liabilities</u>		
1) Share holder funds		
a) Share Capital	01	500000
b) Reserves & Surplus		3,00,000
2) Non-current liabilities		
a) Long term Borrowings		
3) Current Liabilities		
a) Short term borrowings		
b) Trade Payables		
c) Other current liabilities		2,00,000
d) Short term Provisions		
<u>TOTAL</u>		<u>10,00,000</u>
<u>II. ASSETS</u>		
1) Non Current asset		
a) Fixed Asset	2	6,50,000
i) Tangible Asset		
ii) In-tangible Asset		
b) Non Current Investment		
c) Other non-current Investment		
2) Current Asset		
a) Investments		
b) Inventories		
c) Trade Receivables		3,50,000
d) Cash & Cash Equivalent		
e) Short term loans & advances		
f) Other Current Assets		
<u>TOTAL</u>		<u>10,00,000</u>

Q5 =>

Balance Sheet as on Surya Ltd
for the year ending 31/03/24

	Particulars	Note No	Amount
	I Equity and Liabilities		
Shareholder Funds	1) Share holder Fund		
FSC 29,00,000	a) Share Capital	01	32,00,000
FSC 12,00,000	b) Reserves & Surplus		
32,00,000	2) Non-current Liabilities		
	a) Long Term Borrowings		18,00,000
	3) Current Liabilities		
	a) Short Term borrowings		16,00,000
	b) Trade Payables		3,00,000
	c) Other Current Liabilities		4,00,000
	d) Short Term Provisions		5,00,000
	TOTAL		62,00,000

Note 2:- Fixed Asset

	II Assets		
Plant & Machine 10,00,000	1) Non-current asset		
Land & Building 20,00,000	a) Fixed Asset	02	30,00,000
30,00,000	i) Tangible Asset		
	ii) In-Tangible Asset		
	b) Non-current Investment		
	c) Other non-current Investment		
	2) Current Asset		
	a) Investments		8,00,000
	b) Inventories		14,00,000
	c) Trade Receivables		
	d) Cash & Cash Equivalent		10,00,000
	e) Short term loans & advances		
	f) Other Current Assets		
	TOTAL		62,00,000

Q7 =>

Balance sheet as on - year
The year ending 31/03/24

Particulars	Note No	Amount
I Equity and Liabilities		
1) Share Holder Funds		
a) Share Capital		9,56,000
b) Reserves & Surplus		
2) Non Current Liabilities		
a) Long Term Borrowings		2,00,000
3) Current Liabilities		
a) Short Term borrowings		
b) Trade Payables		
c) Other Current Liabilities		
d) Short term Provisions		96,000
TOTAL		11,72,000
II Assets		
1) Non Current asset		
a) Fixed Asset	01	5,17,000
i) Tangible Asset		
ii) In-Tangible Asset		
b) Non Current Investment		
c) Other non Current Investment		
2) Current Asset	02	2,60,000
a) Investments		
b) Inventories		
c) Trade & Receivables		1,40,000
d) Cash & Cash Equivalent		1,20,000
e) Short term loans & advances		1,35,000
f) Other Current Assets		
TOTAL		11,72,000

Note 1:- Fixed Asset

Goodwill 30,000

Lease tools 12,000

Motor Vehicle 47,000

5,17,000

Note 2:- Current Asset

P. Expense 2,00,000

Debt Share 20,000

2,60,000

Q9 →

Balance Sheet as on -
Particulars

Note No

Amount

I Equity and Liabilities

1) Share Holder Fund

a) Share Capital

7,00,000

b) Reserves & Surplus

2,10,000

2) Non Current Liabilities

a) Long term Borrowings

2,25,000

3) Current Liabilities

a) Short term Borrowings

2,25,000

b) Trade Payables

1,25,000

c) Other Current Liabilities

-

d) Short term Provisions

1,8,175

TOTAL

14,39,175

II Assets

1) Non Current Asset

a) Fixed Asset

OL

7,36,000

i) Tangible Asset

-

ii) In - tangible Asset

-

b) Non Current Investment

-

c) Other Non Current Investment

-

2) Current Asset

a) Investments

-

b) Inventories

1,45,000

c) Trade & Receivables

2,25,000

d) Cash & Cash Equivalent

2,25,000

e) Short term loan & advances

88,175

f) Other Current Assets

-

TOTAL

14,39,175

Note 1: Fixed Asset

Buildings 5,00,000

Goodwill 2,32,000

7,36,000

Note 1:- Fixed Asset

Gross Block 9,00,000

54 (C) Depreciation 70,000

8,30,000

Note 2:- Reserves & Surplus

General Reserve 3,00,000

Provision for Depreciation 1,20,000

4,20,000

Q6 =>

Balance Sheet as of United Ltd

for the year ending 31/03/24

Particulars	Note No	Amount
I Equity and Liabilities		
a) Share Capital		5,00,000
b) Reserves & Surplus	02	4,20,000
		-
2) Non Current Liabilities		
a) Long term borrowings		3,00,000
3) Current Liabilities		2,50,000
a) Short term borrowings		-
b) Trade Payables		-
c) Other current liabilities		-
d) Short term Provisions		-
TOTAL		14,70,000
II Assets		
1) Non Current asset		
a) Fixed Asset		8,30,000
i) Tangible asset		
ii) Intangible asset		
b) Non Current Investment		
c) Other non Current Investment		
2) Current Asset		30,000
a) Investments		
b) Inventories		
c) Trade Receivables		
d) Cash & Cash equivalents		6,10,000
e) Short term loans & advances		
f) Other Current Assets		
TOTAL		14,70,000

QX

Part-02Chapter-04Analysis of Financial Statement★ Meaning of Analysis of Financial Statement :-

The Process of critical Evaluation of the financial information contained in the financial statements in order to understand & make decisions regarding the operations of the firm is called financial statement analysis.

★ Significance of Analysis of Financial Statementi) Finance managers :-

It helps the finance managers to determine the continuity of the operating policies, investment value of the business, credit rating, testing the efficiency of operations & in the area of financial control.

ii) Top Management :-

It helps the management in measuring the success of the corporate operation appraising the individual performance & evaluating the system of internal control.

iii) Trade Payables :-

It helps to know the ability of the company to meet its short term obligation by evaluating the firms liquidity positions.

iv) Lenders :-

They analyze the firm's profit ability over a period of time, its ability to generate cash, to be able to pay interest & to pay the Principal. Long term lenders analyze the historical financial statement to assess its future solvance & profitability.

v) Investors :-

Concentrate on the analysis of the firm's present & future profitability. They also evaluate the efficiency of the management.

vi) Others like Economists & Researchers analyze the financial statements to study the present business & economic conditions. The government agency need it for price regulations, Taxation & other similar Purpose.

* Objectives of Financial Statement Analysis

- 1) To assist the current profitability & operational efficiency of the firm as a whole as well as its different department so as to judge the financial health of the firm.
- 2) To ascertain the relative importance of a different components of the financial position of the firm.
- 3) To identify the reasons for a change in the profitability or financial position of the firm.

Q1 $\Rightarrow$ Prepare a Comparative Statement of Profit & Loss for the year 2023 & 2024 from following information

Particulars	2023	2024
Revenue from operation	60,00,000	75,00,000
Other Income	1,50,000	1,20,000
Expenses	44,00,000	50,60,000
Income tax	35%	40%

Ans:-

Comparative Income Statement for the
Year Ending 31/03/23 & 31/03/24

Particulars	2023	2024	Increase or Decrease	% Increase or Decrease
I Revenue from operation	60,00,000	75,00,000	15,00,000	25%
II Other Income	1,50,000	1,20,000	(30,000)	(20)%
III TOTAL INCOME	61,50,000	76,20,000	14,70,000	23.9%
IV Expenses	44,00,000	50,60,000	6,60,000	15%
V TOTAL EXPENSES	44,00,000	50,60,000	6,60,000	15%
VI PROFIT BEFORE TAX (III - V)	17,50,000	25,60,000	8,10,000	46.28%
⊖ Income tax	6,12,500	10,24,000	4,11,500	67.18%
PROFIT AFTER TAX	11,37,500	15,36,000	3,98,500	35.02%

Part - D

Q1 => Comparative Statement of Soundarya Company
for the year ending 31/03/23 & 31/03/24

Particulars	2023	2024	Increase or Decrease	Increase or Decrease
I Revenue from operations	7,25,000	8,15,000	90,000	12.41%
(-) Less Returns	25,000	15,000	(10,000)	(40)%
II Other Revenue Income	7,00,000	8,00,000	1,00,000	14.2%
II Other Revenue Income	1200	8000	6400	366.67%
III TOTAL REVENUE	1,01,200	8,08,000	1,06,800	15.83%
IV Expenses				
Employee Benefit Expenses	5,95,000	6,15,000	20,000	3.36%
Depreciation	12,700	12,500	(200)	(1.57)%
Finance Cost	23,000	24,000	1,000	4.34%
Other Expenses	1500	2000	500	33.33%
V TOTAL EXPENSES	6,32,200	6,53,500	21,300	3.37%
VI PROFIT BEFORE TAX	69,000	1,54,500	85,500	123.9%

Q2 => Comparative Statement for the year 31/3/23 & 31/3/24

Particulars	2023	2024	Increase or Decrease	Increase or Decrease
I Revenue from operations	8,00,000	9,00,000	1,00,000	12.5%
II Other Income	20,000	40,000	20,000	100%
III TOTAL INCOME	8,20,000	9,40,000	1,20,000	14.63%
IV Expenses				
Employee Benefit Expenses	1,00,000	1,20,000	20,000	20%
Cost of materials Consumed	4,00,000	5,00,000	1,00,000	25%
Finance Costs	30,000	20,000	(10,000)	(33.33)%
Depreciation	70,000	70,000	-	-
Other Expenses	20,000	30,000	10,000	33.33%
V TOTAL EXPENSES	6,20,000	7,40,000	1,20,000	19.35%
VI PROFIT BEFORE TAX	2,00,000	2,00,000	-	-
VII Income tax	60,000	60,000	-	-
PROFIT AFTER TAX	1,40,000	1,40,000	-	-

Q3 => Comparative Income Statement for the year 23 & 24

Particulars	2023	2024	Increase or Decrease	Increase or Decrease %
I Revenue from operations	6,00,000	8,00,000	2,00,000	33.33%
II Other Income	60,000	70,000	10,000	16.6%
III TOTAL INCOME	6,60,000	8,70,000	2,10,000	31.81%
IV Expenses				
Purchases of Stock in trade	3,00,000	5,00,000	2,00,000	66.6%
Employee Benefit Expenses	1,00,000	1,50,000	50,000	50%
Finance Costs	30,000	40,000	10,000	33.33%
Depreciation	50,000	60,000	10,000	20%
V PROFIT BEFORE TAX				
Total Expenses	4,80,000	7,50,000	2,70,000	56.25%
VI PROFIT BEFORE TAX	1,80,000	1,20,000	(60,000)	(33.33)%
VII Income Tax	50000	30000	(18000)	(33.33)%
VIII PROFIT AFTER TAX	1,26,000	80000	(46000)	33.33%

Q4 => In the books of GPR Co. Ltd

Particulars	2023	2024	Increase or Decrease	Increase or Decrease %
I Revenue from operations	21,50,000	25,00,000	3,50,000	16.27%
II Other Income	-	-	-	-
III TOTAL INCOME	21,50,000	25,00,000	3,50,000	16.27%
IV Expenses				
Purchases of Stock in trade	13,00,000	14,50,000	1,50,000	11.53%
Employee Benefit Expenses	2,10,000	1,80,000	(30,000)	(14.2)%
Finance Costs	1,40,000	1,20,000	(20,000)	(14.29)%
Other Expenses	1,90,000	2,50,000	60,000	31.58%
V TOTAL EXPENSES	18,40,000	20,00,000	1,60,000	8.70%
VI PROFIT BEFORE TAX (III-IV)	3,10,000	5,00,000	1,90,000	61.29%
VII Income Tax	93000	1,50,000	57000	61.29%
VIII PROFIT BEFORE TAX AFTER	93000	1,50,000	57000	61.29%

Q5 => In the books of PMT Co. Ltd for the year 31/3/23 & 31/3/24

Particulars	2023	2024	Tax ↓	% Tax ↓
I Revenue from operations	4,00,000	6,00,000	2,00,000	50.1.
II Other Income	50,000	60,000	10,000	20.1.
III TOTAL INCOME	4,50,000	6,60,000	2,10,000	46.661.
IV Expenses				
Purchase of Stock in Trade	2,00,000	2,50,000	50,000	25.1.
Employer Benefit Expenses	19,000	22,000	3,000	15.791.
Depreciation	6,000	8,000	2,000	33.331.
Other Expenses	11,000	14,000	3,000	27.581.
V TOTAL EXPENSES	2,36,000	2,94,000	58,000	24.581.
VI PROFIT BEFORE TAX (III - IV)	2,14,000	3,66,000	1,52,000	71.031.
VII Income Tax	64,200	1,09,800	45,600	71.031.
VIII PROFIT AFTER TAX (VI - VII)	1,49,800	2,56,200	1,06,400	71.031.

