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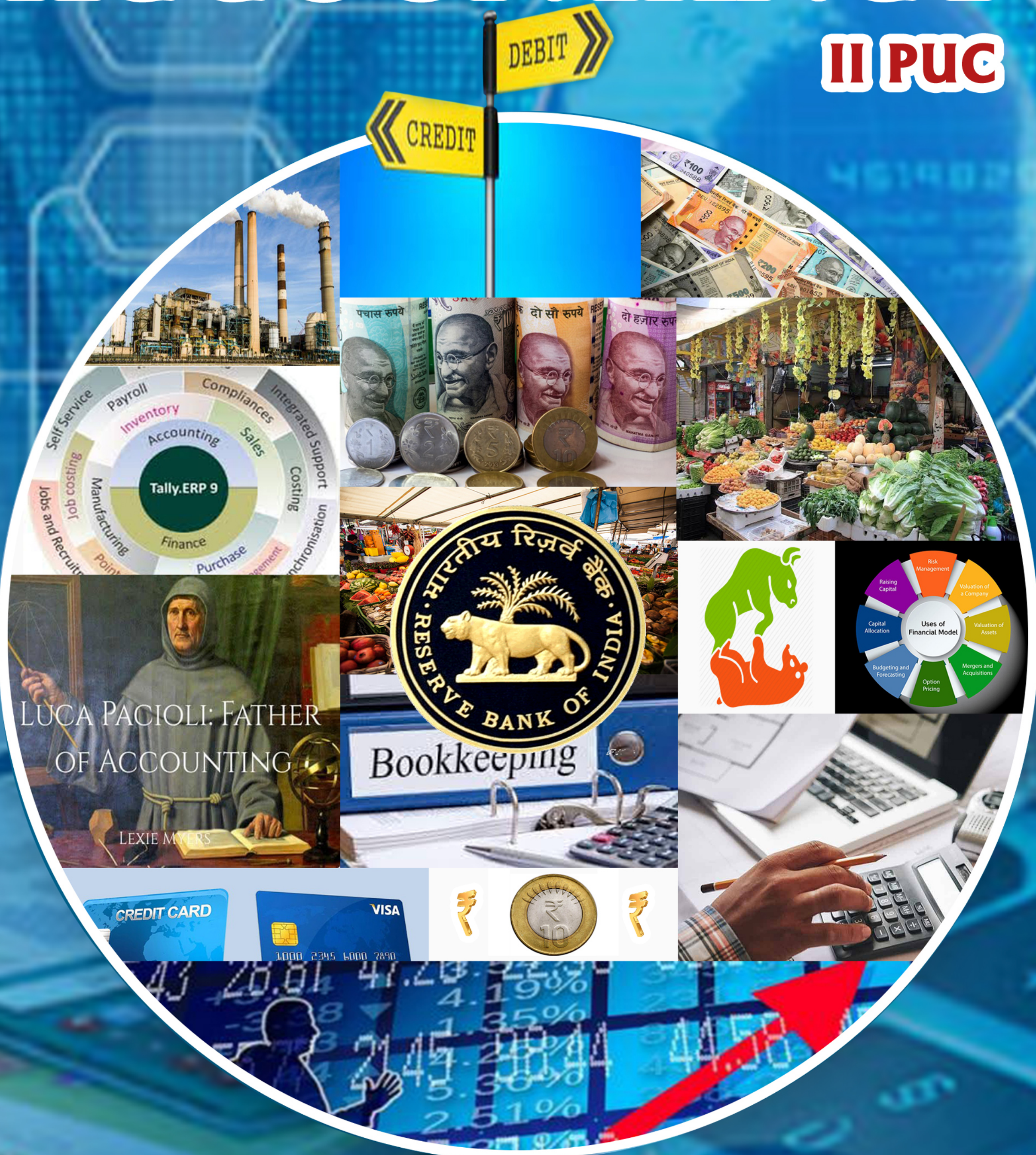
ACCOUNTANCY

II PUC



Examination Hand Book

2020-2021

MYSURU DISTRICT P U COMMERCE FORUM (R)

HAND BOOK

SECOND PUC

ACCOUNTANCY

(NEW SYLLABUS)

Book 1: Not-For-Profit Organisation and Partnership Accounts

Book 2: Company Accounts and Analysis of Financial Statements

2020-2021

MYSURU DISTRICT P U COMMERCE FORUM (R)
Vidyavardhaka composite pre-university college
Sheshadri Iyer Road, Near Private Bus Stand, Mysuru

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For Copies Contact : Office Bearers

Sri Siddaiah	Phone No. 7349706488
Sri Chandrashekar M.	Phone No. 9980029824
Sri Shivaswamy M.	Phone No. 9480732960
Sri Udayaravi Prakash	Phone No. 9448569982
Sri Mariswamy	Phone No. 9964524435

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BOOK - 1
CHAPTER -1
Accounting for Not-For - Profit Organisation

Section A: One Marks Questions

I. Fill in the Blanks:

1. Not-For-Profit organisations are used for the welfare of the **Society**
2. Not-For-Profit organisations are not engaged in **Trading** or **Business**
3. Receipts and Payments Account is the summary of **Cash** and **Bank** transactions.
4. Income and Expenditure account is just like a **Profit and Loss Account** of a trading concern.
5. Income and Expenditure A/c is prepared on **Accrual** basis.
6. Subscription is a fee paid by the **Members**
7. **Legacies** are the amounts received as per the will of the deceased person.
8. Opening balance in Receipt and Payment A/c represents **Cash balance**
9. Government Grants for maintenance is treated as **Revenue** receipt.
10. Donation for specific purpose are always **Capitalised**

II. Multiple choice questions:

1. Not-For-Profit organisations are formed for:
   (a) Profit **(b) Service**
   (c) Profit & Service (d) None of these
2. Most of Not-For-Profit organisation transactions are :
   (a) Cash (b) Credit
   (c) Cash & Credit (d) None of these
3. Receipt and Payment Account include items of :
   (a) Capital Nature (b) Revenue Nature
   (c) Both (a) & (b) (d) None of these
4. Income and Expenditure Account includes the amounts of :
   (a) Current year (b) Previous year
   (c) Next year (d) Both Current year and Previous year
5. Capital Fund does not include:
   (a) Entrances fees (b) Legacies
   (c) Building fund (d) Life Membership fees
6. Legacies are treated as:
   (a) Revenue Receipt **(b) Capital Receipt**
   (c) Revenue Expenditure (d) Capital Expenditure

7. Purchase of a computer by a college is treated as:
   (a) Capital Receipts **(b) Capital Expenditure**
   (c) Revenue Receipt (d) Revenue Expenditure

8. In the absence of any specific instruction, where do you show the Entrance Fee?
   (a) Debit side of the Income and Expenditure Account
   (b) Credit side of the Income and Expenditure Account
   (c) Liability side of the Balance sheet
   (d) Added to capital Fund on the liabilities side of B/S

9. Special Funds are shown in :
   (a) Income side (b) Expenditure side
   (c) **Liability side** (d) Asset side

10. Life membership fees are treated as:
    (a) **Capital Receipts** (b) Revenue Receipt
    (c) Capital Expenditure (d) Revenue Expenditure

11. Loss on sale of fixed asset is treated as:
    (a) Capital Receipts (b) Revenue Receipt
    (c) Capital Expenditure **(d) Revenue Expenditure**

III. True or False type questions:

1. Receipt and Payment Account is a summary of all capital receipts and payments. **False**
2. If the sports fund is maintained, sports expenses will be shown on the debit side of Income and Expenditure Account. **False**
3. The balancing figure on credit side of Income and Expenditure Account denotes excess of expenses over incomes. **True**
4. Scholarship granted to students out of funds provided by Government will be debited to Income and Expenditure Account. **False**
5. Donations for specific purpose are always capitalised. **True**
6. Opening Balance Sheet is prepared when the Opening Balance of capital fund is not given. **True**
7. Surplus of Income and Expenditure Account is added to Capital Fund. **True**
8. Income and Expenditure Account is equivalent to Profit and Loss Account of a trading concern. **True**
9. Receipt and payment Account does not differentiate between capital and revenue receipts. **True**
10. Capital and Revenue items are recorded in Receipt and Payment Account. **True**

IV. Very short answer questions:

1. Give an example for Not-For-profit organisation.
   Ans: 1. Charitable institutions. 2. Govt. hospitals. 3. Public libraries.

2. What is the Motive of Not-For-profit organisation?
   Ans: Service

3. Where do you show Opening Bank overdraft in Receipt and Payment Account?
   Ans: Credit side
4. Name any one final account of a Not-For-profit organisation.
   Ans: 1. Income and Expenditure Account 2. Balance Sheet.
5. State any one major source of income of Not-For-profit organisation.
   Ans: 1. Subscription from members 2. Donations
6. State any one book of account maintained by a Not-For-profit organisation.
   Ans: 1. Cash book 2. Ledger.
7. State any one feature of Receipt and Payment Account.
   Ans: 1. It is a summary of the cash book. (Write any one relevant feature)
8. How do you treat the prizes paid, when the prize fund is not maintained?
   Ans: Revenue Expenditure.
9. What is Capial fund?
   Ans: Capital Fund = Assets – Liabilities (of a not for profit organisation)
10. Give an example for specific donation.
    Ans: 1. Donations for Building 2. Donations for Book bank.
11. How do you treat the Life Membership Fees?
    Ans: Capital Receipt.

Section B : Two Marks Questions

1. What are Not-For-Profit organisation?
Ans: Not for profit organisation refers to the organisation that is formed for the welfare of the society. Their main aim is to provide services to the members or the public at large without any profit motive.

2. Give any two examples of Not-For-Profit organisation.
Ans: 1. Charitable Institutions 2. Govt Hospital
3. Public libraries. 4. Sports clubs

3. State any two features of Not-For-Profit organisation**.**
Ans: 1. They are formed for providing services such as education, sports, etc.
2. They are organised as charitable trust / societies.
3. Their affairs are usually managed by a managing committee.

4. Name any two books of accounts maintained by Not-For-Profit organisation.
Ans: 1. Cash Book 2. Ledger 3. Stock Register.

5. Give the meaning of Receipt and Payment Account.
Ans: It is the summary of cash and bank transactions. It is prepared by Not for profit organisation at the end of the year form the cash book.

6. State any two features of Receipt and Payment Account.
Ans: 1. It is a real account
2. It includes both capital and revenue items.
3. It is a summary of cash book.

7. What do you mean by Income and Expenditure Account?

Ans: It is the summary of the Income and Expenditure for the accounting year. It is prepared by Not- For-Profit organisation to ascertain the surplus or deficit of the organisation.

8. State any two features of Income and Expenditure Account.

Ans: 1. It is a nominal account.

2. It is like a profit and loss account of business firms.

3. It includes only revenue items.

9. Give any two examples of Revenue Expenditure.

Ans: a. Depreciation b. Salary paid c. Rent paid

10. Give any two examples of Capital Expenditure.

Ans: a. Cost of construction of building.

b. Purchase of Machinery.

c. Furniture purchased

11. Give any two examples of Revenue Receipts.

Ans: a. Subscriptions received. b. Rent received. c. Sale of old newspaper

12. Give any two examples of Capital Receipts.

Ans: a. Long-term loan borrowed. b. Sale of fixed assets. c. Legacies received

13. State any two differences between Receipt and Payment Account and Income and Expenditure Account.

Receipt and Payment Account	Income and Expenditure Account.
(a) It is a summary of the cash book.	(a) It is a summary of Income and Expenditure
(b) It includes both capital and revenue items.	(b) It includes only revenue items.

14. What is Capital Fund?

Ans: Capital Fund is the difference between assets and liabilities of a Not for profit organisation. It consists of surplus and certain capitalised receipts such as Legacies, Life membership fee, Entrance fee, etc.

15. What are Legacies?

Ans: Legacies are the amount received as per the will of a deceased person. It is treated as capital receipt and is directly added to capital fund in the balance sheet.

16. What is Honorarium?

Ans: It is the amount paid to the person who is not the regular employee of the organisation, for his service.

Example: Payment to an artist for giving performance at the club.

17. Give the meaning of Endowment Fund.

Ans: Endowment fund is a fund arising from a bequest or gift, the income of which is devoted for specific purpose. It is a capital receipt and shown on the liability side of the Balance sheet.

18. How do you treat tournament expenses, when separate tournament fund is not maintained?
Ans: when separate tournament fund is not maintained, then tournament expenses are debited to income and expenditure account.

19. How do you treat prizes awarded, when Prize Fund is maintained?
Ans: Prizes awarded are deducted from Prizes Fund on the liability side of the Balance sheet.

Section E : Five Marks Questions
Practical oriented Questions:

I. Classify the following into Revenue and Capital items:

	Answers
1. X-ray plant purchased by a hospital	Capital Item
2. Interest received	Revenue Item
3. Sale of old sports materials	Revenue Item
4. Donation received for Swimming pool	Capital Item
5. Honorarium paid	Revenue Item
6. Installation charges of new machinery	Capital Item
7. Subscription to newspaper	Revenue Item
8. Life membership fees	Capital Item
9. Subscriptions received from members	Revenue Item
10. Amount paid for up keep of grounds	Revenue Item
11. Cost of purchase of assets	Capital Item
12. Rent received	Revenue Item
13. Donations for buildings	Capital Item
14. Government grant for maintenance	Revenue Item
15. Cost of installation of lights and fans	Capital Item
16. Sale of old tennis balls	Revenue Item
17. Legacies received	Capital Item
18. Match expenses met out of Match Fund	Capital Item
19. Prizes awarded to students on the college day	Revenue Item
20. Laboratory expenses of science department of a college	Revenue Item

II. Prepare Receipts and Payment Account of a Not-For-Profit Organisation with 5 imaginary figures.

Receipt and Payment Account
Dr. **For the year ended 31.03.2018** Cr.

Receipts	₹	Payments	₹
To Balance b/d	10,000	By Salaries	5,000
To Subscriptions	10,000	By Furniture	5,000
To Donations	10,000	By Rent	5,000
		By Balance c/d	15,000
	30,000		**30,000**
To Balance b/d	15,000		

Section D: 12 Marks Questions

I. Preparation of Income and Expenditure Account and Balance Sheet when Opening Balance Sheet is given in the problem

1. Followings are the Balance Sheet and Receipts and Payments Account of Sharada Education Society, Mangaluru.

Balance Sheet as on 31-03-2017

Liabilities	₹	Assets	₹
Capital fund	36,400	Cash in hand	2,050
Audit fees	2,500	Maps and charts	1,600
		5% Govt. Bonds	31,000
		Subscriptions outstanding	1,000
		Furniture	3,250
	38,900		38,900

Dr. Receipts and Payments A/C for the year ending 31-03-2018 Cr.

Receipts	₹	Payments	₹
To Balance b/ d	2,050	By Audit fees	2,500
To Subscriptions	20,500	By Rent	1,800
To Donation	2,500	By Maps and charts	3,400
To Interest on Govt. Bonds	850	By Stationery and postage	250
		By Salary	8,000
		By Functions	1,050
		By Balance c/ d	8,900
	25,900		25,900

Adjustments:

1) Audit fees ₹ 2,500 still due
2) Charge ₹ 250 as depreciation on furniture.
3) Half of the donation is to be Considered as revenue.
4) Outstanding Subscriptions ₹2,000 and subscriptions received in advance ₹1,500.
5) Salary prepaid ₹ 2,500

Prepare: i) Income and Expenditure Account and

ii) Balance Sheet as on 31-03-2018.

Solution:

Income and Expenditure Account

Dr. For the year ending 31-03-2018 Cr.