★ Problems on Comparative Balance Sheet

Q6 ⇒ Balance Sheet of Alpha Ltd
for the year ending 31/03/23 & 2024

Particulars	31/03/23	31/03/24	Increase or Decrease	% Increase or Decrease
I Equity & Liabilities				
1) Share holder Fund				
a) Equity Share Capital	2,00,000	4,00,000	2,00,000	100%.
b) Reserves & Surplus	1,00,000	1,50,000	50,000	50%.
2) Non Current Liability				
a) Long term Borrowings	2,00,000	3,00,000	1,00,000	50%.
3) Current Liabilities	1,20,000	1,70,000	50,000	41.6%.
TOTAL	6,20,000	10,20,000	4,00,000	64.51%.
II ASSETS				
1) Non Current Asset	2,00,000	5,00,000	3,00,000	150%.
a) Fixed Asset	1,00,000	1,25,000	25,000	25%.
b) Non Current Investment				
2) Current Asset	2,55,000	3,25,000	70,000	27.4%.
3) Loans & Advances	65,000	70,000	5,000	7.69%.
TOTAL	6,20,000	10,20,000	4,00,000	64.5%.

Q7 ⇒ Comparative Balance Sheet

I Equity & Liabilities				
1) Share holder fund				
a) Equity Share Capital	4,00,000	5,00,000	1,00,000	25%.
b) Reserves & Surplus	50,000	60,000	10,000	20%.
2) Non Current Liability				
a) Long term Borrowings	15,000	20,000	5,000	33.33%.
3) Current Liabilities	50,000	70,000	20,000	40%.
TOTAL	5,15,000	65,0000	135,000	26.21%.
II ASSETS				
1) Non Current Assets				
a) Building				
b) Machine				

a) Buildings	2,00,000	2,50,000	50,000	25%.
b) Machinery	1,50,000	2,00,000	50,000	33.33%.
2) Current Assets				
a) Stock	1,00,000	1,10,000	10,000	10%.
b) Trade Receivables	65,000	90,000	25,000	38.4%.
TOTAL	5,15,000	6,50,000	13,50,000	26.21%.

Q8 => Comparative Balance Sheet of Sunstar Co. Ltd
for the year ending 31/03/23 & 31/03/24

Particulars	2023	2024	Increase or Decrease	Increase % Decrease
I Equity and Liabilities				
a) Equity Share Capital	5,50,000	10,50,000	5,00,000	90.90%.
b) Reserves & Surplus	2,00,000	2,50,000	50,000	25%.
2) Non Current Liabilities				
a) Long Term Borrowings	1,00,000	2,50,000	1,50,000	150%.
3) Current Liabilities				
a) Trade Payables	1,50,000	3,00,000	1,50,000	100%.
TOTAL	10,00,000	18,50,000	8,50,000	85%.
II ASSETS				
1) Non Current Assets				
a) Fixed Assets				
b) Tangible Assets	5,00,000	10,00,000	5,00,000	100%.
c) Long Term Investments	2,00,000	2,50,000	50,000	25%.
2) Current Assets				
a) Inventories	2,25,000	3,25,000	1,00,000	44.44%.
b) Trade Receivable	75,000	2,75,000	2,00,000	266.66%.
TOTAL	10,00,000	18,50,000	8,50,000	85%.

Q9 => Comparative Balance Sheet

Particulars	2023	2024	↑ or ↓	% ↑ or ↓
I Equity & Liabilities				
a) Share Capital	8,00,000	10,00,000	2,00,000	25%
b) Reserves & Surplus	1,00,000	1,20,000	20,000	20%
2) Long Term Borrowings	50,000	50,000	-	-
3) Current Liabilities				
a) Trade Payables	8,00,000	1,00,000	20,000	25%
TOTAL	10,30,000	12,70,000	2,40,000	23.30%
II ASSETS				
1) Non Current Asset				
a) Fixed Assets	7,00,000	9,00,000	2,00,000	28.57%
b) Inventories	2,00,000	1,80,000	(20,000)	(10)%
Trade Receivables	1,00,000	1,50,000	50,000	50%
Cash & Cash Equivalents	30,000	40,000	10,000	33.33%
TOTAL	10,30,000	12,70,000	2,40,000	23.30%

Q10 => Comparative Balance Sheet of Star Co. Ltd.
for the year ending 31/03/23 & 31/03/24

Particulars	2023	2024	Increase or Decrease	% Increase or Decrease
I Equity & Liabilities				
1) Share holder fund				
a) Equity Share Capital	6,00,000	8,00,000	2,00,000	33.3%
b) Reserves & Surplus	3,30,000	2,20,000	(1,08,000)	(32.72)%
2) Non Current Liabilities				
a) Long Term Borrowings	3,50,000	5,00,000	1,50,000	42.85%
3) Current Liabilities				
a) Trade Payables	1,55,000	1,75,000	20,000	12.90%
TOTAL	14,35,000	16,97,000	2,62,000	18.25%
II Assets				
1) Non Current Assets				
a) Fixed Assets				

* Common Size Income Statement (Problem 1)

Q1 => Common Size Statement (Income Statement)
for the year ending 31/03/23 & 31/03/24

Particulars	Amount		% of each item to Net Revenue from operations	
	31/3/23	31/3/24	31/3/23	31/3/24
I Net Revenue from operations	60,000	86,000	100%	100%
II Other Income	300	400	0.5%	0.46%
III Total Revenue (A)	60,300	86,400	100.5%	100.46%
IV EXPENSES				
Cost of materials consumed	18,000	20,000	30%	23.25%
Employee benefits expense	9,000	10,000	15%	11.62%
Finance cost	3,000	3,400	5%	3.95%
Other expenses	6,000	6,600	10%	7.67%
X Total Expenses (B)	36,000	40,000	60%	46.51%
V PROFIT BEFORE TAX (3-4)	24,000	46,400	40.5%	53.95%
Less Income tax	7,200	13,920	12%	16.18%
PROFIT AFTER TAX	17,800	32,480	28.5%	37.76%

Q2 => Common Size Statement for year ending 31/03/23 to 24

Particulars	Amt		% of each item	
	31/3/23	31/3/24	31/3/23	31/3/24
I Net Revenue from operations	5,00,000	4,00,000	100%	100%
II Other Income	20,000	10,000	4%	2.5%
III Total Revenue	5,20,000	4,10,000	104%	102.5%
IV EXPENSES	3,00,000	2,00,000		
Cost of material consumed	84,000	2,00,000	60%	50%
E B E	16,000	40,000	12%	10%
Finance cost	20,000	25,000	2%	3.75%
Depreciation	20,000	25,000	4%	6.25%
Other expenses	40,000	30,000	8%	7.7%
TOTAL EXPENSES	4,30,000	3,10,000	86%	77.5%
V PBI (III - IV)	90,000	1,00,000	18.1%	25%
VI Income tax	36,000	40,000	7.21%	10%
PROFIT AFTER TAX	54,000	60,000	10.81%	15.1%

Q3 => Common Size Statement (Income Statement)
for the year ending 31/03/23 & 31/03/24

Particulars	Amount		% of each item to Net Revenue	
	31/3/23	31/3/24	31/3/23	31/3/24
I Net Revenue from operations	10,00,000	15,00,000	100%	100%
II Other Income	2,00,000	1,80,000	20%	12%
III TOTAL REVENUE (A)	12,00,000	16,80,000	120%	112%
IV Expenses				
Cost of materials consumed	5,00,000	9,00,000	50%	90%
Employee benefit expenses	40,000	50,000	0.04%	3.33%
Finance Cost	30,000	40,000	3%	2.66%
Other expenses	40,000	80,000	4%	5.33%
Total EXPENSES (B)	6,10,000	10,70,000	61%	104.101.22%
V Profit Before Tax (A - B)	59,000	61,000	5.9%	4.066%
VI (-) Income Tax	17,700	18,300	1.77%	1.22%
PROFIT BEFORE TAX	41,300	42,700	7.67%	5.28%

Q4 => CSS (Income Statement) for Year ending 31/03/23 & 31/03/24

Particulars	Amt		% of each item to R.O	
	31/3/23	31/3/24	31/3/23	31/3/24
I Net revenue from operations	3,50,000	4,50,000	100%	100%
II Total Revenue (A)	3,50,000	4,50,000	100%	100%
III Expenses				
Purchase of Stock in trade	1,90,000	2,15,000	54.28%	47.77%
Employee benefit expenses	50,000	72,000	14.28%	16%
Finance Cost	20,000	17,000	5.71%	3.77%
Other expenses	10,000	12,000	2.85%	2.66%
TOTAL EXPENSES (B)	2,70,000	3,16,000	77.14%	70.22%
IV Profit Before Tax (A - B)	80,000	1,34,000	22.85%	29.77%
V (-) Income tax	32,000	53,600	9.14%	11.91%
PROFIT BEFORE TAX	48,000	80,400	13.71%	17.86%

Q5 => Common Size Statement (Income Statement)
for the year ending 31/03/23 & 31/03/24

Particulars	Amount		% of each item at base operations	
	31/03/23	31/03/24	31/03/23	31/03/24
I Revenue from operations	5,00,000	7,00,000	100%	100%
II Other Income	20,000	30,000	4%	4.28%
III TOTAL REVENUE (A)	5,20,000	7,30,000	104%	104.28%
IV Expenses				
Cost of materials consumed	3,00,000	4,10,000	60%	57.14%
Employee benefit expenses	50,000	70,000	10%	10%
Depreciation & amortisation	20,000	22,000	4%	3.14%
Other expenses	40,000	50,000	8%	7.14%
TOTAL EXPENSES (B)	4,10,000	5,42,000	82%	77.42%
Profit Before Tax (A-B)	1,10,000	1,88,000	22%	26.85%
V Less Income Tax	33,000	56,400	6.6%	8.05%
PROFIT AFTER TAX	77,000	1,31,600	15.4%	18.8%

★ Common Size Balance Sheet (Problem 9)

Q1 ⇒ Common Size Statement (Balance Sheet)
for the year 31/03/23 & 31/03/24

Particulars	Amt.		1.8 Each item as % of net revenue operation	
	2023	2024	2023	2024
<u>I Equity & Liabilities</u>				
Equity Share Capital	5,00,000	6,00,000	34.48%	38.09%
Reserves & Surplus	3,00,000	3,50,000	20.68%	22.22%
<u>Non Current Liabilities</u>				
Long term Liabilities	4,00,000	3,00,000	27.58%	19.04%
Current Liabilities	2,50,000	3,25,000	17.24%	20.64%
TOTAL	14,50,000	15,75,000	100%	100%
<u>II Assets</u>				
<u>Fixed Assets:</u>				
Tangible Assets	5,50,000	7,00,000	37.93%	44.44%
Intangible Assets	2,00,000	2,50,000	13.79%	15.87%
Current Assets	7,00,000	6,25,000	48.27%	39.68%
TOTAL	14,50,000	15,75,000	100%	100%

Q2 ⇒ In the books of Karnataka Company Ltd (Balance Sheet)
for the year 31/03/23 & 31/03/24 Total 1.8 A&L

Particulars	2023		2024	
	2023	2024	2023	2024
<u>I Equity & Liabilities</u>				
Equity Share Capital	8,50,000	10,00,000	54.83%	54.05%
Reserves & Surplus	1,00,000	50,000	6.45%	2.70%
<u>Non Current Liabilities</u>				
Long term Liabilities	4,50,000	5,75,000	29.03%	31.08%
Current Liabilities				
Short term borrowings	1,50,000	2,25,000	9.67%	12.16%
TOTAL	15,50,000	18,50,000	100%	100%
<u>II Assets</u>				

<u>Fixed Assets</u>				
Tangible Assets	7,50,000	9,00,000	48.38%	48.64%
Intangible Assets	4,00,000	4,50,000	0.25%	24.32%
<u>Current Assets</u>				
Inventories	1,00,000	2,00,000	6.45%	10.81%
Other Current assets	3,00,000	3,00,000	19.35%	16.21%
TOTAL	15,50,000	18,50,000	100%	100%

Q3=> In the books of Indian Industries Ltd
Common Size Statement (P.S) for Year 23 & 24

Particulars	Amount		Total % of Asset & Liability	
	2023	2024	2023	2024
I Equity & Liabilities				
Share Capital	2,00,000	2,50,000	25%	27.77%
Reserves	1,00,000	1,50,000	12.5%	16.66%
Long term loans	2,00,000	1,00,000	25%	11.11%
Trade Payables	3,00,000	4,00,000	37.5%	44.44%
TOTAL	8,00,000	9,00,000	100%	100%
II Asset FA				
Buildings	2,00,000	2,50,000	25%	27.77%
Plant	2,00,000	2,50,000	25%	27.77%
Inventories	3,50,000	3,25,000	43.75%	36.11%
Cash & Cash Equivalents	50,000	75,000	6.25%	8.33%
TOTAL	8,00,000	9,00,000	100%	100%

Q4 => In the books of Rajesh Exports Ltd
Common Size Statement (C.S) for the year 23 & 24

Particulars	Amount		Total % of Asset & Liabilities	
	2023	2024	2023	2024
<u>I Equity & Liabilities</u>				
Equity Share Capital	13,00,000	16,00,000	35.61%	35.16%
Reserves & Surplus	6,00,000	6,00,000	16.43%	13.18%
<u>Non Current Liabilities</u>				
Long term borrowings	6,00,000	7,00,000	16.43%	15.38%
<u>Current Liabilities</u>				
Trade Payables	11,50,000	16,50,000	31.50%	36.26%
<u>TOTAL</u>	<u>36,50,000</u>	<u>45,50,000</u>	<u>100%</u>	<u>100%</u>
<u>II Assets</u>				
<u>Non Current Assets</u>				
<u>Fixed Assets :-</u>				
Tangible assets	11,00,000	16,00,000	30.13%	35.16%
Intangible assets	11,00,000	16,00,000	30.13%	35.16%
Non Current Investments	11,00,000	11,00,000	30.13%	24.17%
<u>Current Assets :-</u>				
Inventories	3,50,000	2,50,000	9.58%	5.49%
<u>TOTAL</u>	<u>36,50,000</u>	<u>45,50,000</u>	<u>100%</u>	<u>100%</u>

Q5 => In the books of Raju Co. Ltd Common Size Statement
Balance sheet for the year 31/03/23 & 31/03/24

Particulars	Amount		Total % of Asset & Liabilities	
	2023	2024	2023	2024
<u>I Equity & Liabilities</u>				
Shareholder's Fund				
Equity Share Capital	12,00,000	15,00,000	36.92%	36.14%
Reserves & Surplus	5,00,000	5,00,000	15.38%	12.04%
Long term borrowings	5,00,000	6,00,000	15.38%	14.45%
Trade Payables	10,50,000	15,50,000	32.30%	37.34%
<u>TOTAL</u>	<u>32,50,000</u>	<u>41,50,000</u>	<u>100%</u>	<u>100%</u>

II Assets:Non Current AssetsFixed Assets:

10,00,000

Tangible Assets

10,00,000

15,00,000

30.76%

36.05%

Intangible Assets

10,00,000

15,00,000

30.76%

36.05%

Non Current Investments

10,00,000

10,00,000

30.76%

24.03%

Current AssetsOther Current Assets

2,50,000

1,50,000

7.69%

36.05%

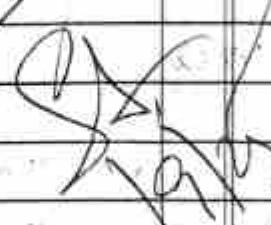
TOTAL

32,50,000

41,60,000

100%

100%


 3/9/15
 U. G. Rao

Chapter - 06

Cash Flow Statement

* Cash flow :-

It is the third important financial statement which shows inflows & outflows of cash & cash equivalent from various activities of a company during a specific period.

* Objectives of Cash flow Statement :-

- * To provide useful information about cash flows (Income inflows & outflows) of an enterprise during a particular period under various heads that is operating activity, Investing activity & financing activity.
- * To provide a bases to assist the ability of the enterprise to generate cash & cash equivalent & the needs of the enterprise to utilize those cashflows.

* Benefits of Cash flow Statement :-

- * It provides information that enables users to evaluate changes in net asset of an enterprise & its financial structure.
- * Cash flow information is useful in assessing the ability of the enterprise to generate cash & cash equivalent.
- * It also enhance the comparability of the reporting of operating performance by different enterprises.
- * It also helps in balancing its cash inflow & cash outflow, keeping in response its change in condition.

★ Cash Flow :-

It means movement of Cash in & Cash out due to some non cash items.

★ Classification of activities for Preparation of Cash flow Statement

1) Operating Activities :-

Those activities are that constitute the primary or main activities of an Enterprise.

Ex :- For manufacturing garment company, Operating activities are Procurement of raw material, manufacturing expenses etc...

Ex 2 :- Cash receive from fees, Commission or any other incomes

Ex 3 :- Cash Payment to the employee

Ex 4 :- Cash Payment to suppliers of goods & services etc.

2) Investing Activities :-

Are the acquisition & disposal of long term assets & other investments not included in Cash & Equivalences. Investing activities relate to Purchase & Sale of long term assets or fixed assets.

Ex 1 :- Cash Payment to acquire fixed assets

Ex 2 :- Cash receive from disposal of fixed assets

3) Financing Activities :-

Are activities that result in changes in the size of composition of owner's capital & borrowings of the Enterprise. They relate to long term

funds & Capital of an Enterprise.

Ex :- Issuing Equity Shares

Ex :- Interest Paid to debenturees

Ex :- Dividend Paid on Equity Shares

⇒ Ascertaining cash flow from operating activity
as per AS3 (Indirect method)

Cash flows from operating activity (Indirect method)

Particulars	Amount
Net Profit / Loss before tax	
+ Deduction of non cash items such as depreciation, goodwill	xxx
+ Deduction of non operating items such as interest	xxx
- Incomes of non operating items such as dividend received, Profit on sale of fixed asset operating Profit before working capital changes	xxx
+ ↑ in Current liability	xxx
+ Increase in Current asset	xxx
- Increase in Current asset	xxx
↓ Decrease in Current liability	xxx
Cash flows from OA before tax	xxx
- Income tax	xxx
NET CASH FROM OPERATIONS ACTIVITIES	xxx

1) Compute cash flow from operation from the following information

a) Profit for the year ending 31/3/18 was ₹ 20000 after providing depreciation of ₹ 5000

b) The current assets & current liability of the business for the year ended 31/3/22 & 23 as follows

Particulars	31/3/22	31/3/23
Trade Receivable	10000	20000
Trade Payable	15000	5000
Inventories	10000	20000
Prepaid Expenses	2000	3000

⇒ Cashflows from operating activity
(Indirect method)

Particulars	Amount
Net Profit/Loss - before tax Add for	20000
(+) Non Cash Item - Depreciation	5000
Operating Profit before Working Capital change	25000
(-) Increased in TR (20000 - 10000)	(10000)
(-) Decrease in TP (5000 - 15000)	(10000)
(-) Increase in Inv (20000 - 10000)	(10000)
(-) Increase in PE (3000 - 2000)	(1000)
Cash flows from OA before tax	(6000)
(-) Income tax	
NET CASH FROM OPERATING ACTIVITIES	(6000)

2) Anand Ltd arrived at a net income of ₹50000 for the year ended 31/3/23.

Depreciation for the year was ₹20000. There was a profit of ₹5000 on assets sold which was transfer to statement of P&L. Trade Receivable increased during the year was ₹40000 and Trade Payables also increased during the year ₹60000, Compute cash flow from operating activities by indirect method :-

⇒ Cash flows from operating activity
[Indirect Method]

Particulars	Amount
Net Profit / Loss before tax	50000
Adjustments for	
(+) Depreciation	20000
(-) Profit on Sale of building	(5000)
Operating Profit before working Capital change	65000
(-) Increase in Trade Receivable	(40000)
(+) Increase in Trade Payable	60000
Cash flows from OA before tax	670000
(-) Income tax	-
NET CASH FROM OPERATING ACTIVITIES	6700000

- 3) Exal Ltd. earned a net profit of ₹ 400,000 for the year ended 31/3/23. Depreciation charged on fixed assets during the year was ₹ 1,00,000. There was a loss of ₹ 40,000 on the sale of old machinery which was transferred to Statement of Profit & Loss. During the year, inventories were decreased by ₹ 50,000 and other current liabilities were decreased by ₹ 30,000. Compute the cash flow from operating activity by indirect method :-

⇒ Cash flows before from operating activity
(Indirect method)

Particulars	Amount
Net Profit / Loss before tax	400000
Adjustments for	
(+) Depreciation	100000
(+) Loss on Sale of Machinery	40000
Op profit before Working Capital change	540000
(+) Decrease in Inventories	50000
(-) Decrease in Current liabilities	(30000)
	560000
(-) Income tax	-
NET CASH FROM OPERATING ACTIVITIES	560000

4) Compute cash from operations from the following information

- a) Profit for the year 2023-24 is a sum of ₹10000 after providing for depreciation of ₹2000
 b) The current assets & liabilities of the business for the year ended 2023 & 2024 are as follows

Particulars	2023	2024
Trade Receivables	14000	15000
PDD	1000	1200
Trade Payables	13000	15000
Inventories	5000	8000
Other Current asset	10000	12000
Expenses Payable	1000	1500
Prepaid Expenses	2000	1000
Accrued Expenses	3000	4000
Income received in advance	2000	1000

⇒ Net Profit for the year	Adjustments for	10000
(+) Depreciation		2000
Operating Profit before Working Capital		12000
(-) Increase in TR (15000 - 14000)		(1000)
(+) Increase in PDD (1200 - 1000)		2000
(+) Increase in TP (15000 - 13000)		2000
(-) Increase in Inv (8000 - 5000)		(3000)
(-) Increase in O.C.A		(2000)
(+) Increase Expenses Payable		500
(+) Decreases Prepaid Expenses		1000
(-) Increase in accrued income		(1000)
(-) Decrease income received in advance		(1000)
Cash flow from OA before tax		7700
(-) Income tax		-
NET CASH FROM OPERATING ACTIVITIES		7700

- 5) Net Profit of L.G. Company Ltd Rs 70000 after charging depreciation of ₹15000 Profit of ₹60000 on asset sold has transfer to Statement of P&L Trade Payable decreased during the year by Rs 45000 and Trade Receivable also decreased by Rs 55000. Calculate cash from operating activities under indirect method.

⇒ Cash flow from Operating activity
(Indirect method)

Particulars	Amount
Net Profit for the year	70000
Adjustments for	
(+) Depreciation	15000
(-) Profit	(60000)
Operating Profit before Working Capital Changes	70000
(-) Decrease in Trade Payable	(45000)
(+) Decrease in Trade Receivable	55000
Cash flow from OA before tax	80000
(-) Income tax	-
NET CASH FROM OPERATING ACTIVITIES	80000

6) The Statement of P&L a/c of Yamuna Ltd for the year ended 31/03/2023

Particulars	Amount
Revenue from operations	1000000
<u>Expenses</u>	
Cost of material consumed	50000
Purchase of Stock in trade	500000
Other expenses	300000
Total Expenses	~~8000~~ 8,50,000
Profit before tax	1,50,000

Add

Add Additional Information

- Trade Receivables decreased by ₹ 30,000 during the year (+)
- Prepaid Expenses increased by ₹ 5000 during the year (-)
- Trade Payables increased by ₹ 15000 during the year (+)
- Outstanding expenses increased by ₹ 3000 during the year (+)
- Other expenses included depreciation, ₹ 25000 (+)

Compute net cash from operations for the year ended 31/03/23 by the indirect method :-

⇒ Cash flow from operating activity
(Indirect method)

Particulars	Amount
Net Profit for the year	1,50,000
Adjustments for	
(+) Depreciation	25,000
Operating Profit before Working Capital changes	175,000
(+) Decrease in Trade Receivable	30,000
(-) Increase in Prepaid Expenses	(5,000)
(+) Increase in Trade Payable	15,000
(+) Increase in outstanding expenses	3,000
Cash flow from operating b.t	2,18,000
(-) Income tax	-
NET CASH FROM OPERATING ACTIVITY	2,18,000

* ~~Problem Format~~

★ Problems on Investing activities

- 1) From the following Particulars Calculate Cash flow from Investing activities

Particulars	Purchase	Sale
Buildings	5,00,000	-
Machinery	-	1,00,000
Investments	1,00,000	4,00,000

Interest received on debentures held as investment
₹ ₹ 20,000.