Expenditure	₹	Incomes	₹
To Audit Fees 2,500 Less: O/s Audit fees Previous year 2,500 Nil Add: O/s Audit Fees. Current year 2,500	2,500	By Subscriptions 20,500 Less: O/s Subscription of Previous year 1,000 19,500 Add: O/s Subscription Current year 2,000 21,500 Less: Subscription Received In Advance 1,500	20,000
To Rent	1,800	By Donation (2,500x50/100)	1,250
To Stationary & postage	250	By Interest on Govt Bonds 850 Add: O/s Interest on Govt bonds 700 (31,000x2/100 = 1,550 -850)	1,550
To Salary	8,000		
To Functions	1,050		
To Depreciation on Furniture	250		
To Surplus **(Excess income over the expenditure)**	**8,950**		
	22,800		**22,800**

Balance Sheet As on 31-03-2018

Liabilities	₹	Assets	₹
Capital Fund 36,400 Add: Surplus 8,950 45,350 Add Donation (2,500x50/100) 1,250	46,600	Cash in Hand	8,900
		Maps & Charts 1,600 Add: Purchase 3,400	5,000
		5% Govt Bonds 31,000 Add: O/s Interest 700	31,700
O/S Audit Fees	2,500	Furniture 3,250 Less: Depreciation 250	3,000
Subscription received in Advance	1,500	O/s Subscription current year	2,000
	50,600		**50,600**

2. Followings are the Balance Sheet and Receipt & Payment Account of Golden Sports Club, Vijayapura.

Balance Sheet as on 31-03-2017

Liabilities	₹	Assets	₹
Outstanding salary	7,000	Cash in hand	15,500
Pre-received Subscriptions	4,000	Sports Materials	35,000
Capital Fund	1,50,500	Furniture	21,000
		Land and Buildings	90,000
	1,61,500		**1,61,500**

Receipts and payment A/c for the year ending 31-03-2018

Dr. **Cr.**

Receipts	₹	Payments	₹
To Balance b/ d	15,500	By Salary	25,000
To Subscriptions	52,000	By Sports materials (1-10-2017)	18,000
To Entrance Fees	6,000	By Investments	15,000
To Sale of old newspaper	3,000	By Postage	400
To Sports Fees	9,500	By Electricity charges	1,600
		By Up- keep of grounds	6,500
		By Balance c/ d	19,500
	86,000		86,000

Adjustments:

a) Outstanding subscriptions for 2018 ₹ 1,000
b) Outstanding salary as on 31-03-2018 ₹ 5,000
c) Half of the Entrance fees are to be capitalized.
d) Depreciate sports materials @ 20% per annum

Prepare: i) Income and Expenditure account for the year ending 31-03-2018 and
ii) Balance Sheet as on that date

Solution:

Income and Expenditure Account
For the year ending 31-03-2018

Dr. **Cr.**

Expenditure		₹	Incomes		₹
To Salary	25,000		By Subscriptions	52,000	
Less: O/s Salary	7,000		Add: Pre-received Sub.	4,000	
Previous year	18,000		Previous year	56,000	
Add: O/s Salary Current year	5,000	23,000	Add: O/s Subscription Current year	1,000	57,000
To Postage		400	By Entrance fees (6,000x1/2))		3,000
To Electricity Charges		250	By Sale of old newspaper		3,000
To Up-keep of ground		6,500	By Sports Fees		9,500
To Depreciation of sports Materials					
1) 35,000 x 20/100 =	7,000				
2) 18,000 x 20/100 x 6/12 =	1,800	8,800			
To Surplus **(Excess income over the expenditure)**		**32,200**			
		72,500			**72,500**

Balance Sheet As on 31-03-2018

Liabilities		₹	Assets		₹
Capital Fund	1,50,500		Cash in Hand		19,500
Add: Surplus	32,200		Sport Materials	35,000	
	1,82,700		Add: Purchase	18,000	
Add: Entrance Fees (6,000x1/2)	3,000	1,85,700		53,000	
			Less: Depreciation	8,800	44,200
O/S Salary		5,000	Furniture		21,000
			Land & Buildings		90,000
			Investments		15,000
			O/s Subscriptions		1,000
		1,90,700			**1,90,700**

3. Followings are the Balance Sheet and Receipt and Payment Account of Malnad Sports Club, Chikkamagaluru

Balance Sheet as on 31-03-2017

Dr. **Cr.**

Liabilities	₹	Assets	₹
Outstanding salary	3,200	Cash at Bank	52,400
Pre-received Subscriptions	4,000	Outstanding Subscription	4,800
Outstanding Rent	800	Investment	21,000
Capital Fund	1,30,800	Sports Materials	43,600
		Furniture	32,800
	1,38,800		**1,38,800**

Receipts and payment A/c for the year ending 31-03-2018

Dr. **Cr.**

Receipts	₹	Payments	₹
To Balance b/d	52,400	By Rent: 2016-17	800
To Subscriptions:		2017-18	8,800
2016-17	4,800	By Salary 2016-17	3,200
2017-18	90,200	2017-18	46,400
2018-19	4,200	2018-19	2,400
To Donations	32,400	By Printing	15,200
To Entrance Fees	65,200	By General Expenses	10,800
To Interest	2,800	By Furniture (31-03-2018)	48,000
To Sale of old sports	2,000	By Sports Materials	57,600
		By Balance c/d	60,800
	2,54,000		**2,54,000**

Adjustments:

a. Subscriptions outstanding ₹ 5,600.
b. Printing unpaid ₹ 1,000.
c. Interest accrued ₹ 800.
d. Depreciate furniture by 10% and sports materials by 10%.
e. Capitalize 50% of donations.

Prepare: (i) Income and Expenditure account and (ii) Balance Sheet as on 31-03-2018.

Solution:

Income and Expenditure Account

Dr. For the year ending 31-03-2018 Cr.

Expenditure		₹	Incomes		₹
To Rent		8,800	By Subscriptions	90,200	
To Salaries		46,400	Add: O/s Subscription of	5,600	
To Printing	15,200		Current year	95,800	
Add: Printing unpaid	1,000	16,200	Add: Subscription Received		
To General Expenses		10,800	in Advance 2016-17	4,000	99,800
To Depreciation on Furniture					
1) 32,800x10/100		3,280	By Donation (32,400x50/100)		16,200
To Depreciation on Sports			By Entrance Fees		65,200
Materials			By Interest	2,800	
1) 43,600x10/100 =	4,360		Add: Interest Accrued	800	3,600
2) 57,600x10/100x6/12 =	2,880	7,240	By Sale of old sports		2,000
To Surplus **(Excess of income over the expenditure)**		**94,080**	Materials		
		1,86,800			**1,86,800**

Note: Furniture purchased on end of the Accounting period, hence depreciation is nil

Balance Sheet As on 31-03-2018

Liabilities		₹	Assets		₹
Capital Fund	1,30,800		Cash in Bank		60,800
Add: Surplus	94,080		Investments		5,200
			Sports Materials	43,600	
Add: Donation	16,200	2,41,080	Add: Purchased	57,600	
(32,400x50/100)				1,01,200	
Printing unpaid		1,000	Less: Depreciation	7,240	93,960
Subscription Received in			Furniture	32,800	
Advance (2018-19)		4,200	Add: Purchased	48,000	
				80,800	
			Less: Depreciation	3,280	77,520
			O/s Standing subscription		5,600
			Interest accrued		800
			Prepaid Salary		2,400
		2,46,280			**2,46,280**

II. Preparation of Income and Expenditure Account and Balance Sheet when Opening Balance Sheet is not Given

4. From the following Receipt and Payment Account and information given below, **prepare Income and Expenditure Account and the Balance Sheet** of Adult Literacy Orgnisation as on March 31, 2018

Receipt and Payment A/C for the year ending 31-03-2017

Dr. **Cr.**

Receipts	₹	Payments	₹
To Cash in Hand (1-1-2017)	6,800	By Salaries	24,000
To Subscriptions	60,200	By Traveling Expenses	6,000
To Donation	3,000	By Stationery	2,300
To Sale of furniture (Book value 6,000)	4,000	By Rent	16,000
		By Repairs	700
To Entrance Fees	800	By Books purchased	6,000
To Life Membership Fees	7,000	By Building purchased	30,000
To Interest on Investments (5% P.A.)	5,000	By Cash in hand (31-12-2017)	1,800
	86,800		**86,800**

Additional information:

Particulars	As on 01-01-2017	As on 31-12-2017
1) Subscriptions received in advance	1,000	3,200
2) Outstanding subscriptions	2,000	3,700
3) Stock of stationery	1,200	800
4) Books	13,500	16,500
5) Furniture	16,000	8,000
6) Outstanding rent	1,000	2,000
7) Investments	1,00,000	1,00,000

Solution: **Balance Sheet as on 1-01-2017**

Liabilities	₹	Assets	₹
Pre-received Subscriptions	1,000	Cash in hand	6,800
Outstanding Rent	1,000	Outstanding Subscription	2,000
Capital Fund	**1,37,500**	Stock of Stationery	1,200
(Balancing Figure)		Books	13,500
		Furniture	16,000
		Investment	1,00,000
	1,39,500		**1,39,500**

Income and Expenditure Account

Dr. For the year ending 31-12-2017 Cr.

Expenditure		₹	Incomes		₹
To Salaries		24,000	By Subscriptions	60,200	
To Travelling expenses		6,000	Less: O/s Subscription	2,000	
To Stationery Purchased	2,300		Previous year	58,200	
Add: Opening stock of stationery	1,200		Add: O/s Subscription of	3,700	
	3,500		Current year	61,900	
Less: Closing stock of Stationery	800	2,700	Add: Subscription received In Advance (2017)	1,000	
				62,900	
To Rent	16,000		Less: Subscription received In advance (2018)	3,200	59,700
Less: O/s Rent of P/y	1,000				
	15,000				
Add: O/s Rent of C/y	2,000	17,000	By Donation		3,000
To Repairs		700	Entrance Fees		800
To Loss on Sale of Furniture (6,000 - 4,000)		2,000	By Interest on Investment		5,000
To Depreciation on Books		3,000			
To Depreciation on Furniture		2,000			
To Surplus **(Excess income over the expenditure)**		**11,100**			
		68,500			**68,500**

Balance Sheet As on 31-03-2018

Liabilities		₹	Assets	₹
Capital Fund	1,37,500		Cash in Hand	1,800
Add: Surplus	11,100		Stock of Stationery	800
	1,48,600		Buildings	30,000
Add: Life Membership Fees	7,000	1,55,600	Books	16,500
O/S Rent		2,000	Furniture	8,000
Subscription received in Advance		3,200	Investment	1,00,000
			O/s Subscription	3,700
		1,60,800		**1,60,800**

Working Note: 1

Depreciation on Books		Depreciation on Furniture	
Opening stock of Books	13,500	Opening stock of Furniture	16,000
Add: Book Purchased	6,000	Less: Furniture Sold	6,000
	19,500		10,000
Less: Closing stock of Books	16,500	Less: Closing stock of Furniture	8000
Depreciation on books =	**3,000**	**Depreciation on Furniture =**	**2,000**

5. From the following Receipt and Payment Account of a club, prepare Income and Expenditure Account for the year ended March 31, 2018 and the Balance Sheet as on that date.

Receipt and Payment A/C for the year ending 31-03-2017

Dr. **Cr.**

Receipts	₹	Payments	₹
To Balance b/ d	3,500	By General Expenses	900
To Subscription:		By Salary	16,000
2016-17 2,000		By Postage	1,300
2017-18 70,000		By Electricity charges	7,800
2018-19 3,000	75,000	By Furniture	26,500
To Sale of old books	2,000	By Books	13,000
(costing ₹ 2,300)		By Newspapers	600
To Rent from use of Hall	17,000	By Meeting expenses	7,200
To Sale of Newspapers	400	By T.V. set bought	16,000
To Profit from		By Balance c/d	15,900
entertainment	7,300		
	1,05,200		**1,05,200**

Additional information:

a) The club has 100 members each paying an annual subscription of ₹ 900. Subscriptions outstanding on March 31, 2017 were ₹ 3,600.

b) On March 31, 2018 salary outstanding amounted to ₹ 1,000, Salary paid included ₹ 1,000 for the year 2016-17

c) On April 1, 2018, the club owned the Land and Buildings ₹ 25,000, Furniture ₹ 2,600 and Books ₹ 6,200

Solution:

Balance Sheet as on 1-04-2017

Liabilities	₹	Assets	₹
O/s Salary	1,000	Cash at Hand	3,500
Capital Fund	**39,900**	O/s Subscription	3,600
(Balancing Figure)		Land & Buildings	25,000
		Furniture	2,600
		Books	6,200
	21,500		**21,500**

Income and Expenditure Account

Dr. **For the year ending 31-03-2018** **Cr.**

Expenditure	₹	Incomes	₹
To General Expenses	900	By Subscriptions 70,000	
To Salary 16,000		Less: O/s Subscription of P/y 3,600	
Less: O/s Salary 1,000		66,400	
Previous year 15,000		Add: O/s Subscription of P/y 2,000	
Add: O/s Salary 1,000	16,000	Received in current Year 68,400	
Current year		Add: O/s Subscription of 20,000	
To Postage	1,300	Current Year **(W.N)** 88,400	
To Electricity Charges	7,800	Add: O/s Subscription of p/y	
To News papers	600	Still in current year **(W.N)** 1,600	90,000
To Meeting expenses	7,200		
To Loss on Sale of old Books		By Rent from Use of Hall	17,000
(2,300 – 2000)	300	By Sale of newspaper	400
To Surplus **(Excess income**		By profit from entertainment	7,300
over the expenditure)	**80,600**		
	1,14,700		**1,14,700**

Balance Sheet As on 31-03-2018

Liabilities	₹	Assets	₹
Capital Fund 39,900		Cash in Hand	15,900
Add: Surplus 80,600	1,20,500	Furniture 2,600	
Subscription Received in	3,000	Add: Purchase 26,500	29,100
Advance		Books 6,200	
O/S Salary	1,000	Add: Purchase 13,000	
		19,200	
		Less: Sale of old books 2,300	16,900
		T.V. Set	16,900
		O/s Subscription C/y 20,000	
		Add: O/s Subscription of P/y 1,600	21,600
	1,24,500		**1,24,500**

Working Note:

Calculation of O/s Subscription of Current Year		**O/s Subscription of Previous year still O/s in Current year**	
Total Subscription Receivable 100 x 900 =	90,000	O/s in Previous year	3,600
Less: Subscription received in Current year	70,000	Less: Previous year O/s	
Outstanding subscription in current year	**20,000**	Received in Current year	2,000
		Balance of o/s in current year	**1,600**

6. Receipt and Payment Account of Shankar Sports Club is given below Prepare Income and Expenditure Account for the year ending 31-03-2018

Receipt and Payment A/C for the year ending 31-03-2018

Dr. **Cr.**

Receipts	₹	Payments	₹
To Cash in Hand	2,600	By Rent	18,000
To Entrance fees	3,200	By Wages	7,000
To Donation for Buildings	23,000	By Billiard table	14,000
To Locker Rent	1,200	By Furniture	10,000
To Life Membership Fees	7,000	By Interest	2,000
To Profit from		By Postage	1,000
entertainments	3,000	By Salary	24,000
To Subscriptions	40,000	By Cash in hand	4,000
	80,000		80,000

Additional information:

(a) Subscription outstanding on March 31, 2017 is ₹1,200 and ₹ 2,300 on March 31, 2018. Opening stock of postage stamps is ₹ 300 and closing stock is ₹ 200.

(b) Rent ₹1,500 related to 2016-17 and ₹ 1,500 is still unpaid.

(c) On April 1, 2017, the club owned furniture ₹ 15,000 and Furniture valued at ₹ 22,500 on March 31, 2018.

(d) The club took a loan of ₹ 20,000 @10 p.a. for the year 2016-17.

Solution:

Balance Sheet as on 1-04-2017

Liabilities	₹	Assets	₹
Rent Unpaid	1,500	Cash at Hand	2,600
Loan @10% P.a.	20,000	Outstanding Subscription	1,200
		Stock of postage Stamp	300
		Furniture	15,000
		Capital Fund **(Deficit)** **(Balancing Figure)**	**2,400**
	21,500		**21,500**

Income and Expenditure Account

Dr. For the year ending 31-03-2018 Cr.