Dividend received on Shares held as investment ₹ 30,000

⇒ Cash from Investing Activities

Particulars	Amount
Purchase of Buildings	(5,00,000)
Sale of Machinery	1,00,000
Purchase on Investment	(1,00,000)
~~Purchase~~ Sale on Investment	4,00,000
Interest on debentures	20,000
Interest on dividend	30,000
NET CASH FLOW FROM I.A	(50,000)

- 2) From the following Particulars Calculate Cash flow from investing activities

Particulars	Purchase	Sale
Machinery	2,00,000	-
Investments	1,50,000	60,000
Patents	-	50,000
Land	1,00,000	-

- a) Dividend received ₹ 35000
b) Interest received ₹ 20000

⇒

Particulars	Amount
Purchase of machinery	(200000)
Purchase of Investment	(15000)
Sale of Investment	60000
Sale of Patents	50000
Purchase of land	(100000)
Interest on dividend	35000
Interest received	20000
NET CASH FLOW FROM I.A	(285000)

3) From the following particulars, calculate cash flows from investing activities

- * Machinery Purchased ₹ 450000
- * Investment Sold ₹ 600000
- * Dividend receive on share held as investment ₹ 35000
- * Furniture Purchased for ₹ 27000
- * ~~Interest~~ Interest received on debentures held as invt ₹ 58000
- * Income tax Paid ₹ 50000

⇒

CASH FROM INVESTING ACTIVITIES

Particulars	Amount
Purchase of Machinery	(450000)
Sale of Investment	6,00,000
Interest on dividend	35000
Purchase of furniture	(27000)
Interest on debenture	58000
NET CASH FLOW FROM I.A	26000

4) National trading company Ltd has given the following information :-

- * Purchased Plant ₹4,40,000, Sold Plant ₹50,000
- * Investment Purchased ₹1,30,000, Sold Investment ₹1,00,000
- * Purchase of Goodwill ₹2,00,000,
- * Sale of Patents ₹1,00,000
- * Interest received on debentures held as investments ₹60,000
- * Dividend received on shares held as investments ₹10,000
- * A Plot of land had been purchased for investment purpose and was let out for commercial use & rent received ₹30,000

⇒ Cash from Investing activities

Particulars	Amount
Purchase of Plant	(4,40,000)
Sale of Plant	50,000
Purchase of Investment	(1,30,000)
Sale of Investment	1,00,000
Purchase of Goodwill	(2,00,000)
Sale of Patents	1,00,000
Interest received on debentures	60,000
Interest received on Dividend	10,000
Purchase of land (Rent received)	(30,000)
NET CASH FLOW FROM INVESTING ACTIVITIES	(4,70,000)

* Problems on Financing Activities

1) From the following information calculate Cash flow from financing activities

Particulars	1/4/22	31/3/23	
Equity Share Capital	5,00,000	8,00,000	(+) Issue
Preference Share Capital	2,00,000	3,00,000	(+) Issue
Debentures	4,00,000	3,00,000	(-) Redemption
Secured loan	3,00,000	2,00,000	(-) Redemption

Dividend Paid for £1,00,000 in the year

⇒ Cash flow from financing activities

Particulars	Amount
Issue of Equity Share Capital	3,00,000
Issue of Preference Share Capital	1,00,000
Redemption of Debentures	(1,00,000)
Redemption of Secured loans	(1,00,000)
Dividend Paid	(1,00,000)
NET CASH FLOW FROM FINANCING ACTIVITIES	(1,00,000)

2) From the following Particulars calculate Cash flow from financing activities

Particulars	1/4/22	31/3/22	
Debenture	4,00,000	5,00,000	(+) Issue
Bank Loan (LT)	2,00,000	3,00,000	(+) Issue

* Dividend Paid ₹1,20,000 (-)

* Dividend tax Paid ₹20,000 (+)

- * Interest Paid on debentures ₹ 20,000 (L-D)
- * Interest on debentures due but not Paid *

⇒ Cash flow from financing activities

Issue of debenture	1,00,000
Issue of bank loan	1,00,000
Divident Paid	(1,20,000)
Divident tax Paid	(20,000)
Interest Paid on debenture	(20,000)

NET CASH FLOW FROM F.A 40,000

Note:- Debenture interest due but not Pay does not involve any cash flow. Therefore, this item is not considered while computing cash flow from financing activities.

3) From the following information calculate cash flow from financing activities

Particulars	1/4/22	31/3/22
Preference Share Capital	5,00,000	4,00,000
Long term borrowings	6,00,000	5,00,000

- * Divident Paid on Equity Share Capital ₹ 50,000
- * Divident tax Paid ₹ 10,000
- * Interest Paid on long term borrowings ₹ 30,000

⇒ Cash flow from financing activities	
Particulars	Amount
Redemption of Preference Share Capital	(1,00,000)
Redemption of Long term borrowing	(1,00,000)
Dividend Paid on Equity share	(50,000)
Dividend tax Paid	(10,000)
Interest Paid on L.T.B	(30,000)
NET CASH FLOW FROM F.A	(2,90,000)

4) From the following information calculate cash from financing activities

Chapter - 05

Accounting for Share Capital and debentures

→ Meaning of Joint Stock Company :-

Joint Stock Company is an association of Person form to carry on business with a view to earn Profit. Having a Common Stock called as Share Capital which is divided into equal units called as Shares held by Person called as Share holders. Such company as a separate identity apart from its owners.

Defination :-

"A Voluntary association or organisation of many Persons who contribute money or money's worth through a Common Stock & Employee it in some trade or business and share the Profit or loss arising from it". Written by Justice Sir Lindley.

→ Features of Joint Stock Company

1. Company is an association of Person created to earn Profit.
2. Registered under Companies act 2013
3. Perpetual succession, untill demise or insolvency.
4. It is a legal Person & hold, Purchase, Sell Property, incur debts, or be used in its own name.
5. It is an artificial Person, but acts through directors
6. The liability of the members are generally limited to the face value of the Share issued to them.
7. The Shares of Company are freely transferable

→ Shares - Meaning and Types :-

Share has been defined by Indian Companies Act 1956. A share is the share in the share capital of the company.

Types of Shares

1. Preference Share
2. Equity Share

1. Preference Share is the type of share with preferential right.

Preference Share can be

- * Cumulative Preference Share
- * Non-Cumulative Preference Share
- * Participating Preference Share
- * Non Participating Preference Share
- * Redeemable Preference Share
- * Convertible Preference Share
- * Non-Convertible Preference Share.

2. Equity Shares :-

According to Companies Act 1956 the equity shares are the shares which are not preference share. The equity share do not have preferential rights for the dividend or capital payment at the time of winding up the company.

* Issue of Prospectus :-

Whenever shares are issued to the public the company issues a prospectus. It means an open invitation to the public to take up the shares of the company. It contains complete information about the

Company and the manner in which money will be collected from the investors.

2. Minimum Subscription :-

Minimum Subscription What public have to buy shares from the company, for the company to proceed with the allotment process. Minimum 90% of the shares which are issued should be subscribed by the public.

3. Application for Shares :-

When, the prospectus is issued to the public, investors intending to subscribe the share of issuing company make an application along with the application money. They deposit the same with a schedule bank as specified in the prospectus. Application money should be at least 5% of the face value of share.

4. Allotment of Shares :-

If minimum subscription has been received company can go on with allotment. Allotment of share means distribution of share to the applicant.

Letter of allotment will be sent to whom shares are allotted and letter of regret will be sent to whom the shares are not allotted.

5. Calls on Share :-

After allotting the shares directors of the company can call for the balance of share to be paid in one or more than one installment.

→ Journal Entries Relating To Issue of Share

1. For Received application money along with share
 Bank a/c Dr

To Share application a/c

2. For the application money on the share allotted
 transferred to share capital a/c

Share application a/c Dr

To Share Capital a/c

3. Share application a/c Dr

To Bank a/c

4. For allotment money due

Share allotment money a/c Dr

To Share Capital a/c

5. For allotment money received

Bank a/c Dr

To Share allotment a/c

6. For call money due

Share call a/c Dr

To Share Capital a/c

7. For receiving the call money
 Bank a/c Dr
 To Share call a/c

→ Calls in Arrears:-

Sometimes some of the shareholders fail to pay the amount due from them on allotment or on call. This amount which remained unpaid is called as calls in arrears.

Call in arrears a/c Dr (with amt not received)
 Bank a/c Dr (Amt received)
 To Share call a/c a/c

→ Calls in Advance:-

Sometimes Company receives the entire amount due on the shares even though the amount has not called up by the company.

Bank a/c Dr
 To Calls in advance a/c

When the call is made, the calls in advance should be transfer to the concerned share call a/c

Calls in advance a/c Dr
 To concerned share call a/c

Problems

1. Bangalore Software Company Limited issued 5000 Equity Shares Rs.10 each.

- a) 2Rs on application
 b) 2Rs on allotment
 c) 3Rs on 1st call
 d) 3Rs on 2nd & Final call

Ans :	S.No	Particulars	LF	Debit	Credit
	01.	Bank a/c Dr (5000x2)		10000	-
		To Share application a/c		-	10000
Receiving Entry					
		Share Application a/c Dr		10000	-
		To Share Capital a/c		-	10000
Due Entry					
	02.	Share allotment a/c Dr		10000	-
		To Share Capital a/c		-	10000
Due Entry					
		Bank a/c Dr		10000	-
		To Share allotment a/c		-	10000
Receiving Entry					
	03.	Share 1 st call a/c ^(5000x3) Dr		15000	-
		To Share Cap a/c		-	15000
Due Entry					
		Bank a/c Dr		15000	-
		To Share 1 st Call a/c		-	15000
Receiving Entry					
	04.	Share 2 nd & Final call Dr		15000	-
		To Share Cap a/c		-	15000
Due Entry					
		Bank a/c Dr		15000	-
		To Share 2 nd & final a/c		-	15000
Receiving Entry					

2. Vijayalakshmi with a nominal capital of 50000 shares of 10Rs each Issued 20000 shares for Public subscription the amount payable are as follows:-

- a) 2Rs on application
- b) 3Rs on allotment
- c) 5Rs on first call

All the shares are subscribed and money duly received, except 1000 shares final call. Pass the necessary Journal Entry.

Ans :-	SLNo	Particulars	LF	Debit	Credit
	1.	Bank a/c ^(20000 × 2) Dr		40000	-
		To Share application a/c		-	40000
		Share Application a/c Dr		40000	-
		To Share Capital a/c		-	40000
	2.	Share allotment a/c ^(20000 × 3) Dr		60000	-
		To Share Capital a/c		-	60000
		Bank a/c Dr		60000	-
		To Share allotment a/c		-	60000
	3.	Share 1 st & final call a/c ^(20000 × 5)		100000	-
		To Share Capital a/c		-	100000
		Bank a/c Dr		95000	-
		To Share final call a/c		-	95000
		Dr			
		Bank a/c Dr		100000	-
		To First & final call		-	95000
		To F & final call arrears			5000

→ Issue of Shares at a Premium :-

Sometime Company may issue share higher than the face value which is called as a Premium.

Share Premium = Issued Price - Face Value

Share Premium is a Capital Profit therefore it is credited to a separate account called Security Premium a/c

→ Journal Entry

1. If Premium is Payable along with the application money
 Share Application a/c Dr
 To Share Premium a/c
 To Share Capital a/c
2. If the Premium is Payable on allotment
 Share Allotment a/c Dr
 To Share Capital a/c
 To Premium a/c
3. If Premium is Payable on Call
 Share Call a/c Dr
 To Share Capital a/c
 To Share Premium a/c

→ If Shares are issued at discount :-

Sometimes Company in order to raise statement additional capital, and there is no demand of its shares may issue its share at discount. Issue at discount means issuing at lower than face value.

Share allotment a/c Dr
Distant on issued of Share Capital Dr
 To Share Capital a/c

Sum 1:-

- 1) Davangere Mills Ltd issued 5000 Shares ₹10 each at a Premium of 2
- ₹2 on application
 - ₹5 on allotment including Premium
 - ₹5 on first & final call

The shares are subscribed except 1000 shares failed to pay final call

Ans :-	Sl.No	Particulars	LF	Debit	Credit
	01.	Bank a/c Dr (5000 x 2) To Share application a/c		10000 -	- 10000
	02.	Share application a/c Dr To Share Capital a/c		10000 -	- 10000
	03.	Share allotment a/c ^(4000 x 5) Dr To Share Capital a/c ^(5000 x 5) To Share Premium a/c ^(5000 x 2)		25000 - -	- 15000 10000
	04.	Bank a/c Dr (4000 x 5) To Share allotment a/c		25000 -	- 25000
	05.	Share first & final call a/c To Share Capital a/c		25000 -	- 25000
		Bank a/c Dr To Share 1 st & final call a/c		20000 -	- 20000

→ Over subscription and under subscription

Over Subscription :-

Sometimes in case of certain company public may apply more than the share issued. This situation called as over subscription.

When there is over subscription some applicants may be allotted few share and some applicant may not be allotted any share at all. The excess application money is received is not returned, instead it is adjusted towards allotment or call

	Share application a/c	Dr
	To call in advance a/c	
	[When the excess application money adjusted towards allotment]	
	Share application a/c	
	To Bank a/c	
	[Excess of application money return to the applicant]	
15000		
10000		
	<u>Sum</u>	

- 1) Rajesh motor ltd with a registered capital of 50000 shares ₹10 each issued 22000 shares for a subscription. The amount payable Rs. 2 application
- ₹2 Application
 - ₹3 allotment
 - ₹3 first & final call
- Public subscribe 25000 shares money duly received upto 500 shares on first call & thousand shares on the final call.

to each

o shares

Credit

10000

10000

15000

10000

25000

25000

20000

Ans : 50000 Shares authorised
 22000 Share Issued @ 10
 25000 Share application @ 10

SL. No	Particulars	LF	Debit	Credit
01.	Bank a/c Dr (25000 x 2) To Share application a/c		50000 -	- 50000
02.	Share application a/c Dr (22000 x 2) To Share Capital a/c (3000 x 2) To Share allotment a/c (Calls in advance a/c)		50000 - - -	- 44000 6000
03.	Share allotment a/c Dr (22000 x 3) To Share Capital a/c		66000 -	- 66000
04.	Bank a/c Dr To Share allotment a/c		60000 -	- 60000
05.	1 st Call a/c Dr (22000 x 3) To Share Capital a/c		66000 -	- 66000
06.	Bank a/c Dr (21500 x 3) To Share 1 st Call a/c		64500 -	- 64500
07.	2 nd Call a/c Dr (22000 x 2) To Share Capital a/c		44000 -	- 44000
	Bank a/c Dr (21000 x 2) To 2 nd Call a/c (68)		42000 -	- 42000
	Bank a/c Dr (21000 x 2) Calls in arrears a/c Dr To Share 2 nd Call a/c		42000 2000 -	- 44000

→ Pro-rata allotment :-

This is the most logical & impartial method every applicant is treated equal there is no discrimination. The mathematical principle of ratio & proportion is applied here. Suppose the company offers 20000 shares at the rate of ₹10 for each subscription. If the application is received for 40000 shares the application is received for 40,000 shares the applicant will be allotted one share for every 2 share applied.

Sum :-

i) B Company Ltd invites application for 10000 shares ₹100 each, ₹10 ps

- ₹10 premium received on allotment
- ₹20 application
- ₹40 allotment
- ₹30 first call
- ₹20 second & final call

13000 application received, 2000 application rejected calls are made and duly received, except 300 shares of the final call failed to pay. Journalised the above transactions.

Ans :-

S.No	Particulars	Lf	Debit	Credit
01	Bank a/c Dr (13000 × 20)		2,60,000	-
	To Share application a/c		-	2,60,000
02	Share application a/c Dr		2,60,000	-
	To Share capital a/c (10000 × 20)		-	2,00,000
	(Extra) To Share allotment (10000 × 20)		-	20000
	(Rejected) To Bank a/c (2000 × 20)		-	40000

(10000 X 40)

03.	Share allotment a/c Dr	4,00,000	-
	(10000 X 30) To Share Capital a/c	-	3,00,000
	(10000 X 10) To Share Premium a/c	-	1,00,000
04.	Bank a/c Dr	3,80,000	-
	To Share allotment a/c	-	3,80,000
05.	First Call a/c Dr (1000 X 30)	3,00,000	-
	To Share Capital a/c	-	3,00,000
06.	Bank a/c Dr	3,00,000	-
	To 1st Call a/c	-	3,00,000
07.	2nd Call a/c Dr (10000 X 20)	2,00,000	-
	To Share Capital a/c	-	2,00,000
08.	Bank a/c Dr (9700 X 20)	1,94,000	-
	To 2nd Call a/c	-	1,94,000
09.	Bank a/c Dr	1,94,000	-
	Calls in arrears a/c Dr	6000	-
	To Share 2nd & final call a/c	-	2,00,000

→ Forfeiture of Shares :-

Forfeiture of Share means cancellation of the rights of share holders for the non-payment of allotment of money or call money or both on such shares. Before the forfeiture notice should be sent to the share holder with a stipulated time period to pay the calls from failing which directors can forfeit the shares. The money already received on those shares will not be refunded.

→ Journal Entries

- i) Entry for recording forfeiture of shares issued at Par.
 Share Capital a/c Dr (with full amount)
 To Share forfeiture a/c (with the amt
 received already)
 To Share Call a/c
 (Amount not yet received)

Sum :-

1. Rase Company Ltd with a registered capital of 75000 shares of 10Rs each, of this 5000 shares issued to the public
 a) Application for 65000 shares at ₹1 received per share
 b) Allotment 50000 shares was done 10000 Rs returned to those who have not allotted any share
 c) 5000Rs of application adjusted towards allotment
 d) Received 45000 Rs towards allotment made a first call of ₹2 on July 5
 e) Received 90000 Rs on a/c of 1st call
 Journalize the above transaction

Ans :-	SL No	Particulars	LF	Debit	Credit
	a)	Bank a/c Dr (65000 x 1)		65000	-
		To Share application a/c		-	65000
	b)	Share Application a/c Dr		65000	-
		To Share Capital (1 x 50000)		-	50000
		To Share allotment (1 x 5000)			5000
		To Bank a/c (1 x 10000)			10000

c)	Share allotment a/c	Dr	50000	-
	To Share capital a/c		-	50000
d)	Bank a/c	Dr	45000	-
	To Share allotment a/c		-	45000
e)	Share 1 st Call a/c	Dr	1,00,000	-
	To Share capital a/c		-	1,00,000
f)	Bank a/c	Dr	99000	-
	Calls in arrear a/c	Dr	1000	-
	To Share 1 st call a/c		-	1,00,000

2. B Company Ltd issued 10000 Shares Rs 100 each

a) ₹ 20 on application

b) ₹ 40 on allotment

c) ₹ 40 on first & final call

15000 Share application received.

* 3000 Shares application rejected

* 10000 Shares allotted & Rs money Paid adjusted towards allotment

* All the calls were made & money duly received except 500 Shares final call

Ans: S.No	Particulars	LF	Debit	Credit	1.
01	Bank a/c	Dr (15000 x 20)	3,00,000	-	
	To Share application a/c		-	3,00,000	
02	Share application a/c	Dr	3,00,000	-	
	To Share cap a/c		-	2,00,000	
	To Share allotment a/c		-	40000	
	To Bank a/c		-	60000	

03	Share allotment a/c	Dr	400000	-
	To Share Capital a/c		-	400000
04	Bank a/c	Dr	3,60,000	-
	To Share Capital a/c		-	3,60,000
05	Share 1 st & final call a/c	Dr	40000	-
	(40x1000) To Share Capital a/c		-	40000
06	Bank a/c	Dr	38000	-
	Calls in arrears	Dr	2000	-
	To Share 1 st & final call		-	40000

→ Forfeiture of the Share Issued at Premium

Share Capital a/c Dr (Share call amount)
 Security Premium a/c Dr (Premium amt remaining paid)
 To forfeiture a/c (Amt already received)
 To Share allotment a/c (Amt not yet received)
 (Or)
 To Share Call a/c

Sum

1. X Company Ltd issued 5000 shares 10Rs each 2Rs Premium amount receivable

- 2Rs Application
- 5Rs Allotment (Including Premium)
- 5Rs on 1st & final call

All the calls where made money received except 200 shares for 1st & final call.

Ans:-

[Total amount]		Share Capital a/c	Dr (200×10)	2000	-
[Amount received]		To Share forfeiture a/c (200×5)	-	1000	
[Amount not received]		To 1 st & final call a/c (200×5)	-	1000	

Share Capital a/c	Dr (500×100)	50000	-
To Share forfeiture a/c	-	30000	
To 1 st & final call a/c (500×20)	-	20000	

2. Z Company Ltd issued Share of 10Rs each.

- ₹2 Premium
- ₹2 Application
- ₹5 allotment (including Premium)
- ₹5 1st & final call

Mr. Balu holding 300 shares did not pay the allotment & call his shares are forfeited.

Pass the journal entry:-

<u>Ans:-</u>	Share Capital a/c	Dr (300×10)	3000	-
	Premium a/c	Dr (300×2)	600	-
	To Forfeiture a/c (300×2)	-	600	
	To allotment a/c (300×5)	-	1500	
	To 1 st & final a/c (300×5)	-	1500	

Note 1 :- If Premium is not received, it should be shown in the journal entry on the debit side. If it is received it should not shown in journal entry.

Note 2 :- The amount which are already received should be shown in forfeiture a/c in the credit side of the journal entry.

The amount which are not receive for different calls i.e., allotment, first call, second call should be shown separately in the credit side of journal entry. If Premium is given in the question and it is not received it should be shown with the call in the credit side.

Example :-

Share Capital a/c (300×10)	300	-
To forfeiture a/c (300×3)	-	1500
To 1 st & final call a/c (300×5)	1500	

→ Forfeiture of Share Issued at discount

1. Vijaya holding 200 shares 10Rs each issued at 10% discount. He paid Rs 2 on application but could not pay the allotment money of 4Rs & first & final call of Rs. 3, Pass the necessary journal entry
Amount are after discount

Ans :-

Share Capital a/c	Dr (200×10)	2000	-
To Share discount a/c (200×1)	-	-	200
To Forfeiture a/c (200×2)	-	-	400
To Allotment a/c (200×4)	-	-	800
To 1 st & final call (200×3)	-	-	600

2. ABC Ltd issued 10000 shares for subscription. Public as subscribed 12000 shares. Company returned 1000 shares money & adjusted the rest. Amount Payable as follows :-
 - a) 2Rs on application
 - b) 3Rs on allotment (1Rs Premium)
 - c) 3Rs on 1st call (1Rs Premium)
 - d) 4Rs on final call

Mr. Ali who holds 100 shares did not pay any amount after the allotment. His share are forfeited. Pass the necessary journal entry for application, allotment, 1st call, final call and forfeiture.

Ans:-	Sl	Particulars	LF	Debit	Credit
	01.	Bank a/c Dr (12000 X 2)		24000	-
		To Share application a/c		-	24000
	02.	Share application a/c Dr		24000	-
		To Share Cap a/c (10000 X 2)		-	20000
		To Bank a/c (1000 X 2)		-	2000
		To Allotment a/c (1000 X 2)		-	2000
	03.	Share allotment a/c (10000 X 3) Dr		30000	-
		(10000 X 2) To Share Capital a/c		-	20000
		(10000 X 1) To Share Premium a/c		-	10000
	04.	Share Bank a/c Dr		28000	-
		To Share allotment a/c		-	28000
	05.	Share 1 st call a/c Dr (10000 X 3)		30000	-
		To Share Capital a/c		-	20000
		To Share Premium a/c		-	10000
	06.	Bank a/c Dr (29700 X 3)		2,9700	-
		To 1 st call a/c		-	29700
	07.	Share final call a/c Dr		40000	-
		To Share Capital a/c (10000 X 4)		-	40000

Note :- What happens to the money left out in the forfeiture a/c

Forfeiture a/c Dr
To Capital Reserve a/c

⇒ Sums

Q1 A company issued 5000 Share ₹100 each all the money due was received with the exception of the amount on the final call 50 shares & had ₹20 each. Due from A. The directors forfeited this share & reissued at ₹70 fully Paid up. Write the Journal Entry.