Expenditure		₹	Incomes		₹
To Rent	18,000		By Subscriptions	40,000	
Less: O/s Rent of P/Y	1,500		Less: O/s Subscription of Previous year	1,200	
	16,500			38,800	
Add: O/s Rent of C/y	1,500	18,000	Add: O/s Subscription of Current Year	2,300	41,100
To Wages		7,000			
To Interest		2,000	By Entrance fees		3,200
To Postage(Purchased)	300		By Locker Rent		1,200
Add: Purchase of postage	1,000		By Profit from Entertainment		3,000
	1,300		By Deficit (Excess of expenditure Over income)		**6,100**
Less: Closing stock of Postage	200	1,100			
To Salary		24,000			
To Depreciation on Furniture		2,500			
		54,600			**54,600**

Balance Sheet As on 31-03-2018

Liabilities	₹	Assets		₹
Loan (10% P.A.)	20,000	Cash in Hand		4,000
Donation for Building	23,000	Billiard table		14,000
O/S Rent	1,500	Furniture		22,500
		Postage of stamps		200
		O/s Subscription		2,300
		Capital Fund (Debit Balance)	2,400	
		Add: Deficit of current year	6,100	
			8,500	
		Less: Life Membership fees	7,000	1,500
	44,500			**44,500**

Note: When Deficit Capital Fund along with deficit in income & Expenditure A/c, it should be shown in Balance sheet Assets Side.

Working Note: 1

Depreciation on Furniture	
Opening stock of Furniture	15,000
Add: Furniture (purchased)	10,000
	25,000
Less: Closing stock of Furniture	22,500
Depreciation on Furniture =	**2,500**

END

BOOK-1
CHAPTER – 2
ACCOUNTING FOR PARTNERSHIP: BASIC CONCEPTS

Section A : One mark questions :

I. Fill in the blank questions:

1. Section **4** of Indian Partnership Act, 1932 defines Partnership
2. A partnership has no separate **Legal** entity.
3. In order to form a partnership, there should be at least **2** persons.
4. Partnership is the result of **Agreement** between two or more persons to do business and share its profits and losses.
5. It is preferred that the partners have a **Written** agreement
6. The agreement should be to carry on some **Lawful** business.
7. Each partner carrying on the business is the principal as well as the for all other partners **agent**
8. The liability of a partner for his acts is **unlimited**
9. In the absence of partnership Deed interest on advance from Partner will be charged @ **6%** percentage per annum.
10. Under **fixed capital** method, the capitals of the partners shall remain fixed.
11. Under fluctuating Capital Method, the partners capital account balances **Change** from time to time.
12. Profit and Loss Appropriation Account is merely an extension of **Profit/Loss** Account of firm.
13. Profit and loss Appropriation Account……………………………Dr xxx ---
    To **Interest on capital** Account. --- xxx
    (Transferring interest on capital to P/L appropriation A/c)
14. **Profit/Loss Appropriation** Account…………………………Dr xxx ---
    To Salary to Partners account --- xxx
    (Transferring partner's salary to P/L Appropriation A/c).
15. Profit/Loss Appropriation A/c…………………………………Dr xxx ---
    To partners' Capital/Current A/c. --- xxx
    (**Profit shared & transferred)**
16. When fixed amounts is withdrawn at the end of every month, interest on the total amount for the year ending is calculated for **5½** months.
17. Under fluctuating capital method, all the transactions relating to partners are directly recorded in the **partners capital** accounts
18. Under fixed capital method, the amount of capital remains same **fixed**
19. Under fixed capital method, all the transactions relating to a partner are recorded in a separate account called **partners current** Account.

20. There is not much difference in the final accounts of a sole proprietary concern and that of a **partnership firm**

II. Multiple Choice Questions:

1. The agreement between the partner should be in :
   a)Oral b)Written **c) Oral or Written** d) None of the above

2. Partnership deed contains :
   a) Name of firm
   b) Name and address of the part
   c) Profit and loss sharing ratio
   d) All of the above

3. If any partner has advanced some money to the firm beyond the amount of his capital, he shall be entitled to get interest on the amount at the rate of :
   a) 5% p.a. **b) 6% p.a.** c) 8% p.a d) None of the above

4. Interest on capital is generally provided for in that situations when:
   a) The partners contribute unequal amounts of capital but share profits equally.
   b) The capital contribution is same but profit sharing is unequal
   c) both the situations above.
   d) None of the above.

5. When fixed amount is withdrawn on the first day of every month, interest on total amount for the year ending will be calculated for:
   a) 2 &1/2 months
   b) 4 &1/2 months
   c) 6 &1/2 months
   d) None of the above

6. When varying amounts are withdrawn at different intervals, the interest is calculated using:
   a) Simple Method
   b) Average Method
   c) Product Method
   d) None of the above

7. Adjustment for correction of omission and commission can be made:
   a) Profit and loss Adjustment account
   b) Directly in the Capital Accounts of concerned partners
   c) Both the situations above.
   d) None of the above

8. In order to form a Partnership there should be at least:
   a) One person
   b) Two persons
   c) Seven persons
   d) None of the above

9. The business of a partnership concern may be carried on by:
   a) All the partners
   b) Any of them acting for all
   c) All Partners or any of them acting for all
   d) None of the above

10. The agreement between Partners must be to share:
    a) Profits b) Losses **c) Profits and losses** d) None of the above

11. The liability of a Partner for acts of the firm is:
    a) Limited **b) Unlimited**
    c) Both the above. d) None of the above
12. The partnership Deed should be properly drafted and prepared as per the provisions of the:
    a) Partnership Act. **b) Stamp Act**
    c) Companies Act d) None of the above
13. The clauses of Partnership Deed can be altered with the consent of:
    a) Two Partners b) Ten Partners
    c) Twenty Partners **d) All the Partners**

III. True or False Questions:

1. The agreement between partners must be in writing. **False.**
2. The clauses of partnership deed can be altered with the consent of all the Partners. **True**
3. If the partnership deed is silent about the profit sharing ratio, the profit and loss of the firm is to be shared equally. **True**
4. A partner is entitled to claim interest at the rate of 10% p.a. on the amount of capital contributed by him, if there is no agreement in the firm. **False**
5. In the absence of Partnership Deed, no partner is entitled to get salary. **True**
6. Under fixed capital method the Partner's Capital Accounts will always show a credit balance. **True**
7. P/L Appropriation A/c shows how the profits are appropriated among the partners. **True**
8. When fixed amount is withdrawn during the middle of every month, interest on total amount is calculated for 6 months: **True**
9. lf there is loss, no interest on capital is to be paid to partners, even if there is a provision in Partnership Deed: **True**
10. Accounting treatment for Partnership is similar to that of a sole Proprietorship Business: **True**
11. There are two methods by which the capital accounts of partners can be ' maintained: **True**
12. Profit and Loss appropriation account is merely an extension of the Profit and Loss Account of a firm: **True**
13. Interest on partners’ capital is debited to Partners' Capital Accounts: **False**
14. In case of Guarantee of profit to a partner, assurance may be given by only one partner: **True**

IV. Very Short Answer Questions:

1. Who is a Partner?
   Ans. The persons who have entered into partnership with one another are individually called partner
2. What do you mean by Partnership Firm?
   Ans. The persons who have entered into partnership with one another are collectively called partnership firm

3. State any one features of Partnership.
   Ans.1) Agreement 2) Two are persons
4. What is the minimum number of partners in a firm?
   Ans. 2 partners
5. Name any one contents of Partnership Deed.
   Ans. a) Name and address of the firm or b) Name and address of partners
6. Name any one method of maintaining capital accounts of Partners.
   Ans. Fixed capital system.
7. Name any one final accounts of partnership firm.
   Ans. Profit/Loss account, & Balance sheet etc.
8. How do you distribute profit or loss among the partners in the absence of partnership deed?
   Ans. Equally
9. Why the Profit and Loss Appropriation account is prepared?
   Ans. Profit and Loss Appropriation a/c is prepared to appropriate profits among partners
10. At what rate Interest on advances by Partners is to be paid as per Partnership Act?
    Ans. 6% P.a.
11. When interest is charged on partners drawings?
    Ans. Interest on drawings in charged when there is a provision in agreement among the partners about it.
12. When Partners Current Accounts are prepared in partnership firms?
    Ans. Partners' Capital accounts are maintained under fixed capital system.
13. State any one special aspect of partnership accounts.
    Ans. Maintenance of partners' capital accounts under
14. When the Current Accounts of Partners are opened?
    Ans. Current accounts are opened when the firm decides to follow fixed capital system
15. Under fluctuating capital method, how many accounts are maintained for each partner?
    Ans. Only one account i.e. capital Accounts
16. State any one feature of fluctuating capital method.
    Ans. Capital balance changes year after year for each partner
17. State any one situation in which provision of payment of interest on capital to partner is made.
    Ans. 1) where the capital contribution is same but profit sharing is unequal
18. Find out Interest at 8% p.a. on capital of Rs.50,000 for 9 months.
    Ans. Interest = 50,000 X 8/100 X 9/12 = ₹ 3,000
19. Which is the suitable method for calculation of Interest on drawings, when fixed amount is withdrawn every month?
    Ans: Average period method or short cut method
20. Give one example for past adjustment?
    Ans. Omission of interest on partners' capital

Section B: Two Marks questions:

1. What is Partnership?

   Ans. when two or more persons join hands to set up business and share its profits and losses is called partnership.

2. Define Partnership?

   Ans: According to section 4 Indian partnership act, "partnership is the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all"

3. State any two features of Partnership.

   Ans: a) Agreement b) Two or more persons

4. What is Partnership Deed?

   Ans: Partnership deed is the written agreement containing terms of partnership and stamped as per stamp Act and signed by all the partners.

5. What are the methods of maintaining capital account of partners?

   a) Fixed capital method and b) Fluctuating capital method

6. What is fixed capital method?

   Ans: Fixed capital method is followed to have capital balances same year after year. So capital accounts and current Accounts are prepared to separate adjustments from capital

7. What is fluctuating capital method?

   Ans: Fluctuating Capital method is followed to have all adjustments in only one A/c as partners capital A/C. So, the balances would change year after year

8. State any two differences between fixed and fluctuating capital methods.

   Ans:

Key points	Fixed	Fluctuating
1. Accounts involved	a) Capital A/c b) Current A/c	Capital A/c
2. Adjustments	Adjustments are recorded in current A/c	Adjustments & balances are taken together

9. What do you mean by Profit and Loss Appropriation Account?

   Ans: Profit/Loss appropriation Account is merely an extension of Profit/Loss account of the partnership firm. It shows how the profit appropriated among the partners

10. What is guarantee of profit to a partner?

    Ans: Partner will be admitted sometimes with a guarantee of certain minimum. Amount by way of his share of profits of the firm such a situation is called as guarantee of profit.

11. What do you mean by past adjustments?

    Ans: past adjustments are the adjustments to be made in respect of Omission or errors in the recording of transactions / preparation of final accounts of partnership firm.

12. State any two final accounts of a Partnership firm.

    Ans: a) Profit and loss Account b) Balance sheet

13. In the absences of partnership deed, specify the rules relating to the followings:
    a. Sharing of profit and losses b. Interest on partners' capital

    Ans: a) Sharing of profits and losses – **Equally**

    b) Interest on partners' capital – **Not to be allowed**

14. State the rules relating to the followings in the absence of Partnership Deed:
    a. Interest on drawings b. Interest on advances from Partners.

    Ans: a) Interest on drawings – **Not to be charged**

    b) Interests on advances from partners – **at 6% p.a.**

15. Name any two methods for calculation of Interest on drawings.

    Ans: 1) Product method 2) Average period method

16. When the Interest on drawings is generally provided to partners?

    Ans: Interest is provided as per the terms of the partnership deed.

17. How do you close Profit and Loss Appropriation Account in Partnership?

    Ans: By transferring the profit or loss on appropriation to partners capital Accounts

18. State any two special aspects of Partnership Accounts.

    Ans: 1) Maintenance of partner's capital account

    2) Distribution of profit and loss among the partners

19. Name any two contents of Partnership Deed.

    Ans. 1) Name & address of partners 2) Date of commencement of the business

SECTION C: SIX MARKS QUESTIONS:

Problems on Preparation of P & L Appropriation A/c

1. Sachin and Pratham started business in partnership on 01.04.2015 with a capital of ₹ 1,00,000 and ₹ 80,000 respectively agreeing to Share profits and losses in the ratio of 3:2. For the year ending 31.03.2016, they earned the profits of ₹ 36,000 before allowing:
   i) Interest on capital at 5% p.a.
   ii) Interest on drawings: Sachin ₹ 600 and Pratham ₹ 1 ,000
   iii) Yearly salary of Pratham ₹ 6,000 and commission to Sachin ₹4000.
   Iv] Their drawings during the year: Sachin ₹ 16,000 and Pratham ₹ 20,000.

   Prepare Profit and Loss Appropriation Account.

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

Dr. **For the year ended 31-03-2016** **Cr.**

Particulars		₹	Particulars		₹
To Interest on Capital			By profit & loss A/c (Net profit b/d)		36,000
Sachin(1,00,000x 5/100)	5,000		By Int. on drawings		
Pratham(80,000 x 5/100)	4,000	9,000	Sachin	600	
To Pratham's Salary		6,000	Pratham	1,000	1,600
To Sachin's Commission		4,000			
To Partners' Capital A/c					
Sachin - 18,600X 3/5	11,160				
Pratham – 18,600X 2/5	7,440	18,600			
		37,600			**37,600**

2. Shiva and Basava are partners sharing profits in the ratio of 2: 1 with capitals of ₹ 25,000 and ₹ 15,000 respectively. Interest on capital is agreed @ 6% p.a. Basava is to be allowed an annual salary of ₹ 1,500. During the year 2015-16, they earned. The profits of ₹ 10,000. Interest on drawings being; Shiva ₹ 1,500 and Basava ₹ 1000. Prepare Profit and Loss Appropriation Account.

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

Dr. **For the year ended 31-03-2016** **Cr.**

Particulars		₹	Particulars		₹
To Interest on Capital			By profit & loss A/c (Net profit b/d)		10,000
Shiva (25,000 x 6/100)	15,00		By Int. on drawings		
Basava (15000 x 6/100)	900	2,400	Shiva	1,500	
			Basava	1,000	2,500
To Basava's salary		1,500			
To Partners' Capital A/c					
Shiva - 8,600X 2/3	5,733				
Basava – 8,600X 1/3	2,867	8,600			
		12,500			**12,500**

3. X & Y are Partners commenced Partnership business on 1.1.2016 sharing profits & losses in 3:2 ratio with capitals of ₹ 1,00,000 and ₹ 80,000 respectively. They earned profits of ₹ 15,000 for the year before allowing:
   a) Interest on Capitals@ 10% p.a.
   b) Interest on drawings: X ₹ 1,000 & Y ₹ 800
   c) Commission payable to X ₹ 2000
   d) Salary payable to Y ₹ 3000

   Prepare P & L Appropriate A/c for the year ending 31.12.2017.

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

For the year ended 31-03-2017

Particulars		₹	Particulars		₹
To Interest on Capital			By profit & loss A/c (Net profit b/d)		15,000
X (1,00,000 x 10/100)	10,000		By Int. on drawings		
Y (80,000 x 10/100)	8,000	18,000	X	1,000	
			Y	800	1,800
To X's Commission A/c		2,000			
To Y's Salary A/c		3,000	Partners' Capital A/c (Loss)		
			X - 6,200 X 3/5	3,720	
			Y – 6,200 X 2/5	2,480	6,200
		23,000			**23,000**

PROBLEMS ON CALCULATION OF INTEREST ON DRAWINGS

1. Yasashviand Tapashvi are partners in a firm: During the year ended on 31st March 2016, Yasashvi makes the drawings as under:

Date of Drawings	₹
01.08.2015	5,000
31.12.2015	10,000
31.03.2016	15,000

Partnership Deed provided that partners are to be charged interest on drawings @ 12% p.a. Calculate the interest on drawings of Yasashvi under Product Method.

Solution: **Calculation of Interest on drawings**

Date of Drawings	₹	No. of O/s Months	Product
01-08-2015	5,000	8	40,000
31-12-2015	10,000	3	30,000
31-03-2016	15,000	0	0
		Total	**70,000**

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

Yashasvi's Interest on drawings = ₹ 70,000 X$\frac{12}{100}$ X $\frac{1}{12}$ = **₹ 700.**

2. Sahana and Saniya are partners in firm. Sahana's drawings for the year 2016-17 are given as under: ₹ 4,000 on 01.06.2016
₹ 6,000 on 30.09.2016
₹ 2,000 on 30.11.2016
₹ 3,000 on 01.01.2017

Calculate interest on Sahan's drawings at 8% p.a. for the year ending on 31.03.2017, under product method.

Solution: **Calculation of Interest on drawings**

Date of Drawings	₹	No. of O/s Months	Product
01-06-2016	4,000	10	40,000
30-09-2016	6,000	6	36,000
30-11-2016	2,000	4	8,000
01-01-2017	3,000	3	9,000
		Total	**93,000**

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

Sahana's Interest on drawings = ₹.93,000 $X\frac{8}{100}$ X $\frac{1}{12}$ = **Rs.620**

3. Murthy and Patil are partners in a firm sharing profits and losses in the ratio of 3:2. Murthy withdraw ₹ 4,000 quarterly at the beginning of each quarter. Calculate the interest on drawings at 9% p.a. for the year ending 31.03.2017, under product method.

Solution: **Calculation of Interest on drawings**

Date of Drawings	₹	No. of O/s Months	Product
01-04-2016	4,000	12	48,000
01-07-2016	4,000	09	36,000
01-10-2016	4,000	06	24,000
01-01-2017	4,000	03	12,000
		Total	**1,20,000**

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

Murthy's Interest on drawings = ₹ 1,20,000 $X\frac{9}{100}\ X\ \frac{1}{12}$ = **₹ 900**

4. Calculate interest on drawings of Mr. Kamalakar @10% p.a if he withdrew ₹ 1,000 per month by the short cut method:
   (i) At the beginning of each month (ii) At the end of each month.

Solution : (i) At the beginning of each month :

Interest on Drawings = Total Drawings x $\frac{Rate}{100}$ x Average Period x $\frac{1}{12}$

Average period = $\frac{12+1}{2} = \frac{\mathbf{13}}{\mathbf{2}}$ Total drawings = ₹ 1,000 X 12 =**12,000**

Interest on drawings = ₹ 12,000 $X\frac{10}{100}X\frac{13}{2}X\frac{1}{12}$ = **₹ 650**

(ii) At the End of each month :

Interest on Drawings = Total Drawings x $\frac{Rate}{100}$ x Average Period x $\frac{1}{12}$

Average period = $\frac{11+0}{2} = \frac{\mathbf{11}}{\mathbf{2}}$ Total drawings = ₹ 1,000 X 12 =**12,000**

Interest on drawings = ₹ 12,000 $X\frac{10}{100}X\frac{11}{2}X\frac{1}{12}$ = **₹ 550**

5. Calculate interest on drawings of Purohit @10%p.a. if he withdrew ₹ 48,000 in year evenly.
   (i) At beginning of each quarter. (ii) At end of each quarter.

Solution : (i) At beginning of each quarter:

Interest on Drawings = Total Drawings x $\frac{Rate}{100}$ x Average Period x $\frac{1}{12}$

Average period = $\frac{12+3}{2} = \frac{\mathbf{15}}{\mathbf{2}}$ Total drawings = ₹ **48,000**

Interest on drawings = ₹ 48,000 $X\frac{10}{100}X\frac{15}{2}X\frac{1}{12}$ = **₹ 3,000**

(ii) At the End of each Quarter:

Interest on Drawings = Total Drawings x $\frac{Rate}{100}$ x Average Period x $\frac{1}{12}$

Average period = $\frac{9+0}{2} = \frac{\mathbf{9}}{\mathbf{2}}$ Total drawings = ₹ **48,000**

Interest on drawings = ₹ 48,000 $X\frac{10}{100}X\frac{9}{2}X\frac{1}{12}$ = **₹ 1,800**

PROBLEMS ON GUARANTEE OF A PROFIT

1. Sachin and Rahul were partners in a firm sharing profits and losses in the ratio of 3:2. They admit Dhoni for 1/6th share in profits and guaranteed that his share of profits will not be less than ₹ 25,000. Total profits of the firm were ₹ 90,000. Calculate share of profits for each partner when the Guarantee is given by a firm. Prepare Profit and Loss Appropriation Account.

Solution: **Profit and Loss Appropriation Account.**
For the year ended ………………

Particulars		₹	Particulars	₹
To Sachin's Capital	45,000		By Profit & loss A/c	90,000
(-) Deficiency Share	6,000	39,000	(Net profit b/d)	
To Rahul's Capital	30,000			
(-) Deficiency Share	4,000	26,000		
To Dhoni's Capital	15,000			
(+) Deficiency Share	10,000	25,000		
		90,000		**90,000**

Working Note:

	₹	Calculation of Capital As per New Ratio
Minimum Guarantee of profit to Dhoni	25,000	New Ratio= 3:2:1
Less: Share in profit as per profit sharing ratio (90,000X1/6)	15,000	Total profit = ₹ 90,000
Deficiency in profit	10,000	Sachin = ₹ 90,000X3/6 =**₹ 45,000**
Deficiency born by Sachin & Rahul in the ratio of 3:2 Sachin: 10,000X3/5 = 6,000 Rahul: 10,0000X2/5 = 4,000	**10,000**	Rahul = ₹ 90,000X2/6 =**₹ 30,000** Dhoni = ₹ 90,000X1/6 =**₹ 15,000**

2. Roja and Usha were partners in a firm sharing profits and losses in the ratio of 3:2. They admit Sahana for 1/6th share in profits and guaranteed that his share of profits will not be less then ₹ 25,000. Total profits of the firm were ₹ 90,000. Calculate share of profits for each partner when the Guarantee is given by Roja. Prepare Profit and Loss Appropriation Account.

Solution: **Profit and Loss Appropriation Account.**
For the year ended ………………

Particulars		₹	Particulars	₹
To Roja's Capital	45,000		By Profit & loss A/c	90,000
			(Net profit b/d)	
(-) Deficiency Share	10,000	35,000		
To Usha's Capital		30,000		
To Sahana's Capital	15,000			
(+) Deficiency Share	10,000	25,000		
Total		**90,000**	Total	**90,000**

Working Note:

	₹
Minimum Guarantee of profit to Dhoni	25,000
Less: Share in profit as per profit sharing ratio (90,000X1/6)	15,000
Deficiency in profit	10,000
Deficiency born by Roja	**10,000**

SECTION – E
PRACTICAL ORIENTED QUESTIONS

1. How do you treat the following in the absence of Partnership Deed?
   a) Profit Sharing Ratio **- Equal**
   b) Interest on Capital **- Not Allowed**
   c) Interest on Drawings **- Not Charged**
   d) Interest on advances from partners **- Allowed At 6% p.a.**
   e) Remuneration to partners for firm's work **- No Remuneration**

2. Write two partners current accounts under fixed capital system with 5 imaginary figures.

Dr. Partners Current Account Cr.

Particulars	A (₹)	B (₹)	Particulars	A (₹)	B (₹)
To Drawings	10,000	10,000	By Interest on Capital A/c	10,000	10,000
To Interest on Drawings	1,000	1,000	" Salary A/c	10,000	-
To Balance c/d	19,000	9,000	" P & L Appropriation A/c	10,000	10,000
	30,000	**20,000**		**30,000**	**20,000**
			By Balance b/d	19,000	9,000

3. Write two partners' capital accounts under fluctuating capital system with 5 imaginary figures.

Dr. Partners Capital Account Cr.

Particulars	A (₹)	B (₹)	Particulars	A (₹)	B (₹)
To Drawings	10,000	10,000	By Balance b/d	1,00,000	1,00,000
To Interest on Drawings	1,000	1,000	By Interest on Capital A/c	10,000	10,000
			" Salary A/c	10,000	-
To Balance c/d	119,000	1,09,000	" P & L Appropriation A/c	10,000	10,000
	1,30,000	**1,20,000**		**1,30,000**	**1,20,000**
			By Balance b/d	1,19,000	1,09,000

4. Write Profit and Loss Appropriation Account of a firm with 5 imaginary figures.

Profit and Loss Appropriation Account

Dr. For the year ended 31.03.2018 Cr.

Particulars	₹	Particulars	₹
To Interest on Capital A/c		By Profit & Loss A/c	45,000
- Rama 5000		[Net Profit b/d]	
- Krishna 5000	10,000	By Interest on Drawings A/c	
To Salary to Rama A/c	10,000	- Rama 2500	
To Commission to Krishna A/c	10,000	- Krishna 2500	5,000
To Partners Capital A/c			
-Rama 10000			
-Krishna 10000	20,000		
	50,000		**50,000**

END

BOOK - 1
CHAPTER -3
RECONSTITUTION OF A PARTNERSHIP FIRM ADMISSION OF A PARTNER

Section A: One Mark Questions

I. Fill In The Blanks:

1. **Old Ratio** is used to distribute accumulated profits and losses at the time of admission of a new partner.
2. Profit or loss on revaluation is shared among the old partners in **Old Ratio** ratio
3. Old ratio - New ratio = **Sacrifice Ratio**
4. Accumulated losses are transferred to the capital accounts of the old partners at the time of admission in their **Old Ratio** ratio.
5. General reserve is to be transferred to **Capital** accounts at the time of admission of a new partner.
6. Goodwill brought in by new partner in cash is to be distributed among old partners in **Sacrifice Ratio**
7. If the amount brought by new partner is more than his share in capital, the excess is known as **Goodwill**
8. **Asset** Account is debited for the increase in the value of an asset.
9. Unrecorded asset is to be credited to **Revaluation** account.
10. A and B are partners sharing profits & losses equally with capitals of ₹ 45,000 each. C is admitted for 1/3rd share and he brings in ₹ 60,000 as his capital. Hidden Goodwill is **₹ 30,000** (60,000x3 = 1,80,000) (45,000x3 = 1,50,000) Hidden Goodwill = 1,80,000-1,45,000 = 30,000
11. Due to change in profit sharing ratio, some partners will gain in future profits while others will **loose**
12. Goodwill is an **Intangible** asset.
13. **Goodwill** account is credited for cash brought in by new partner for his share of goodwill.
14. **New Profit Sharing Ratio** ratio is required for sharing future profits and also for adjustment of capitals.

II. Multiple Choice Questions:

1. At the time of admission of a new partner, general reserve appearing in the old balance sheet is transferred to:
   a) All Partners Capital Account
   b) New Partner's Capital Account
   c) Old Partners Capital Account
   d) None of the above

2. A, B and C are partners in a firm. If D is admitted as a new partner:
   a) Old firm is dissolved
   b) Old firm and old partnership are dissolved
   c) Old partnership is reconstituted
   d) None of the above

3. On the admission of a new partner, increase in the value of asset is credited to:
   a) Profit and Loss Adjustment (Revaluation) Account
   b) Asset Account
   c) Old Partners Capital Account
   d) None of the above

4. At the time of admission of a partner, undistributed profits appeared in the balance sheet of the old firm is transferred to the capital accounts of:
   a) Old partners in old profit sharing ratio
   b) Old partners in new profit sharing ratio
   c) All the partners in new profit sharing ratio
   d) None of the above

5. If new partner brings cash for his share of goodwill, goodwill is transferred to Old Partners' Capital Account in:
   a) Sacrificing ratio b) Old profit sharing ratio
   c) New profit sharing ratio d) None of the above

6. Which of the following are treated as reconstitution of a Partnership Firm?
   a) Admission of a partner b) Change in profit sharing ratio
   c) Retirement of a partner **d) All the above**

7. Profit or Loss on revaluation is shared among the partners in the:
   a) Old profit sharing ratio b) New profit sharing ratio
   c) Capital ratio d) Equal ratio

8. Assets and Liabilities are recorded in Balance Sheet after the admission of a partner at:
   a) Original value **b) Revalued value**
   c) Realisable value d) None of the above

9. On the admission of a new partner, the increase in the value of an asset is credited to:
   a) Revaluation Account b) Asset Account
   c) Old partners' Capital Account d) None of the above

10. Old Profit Sharing Ratio - New Profit Sharing Ratio is ___________________
    a) Sacrificing ratio b) Gaining ratio
    c) Both the above d) None of the above

11. In the absence of an agreement to the contrary, it is implied that old partners will contribute to new partner's share of profit in the ratio of:
    a) Capital **b) Old profit sharing ratio**
    c) Sacrificing ratio d) Equally

12. The balance of reserves and other accumulated profits at the time of admission of a new partner are transferred to:
    a) All partners in the new ratio c) **Old partners in the old ratio**
    b) Old partners in the new ratio d) Old partners in the sacrificing ratio

13. Goodwill raised in books at the time of admission of partner will be written off in:
    a) Old profit-sharing ratio b) New profit-sharing ratio
    c) Sacrificing ratio d) None of the above

14. Revaluation Account is debited for the:
    a) Increase in provision for doubtful debts
    b) Increase in the value of building
    c) Decrease in the amount of creditors
    d) Transfer of loss on revaluation

15. A and B are partners sharing profits in the ratio of 3:1. C is admitted into partnership for 1 /4th share. The sacrificing ratio of A and B will be:
    a) Equal **b) 3:1** c) 2:1 d) 3:2

III. True or False Type Questions:

1. Goodwill brought in cash by new partner is distributed among old partner in their Sacrificing ratio. **(True)**
2. In case of admission of a partner, profit or loss on revaluation is transferred to Old Partners' Capital Accounts. **(True)**
3. Accumulated profit is transferred to all partners' capital Accounts including new partner. **(False)**
4. The debit balance of Profit and Loss Account shown in the assets side of the Balance Sheet will be debited to Old Partners Capital Accounts. **(True)**
5. Increase in the value of an asset is credited to Revaluation Account. **(True)**
6. The traditional name of 'Revaluation A/c' is 'Profit and Loss Adjustment A/c'. **(True)**
7. Goodwill is an intangible asset. **(True)**
8. Decrease in the value of liability is debited to Revaluation Account. **(False)**
9. Sacrifice ratio is required to distribute the cash brought by new partner among old partners for their share of goodwill. **(True)**
10. Share sacrificed = Old share - New share. **(True)**

IV. Very Short Answer Type:

1. What is Partnership?
   Ans: According to section 4 of Indian partnership Act of 1932, partnership is defined as, "The relationship between the persons who have agreed to share profit of business carried on by all or any one of them acting for all".

2. What do you mean by reconstitution of a Partnership Firm?
   Ans: Reconstitution of partnership firm means any change in the existing agreement (partnership agreement)

3. State any one reason for admission of a new partner.
   Ans: (a) Increase in capital (b) Improves managerial ability
   (c) Increases goodwill of firm

4. State any one right acquired by a newly admitted partner.
   Ans: (a) Right to share the assets of the partnership firm

5. Why the NPSR is required at the time of admission of a partner?
   Ans: To share the future profits of the firm by all partners. Therefore, NPSR is required at the time of admission of partner.

6. What is Goodwill?
   Ans: Goodwill refers to the reputation of a firm in respect of profit expected in future over and above the normal profit.

7. State any one factor affecting the value of goodwill.
   Ans: <u>Nature of business:</u> Firm having stable demand is able to earn more profit with help of goodwill.

8. What is normal profit?
   Ans: Normal profit is minimum compensation that a firm receives for operating.

9. State any one method of valuation of goodwill.
   Ans: (a) Average profit method
   (b) Super profit method
   (c) Capitalization method

10. Give the formula for sacrifice ratio
    Ans: SR = OR – NR (Sacrifice ratio) = Old ratio – New ratio

11. Which account is to be debited to record the increase in the value of an asset?
    Ans: Assets A/c needs to be debited

Asset A/c……………………………………………Dr	xxx	---
To Revaluation A/c	---	xxx
(Being increased assets transferred to Revaluation A/c)		

12. What is Revaluation Account?
    Ans: The gain or loss on revaluation of each asset and liability is transferred to an account called revolution account.