Ans :-

(₹100)

not received = 80 / Received = 20

Sl. No.	Particulars	Dr	Debit	Credit
01	Share Capital a/c Dr (5000) Dr (50 × 80) To forfeiture a/c (50 × 20) To Final Call a/c	5000 — —	— 4000 1000	
02	Bank a/c Dr (50 × 20) Forfeiture a/c Dr (50 × 30) To Share Capital a/c	3500 1500 —	— — 5000	
03	Forfeiture a/c Dr To Capital Reserve	2500 —	— 2500	

~~Total~~

Q2. APPARNA¹⁰⁰ forfeited 600 shares at ₹100 each for non payment of 1st call & final call the i.e ₹10 & ₹10 & reissued this share at ₹80 fully Paid up. Keep the necessary Journal Entry

Ans :-	Sl. No	Particulars	LF	Debit	Credit
	01	Share Capital a/c Dr		60,000	—
		To forfeiture a/c		—	30,000
		To first call a/c		—	24,000
		To final call a/c		—	60,000
	02	Bank a/c Dr		48000	
		Forfeiture a/c Dr		12000	
		To Share Capital a/c		—	60000
	03	Forfeited a/c Dr		18000	—
		To Capital Reserve		—	18000

Q3 Moonlight Company Ltd Nominal Capital of ~~₹10,00,000~~ ^{₹40,00,000}
 Equity Share of ₹10 each 30,000 shares issued to
 the Public Payable has follow :-

₹3 application

₹2 Allotment

₹3 first call

₹2 final call

All the shares subscribed except final call
 of 2000 shares directors forfeited & re issued the
 shares at the rate of ₹7 Per share fully Paidup
 Pass the necessary journal entry

Ans :-	Sl. No	Particulars	LF	Debit	Credit
	01	Bank a/c Dr (30,000 x 2)		90,000	—
		To Share application a/c		—	90,000
	02	Share Capital a/c Dr		90,000	—
		To Equity Share ap a/c		—	90,000
	03	Equity Share allotment a/c Dr		60,000	—
		(30,000 x 2) To Equity Capital a/c		—	60,000

04	Bank a/c	Dr	60,000	-
	To Equity Share Capital a/c		-	60,000
05	Equity Share 1 st call a/c	Dr	90,000	-
	To Equity Share Cap a/c		-	90,000
06	Bank a/c	Dr	90,000	-
	To Equity Share 1 st call		-	90,000
07	Equity Share final call a/c	Dr	60,000	-
	(30,000 x 2) To Share Capital a/c		-	60,000
08	Bank a/c	Dr	56,000	-
	(28,000 x 2) To Share final call a/c		-	56,000
09	Share Capital a/c	Dr (2000 x 10)	20,000	-
Received	To forfeiture a/c (2000 sh x 8)		-	16,000
not received	To final call a/c (2000 x 2)		-	4,000
Re-issue of forfeited share	10 Bank a/c	Dr (2000 x 7)	14,000	-
	Forfeiture a/c	Dr (2000 x 3)	6,000	-
	To Share Capital a/c		-	20,000
11	Forfeiture a/c	Dr	10,000	-
	To Capital Reserve		-	10,000

Q4. Vijay Trading Company Ltd issued 10000 Equity Shares
₹10 each, ₹2 Premium payable as follows
₹2 Application
₹5 Allotment including Premium
₹3 First call
₹2 Final call
All the shares are subscribed money duly received

Except final call on 1000 shares directed forfeited & returned & £8 at £8 fully Paid up.

Ans :-	Sl No	Particulars	£	Debit	Credit
	01	Bank a/c Dr (10000 x 2) To Share application a/c		20,000 -	 20,000
	02	^{Equity} Share ^{application} Capital a/c Dr To Equity Share Capital a/c		20,000 -	 20,000
	03	Equity Share allotment a/c Dr (10,000 x 5) To Equity Share Capital a/c		50,000 -	 50,000
	04	Bank a/c Dr To Equity Share Cap a/c		50,000 -	 50,000
	05	Equity Share 1 st call a/c Dr (10,000 x 3) To Equity Share Capital a/c		30,000 -	 30,000
	06	Bank a/c Dr To Equity Share 1 st call a/c		30,000 -	 30,000
	07	Equity Share final call a/c Dr (10000 x 2) To Share Capital a/c		20,000 -	 20,000
(10000 - 1000)	08	Bank a/c Dr (9000 x 2) To Share final call a/c		18000 -	 18000
	09	Share Capital a/c Dr (1000 x 10) To forfeiture a/c (1000 x 8) To final call a/c (1000 x 2)		10000 - -	 8000 2000
	10	Bank a/c Dr (1000 x 8) Forfeiture a/c Dr (1000 x 2) To Share Capital a/c		8000 2000 -	 - 10,000

11	Forfeiture a/c Dr	6000	-
	To Capital Reserve a/c	-	6000

Q5 B Company Ltd invites application to subscribe 10000 Equity Shares ₹10 each. At a premium of ₹10 Payable as follows :-

₹ 20 application

₹ 40 Allotment including Premium

₹ 30 first call

₹ 20 Second call.

13000 share appⁿ received, 2000 share appⁿ rejected and surt ₹6000 share money of appⁿ adjusted in allotment all the calls are made & received except final call on 3000 shares, shares are forfeited & resumed at ₹85 fully Paidup.

01	Bank a/c Dr (13000 × 20)	2,60,000	-
	To share application a/c	-	2,60,000

02	Share application a/c Dr (10000 × 20)	2,00,000	-
	To share Cap a/c	-	2,00,000

03	Share allotment a/c Dr (10000 × 10)	2,00,000	-
	To Share Capital a/c	-	2,00,000

04	Share allotment a/c Dr (4000 × 10)	4,00,000	-
	To Security Premium a/c	-	1,00,000
	To Share Capital a/c	-	3,00,000

05	Bank a/c Dr (40000)		
	To share allotment a/c		

(3000 x 20 = 60000)

Registered: 2000 x 20

40000

10000

Page No.:

Date: / /

Ans :-

Sl No	Particulars	LF	Debit	Credit
01	Bank a/c Dr (13000 x 20) To Share application a/c		2,60,000	- 2,60,000
02	Share application a/c Dr To Share Capital a/c To Bank a/c To Allotment a/c		2,60,000 - - -	- 2,00,000 40,000 20,000
03	Share Allotment a/c Dr (10,000 x 10) To Share Premium a/c (10,000 x 30) To Share Capital a/c		40,000 - -	- 1,00,000 3,00,000
04	Bank a/c Dr To Share Allotment a/c		3,80,000	- 3,80,000
05	First call a/c Dr (10,000 x 30) To Share Capital a/c		3,00,000 3,00,000	- 3,00,000
06	Bank a/c Dr To first call a/c		3,00,000	- 3,00,000
07	Final call a/c Dr (10,000 x 20) To Share Capital a/c		2,00,000	- 2,00,000
08	Bank a/c Dr To final call a/c			
08	Calls in arrear a/c Dr (3000 x 20) Bank a/c Dr (9700 x 20) To final call a/c		6000 1,94,000 -	- - 2,00,000

09	Share Capital a/c Dr (300x100)	30,000	-
	To forfeited a/c (300x80)	-	24,000
	To final call a/c (300x20)	-	6,000
10	Bank a/c Dr (300x85)	25,500	-
	Forfeited a/c Dr (300x15)	4,500	-
	To Share Capital a/c	-	30,000
11	Forfeiture a/c Dr	19,500	-
	To Capital Reserve a/c	-	19,500

Q6. ABC Ltd issued 20000 shares ₹10 Each they will payable

₹2 Application

₹3 Allotment

₹5 First & final call

20000 Share Appⁿ received Pro rata allotment as follows

- 1) Application for 12000 shares => Full
- 2) Application of 10000 shares => 8000 shares
- 3) Application of 4000 shares => Nil

All the money fully received except first & final call on 2000 shares. Directors forfeited this shares & reissued at the rate of ₹7 fully Paid up. Pass the necessary Journal Entry

Ans :-

SL No	Particulars	Debit	Credit
01	Bank a/c Dr (20000x2)	50,000	-
	To Share application a/c	-	50,000
02	Share application a/c Dr	52,000	-
	(20000x2) To Share capital a/c	-	40,000
	(8000x2) To Share allotment a/c	-	4,000
	(4000x2) To Bank a/c	-	8,000

Ans :-	03	Share Allotment a/c Dr	60,000	-
		To Share Capital a/c	-	60,000
	04	Bank a/c Dr	56,000	-
		To Share Allotment a/c	-	56,000
	05	First & final call a/c Dr	1,00,000	-
		(60,000 x 5) To Share Capital a/c	-	1,00,000
	06	Bank a/c Dr	1,00,000	-
		To first & final call	-	1,00,000
	06	Bank a/c Dr (18,000 x 5)	90,000	-
		calls in arrears a/c (20,000 x 5)	10,000	-
		To first & final call a/c	-	1,00,000
	07	Share Capital a/c Dr (20,000 x 5)	20,000	-
		To forfeiture a/c (20,000 x 5)	-	10,000
		(20,000 x 5) To first & final call a/c	-	10,000
	08	Bank a/c Dr (20,000 x 7)	14,000	-
		Forfeiture a/c Dr (20,000 x 3)	6,000	-
		To Share Capital a/c	-	20,000
	09	Forfeiture a/c Dr	4,000	-
		To Capital Reserve a/c	-	4,000

Debentures

* Introduction :-

A Company is empowered to borrow money from the Public. The most common form in which a Company borrow money from the Public is by the issue of debenture.

Meaning :-

A debenture is an instrument issued by the Company under the Common Seal acknowledging its debts to the holder & promising to repay the debt after a certain period of time & in the mean while to pay interest there on at fixed rate at regular intervals.

Definition :-

Section 2(12) "Debentures includes debenture stock, bonds & any other securities of a Company with a constituting a charge on the asset of the Company or not."

* Types of Debenture

- 1) Registered debenture
- 2) Bearer debenture
- 3) Simple, naked or unsecured debenture
- 4) Mortgage or Secured debenture
- 5) Redeemable debenture → which is having time period
- 6) Irredeemable debenture → No time period
- 7) Convertible debenture → which can be converted into Equity shares
- 8) Unconvertible debenture → which cannot be converted into Equity shares

* Difference between Share & debenture

Share	Debenture
* Shares constituted the Capital of company.	Debenture are part of the loan of the company.
* Shareholders are owners of the company	Debenture holders are the creditors of the company
* Shareholders are having Voting rights	Debenture holders do not having Voting rights.
* Shareholders are entitled to dividend	Debenture holder will get interest
* The rate of dividend changes except preference shares	Interest on debentures could be the a constant
* Dividend on share is a appropriation of profit	Interest on debenture is charged to the profit
* Shares can be issued at discount on conditions laid down by companies act 2013	Debentures can be issued at discount & there is no restriction
* Shares are not secured by any asset of company	Debentures are secured by asset of the company
* Shares are not repaid during the life of company.	Debentures generally have a time period.
* Shares cannot be converted into debenture	Debentures can be converted into shares.

* Issue of debenture for cash

* Entries for the issue of debenture at Par

1) On the receipt of debenture application money.

Bank a/c Dr

To Debenture application a/c

2) On the allotment of application money on debenture

Debenture application a/c Dr

To Debenture a/c

3) Debenture allotment money due

Debenture allotment a/c due Dr

To Debenture a/c

Bank a/c Dr

To Debenture allotment a/c

4) For making the 1st Call

Debenture 1st call a/c Dr

To Debenture a/c

5) Receiving the Money

Bank a/c Dr

To Debenture 1st call a/c

* Issue of debenture for other than cash

Journal Entries

1) On Purchase of Asset

Sundry asset Dr

To Vendor a/c

2) On the issue of debentures

a) At Par

Vendor a/c Dr
To Debenture a/c

b) At Premium

Vendor a/c Dr
To Debenture a/c
To Premium a/c

c) At Discount

Vendor a/c Dr
Debenture a/c Dr
To discount a/c

* Issue of debenture as collateral :-

Issue of debenture by a company to the lender as additional security when it borrows loan from a bank or any other NBFC (Non banking financial corporation)

1) Vijaya Company Ltd issued 10000 12% debentures of 100Rs each

£10 Application

£50 Allotment

£40 first call

All the debentures are subscribed money duly received journalize the above transaction :-

⇒	Particulars	Dr	Debit	Credit
01	Bank a/c Dr (100000 × 10)		100000	-
	To Debenture application a/c		-	100000
02	Debenture application a/c Dr		1,00,000	-
	To Debenture Capital a/c		-	1,00,000
03	Debenture allotment a/c Dr		5,00,000	-
	(100000 × 50) To Debenture a/c		-	5,00,000
04	Bank a/c Dr		5,00,000	-
	To Debenture allotment a/c		-	5,00,000
05	Debenture 1 st Call a/c Dr		4,00,000	-
	(100000 × 40) To Debenture a/c		-	4,00,000
06	Bank a/c Dr		4,00,000	-
	To Debenture 1 st Call a/c		-	4,00,000

2) Gopal Ltd issued 3000 6% debenture of 100 each Payable as follows :-

₹ 20 on application

₹ 30 on allotment

All the debentures are duly taken up
journalize the above transaction

⇒	Sl. No.	Particulars	Debit	Credit
	01	Bank a/c Dr (70000 × 20)	60000	-
		To Debenture application a/c	-	60000
	02	Debenture application a/c Dr	60000	-
		To Debenture capital a/c	-	60000
	03	Debenture allotment a/c Dr	90000	-
		(3000 × 30) To Debenture a/c	-	90000
	04	Bank a/c Dr	90000	-
		To Debenture allotment	-	90000
	05	Debenture 1 st Call a/c Dr	150000	-
		(3000 × 50) To Debenture a/c	-	150000
	06	Bank a/c Dr	150000	-
		To Debenture 1 st Call a/c	-	150000

3) K Ltd Purchased furniture for 99000 from M Ltd
The Payment was made by issued of 6% debenture of 100 Rs each. Pass necessary journal entries for the purchase of furniture when :-

- * debentures are issued at Par
- * When debentures are issued at discount of 10%.
- * When debentures are issued at Premium of 10%.