13. What account will be credited when there is a loss on revaluation?
    Ans: Revaluation A/c is credited when there is loss on revaluation.

14. What account will be debited when the cash is brought by a new partner for his share of goodwill?
    Ans: Bank A/c needs to be debited

Bank A/c……………………………………………..Dr	xxx	---
To Goodwill Ac	---	xxx

15. What is hidden goodwill?

Ans: Hidden goodwill is the excess of desired total capital of the firm over the actual combined capital of all partners.

Section B: Two Marks Questions:

1. When the goodwill is distributed among old partners in the sacrificing ratio?

   Ans: Goodwill is distributed among old partners in the sacrifice ratio, when the goodwill is brought in cash by new partner

2. State any two methods of valuation of goodwill.

   Ans: (a) Average Profit Method
   (b) Super Profit Method

3. State any two rights acquired by a new partner.

   Ans: (a) Right to share the assets of partnership firm
   (b) Right to share profit of partnership firm

4. What do you mean by hidden goodwill?

   Ans: Sometimes the value of goodwill is not given at time of admission of a new partner. In such a situation, it has to be inferred from the arrangement of the capital and profit sharing ratio.

5. Pass the journal entry to write off the goodwill raised to the extent of full value.

   Ans: New partner's capital A/c ………………………….. Dr. xxx ----
   To Old Partner's Capital A/c ---- xxx
   [Being goodwill raised in books and written off]

6. State any two matters which need adjustments in the books of the firm at the time of admission of a new partner.

   Ans: Matters which need adjustments in books of the firm at time of admission of new partner are:
   - ❖ Goodwill
   - ❖ Revaluation of assets and liabilities
   - ❖ Capital of old partners
   - ❖ Reserves ad other accumulated profits or losses.

7. What is sacrifice ratio?

   Ans: The ratio in which existing partners contribute to share of profit payable to the new/ incoming partner is called sacrifice ratio. (Sacrifice ratio = Old ratio – New ratio)

   OR

   Sacrifice ratio is ratio in which old partner surrender their part of share of profit to new partner on account of admission of partner.

8. Why the sacrifice ratio is calculated?

   Ans: Sacrifice ratio is calculated to distribute the goodwill brought in cash by new partner.

9. What is the need for the revaluation of assets and liabilities on the admission of a partner?
Ans: It is always desirable to ascertain whether the assets of firm shown in books at current value. In case the asset and liabilities may be overstated or understated there may also be some unrecorded assets and liabilities.

10. State any two reasons for admitting a new partner.
Ans: (a) Increase in capital
(b) Improves managerial ability
(c) Increases goodwill of firm

11. How do you close revaluation account when there is a profit?
Ans: If there is profit in revaluation A/c it shows credit balance and the balance or profit in transferred to capital A/c of old partners using old ratio.

12. State any two factors which determine the goodwill of the firm.
Nature of business: Firm having stable demand is able to earn more profit with help of goodwill.
Location: Business must be centrally located at a place having heavy consumer traffic.

13. What is average profit method of valuation of goodwill?
Ans: Under this method goodwill will be calculated on the basis of average profit of past few years and also considering multiplying factor.

$$\text{Average profit} = \frac{Total\ profit\ of\ given\ no.of\ years}{No.of\ years}$$

14. Goodwill of the firm valued at two years purchase of the average profit of last four years. The total profits for last four years is ₹. 40,000. Calculate the goodwill of the firm.
Ans: Goodwill = Average profit × No. of year purchase

$$\text{Average profit} = \frac{Total\ profit}{No.of\ year} = \frac{40{,}000}{4} = 10{,}000$$

Goodwill = 10,000 × 2 = Rs. 20,000

15. Pass the journal entry for increase in the value of building on the admission of a partner.
Ans: Building A/c……………………………………Dr xxx ---
To Revaluation A/c --- xxx
[Being increase in value of building]

16. Pass the journal entry for the decrease in the value of a liability.
Ans: Liability A/c Dr xxx ---
To Revaluation A/c --- xxx
[Being decrease in value of liability]

PROBLEM ON CALCULATION OF NPSR AND SR

Problems on calculation of New profit sharing Ratio:

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

Solution:

Hint :

New Ratio = ?

New Partner Share = 1/5

Old Ratio = 3:2

Remaining share = 1 – New partner share

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

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

NPSR = New partner sharing ratio

NPSR = Remaining share× Old Ratio

$$\text{Anil} = \frac{4}{5} \times \frac{3}{5} = \frac{12}{25}$$

$$\text{Vishal} = \frac{4}{5} \times \frac{2}{5} = \frac{8}{25}$$

$$\text{Sumit} = \frac{1}{5} \times \frac{5}{5} = \frac{5}{25}$$

$$\text{New ratio} = \frac{12}{24} : \frac{8}{25} : \frac{5}{25}$$

New Ratio =12 : 8 : 5

2. ‘A’ and ‘B’ are partners in a firm sharing profits and losses in ratio of 3:2. They admit ‘C’ into the partnership for 1/6th share in the profits. Calculate the new profit sharing ratio.

Solution:

Hint :

New Ratio = ?

New Partner Share = 1/6

Old Ratio = 3:2

Remaining share = 1 – New partner share

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

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

NPSR = New partner sharing ratio

NPSR = Remaining share×Old Ratio

$$\text{‘A’} = \frac{5}{6} \times \frac{3}{5} = \frac{15}{30}$$

$$\text{‘B’} = \frac{5}{6} \times \frac{2}{5} = \frac{10}{30}$$

$$\text{‘C’} = \frac{1}{6} \times \frac{5}{5} = \frac{5}{30}$$

$$\text{NR} = \frac{15}{30} : \frac{10}{30} : \frac{5}{30}$$ **OR New Ratio 3 : 2 : 1**

3. ‘A’, ‘B’ and ‘C’ are partners sharing profits and losses in the proportion of 2/8th, 3/8th and 3/8th. They admit ‘d’ for 1/4th share, calculate the new profit sharing ratio of all partners.

Solution:

Hint :

New Ratio = ?

New Partner Share = $\frac{1}{4}$

Old Ratio = 2:3:3

Remaining share = 1 – New partner share

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

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

NPSR = New partner sharing ratio

NPSR = Remaining share×Old Ratio

$A = \frac{3}{4} \times \frac{2}{8} = \frac{6}{32}$

$B = \frac{3}{4} \times \frac{3}{8} = \frac{9}{32}$

$C = \frac{3}{4} \times \frac{3}{8} = \frac{9}{32}$

$D = \frac{1}{4} \times \frac{8}{8} = \frac{8}{32}$

New Ratio $= \frac{6}{32} : \frac{9}{32} : \frac{9}{32} : \frac{8}{32}$ **OR**

New Ratio = 6 : 9 : 9 : 8

4. Veena and Vani are partners sharing profits in the ratio of 3:2. They admit Rani as a new partner for 1/5th share in future profits of the firm, which she gets equally from Veena and Vani. Calculate new profit sharing ratio of Veena, Vani and Rani.

Solution:

Hint :

New Ratio = ?

Old Ratio = 3: 2

New partner share $\frac{1}{5}$

Acquired Share = 1: 1 or $\frac{1}{2}$ **:** $\frac{1}{2}$

NR=Old Ratio–Sacrifice Ratio

Sacrifice Ratio = ?

N R = New Ratio

Sacrifice ratio = Acquired share × New partner share

$\text{Veena} = \frac{1}{5} \times \frac{1}{2} = \frac{1}{10}$

$\text{Vani} = \frac{1}{5} \times \frac{1}{2} = \frac{1}{10}$

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

$\text{New Ratio of Veena} = \frac{3}{4} - \frac{1}{10} = \frac{3 \times 2 - 1 \times 1}{10} \frac{6-1}{10} = \frac{5}{10}$

$\text{New ratio of Vani} = \frac{2}{4} - \frac{4}{10} = \frac{2 \times 2 - 1 \times 1}{10} = \frac{3}{10}$

$\text{New Ratio of Rani} = \frac{1}{4} \times \frac{2}{2} = \frac{2}{10}$

New Ratio = 5 : 3 : 2

5. Amar and Akbar are partners, sharing profits and looses in ratio of 6:4. They admit Antony into partnership giving him 6/20th share, which he obtains 4/20th from Amar and 2/20th from Akbar. Calculate the new profit sharing ratio.

Solution:

Hint :
New Ratio = ?
Old Ratio = 6:4
New partner share $\frac{6}{20}$
Sacrifice Ratio = $\frac{4}{20}:\frac{2}{20}$
New Ratio = Old Ratio – Sacrifice Ratio

New Ratio of Amar = $\frac{6}{10}-\frac{4}{10}=\frac{6\times2-4\times1}{20}=\frac{8}{20}$

New ratio of Akabar = $\frac{4}{10}-\frac{2}{10}=\frac{4\times2-2\times1}{20}=\frac{6}{20}$

New Ratio of Antony = $\frac{6}{20}\times\frac{1}{1}=\frac{6}{20}$

New Ratio = 8 : 6 : 6 (÷ 2)
OR
4 : 3 : 3

5 | 10, 20
2 | 2, 4
1, 2

LCM = 5×2×2

6. Saraswathi and Laxmi are partners in a firm sharing profits in ratio of 4 :1. They admit Parvati as a new partner for 1/4th share in future profits, which she acquired wholly from Saraswati. Calculate the new profit sharing ratio of the all partners.

Solution:

Hint :
New Ratio = ?
Old Ratio = 4:1
New Partners Share = 1/4
Sacrifice Ratio = $\frac{1}{4}:0$

2 | 5, 4
5, 2

LCM = 5×2×2= 20

New Ratio = Old Ratio – Sacrifice Ratio

Saraswathi = $\frac{4}{5}-\frac{1}{4}=\frac{4\times4-1\times5}{20}=\frac{11}{20}$

Laxmi = $\frac{1}{5}-0=\frac{1}{5}\times\frac{4}{4}=\frac{4}{20}$

Parvathi = $\frac{1}{4}\times\frac{5}{5}=\frac{5}{20}$

New Ratio = 11 : 4 : 5

7. Raga and Tala are partners sharing profits and losses in ratio of 7:3. They admit Shruti into the partnership. Raga surrenders 1/2nd of his share and Tala 1/4th of her share in favour of Shruti. Calcualte new profit sharing ratio of Raga, Tala and Shruti.

Solution:

Hint :
New Ratio = ?
Old Ratio = 7:3
Surrender Share = $\frac{1}{2}:\frac{1}{4}$, LCM=$\frac{2}{4}:\frac{1}{4}$

5 | 10, 40
2 | 2, 8
2 | 1, 4
1, 2

LCM = 5×2×2×2 = 40

Sacrifice Ratio = Surrender Share × Old Ratio

Raga = $\frac{2}{4}\times\frac{7}{10}=\frac{14}{40}$

Tala = $\frac{1}{4}\times\frac{3}{10}=\frac{3}{40}$ Sacrifice Ratio = $\frac{14}{40}:\frac{3}{40}$

New Ratio = Old Ratio – Sacrifice Ratio

Raga = $\frac{7}{10}-\frac{14}{40}=\frac{28-14}{40}=\frac{14}{40}$

Tala = $\frac{3}{10}-\frac{3}{40}=\frac{3\times4-3\times1}{40}=\frac{9}{40}$

Shruthi = $\frac{14}{40}+\frac{3}{40}=\frac{17}{40}$

NR = 14 : 9 : 17

8. Pradeep and Sandeep are partners sharing profits and losses in the ratio of 5:3. They admit Pramod into the partnership and offer him 1/6th of the share which he acquired in ratio of 3:1 from old partners. Calculate the new profit sharing ratio.

Solution:

Hint :
New Ratio = ?
Old Ratio = 5:3
New Partners Share = 1/6
Acquired Ratio = 3:1

$$\begin{array}{r|l} 2 & 8, 24 \\ \hline 2 & 4, 12 \\ \hline 2 & 2, 6 \\ \hline & 1, 3 \end{array}$$

LCM = 2×2×2×3 = 24

Sacrifice Ratio = New partner share × Acquired share

$$\text{Pradeep} = \frac{1}{6} \times \frac{3}{4} = \frac{3}{24}$$

$$\text{Sandeep} = \frac{1}{6} \times \frac{1}{4} = \frac{1}{24} \qquad \text{Sacrifice Ratio} = \frac{3}{24} : \frac{1}{24}$$

New Ratio = Old Ratio – Sacrifice Ratio

$$\text{Pradeep} = \frac{5}{8} - \frac{3}{24} = \frac{5 \times 3 - 1}{24} = \frac{12}{24}$$

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

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

$$\text{NR} = \frac{12}{24} : \frac{8}{24} : \frac{4}{24} \text{ or } (\div 4)$$

New Ratio = 3 : 2 : 1

Problems on Sacrifice Ratio:

1. Mohan and Madan are partners sharing profits and losses in ratio of 4:3. They admit Murali into partnership. The new profit sharing ratio is agreed at 7:4:3 respectively. Find out the sacrifice ratio of old partners.

Solution:

Hint :
Sacrifice Ratio = ?
Old Ratio = 4:3
New Ratio : 7:4:3

$$\begin{array}{r|l} 7 & 7, 14 \\ \hline & 1, 2 \end{array}$$

LCM = 7×2 = 14

Sacrifice Ratio = Old Ratio – New Ratio

$$\text{Mohan} = \frac{4}{7} - \frac{7}{14} = \frac{4 \times 2 - 7}{14} = \frac{1}{14}$$

$$\text{Madan} = \frac{3}{7} - \frac{4}{14} = \frac{3 \times 2 - 4}{14} = \frac{2}{14}$$

$$= \frac{1}{14} : \frac{2}{14}$$

OR

Sacrifice Ratio = 1 : 2

2. Dinesh and Mahesh are partners sharing profits and losses I ratio of 3:2. They admit Ramesh into business and new ratio was agreed to be 5:4:3. Calculate the sacrifice ratio.

Solution:

Hint :

Sacrifice Ratio = ?

Old Ratio = 3:2

New Ratio : 5:4:3

$$\begin{array}{r|l} 2 & 5,\ 12 \\ \hline 2 & 5,\ 6 \\ \hline & 5,\ 3 \end{array}$$

LCM = 2×2×3×5=60

Sacrifice Ratio = Old Ratio – New Ratio

$$\text{Dinesh} = \frac{3}{5} - \frac{5}{12} = \frac{3\times12-5\times5}{60} = \frac{1}{60}$$

$$\text{Mahesh} = \frac{2}{5} - \frac{4}{12} = \frac{2\times12-4\times5}{60} = \frac{4}{60}$$

Sacrifice Ratio = 11 : 4

3. Anil and Sunil are partners in firm sharing profits and losses in the ratio of 3:2. They admit Ashok as new partner for 1/4th share. The new profit sharing ratio between Anil and Sunil will be 2:1. Calculate the Sacrifice Ratio.

Solution:

Hint :

Sacrifice Ratio = ?

Old Ratio = 3:2

New Partners Share = 1/4

Remaining partners share 2:1

Remaining share = 1 – New Partner Share

$$= 1 - \frac{1}{4} = \frac{3}{4}$$

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

LCM = 2×2×5=20

New Ratio = Remaining share X Remaining partners share

$$\text{Anil} = \frac{3}{4} \times \frac{2}{3} = \frac{6}{12}$$

$$\text{Sunil} = \frac{3}{4} \times \frac{1}{3} = \frac{3}{12}$$

$$\text{Ashok} = \frac{1}{4} \times \frac{3}{3} = \frac{3}{12}$$

New Ratio = 3 : 2 : 1

Sacrifice Ratio = Old Ratio – New Ratio

$$\text{Anil} = \frac{3}{5} - \frac{2}{4} = \frac{3\times4-2\times5}{20} = \frac{2}{20}$$

$$\text{Sunil} = \frac{2}{5} - \frac{1}{4} = \frac{2\times4-1\times5}{20} = \frac{3}{20}$$

Sacrifice Ratio = 2:3

4. 'X' and 'Y' are partners in a firm sharing profits and losses in ratio of 3:2. They admit 'Z' into partnership 'X' agrees to surrender 1/2nd of his share and 'Y' agrees to surrender 1/4th of his share in favour of 'Z'. Calculate sacrifice ratio.

Solution:

Hint :

Sacrifice Ratio = ?

Old Ratio = 3:2

Surrender Share : = $\frac{1}{2} : \frac{1}{4}$ LCM= $\frac{2}{4} : \frac{1}{4}$

Sacrifice Ratio = Old Ratio X Surrender share

$$X = \frac{3}{5} \times \frac{2}{4} = \frac{6}{20}$$

$$Y = \frac{2}{5} \times \frac{1}{4} = \frac{2}{20}$$

= 6 :2 (÷2)

OR

Sacrifice Ratio = 3 : 1

5. Ram and Rahim are partners sharing profits and losses equally. They admit Charlin into partnership. Ram agrees to surrender 1/3rd of his share and Rahim agrees to surrender 1/4th of his share to Charlin. Calculate the sacrifice ratio.

Solution:

Hint :

Sacrifice Ratio = ?

Old Ratio = 1:1

Surrender Share LCM = $\frac{1}{3} : \frac{1}{4}$

$= \frac{1}{3} \times \frac{4}{4} : \frac{1}{4} \times \frac{3}{3} = \frac{4}{12} : \frac{3}{12}$

Sacrifice Ratio = Old Ratio X Surrender share

Ram = $\frac{1}{2} \times \frac{4}{12} = \frac{4}{24}$

Rahim = $\frac{1}{2} \times \frac{3}{12} = \frac{3}{24}$

Sacrifice Ratio = 4 : 3

Section D: 12 Marks Questions

1. 'A' and 'B' are partners sharing profits and losses in the ratio of 2:1.Their Balance Sheet as on 31.3.2018 was as follows:

Balance Sheet as on 31.03.2018

Liabilities	₹	Assets	₹
Creditors	20,000	Cash in Hand	5,000
Bills Payable	10,000	Stock	15,000
Reserve Fund	12,000	Debtors	20,000
Capitals		Machinery	30,000
A	60,000	Buildings	60,000
B	40,000	Investments	12,000
	1,42,000		**1,42,000**

Adjustments:

On 01.04.2018, 'C' is admitted into partnership on the following conditions:

a) 'C' should bring in cash ₹ 25,000 as his capital and ₹15,000 towards goodwill (As per AS -26)

b) Appreciate buildings at 20% and stock is revalued at ₹ 12,000.

c) Provision for doubtful debts maintained at 5% on debtors.

d) Outstanding salary ₹ 2,000.

Prepare: i) Revaluation Account.

ii) Partners' Capital Accounts &

iii) New Balance Sheet of the firm.

Solution: **Revaluation Account**

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Depreciation on stock (15,000-12,000)	3,000	By Appreciation on Buildings (60,000 x 20/100)	12,000
To provision for doubtful Debts (20,000 x 5/100)	1,000		
To Outstanding Salary	2,000		
To Partners capital A/c **(Profit on Revaluation)** A 6,000 x 2/3 = 4,000 B 6,000 x 1/3 = 2,000	6,000		
	12,000		**12,000**

Partners' Capital Account

Dr. **Cr.**

Particulars	A	B	C	Particulars	A	B	C
To A's Capital A/c (15,000 x 2/3)	-	-	10,000	By Balance b/d	60,000	40,000	-
				By Cash A/c (25,000+15,000)	-	-	40,000
To B's Capital A/c (15,000 x 1/3)	-	-	5,000	By C's Capital A/c (15,000 x 2:1)	10,000	5,000	-
To Balance c/d (Closing Capital)	82,000	51,000	25,000	By Reserve Fund (12,000 x 2:1)	8,000	4,000	-
				By Revaluation A/c	4,000	2,000	-
	82,000	**51,000**	**40,000**		**82,000**	**51,000**	**40,000**
				By Balance b/d	82,000	51,000	25,000

Balance Sheet as on 01.04.2018

Liabilities	₹	Assets	₹
Creditors	20,000	Cash in Hand (5,000+25,000+15,000)	45,000
Bills Payable	10,000		
O/s Salary	2,000	Stock 15,000	
Capitals		Less: Depreciation 3,000	12,000
A 82,000		Debtors 20,000	
B 51,000		Less: PDD 1000	19,000
C 25,000	1,58,000	Machinery	30,000
		Buildings 60,000	
		Add: appreciation 12,000	72,000
		Investments	12,000
	1,90,000		**1,90,000**

2. Arati and Bharati are partners in a firm sharing profits and losses in the ratio of 3:2. Their Balance Sheet as on 31.03.2017 stood as follows:

Balance Sheet as on 31.03.2018

Liabilities	₹	Assets		₹
Bills Payable	14,000	Cash in Hand		15,000
Creditors	16,000	Buildings		25,000
		Patents		6,000
		Machinery		35,000
Capitals		Debtors	20,000	
Arati	50,000	Less: Provisions	600	19,400
Bharati	25,000	Stock		4,600
	1,05,000			**1,05,000**

Adjustments:

On 01.04.2017, Jayanti is admitted into the partnership on the following terms:

a. Jayanti brings in cash ₹ 20,000 as capital and 10,000 towards Goodwill. Goodwill is withdrawn by old partners. (As perAS-26)

b. Buildings are appreciated by ₹ 5,000 & machinery is depreciated by 20%.

c. Provision for doubtful debts is increased by ₹ 1,000.

d. The new profit-sharing ratio between the partners is 5:3:2.

Prepare: i) Revaluation Account

ii) Partners' Capital Accounts &

iii) Balance Sheet of the firm after admission.

Solution:

Revaluation Account

Dr. **Cr.**

Particulars	₹	Particulars		₹
To Depreciation on Machinery (35,000x20/100)	7,000	By Appreciation on Buildings		5,000
To provision for doubtful Debts (Increased)	1,000	To Partners capital A/c **(Loss on Revaluation)**		
		Arati 3,000 x 3/5	= 1,800	
		Bharati 3,000 x 2/5	= 1,200	3,000
	8,000			**8,000**

Partners' Capital Account

Dr. **Cr.**

Particulars	Arati	Bharati	Jayanti	Particulars	Arati	Bharati	Jayanti
To Arati's Capital A/c (20,000 x 1/2)	-	-	5,000	By Balance b/d	50,000	25,000	-
				By Cash A/c (20,000+10,000)	-	-	30,000
To Bharati's Capital A/c (20,000 x 1/2)	-	-	5,000	By jayanti's Capital A/c	5,000	5,000	-
To Cash A/c (Goodwill Withdrawn)	5,000	5,000	-	(10,000 x1:1 S.R)			-
To Revaluation A/c	1,800	1,200	-				
To Balance c/d **(Closing Capital)**	48,200	23,800	20,000				
	55,000	**30,000**	**30,000**		**55,000**	**30,000**	**30,000**
				By Balance b/d	48,200	23,800	20,000

Balance Sheet as on 01.04.2018

Liabilities		₹	Assets		₹
Bills Payable		14,000	Cash in Hand (15,000+20,000)		35,000
Creditors		16,000	Buildings	25,000	
Capitals			Add: Appreciation	5,000	30,000
Arati	48,200		Patents		6,000
Bharati	23,800		Machinery	35,000	
Jayanti	20,000	92,000	Less: Depreciation	7,000	28,000
			Debtors	20,000	
			Less:PDD(600+1000)	1,600	18,400
			Stock		4,600
		1,22,000			**1,22,000**

Working Note:

Calculation of Sacrifice Ratio

Old Ratio: 3:2 New Ratio: 5:3:2

Sacrifice Ratio = Old Ratio – New Ratio

Arati's Sacrifice Ratio = $\frac{3}{5} - \frac{5}{10} = \frac{30-25}{50} = \frac{5}{50}$

Bharati's Sacrifice Ratio = $\frac{2}{5} - \frac{3}{10} = \frac{20-15}{50} = \frac{5}{50}$

Sacrifice Ratio of Arati & Bharati = $\mathbf{\frac{5}{50} : \frac{5}{50}}$ ***or* 1:1**

3. 'A', 'B' and 'C' are partners in a firm sharing profits and losses in the ratio of 6:4. Their Balance Sheet as on 31.03.2017 was as follows:

Balance Sheet as on 31.03.2018

Adjustments:

Liabilities	₹	Assets		₹
Creditors	1,00,000	Cash in Bank		17,000
Reserve	32,000	Bills Receivable		19,000
Bank Over Draft	8,000	Stock		80,000
Capitals		Buildings		60,000
A	70,000	Debtors	1,20,000	
B	80,000	Less: PDD	6000	1,14,000
	2,90,000			**2,90,000**

On O1.04.2017, they admit 'D' into the partnership for 1/5th share in future profit on the following terms:

a. 'D' brings in cash ₹ 50,000 as his capital and 40,000 towards Goodwill. Half of the goodwill amount withdrawn by old Partners (As per As-26)

b. Reduce stock by 10% and increase buildings to ₹ 69,000.

c. Provision for doubtful debts decreased by ₹ 2,000.

Prepare: i) Revaluation Account

ii) Partners' Capital Accounts &.

iii) New Balance Sheet of the new firm.

Solution:

Revaluation Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Depreciation on Stock (80,000x10/100)	8,000	By Appreciation on Buildings (69,000-60,000)	9,000
To Partners capital A/c **(Profit on Revaluation)**		By provision for doubtful Debts (Decreased)	2,000
A 3,000 x 6/10 = 1,800			
B 3,000 x 4/10 = 1,200	3,000		
	11,000		**11,000**

Partners' Capital Account

Dr. **Cr.**

Particulars	A	B	C	Particulars	A	B	C
To A's Capital A/c (40,000 x 6/10)	-	-	24,000	By Balance b/d	70,000	80,000	-
To B's Capital A/c (40,000 x4/10)	-	-	16,000	By Cash A/c (50,000+40,000)	-	-	90,000
To Cash A/c (Half Goodwill Withdrawn) (20,000 x 6:4)	12,000	8,000	-	By C's Capital A/c (40,000 x6:4)	24,000	16,000	-
				By Reserve (32,000 x 6:4)	19,200	12,800	-
To Balance c/d **(Closing Capital)**	1,03,000	1,02,000	50,000	To Revaluation A/c	1,800	1,200	-
	1,15,000	**1,10,000**	**90,000**		**1,15,000**	**1,10,000**	**90,000**
				By Balance b/d	1,03,000	1,02,000	50,000

Balance Sheet as on 01.04.2018

Liabilities		₹	Assets		₹
Creditors		1,00,000	Cash in Hand (17,000+50,000+20,000)		87,000
Bank over draft		8,000	Bills Receivable		19,000
Capitals			Debtors	1,20,000	
A	1,03,000		Less:PDD(6000-2000)	4,000	1,16,000
B	1,02,000		Stock	80,000	
D	50,000	2,55,000	Less: Depreciation	8,000	72,000
			Buildings	60,000	
			Add: Appreciation	9,000	69,000
		3,63,000			**3,63,000**

Problems on Adjustments on Capital

4. Mahendra and Surendra are equal partners in a firm. Their Balance Sheet as on 31.03.2017 stood as follows:

Balance Sheet as on 31.03.2017

Liabilities	₹	Assets		₹
Creditors	40,000	Stock		39,000
Bank Laon	8,000	Land & Buildings		40,000
		Machinery		36,000
		Motor Car		8,000
Capitals		Debtors	32,000	
Mahendra	80,000	Less: PDD	1,000	31,000
Surendra	40,000	Cash at Bank		14,000
	1,68,000			**1,68,000**

Adjustments: On 01.04.2017, Chandra is admitted into partnership for $\frac{1}{6}$ share in profits on the following terms:

1) Chandra brings ₹ 26,000 as capital.
2) Goodwill of the firm is valued at ₹ 18,000 (As Per AS-26)
3) Motor car and Machinery are to be depreciated by 20% and ₹ 3,800 respectively.
4) Prepaid rent ₹ 600.
5) Provision for doubtful debts is to be maintained at 10%.
6) The Capital Accounts of all the partners are to be adjusted in their new profit-sharing ratio 3:2:1 based on Chandra's Capital (Adjustments are to be made in cash)

Prepare: i) Revaluation Account

ii) Partners' Capital Account & iii) New Balance Sheet of the firm.

Solution:

Dr. **Revaluation Account** **Cr.**

Particulars	₹	Particulars	₹
To Depreciation on Motor Car (8,000x20/100)	1,600	By prepaid Rent	600
To Depreciation on Machinery	3,800	To Partners capital A/c **(Loss on Revaluation)**	
To Provision for doubtful debts (32,000x10/100= 3,200 -1,000)	2,200	Mahendra 7,000 x 1/2 =3,500 Surendra 7,000 x 1/2 =3,500	7,000
	7,600		**7,600**

Partners' Capital Account

Dr. **Cr.**

Particulars	Mahendra	Surendra	Chandra	Particulars	Mahendra	Surendra	Chandra
To Mahendra's Capital A/c (3,000x0:2)	-	-	-	By Balance b/d	80,000	40,000	-
				By Cash A/c	-	-	26,000
To Surendra's Capital A/c (3,000x0:2)	-	-	3,000	By Chandra's Capital A/c (w.n.3,000X 0:2)	-	3,000	-
To Revaluation A/c	3,500	3,500	-	By Cash A/c (Deficit Cash brought in)	-	6,500	-
To Cash A/c (Excess Cash Refund)	7,500	-	-				
To Balance c/d **(Closing Capital)**	69,000	46,000	23,000				
	80,000	**49,500**	**26,000**		**80,000**	**49,500**	**26,000**
				By Balance b/d	69,000	46,000	23,000

Balance Sheet as on 01.04.2018

Liabilities		₹	Assets		₹
Creditors		40,000	Cash at Bank		39,000
Bank Loan		8,000	(14,000+26,000+6,500-7,500)		
			Stock		39,000
Capitals			Debtors	32,000	
Mahendra	69,000		Less:PDD(1000+2200)	3,200	28,800
Surendra	46,000		Land & Buildings		40,000
Chandra	23,000	1,38,000	Machinery	36,000	
			Less: Depreciation	3,800	32,200
			Motor Car	8,000	
			Less: Depreciation	1,600	6,400
			Prepaid Rent		600
		1,86,000			**1,86,000**

Bank Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance c/d	14,000	By Mahendra's Capital A/c	7,500
To Chandra's Capital A/c	26,000	**By Balance c/d**	**39,000**
To Surendra's Capital A/c	6,500		
	46,500		**46,500**
To Balance b/d	**39,000**		

Working Note:

A. Calculation of Sacrifice Ratio

Old Ratio $= \frac{1}{2} : \frac{1}{2}$ New Ratio $= \frac{3}{6} : \frac{2}{6} : \frac{1}{6}$

Sacrifice Ratio of Mahendra $= \frac{1}{2} - \frac{3}{6} = \frac{6-6}{12} = \mathbf{\frac{0}{12}}$

Sacrifice Ratio of Mahendra $= \frac{1}{2} - \frac{2}{6} = \frac{6-4}{12} = \mathbf{\frac{2}{12}}$

Sacrifice Ratio of Mahendra & Surendra $= \mathbf{\frac{0}{12} : \frac{2}{12}}$ $\boldsymbol{or\ 0:2}$

B. Calculation of Goodwill

Old Ratio = 1:1 New partner share = 1/6

Total goodwill valued = 18,000

New partner share of Goodwill = $18{,}000\ X \frac{1}{6} = \mathbf{3{,}000}$

C. Calculation of Closing Capital based on New partner's Capital

New partner's Capital after adjustment of Goodwill = 26,000 – 3,000 = **23,000**

New partner's Capital = $\frac{1}{6}$ = 23,000

Total Capital = 23,000$X\frac{6}{1}$ = **1,38,000**

Mahendra's Capital = 1,38,000$X\frac{3}{6} = \mathbf{69,000}$

Surendra's Capital = 1,38,000$X\frac{2}{6} = \mathbf{46,000}$

Mahendra's Capital = 1,38,000$X\frac{1}{6} = \mathbf{23,000}$

5. Vani and Veena are partners sharing profits and losses in the ratio of 3:2. Their Balance Sheet as on 31.03.2017 was as follows:

Balance Sheet as on 31.03.2017

Liabilities	₹	Assets	₹
Creditors	40,000	Cash at bank	6,000
Reserve	15,000	Stock	30,000
		Debtors	30,000
Capitals:		Furniture	20,000
Mahendra	80,000	Machinery	60,000
Surendra	40,000	Motor Car	15,000
	1,55,000		**1,55,000**

Adjustments:

On 01.04.2017, they admit Rani as new partner into partnership on the following Conditions:

a. Rani is to bring in ₹ 40,000 as capital and offer $\frac{1}{6}$ th share in future profits.

b. Goodwill of the firm is valued at ₹ 30,000, And withdrawn by old partners (As Per AS-26)

c. Machinery is appreciated by 10% and stock is reduced by 10%.

d. Furniture revalued at ₹ 18,000 and Investments worth ₹ 2,000 is not recorded in the books, now it is to be taken into account.

e. PDD is created at 5% on debtors.