Calculation

$$\frac{110\%}{100} = 99000$$

$$\frac{99000 \times 100}{110} = 90000$$

$$\text{Fu } 100\% + \text{Pse } 10\% = \text{Total } 110\%$$

⇒	Sl No	Particulars	LF	Debit	Credit
	01	Furniture a/c Dr To M Ltd		99000 -	- 99000
Par	02	M Ltd a/c Dr To 6% Debenture a/c		99000 -	- 99000
	03	Furniture a/c Dr To M Ltd		99000 -	- 99000
Premium	04	M Ltd a/c Dr Discount a/c Dr To 6% Debenture a/c		99000 9,900 -	- - 1,10,900
Premium	05	M Ltd a/c Dr To 6% Debenture a/c To Premium a/c		99000 - -	- 90,000 9000

- 4) Reddy Co. Ltd issued 2000 10% debenture
 100Rs each at a discount of 10% Payable
 20Rs on application
 20Rs on allotment

Balance in final call all the debenture are
 subscribed & duly received, Pass the
 necessary journal entries

⇒	Sl No	Particulars	LF	Debit	Credit
	01	Bank a/c Dr (2000 × 20) To debenture application a/c		40000 -	- 40000
	02	Debenture application Dr To debenture a/c		40000 -	- 40000

03	Debtors allotment a/c Dr	40000	-
	(20000) To debtors a/c	-	40000
04	Bank a/c Dr	40000	-
	To Debtors allotment a/c	-	40000
05	Discount a/c (20000) Dr	20000	-
	Debtors final call a/c (20000) Dr	100000	-
	(20000) To Debtors a/c	-	120000
06	Bank a/c Dr	100000	-
	To Debtors final a/c	-	100000

5) S Ltd Purchased a machine 198000 from Supplier Ltd Payment was made by issue of 12% debentures of 100 each Pass necessary Journal Entries for Purchase of machinery & issue of debentures when

- Debtors are issued at Par
- Debtors are issued at discount 10%.
- Debtors issued at 10% Premium

⇒

Sl No	Particulars	Dr	Debit	Credit
01	Machinery a/c Dr	1,98,000	-	
	To S Ltd a/c	-		1,98,000
02	S. Ltd a/c Dr	1,98,000	-	
	To 12% debentures a/c	-		1,98,000
03	S. Ltd a/c Dr	1,98,000	-	
	Discount a/c Dr	22,000	-	
	10% To Debtors a/c	-		2,20,000

Par

discount

Premium

Dr	S Ltd a/c	Dr	1,98,000	-
	To Debenture a/c		-	1,80,000
	To Premium a/c		-	18,000

6) Worth 4950000 £ issued debenture to the Vendor as Purchase consideration Pass the necessary Journal Entries

* If 10% Debenture of £100 are issued to the Vendor at Par

* If 10% Debenture of £100 are issued to the Vendor at a Premium of 7.5%

* and If 10% Debenture of £100 each are issued to the Vendor at a discount of 5.25%.

Sl No	Particulars	LP	Debit	Credit
01	Building a/c Dr To V Ltd Company		4950000 -	- 4950000
02	Vendor a/c Dr To Debenture a/c		4,95,000 -	- 4,95,000
03	Vendor a/c Dr Discount a/c Dr To Debenture a/c		495000 2,74,274 -	- - 52,24,274
04	Vendor a/c Dr To Debenture a/c To Premium a/c		4,95,000 - -	- 4,60,461 3,45,349

* Terms of Issue of Debenture

i) Issued at Par redeemed at Par

a) Bank a/c Dr

To Debenture appⁿ & allotment

[Receipt of appⁿ & allotment money]

~~ii)~~ B) deb appⁿ & allotment

To Debenture a/c

[Being app & allotment happen]

ii) Issued at discount redeemed at Par

a) Bank a/c Dr

To Debenture appⁿ & allotment a/c

[Receipt of appⁿ money]

B) Debenture appⁿ & allotment Dr

Discount on issue of Debenture a/c Dr

To Debenture a/c

[Being allotment of Debenture at discount recorded]

iii) Issued at Premium redemption at Par

a) Bank a/c Dr

To Debenture appⁿ & allotment a/c

[Receipt of appⁿ money recorded]

B) Debenture application allotment a/c Dr

To Debenture a/c

To Premium a/c

[Being allotment of Debenture at Premium recorded]

iv) Issued at Par redeemable at Premium *

a) Bank a/c Dr

To debenture appⁿ & allotment a/c

[Receipt of appⁿ money & allotment money received]

b) Debenture appⁿ & allotment a/c Dr

Loss of issue of debenture a/c Dr [With
+ Premium on redemption]

To Debenture a/c [With nominal value
of debenture]

To Premium on redemption on debenture
[With Premium on redemption]

v) Issued at discount redemption at Premium

a) Bank a/c Dr

To debenture appⁿ & allotment a/c

[Being receipt of appⁿ & allotment money]

b) Debenture appⁿ & allotment a/c Dr

Loss on issue of debenture a/c Dr [With
discount on issue + Premium on redemption]

To Debenture a/c [With nominal value of debenture]

To Premium on redemption on debenture a/c
[With Premium on redemption]

vi) Issued at Premium redeemable at Premium

a) Bank a/c Dr

To debenture appⁿ & allotment a/c

b) Debenture appⁿ & allotment a/c Dr

Loss on issue of debenture a/c Dr [With Premium on
redemption] To debenture a/c

To debenture a/c [With nominal value of debenture]

To Security Premium suspense a/c [With Premium on issue]

To Premium on redemption on debenture a/c [With Premium on redemption]

Problems

i) Give the journal entries for the following at the time of issue

a) Issue of ₹1,00,000 9% debenture of ₹100 each at Par and redeemable at Par

Bank a/c Dr 1,00,000

 To 9% debenture appⁿ & allotment a/c 1,00,000

Debenture appⁿ --- Dr 1,00,000

 To appⁿ & allotment a/c 1,00,000

b) Issue of ₹1,00,000 9% debenture of ₹100 each at Premium of 5% at redeemable at Par

Bank a/c Dr 1,05,000

 To debenture appⁿ & allotment a/c 1,05,000

Debenture appⁿ & allotment a/c Dr 1,05,000

 To 9% debenture a/c 1,00,000

 To debenture Premium a/c 5,000

c) Issue of ₹1,00,000 9% debenture ₹100 each at a discount of 5%. Payable at Par

Bank a/c Dr 95,000

 To 9% debenture appⁿ & allotment a/c 95,000

9% debenture appⁿ & allotment a/c Dr 95,000

Discount on issue of debenture Dr 5,000

 To 9% debenture a/c 1,00,000

Bank alc Dr 100000

Debt $\rightarrow$ Debenture appⁿ & allotment at Rs 100000

To a/c Debitum a/c 100000

To ~~Security~~ Premium ^{on redemption} a/c	5000
---	------

Bank a/c	Dr	95000
----------	----	-------

To 9-l. debenture appⁿ & allotment etc 95000

Loss on issue of Debenture at 10000

To Q.I. debenture a/c 100000

To Premium on redemption	5000
--------------------------	------

Bank alc	Dr	1,05,000
----------	----	----------

To debenture appⁿ & allotment a/c 10,000

Loss on issue of debenture at Rs 5000

To 9% debenture a/c 100000

To Premium on Redemption a/c 5000

To Security Premium reserve	5000
-----------------------------	------

h) ~~Issue~~

- 2) Issue of ₹ 2,00,000 10% debenture ₹100 each at Par and redeemable at Premium of 5%.

Bank a/c	Dr	2,00,000
To debenture app ⁿ & allotment a/c		2,00,000

Debenture app ⁿ & allotment a/c	Dr	200000
--	----	--------

Loss on issue of debenture a/c	Dr	10,000
--------------------------------	----	--------

To 10% debenture a/c		200000
----------------------	--	--------

To Premium on Redemption		10000
--------------------------	--	-------

- 3) Issue of ₹ 2,00,000 10% debenture ₹100 each at Premium of 5% & redeemable at discount of 5%.

Bank a/c	Dr	2,10,000
----------	----	----------

To debenture app ⁿ & allotment a/c		2,10,000
---	--	----------

Debenture app ⁿ & allotment a/c	Dr	2,10,000
--	----	----------

Loss on issue of debenture a/c	Dr	
--------------------------------	----	--

To 10% debenture a/c		200000
----------------------	--	--------

To Premium on Redemption		
--------------------------	--	--

To Security Premium a/c		10000
-------------------------	--	-------

Chapter - 05Accounting Ratios* Meaning of Ratio :-

A ratio is a mathematical no. calculated as reference to relationship of two or more numbers and can be expressed as a fraction, proportion, percentage & no. of times

* Meaning of Accounting Ratio :-

When the no. is calculated by referring to accounting numbers derived from the accounting statement it is termed as accounting ratio.

$$\text{GPR} = \frac{\text{Gross Profit of the business}}{\text{Revenue from operation}}$$

* Meaning of Ratio Analysis :-

Is an important tool of financial statement analysis. It is a part of interpretation of results revealed by financial statements.

* Objective of Ratio Analysis :-

- 1) To know the areas of business which require more attention
- 2) To know about potential areas which can be improved
- 3) To provide a deeper analysis the profitability, liquidity, solvency & efficiency level in the business

* Advantage of Ratio Analysis

- 1) It simplifies complex numbers & establish relationship
- 2) It is helpful in comparative analysis
- 3) It helps the business identifying the problem areas
- 4) It enables the firm to do its own 'SWOT' analysis.

* Limitations of Ratio Analysis

- 1) Lack of ability to resolve problem
- 2) There is lack of standardize definition of various concept used in ratio analysis
- 3) Lack of universally accepted standard level
- 4) Ratio based on unrelated figures would essentially be a meaningless exercise

* Type of Ratios

- 1) Profit and loss ratios
- 2) Balance sheet ratios
- 3) Composite ratios

* Functional Classification

1) Liquidity ratio

a) Current ratio

b) Quick ratio = $\frac{\text{Quick Asset}}{\text{Current Liabilities}}$
 $\left[\begin{array}{l} \text{Current Asset} - \text{Stock} \\ \text{Prepaid Expenses} - \text{advance tax} \end{array} \right]$

Formula for Current ratio

$$\text{Current ratio} = \frac{\text{Current Asset}}{\text{Current Liability}}$$

2) Solvency Ratio :-

Is the ratio calculated to determine the ability of the business to repay its debt in the long run

Types of Solvency Ratio are as follows :-

* Debt Equity Ratio

* Proprietary Ratio

3) Activity Ratio or Turn Over Ratio :-

The ratio which indicates the speed at which the activities of business are being performed are called activity ratio. They express the numbers the times about asset employed is turned into sales during an accounting period.