Prepare: i) Revaluation Account.

ii) Partners' Capital Accounts &

iii) New Balance Sheet of the firm.

Solution:

Revaluation Account

Dr. Cr.

Particulars	Amount	Particulars	Amount
To PDD created (30,000X5/100)	1,500	By Appreciation on Machinery (60,000x10/100)	6,000
To Depreciation on Stock (24000X10/100)	2,400	By Unrecorded Investment	2,000
To Depreciation on Furniture (20,000-18,000)	2,000		
To Partners Capital A/c (Profit on Revaluation) Vani = 2,100*3/5 = 1,260 Veena = 2,100*2/5 = 840	2,100		
	8,000		**8,000**

Partners Capital Account

Dr. Cr.

Particulars	Vani	Veena	Rani	Particulars	Vani	Veena	Rani
To Vani's Capital A/c (5,000X3/5)	-	-	3,000	By Balance b/d	60,000	40,000	-
				By Bank A/c	-	-	40,000
				By Rani's Capital A/c (5,000x 3:2)	3,000	2,000	-
To Veena's Capital A/c (5,000X2/5)	-	-	2,000	By Reserves A/c 15,000x 3:2	9,000	6,000	-
To Bank A/c (Goodwill withdrawn)	3,000	2,000	-	By Revaluation A/c	1,260	840	-
To Balance c/d (Closing Capital)	70,260	46,840	35,000				
	73,260	**48,840**	**40,000**		**73,260**	**48,840**	**40,000**
				By Balance b/d	70,260	46,840	35,000

Bank Account

Dr. Cr.

Particulars	Amount	Particulars	Amount
To Balance b/d	6,000	By Vani's Capital A/c	3,000
To Rani's capital	40,000	By Veena's Capital	2,000
		By Balance c/d (Closing Cash at Bank)	41,000
	46,000		**46,000**

Balance Sheet As on 31/03/2017

Liabilities		Amount	Assets		Amount
Creditors		40,000	Cash in Bank (40,000+6,000-3,000-2,000)		41,000
			Stock	24,000	
Partner's Capital			Less: Depreciation	2,400	
Vani	70,260		Debtors	30,000	21,600
Veena	46,840		Less: PDD	1,500	
Rani	35,000	1,52,100	Furniture	20,000	28,500
			Less: Depreciation	2,000	
			Machinery	60,000	18,000
			Add : Appreciation	6,000	66,000
			Unrecorded Investment		2,000
			Motor Car		15,000
		1,92,100			**1,92,100**

Working Note:

Calculation of New Partners Goodwill

Total goodwill Valued 30,000, New partner's share = $\frac{1}{6}$

New partners Goodwill = $30{,}000 X \frac{1}{6} = \mathbf{5,000}$

Vani's Share = $5{,}000 X \frac{3}{5} = \mathbf{3,000}$ Veena's Share = $5{,}000 X \frac{2}{5} = \mathbf{2,000}$

6. Gowri and Ganesh are partners in a firm sharing profit 3:2. Following is their Balance Sheet as on 31.03.2017. **Balance Sheet as on 31.03.2017**

Liabilities	₹	Assets		₹
Creditors	20,000	Cashin Hand		7,000
Bills Payable	4,000	Stock		25,000
General Reserve	6,000	Buildings		40,000
Capitals:		Debtors	17,000	
Gowri	80,000	Less:PDD	1,500	15,500
Ganesh	40,000	Furniture		14,500
		Patents		30,000
		Plant & Machinery		18,000
	150,000			**150,000**

On O1.04.2017, Shiva is admitted into partnership on the following terms:

a. Shiva should bring ₹ 25,000 as capital.
b. Goodwill of the firm is valued at ₹ 18,000 (As Per AS-26)
c. Stock is to be increased by 8%.
d. Provision for doubtful debts is increased to ₹ 2,600.
e. Capital accounts of partners are to is be adjusted in their new profit-sharing ratio 3:2:1, based on Shiva's capital (Adjustments to be made in cash).

Prepare: i) Revaluation Account. ii) Partners' Capital Accounts & iii) Balance sheet of the new firm.

Solution:

Revaluation Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Provision for doubtful Debts (2,600-1,500)	1,100	By Appreciation on stock (25,000X8/100	2,000
To Partners capital A/c **(Profit on Revaluation)** Gowri 900 x 3/5 = 540 Ganesh 900x 2/5 = 360	900		
	2,000		**2,000**

Partners' Capital Account

Dr. **Cr.**

Particulars	Gowri	Ganesh	Shiva	Particulars	Gowri	Ganesh	Shiva
To Gowri's Capital A/c (3,000x3:2)	-	-	1,800	By Balance b/d	80,000	40,000	-
				By Cash A/c	-	-	25,000
				By Shiva's Capital A/c (w.n.3,000x3:2)	1,800	1,200	-
To Ganesh's Capital A/c (3,000x3:2)	-	-	1,200	By General Reserve(6,000x3:2)	3,600	2,400	-
To Cash A/c (Excess Cash drawn)	19,940	-	-	By Revaluation A/c	540	360	-
To Balance c/d **(Closing Capital)**	66,000	44,000	22,000	By Cash A/c (Deficit brought in)	-	40	
	85,940	**44,000**	**25,000**		**85,940**	**44,000**	**25,000**
				By Balance b/d	66,000	44,000	22,000

Balance Sheet as on 01.04.2018

Liabilities	₹	Assets	₹
Creditors	20,000	Cash at Bank (7,000+25,000+40-19,940)	12,100
Bills Payable	4,000	Stock 25,000 Add: Appreciation 2,000	27,000
Capitals Gowri 66,000 Ganesh 44,000 Shiva 22,000	1.32.000	Buildings	40,000
		Debtors 17,000 Less: PDD(1,500+1,100) 2,600	14,400
		Furniture	14,500
		Patents	30,000
		Plant & machinery	18,000
	1,56,000		**1,56,000**

Dr. **Bank Account** **Cr.**

Particulars	₹	Particulars	₹
To Balance c/d	7,000	By Gowri's Capital A/c	19,940
To Shiva's Capital A/c	25,000	**By Balance c/d**	**12,100**
To Ganesh's Capital A/c	40		
	32,040		**32,040**
To Balance b/d	12,100		

Working Note: A. Calculation of Sacrifice Ratio

Old Ratio = $\frac{3}{5}:\frac{2}{5}$ New Ratio = $\frac{3}{6}:\frac{2}{6}:\frac{1}{6}$

Sacrifice Ratio of Gowri = $\frac{3}{5}-\frac{3}{6}=\frac{18-15}{30}=\mathbf{\frac{3}{30}}$

Sacrifice Ratio of Ganesh = $\frac{2}{5}-\frac{2}{6}=\frac{12-10}{30}=\mathbf{\frac{2}{30}}$

Sacrifice Ratio of Gowri & Ganesh = $\mathbf{\frac{3}{30}:\frac{2}{30}}$ $\boldsymbol{or\ 3:2}$

B. Calculation of Goodwill

Old Ratio = 1:1 New partner share = 1/6 Total goodwill valued = **18,000**

New partner share of Goodwill = 18,000 $X\frac{1}{6}$ = **3,000**

Gowri's Share = 3,000$X\frac{3}{5}=\mathbf{1,800}$ Ganesh's share = 3,000$X\frac{2}{5}=\mathbf{1,200}$

C. Calculation of Closing Capital based on New partner's Capital

New partner's Capital after adjustment of Goodwill = 25,000 – 3,000 = **22,000**

New partner's Capital = $\frac{1}{6}$ = 23,000

Total Capital = 22,000$X\frac{6}{1}$ = **1,32,000**

Gowri's Capital = 1,32,000$X\frac{3}{6}=\mathbf{66,000}$

Ganesh's Capital = 1,32,000$X\frac{2}{6}=\mathbf{44,000}$

Shiva's Capital = 1,32,000$X\frac{1}{6}=\mathbf{22,000}$

END

BOOK-1

CHAPTER 4

Reconstitution of a Partnership Firm – Retirement of a Partner

SECTION A: One-Mark Questions

I. Fill in the blanks.

1. **Old** ratio is used to distribute accumulated profits and losses at the time of retirement of a partner.
2. Profit or loss on revaluation is shared among the partners in **Old** ratio on retirement of a partner.
3. New ratio- Old ratio = **Gain Ratio.**
4. Accumulated losses are transferred to the Capital Accounts of the partners at the time of retirement in their **old** ratio.
5. General reserve is to be transferred to **All partner's capital** accounts at the time of retirement of a partner.
6. Goodwill raised to the extent of retiring partner's share only is to be debited to continuing partner's capital accounts in **gain** ratio.
7. In the absence of any instruction Retiring Partner's capital A/c is closed by transferring its balance to **Retiring Partner's Loan** A/c.
8. **New** ratio is used for adjustment of continuing partner's capitals.
9. X, Y and Z are the partners sharing profits and losses in the ratio of 3:2:1. If Y retires, the new ratio of X and Z will be **3:1.**
10. Share gained is calculated by deducting **old** share from the new share.
11. The ratio in which the remaining partners will share future profits after retirement is called **new** ratio.
12. The balance in the retiring partner's loan a/c is shown on the **liability** side of the Balance sheet till the last instalment is paid.
13. The amount paid to the Retiring Partner in excess of what is due to him is called **hidden** goodwill.
14. In the absence of any agreement as the disposed of amount due to retiring partner, Sec **37.**
15. If goodwill already appears in the books, it will be written off by debiting **all partners' capital a/c** in their old partner-sharing ratio.

II. Multiple choice questions.

1. Arun, Tarun and Charan are partners sharing profits in the ratio of 5:3:2. If Charan retries, the New Profit Sharing Ratio between Arun and Tarun will be

   a) 3:2 **b) 5:3** c) 5:2 d) None of the above

2. The old profit sharing ratio among Raja, Sathish and Teju were 2:2:1. The New Profit Sharing Ratio after Sathish's retirement is 3:2. The gaining ratio is

   a) 3:2 b) 2:1 **c) 1:1** d) 2:2

3. Anand, Bahadur and Chander are partners sharing profit equally. On Chander's retirement, his share is acquired by Anand and Bahadur in the ratio of 3:2. The New Profit Sharing Ratio between Anand and Bahadur will be

   a) 8:7 b) 4:5 3:2 d) 2:3

4. In the absence of any information regarding the acquisition of share in the profit of the retiring/ deceased partner by the remaining partners, it is assumed that they will acquire his/ her share

   a) **Old Profit Sharing Ratio** b) New Profit Sharing Ratio
   c) Equal Ratio c) None of the above

5. On retirement/ death of a partner, the Retiring / Deceased Partner's Capital Account will be credited with

   a) **His/her share of goodwill** b) Goodwill of the firm
   c) Shares of goodwill of remaining partners d) None of the above

6. Govind, Hari and Prathap are partners. On retirement of Govind, the goodwill already appears in the Balance Sheet at ₹ 24000. The Goodwill will be written off by debiting

   a. All partners' capital accounts in their old profit sharing ratio.
   b. Remaining partners' capital accounts in their new profit sharing ratio.
   c. Retiring partners' capital accounts from his share of goodwill
   d. None of the above

7. Chaman, Raman and Suman are partners sharing profits in the ratio of 5:3:2. Raman retires, the new profit sharing ratio between Chaman and Suman will be 1:1. The goodwill of the firm is valued at ₹ 1,00,000. Raman's share of goodwill will be adjusted by

   a. Debiting Chaman's Capital Account and Suman's Capital Account with ₹ 15,000 each.
   b. Debiting Chaman's Capital Account and Suman's Capital Account with ₹ 21,429 and ₹ 8,571 respectively.
   c. Debiting only Suman's Capital Account with ₹ 30000.
   d. Debiting Raman's Capital Account with ₹. 30000.

8. On retirement/ death of a partner, the remaining partners who have gained due to change in profit sharing ratio should compensate the :

   a. Retiring partners only
   b. Remaining partners (who have sacrificed) as well as retiring partners.
   c. Remaining Partners only (who have sacrificed)
   d. None of the above

III. True or False type questions.

1. Profit or loss on revaluation is transferred to All Partners Capital Accounts in case of retirement of a partner. **True**
2. Accumulated profit is transferred to Continuing Partners Capital A/c. **False**

3. Adjustment of partner's capitals of the remaining partners is to be made in the new ratio. **True**
4. New share = Old share + share sacrificed. **False**
5. Share gained is computed by deducting Old share from the new share. **True**
6. Increase in the value of asset is debited to Revaluation Account. **False**
7. Gain ratio is used to adjust the goodwill raised to the extent of retiring partner share only. **True**
8. Full value of goodwill raised on retirement is credited to All partners Capital Accounts including retiring partner in their old ratio. **True**
9. Sec. 37 of the Indian Partnership Act, 1932 states that the outgoing partner has an option to receive either interest @ 6% p.a. till the date of payment or such share of profits which has been earned with his money. **True**

IV. Very short answer questions.

1. What do you mean by retirement of a partner?
   Ans: A partner is said to be retired from the firm, when his relation with the firm as a partner comes to an end
2. Give the formula for calculating Gain Ratio.
   Ans: Gain Ratio = New ratio – Old ratio.
3. Why the gain ratio is required on retirement of a partner?
   Ans: Gaining ratio is required to write off goodwill created only to the extent of retiring partner's share.
4. Why the new ratio is required on retirement of a partner?
   Ans: New ratio is required to share future profits/ losses between remaining partners.
5. Give the formula for calculation of new profit sharing ratio on retirement of a partner.
   Ans: New Profit Sharing Ratio = Old share + Acquired share.
6. What do you mean by hidden goodwill?
   Ans: Hidden goodwill refers to the amount paid to retiring partner in excess of actual amount due to him.
7. Proportion gained = New share - ………………..
   Ans: Proportion gained = New share – Old share.

SECTION B :

V. Two Marks Questions

1. Mention any two circumstances for retirement of a partner.
   Ans: (a) When all remaining partners' give their consent.
   (b) Old age of a partner
   (c) Misunderstanding with other partner.

2. What is gain ratio?

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

3. State any two differences between sacrificing ratio and gaining ratio.

Sacrifice ratio	Gain ratio
a) It is calculated at the time of admission of a partner.	a) It is calculated at the time of retirement of a partner
b) Share sacrifice = Old ratio – New ratio	b) Share gained = New ratio – Old ratio
c) It is the ratio which decreases the old partner's share of profit	c) It is the ratio which increases the remaining partners' share of profit

4. State any two purposes of calculating new profit sharing ratio.

   Ans: (a) To share the future profits of the firm.