Ex :- Inventory turnover ratio

Trade Receivable turn over ratio

4) Profitability Ratio :-

Are the ratios calculated to analyse the earning capacity of the business

Ex :- Gross Profit Ratio, net profit ratio

operating ratio etc.

$$\text{Debt Equity Ratio} = \frac{\text{Long term debts}}{\text{Share holders fund}}$$

$$\text{Long term debt} = \text{Debt} + \text{Long term borrowings}$$

$$\begin{aligned} \text{Share holder fund} = & \text{Equity Capital} + \text{Preference Share Capital} \\ & + \text{Reserve \& Surplus including Reserve fund} + \text{Statement of P\&L} \end{aligned}$$

Another formula for Share holder fund

$$SHF = \text{Non Current asset} + \text{Working Cap} - \text{Non Current liabilities}$$

$$* \text{ Working Capital} = \text{Current asset} - \text{Current liabilities}$$

$$* \text{ Share holder fund} = \text{Non Current asset} + \text{Current asset} - \text{Non Current liabilities} - \text{Current liabilities}$$

* Debt to Capital Employed ratio

$$= \frac{\text{Long term debt}}{\text{Capital Employed}}$$

$$= \frac{\text{Long term debt}}{\text{Net asset}}$$

$$* \text{ Capital Employed} = \text{Shareholders fund} + \text{Long term debt}$$

$$* \text{ Net Asset} = \text{fixed Asset} - \text{depreciation} - \text{fictitious Asset} + \text{Working Capital}$$

* Examples of fictitious Asset:-

Pt Preliminary Expenses, discount on issue of debenture
Underwriting Commission

* Proprietary ratio:-

$$P. R = \frac{\text{Share holder fund}}{\text{Capital Employed}}$$

$$P. R = \frac{\text{Shareholder funds}}{\text{Net Asset or Net Investment}}$$

* Interest Coverage ratio:-

$$ICR = \frac{EBIT \text{ (Earning before Interest \& tax)}}{\text{Interest on long term debts}}$$

3) * Turn over Ratio or Activity Ratio

* Inventory Turn over ratio

$$\frac{\text{Cost of Revenue from operation}}{\text{Average Inventory}}$$

1) Cost of Revenue from operation = Revenue from op - GP

2) Revenue from operation = Sales both cr & cash

3) Cost of Revenue from operation or COGS = Opening stock + Purchase + direct expenses - Closing stock

* →
$$\text{Average Inventory} = \frac{\text{Opening inventory} + \text{Closing inventory}}{2}$$

* Trade Receivable Turn over Ratio

$$= \frac{\text{Net Credit Sales}}{\text{Average Trade Receivables}}$$

$$\text{Average Trade Receivables} = \frac{\text{Opening Trade Receivable} + \text{Closing Trade Receivable}}{2}$$

* Trade Payable Turnover Ratio

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

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

* Net Asset Turnover Ratio or Capital Employed Turn over Ratio

$$= \frac{\text{Revenue from operation}}{\text{Capital Employed}}$$

$$= \frac{\text{Sales}}{\text{Capital Employed}}$$

* Fixed Asset Turnover Ratio

$$\frac{\text{Net Revenue from operation}}{\text{Net fixed asset}}$$

4) * Profitability Ratio :-

1) Gross Profit Ratio

$$\frac{\text{Gross Profit}}{\text{Net Revenue from operation}} \times 100$$

$$\text{Gross Profit} = \text{Revenue from operation} - \text{Cost of Revenue from operation}$$

* Operating Ratio :-

$$\frac{\text{Operating Cost}}{\text{Net Revenue from operation}} \times 100$$

$$\text{Operating Cost} = \text{Cost of Revenue from operation} + \text{operating expenses}$$

* Operating Profit Ratio

$$= 100 - \text{operating ratio}$$

$$\text{Operating Profit Ratio} = \frac{\text{Operating Profit}}{\text{Revenue from operation}} \times 100$$

$$\text{Operating Profit} = \text{Revenue from operation} - \text{Operating Cost}$$

Operating Cost = Cost of Revenue from operation +
Operation Expenses

* Net Profit Ratio :-

$$NPR = \frac{\text{Net Profit}}{\text{Revenue from operation}} \times 100$$

Net Profit = Profit After tax

* Return on Capital Employed or Investment :-

$$= \frac{\text{Profit before interest \& tax}}{\text{Capital Employed}} \times 100$$

* Returns on Share holder's Fund :-

$$= \frac{\text{Profit After tax}}{\text{Share holder's fund}} \times 100$$

* Earning Per Share :-

$$= \frac{\text{Profit available for Equity holders}}{\text{No. of Equity Shares}}$$

* Book Value Per Share :-

$$= \frac{\text{Equity Share holder's Fund}}{\text{No. of Equity Shares}}$$

Equity Share holder's fund = Share holder's fund - Preference
Share Capital

Equity Share holder's fund = Equity Capital + Reserve
& Surplus + Profit & loss
balance

* Dividend Payout Ratio :-

$$= \frac{\text{Dividend Per Share}}{\text{Earning Per Share}}$$

* P/E Ratio :-

$$\text{PER} = \frac{\text{Market Price of a Share}}{\text{Earning Per Share}}$$

* Problems on Ratios :-

1) From the following information calculate Current Ratio & Quick Ratio :-

a) Current Asset ₹ 2,40,000

b) Current Liability ₹ 60,000

c) Inventory ₹ 1,20,000

$$\Rightarrow \text{Current Ratio} = \frac{\text{Current Asset}}{\text{Current Liability}}$$

$$= \frac{2,40,000}{60,000}$$

$$\text{Current Ratio} = 4 //$$

$$\text{Quick Ratio} = \frac{\text{Current Asset} - \text{Stock}}{\text{Current Liability}}$$

$$= \frac{2,40,000 - 1,20,000}{60,000}$$

$$= \frac{1,20,000}{60,000}$$

$$= 2$$

$$\text{Quick Ratio} = 2:1 //$$

2) Current Asset ₹ 2,40,000

2) Calculate Current Ratio & Quick ratio from the following :-

a) Stock ₹ 25,000 CA

b) Debtor ₹ 20,000 CA

c) BR ₹ 5,000 CA

d) Advance tax ₹ 2,000 CA

e) Cash ₹ 15,000 CA

f) Creditors ₹ 30,000 CL

h) Bills Payable ₹ 20,000 CL

i) Bank over draft ₹ 2,000

$$\Rightarrow \text{Current Ratio} = \frac{\text{Current Asset}}{\text{Current Liability}}$$

$$= \frac{65,000 - 52,000 - 2,000}{52,000}$$

$$= \frac{11,000}{52,000}$$

$$\text{Current Ratio} = 1:29:1 //$$

$$\text{Current Asset} = \text{Stock} - \text{Prepaid Expenses}$$

$$= 67,000 - 25,000 - 2,000$$

$$= \frac{40,000}{52,000}$$

$$\text{Quick ratio} = 0.76:1 //$$

3) Calculate Current Ratio & Quick Ratio from the following :-

- a) Stock ₹ 50000
- b) debtors ₹ 40000
- c) Bills Receivable ₹ 10000
- d) Advance tax ₹ 4000
- e) Cash ₹ 40000
- f) Creditors ₹ 60000
- h) Bills Payable ₹ 40000
- I) BOD ₹ 4000

$$\Rightarrow \text{Current Ratio} = \frac{\text{Current Asset}}{\text{Current Liability}}$$

$$= \frac{1,44,000}{1,04,000}$$

$$\text{Current Ratio} = 1.38:1 //$$

$$\text{Quick Ratio :- } \frac{\text{Quick Asset}}{\text{Current Liability}}$$

$$= \frac{90000}{1,04,000}$$

$$= 0.86$$

$$\text{Quick Ratio} = 0.86:1 //$$

4) Calculate Current Ratio & Quick Ratio from the following :-

- a) Current Asset ₹ 35000
- b) Current Liability ₹ 17,500
- c) Inventory ₹ 15000
- d) Operating Expenses ₹ 20000
- e) Revenue from operation ₹ 60000
- f) Cost of revenue from operation ₹ 30000

$$\Rightarrow \text{Current Ratio} = \frac{\text{Current Asset}}{\text{Current Liability}}$$

$$= \frac{35000}{17,500}$$

$$\text{Current Ratio} = \frac{2}{1} \text{ or } 2:1 //$$

$$\text{Quick Ratio} :- \frac{\text{Quick Asset}}{\text{Current Liability}}$$

$$= \frac{20000}{17500}$$

$$= 1.14$$

$$\text{Quick Ratio} = 1.14:1 //$$

$$\begin{aligned} \text{Quick Asset} &= \text{Current Asset} - \text{Inventory} \\ &= 35000 - 15000 \\ &= 20000 \end{aligned}$$

5) From the following balance sheet Calculate Current ratio & Quick ratio :-

Liabilities	Amount	Asset	Amount
Equity Capital	240000	Building	
P & L	60000	S.I. dibenture	
Bank over draft	60000	Stock	
Creditors	24000	Debtors	
Provision for the taxation	6000	Cash	
		Prepaid expenses	

Solution :-

$$\begin{aligned}
 \Rightarrow \text{CA} &= \text{Stock} - 126000 & \text{Creditors} &= 240000 \\
 & \text{Cash} - 22800 & \text{BOP} &= 60000 \\
 & \text{Debtors} - 90000 & \text{Provision for tax} &= 6000 \\
 & \text{Prepaid} - 7200 & & 306000 \\
 & \text{CA} &= 246000
 \end{aligned}$$

$$\text{Current Asset} = \frac{\text{CA}}{\text{CL}}$$

$$= \frac{246,000}{3,06,000} = 0.80$$

$$= 0.80 : 1 //$$

$$\text{Quick Ratio} = \frac{\text{QA}}{\text{GL}}$$

$$= \frac{112800}{306000}$$

$$= 0.37$$

$$= 0.37 : 1 //$$

6)
Egu

From the following information calculate debt ratio, Proprietary ratio, debt capital ratio

Share Capital ₹ 400000

Total = 700000

Reserve & Surplus ₹ 100000

Long term borrowings ₹ 1,50,000

Current Liability ₹ 50000

Fixed Asset ₹ 400000

Investment ₹ 100000

Current Asset ₹ 200000

$$\Rightarrow \text{Debt Equity Ratio} = \frac{\text{Long term debts}}{\text{Share holder funds}}$$

$$= \frac{1,50,000}{500,000}$$

$$= 0.3$$

$$\text{Debt Equity Ratio} = 0.3:1 //$$

$$\text{Proprietary Ratio} = \frac{\text{Share holder fund}}{\text{Capital Employed}}$$

$$\text{Capital Employed} = \text{Share} + 500000$$

$$= 650000$$

$$= 0.77$$

$$\text{Proprietary Ratio} = 0.77:1 //$$

$$\text{Debt to Capital Employed} = \frac{\text{Long term debt}}{\text{Capital Employed}}$$

$$= 150000 / 650000$$

$$\text{Debt to Capital Employed} = 0.23 //$$

7) Calculate debt equity ratio, & the Proprietary ratio

Current Asset ₹ 400000

13.1. debenture ₹ 200000

= 100000 - 60000

COGS ₹ 600000

= 900000

Paid up capital ₹ 500000

S.H.F

Net Sales ₹ 1000000

= 500000 + 400000

Current liability ₹ 2,80,000

= 900000

Average inventory ₹ 1,50,000

=> Debt Equity Ratio = $\frac{\text{Long term debt}}{\text{Share holder fund}}$

$$= \frac{200000}{900000}$$

Debt Equity Ratio = 0.22:1 //

Proprietary Ratio = $\frac{\text{Share holder Fund}}{\text{Capital Employed}}$

$$= \frac{900000}{1100000}$$

$$= 0.82$$

Proprietary Ratio = 0.82:1 //

8) ~~Inventory 10000~~

6m 12/2

3,40,000
- 1,20,000 → Gross profit
2,20,000
Page No. _____
Date: / /

8) Revenue from operation ₹3,40,000
Cost of RFO ₹1,20,000
Selling Expenses ₹80,000
Administrative Expenses ₹40,000
Calculate goods gross profit ratio & Operating ratio

$$\Rightarrow \text{Gross profit Ratio} = \frac{\text{GP}}{\text{Net revenue from operation}} \times 100$$

$$= \frac{2,20,000}{3,40,000} \times 100$$

$$\text{Gross profit Ratio} = 64.7\%$$

$$\text{Operating Ratio} = \frac{\text{Operating Profit Cost}}{\text{Revenue from operation}} \times 100$$

$$= \frac{2,40,000}{3,40,000} \times 100$$

$$\text{Operating Ratio} = 70.5\%$$

9) RFO ₹10,00,000
GP ₹2,00,000

Average Inventory ₹1,00,000

Net Credit Revenue from opex ₹60,00,000

Average Trade Receivable ₹1,50,000

Net Credit Purchase ₹5,00,000

Average Trade Payable ₹2,50,000

Operating Expenses ₹1,00,000

Net Profit ₹1,00,000

60,000 / 15,000

Calculate Inventory Turn over, Trade Receivable Turnover ratio, Trade Payable Turnover ratio, GPR,

Operating ratio & net profit Ratio

$$\Rightarrow \text{Inventory turnover Ratio} = \frac{\text{Cost of RFO}}{\text{Average inventory}}$$

$$= \frac{1000000 - 200000}{1,00,000}$$

$$= \frac{800000}{100000}$$

$$\text{Inventory turnover Ratio} = 8 //$$

$$\text{Trade Receivable turnover Ratio} = \frac{\text{Net credit sales}}{\text{Average trade receivable}}$$

$$= \frac{600000}{1,50,000}$$

$$= 4 //$$

$$\text{Trade Payable turnover Ratio} = \frac{\text{Net credit Purchase}}{\text{Average trade Payable}}$$

$$= \frac{500000}{2,50,000}$$

$$= 2 //$$

$$\text{Gross Profit Ratio} = \frac{\text{G.P}}{\text{NRFO}} \times 100$$

$$= \frac{200000}{1000000}$$

$$= 20 //$$

$$\underline{\text{Operating Ratio}} = \frac{\text{Operating Cost}}{\text{RFO}} \times 100$$

$$= \frac{100000}{1000000} \times 100$$

$$= \frac{800000 + 100000}{1000000} \times 100$$

$$= 90\%$$

$$\underline{\text{Net Profit Ratio}} = \frac{\text{Net Profit}}{\text{RFO}} \times 100$$

$$= \frac{100000}{1000000} \times 100$$

$$= 10\%$$