   (b) To write off the firms goodwill.

   (c) To adjust the remaining partners' capital.

5. Name two methods of treatment of goodwill.

   Ans: (a) Goodwill is created at its full value and retained in the books.

   (b) Goodwill is created at its full value and written off immediately.

   (c) Goodwill is created to the extent of retiring partners share and written off immediately.

6. How do you close revaluation account on retirement of a partner?

   Ans: By transferring profit or loss on revaluation account to the capital account of all the partners in their old ratio.

7. Pass the journal entry for adjusting retiring partner's share of goodwill when no goodwill is raised.

Ans: Remaining partners Capital A/c……………………………Dr.	xxx	----
To Retiring partner's Capital A/c	----	xxx
(Being retiring partner's share of goodwill adjusted in remaining partners capital a/c in their new ratio)		

8. Mention any two modes of payment on settlement of Retiring Partner's Capital A/c.

   Ans: (a)Settlement is made in lump sum by cash or by cheque.

   (b) Amount due to retiring partner is treated as loan.

   (c) Amount due to retiring partner is partly paid in cash and the balance amount transferred to his loan a/c.

9. Pass the journal entry to close Retiring Partner's Capital Account when the payment is made immediately.

Ans: Retiring partner's Capital A/c ………………………………Dr.	xxx	----
To Cash/ Bank A/c	----	xxx
(Being retiring partner's a/c is settled by payment)		

10. Give the journal entry to close Revaluation Account when there is a profit.

Ans: Revaluation A/c…………………………………………………Dr.	xxx	----
To All Partners' Capital A/c	----	xxx
(Being profit on revaluation transferred to partners Capital a/c)		

11. Give the journal entry to close Revaluation Account when there is a loss.

Ans: All partners' Capital A/c………………………………………Dr.		xxx	----
To Revaluation A/c		----	xxx
(Being loss on revaluation transferred to partners' Capital a/c)			

12. Why do firms revalue the assets and liabilities on retirement?
Ans: On retirement of the partner the assets and liabilities of the firm are revalued in order to ascertain true position of the business. The value of some of the assets and liabilities may be increased or decreased. To record the increase or decrease in the value of assets and liabilities firms prepare revaluation a/c.

13. Why retiring partner is entitled to a share of goodwill of the firm?
Ans: The retiring partner is entitled to his share of goodwill at the time of retirement because the goodwill has been earned by the firm with the efforts of all partners including retiring partner.

14. A, B and C are partners in a firm sharing Profits and Losses in the ratio of 3:2:1. If "C" retires, then what will be the NPSR of A & B.
Ans: If C retires the new profit sharing ratio of A and B is 3:2.

15. Give the journal entry when the retiring partner is partly paid in cash and the remaining amount is treated as loan.

Ans: Retiring Partner's Capital A/c…………………………. Dr.	xxx	----
To Cash/ Bank A/c…………………………	----	xxx
To Retiring Partners loan A/c……………….	----	xxx
(Being part payment to retiring partner made on his retirement and remaining amount transferred His loan a/c)		

16. Give the journal entry when retiring partner's whole amount is treated as loan.

Ans: Retiring Partner's Capital A/c……………………………. Dr.	xxx	----
To Retiring Partner's loan A/c ……………………..	----	xxx
(Being amount due to retiring partnrer transferred to his loan A/c)		

SECTION C: Six marks questions

1. Ankith, Suchith and Chandru are partners in a firm sharing profits and losses in the ratio of 4:3:2. Ankith retires from the firm. Suchith and Chandru agreed to share in the ratio of 5:3 in future. Calculate gain ratio of Suchith and Chandru.

Ans : Old Ratio = 4:3:2. New Ratio = 5:3

Gain ratio = New ratio – Old ratio.

Suchith's gain = $\frac{5}{8} - \frac{3}{9} = \frac{45-24}{72} = \frac{21}{72}$

Chandru's gain = $\frac{3}{8} - \frac{2}{9} = \frac{27-16}{72} = \frac{11}{72}$

Hence gaining ratio between Suchith and Chandru $\frac{21}{72} : \frac{11}{72}$ = **21:11**

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

Ans : Old Ratio = 4:3:2 New Ratio = 1:1

Gain Ratio = New ratio – Old Ratio

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

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

Hence gaining ratio between Vani and Rani $\frac{1}{18} : \frac{3}{18}$ = **1:3**

3. A, B, C and D are partners in a firm sharing profits and losses in the ratio of 2:1:2:1. On A's retirement continuing partners decided to share future profits equally. Calculate the gain ratio.

Ans : Old Ratio = 2:1:2:1 New Ratio = 1:1:1

Gain Ratio = New ratio – Old Ratio

B's gain = $\frac{1}{3} - \frac{1}{6} = \frac{2-1}{6} = \frac{1}{6}$

C's gain = $\frac{1}{3} - \frac{2}{6} = \frac{2-2}{6} = \frac{0}{6}$

D's gain = $\frac{1}{3} - \frac{1}{6} = \frac{2-1}{6} = \frac{1}{6}$

Hence gaining ratio between B and D only $\frac{1}{6} : \frac{1}{6}$ = **1:0:1 or 1:1**

4. A, B and C are partner's sharing profits and losses in the ratio of 1:1:1. B retires from the firm. A and C decided to share the profit in future in the ratio of 4:3. Calculate the gain ratio.

Ans : Old Ratio = 1:1:1 New Ratio = 4:3

Gain Ratio = New ratio – Old Ratio

B's gain = $\frac{4}{7} - \frac{1}{3} = \frac{12-7}{21} = \frac{5}{21}$

C's gain = $\frac{3}{7} - \frac{1}{3} = \frac{9-7}{21} = \frac{2}{21}$

Hence gaining ratio between B and C $\frac{5}{21} : \frac{2}{21}$ = **5:2**

5. Ashok, Anil and Ajay are partners sharing profits and losses in the ratio of $\frac{1}{2}$, $\frac{3}{10}$ and $\frac{1}{5}$. Anil retires from the firm. Ashok and Ajay decided to share future profits and losses in the ratio of 3:2. Calculate the gain ratio.

Ans : Old share = $\frac{1}{2}, \frac{3}{10}, \frac{1}{5}$ New Ratio = 3:2 Old Ratio = 5:3:2

Gain Ratio = New ratio – Old Ratio

Ashok's gain = $\frac{3}{5} - \frac{5}{10} = \frac{6-5}{10} = \frac{1}{10}$

Ajay's gain = $\frac{2}{5} - \frac{2}{10} = \frac{4-2}{10} = \frac{2}{10}$

Hence gaining ratio between Ashok and Ajay $\frac{1}{10} : \frac{2}{10}$ = **1:2**

Problems on calculation of New Profit Sharing Ratio

6. Latha, Abhishek and Apeksha are Partners sharing profits and losses in the ratio of $\frac{3}{8}, \frac{1}{2}$ and $\frac{1}{8}$. Latha retires and surrenders $\frac{2}{3}$ of her share in favour of Abhishek and the remaining share in favour of Apeksha. Calculate new profit sharing ratio.

Ans : Old Ratio = $\frac{3}{8}, \frac{1}{2}, \frac{1}{8}$ Surrender share = $\frac{2}{3}$ and $\frac{1}{3}$

Old ratio = $\frac{3}{8} \frac{4}{8} \frac{1}{8}$

Share gained by Abhishek = $\frac{3}{8} \times \frac{2}{3} = \frac{6}{24}$

Share gained by Apeksha = $\frac{3}{8} \times \frac{1}{3} = \frac{3}{24}$

New Share = Old share + Share Gained

Abhishek's New share = $\frac{4}{8} + \frac{6}{24} = \frac{12+6}{24} = \frac{18}{24}$

Apeksha's New share = $\frac{1}{8} + \frac{3}{24} = \frac{3+3}{24} = \frac{6}{24}$

Hence New Profit Sharing Ratio of Abhishek and Apeksha $\frac{18}{24} : \frac{6}{24}$ = **18:6** = **3:1**

7. Naveen, Suresh and Tarun are partners sharing profits and losses in the ratio of 5:3:2. Suresh retires from the firm and his share is acquired by Naveen and Tarun in the ratio of 2:1. Calculate new profit sharing ratio.

Ans : Old Ratio = 5:3:2 Gain ratio = 2:1

Share gained = Retiring partner's share X Gain ratio of remaining partners

Share gained by Naveen = $\frac{3}{10} \times \frac{2}{3} = \frac{6}{30}$

Share gained by Tarun = $\frac{3}{10} \times \frac{1}{3} = \frac{3}{30}$

New Share = Old share + Share Gained

Naveen's New share = $\frac{5}{10} + \frac{6}{30} = \frac{15+6}{30} = \frac{21}{30}$

Tarun's New share = $\frac{2}{10} + \frac{3}{30} = \frac{6+3}{30} = \frac{9}{30}$

Hence New Profit Sharing Ratio of Naveen and Tarun $\frac{21}{30} : \frac{9}{30}$ = 21:9 = 7:3

8. Vidya, Sandya, Latha and Sudha are partners sharing profits in the ratio of 3:2:1:4. Vidya retires and her share is acquired by Sandya and Latha in the ratio of 3:2. Calculate new profit sharing ratio and gaining ratio of the remaining partners.

Ans : Old Ratio = 3:2:1:4 Share acquired = 3:2

Share gained = Retiring partner's share X Gain ratio of remaining partners

Share gained by Sandya = $\frac{3}{10}$ x $\frac{3}{5}$ = $\frac{9}{50}$

Share gained by Latha = $\frac{3}{10}$ x $\frac{2}{5}$ = $\frac{6}{50}$

Share gained by Sudha = NIL

Hence, the Gain Ratio of Sandya, Latha and Sudha $\frac{9}{50}$: $\frac{6}{50}$: 0 = **9:6:0 = 3:2:0**

New Share = Old share + Share Gained

Sandya's New share = $\frac{2}{10} + \frac{9}{50} = \frac{10+9}{50} = \frac{19}{50}$

Latha's New share = $\frac{1}{10} + \frac{6}{50} = \frac{5+6}{50} = \frac{11}{50}$

Sudha's New share = $\frac{4}{10} = \frac{20}{50}$

New Profit Sharing Ratio of Sandya, Latha and Sudha $\frac{19}{50} : \frac{11}{50} : \frac{20}{50}$ = **19:11:20**

9. Pooja, Priya and Pratistha are partners sharing profits and losses in the ratio of 3:2:1. Priya retires. Her share is taken by Pooja and Pratistha in the ratio of 2:1. Calculate New Profit Sharing Ratio.

Ans : Old Ratio = 3:2:1 Gain ratio = 2:1

Share gained = Retiring partner's share X Gain ratio of remaining partners

Share gained by Pooja = $\frac{2}{6}$ x $\frac{2}{3}$ = $\frac{4}{18}$

Share gained by Pratistha = $\frac{2}{6}$ x $\frac{1}{3}$ = $\frac{2}{18}$

New Share = Old share + Share Gained

Pooja's New share = $\frac{3}{6} + \frac{4}{18} = \frac{9+4}{18} = \frac{13}{18}$

Pratistha's New share = $\frac{1}{6} + \frac{2}{18} = \frac{3+2}{30} = \frac{5}{30}$

Hence New Profit Sharing Ratio of Pooja and Pratistha $\frac{13}{18} : \frac{5}{18}$ = **13:5**

10. P, Q and R are partners sharing profits in the ratio of 3:2:1. Q retires and his share is acquired by P and R in the ratio of 3:2. Calculate new profit sharing ratio.

Ans : Old Ratio = 3:2:1 Gain ratio = 3:2

Share gained = Retiring partner's share x Gain ratio of remaining partners

Share gained by P = $\frac{2}{6}$ x $\frac{3}{5}$ = $\frac{6}{30}$

Share gained by R = $\frac{2}{6}$ x $\frac{2}{5}$ = $\frac{4}{30}$

New Share = Old share + Share Gained

P's New share = $\frac{3}{6} + \frac{6}{30} = \frac{15+6}{30} = \frac{21}{30}$

R's New share = $\frac{1}{6} + \frac{4}{30} = \frac{5+4}{30} = \frac{9}{30}$

Hence New Profit Sharing Ratio of P and R $\frac{21}{30} : \frac{9}{30}$ = 21:9 = **7:3**

Section D

12 Marks Problems Without Capital Adjustments

1. Digvijay, Brijesh and Parakaram were partners in a firm sharing profits in the ratio of 2: 2:1.

Balance Sheet as on March 31, 2018 was as follows:

Liabilities	₹	Assets	₹
Creditors	49,000	Cash	8,000
Reserves	18,500	Debtors	19,000
Digvijay's Capital	82,000	Stock	42,000
Brijesh's Capital	60,000	Buildings	2,07,000
Parakaram's Capital	75,500	Patents	9,000
	2,85,000		**2,85,000**

Adjustment:

Brijesh retired on March 31, 2018 on the following terms:

a) Goodwill of the firm was valued at ₹ 60,000 (As per AS-26.)

b) Bad debts amounting to ₹ 2,000 were to be written off.

c) Patents were considered as valueless.

Prepare:

(i) Revaluation Account, (ii) Partners' Capital Accounts and

(iii) Balance Sheet of Digvijay and Parakaram after Brijesh's retirement.

Solution:

Revaluation Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Bad Debts A/c (Bad Debts written off)	2,000	By Partners Capital A/c **(Loss on Revaluation)**	
To Depreciation on Patents	9,000	Digvijay = 11,000*2/5 = 4,400 Brijesh = 11,000*2/5 = 4,400 Parakaram =11,000*1/5 = 2,200	11,000
	12,000		**11,000**

Partners' Capital Account

Dr. **Cr.**

Particulars	Digvijay	Brijesh	Parakaram	Particulars	Digvijay	Brijesh	Parakaram
To Revaluation A/c	4,400	4,400	2,200	By Balance b/d	82,000	60,000	75,500
To Brijesh's Capital A/c (24,000X2:1) (Share of Goodwill)	16,000	-	8,000	By Reserve Fund (18,500 x 2:2:1)	7,400	7,400	3,700
To Brijesh Loan A/c (Balancing Figure)	-	87,000		By Digvijay's Capital A/c **(W.n.)** (Share of Goodwill)	-	16,000	-
To Balance c/d (Closing Capital)	69,000	-	69,000	By Parakaram's Capital A/c **(W.n.)** (Share of Goodwill)	-	8,000	-
	89,400	**91,400**	**79,200**		**89,400**	**91,400**	**79,200**
				By Balance b/d	69,000	-	69,000

Balance Sheet as on 01.04.2018

Liabilities		₹	Assets		₹
Creditors		49,000	Cash in Hand		8,000
Brijesh's Loan A/c		87,000	Debtors	19,000	
Capitals			Less: Bad debts	2,000	17,000
Digvijay	69,000		Stock		42,000
Parakaram	69,000	1,38,000	Buildings		2,07,000
			Patents	9,000	
			Less: Depreciation	9,000	nil
		2,74,000			**2,74,000**

Working Note:

Calculation of Goodwill

Old Ratio = 2:2:1 Retiring partner share = $\frac{2}{5}$ Total goodwill valued = 60,000

Retiring partner share of Goodwill = 60,000 $X\frac{2}{5}$ = **24,000**

Digvijay's Share = 24,000 $X\frac{2}{3}$ = 16,000

Parakaram's Share = 24,000 $X\frac{1}{3}$ = 8,000

2. Pankaj, Naresh and Saurabh are partners sharing profits in the ratio of 3:2:1. Naresh retired from the firm due to his illness. On that date the Balance Sheet of the firm was as follows:

Books of Pankaj, Naresh and Saurabh Balance Sheet as on March 31, 2018

Liabilities		₹	Assets		₹
General Reserve		12,000	Bank		7,600
Sundry Creditors		15,000	Debtors	6000	
Bills Payable		12,000	Less: PDD	400	5,600
Outstanding Salary		2,200	Stock		9,000
Provision for Legal Damages		6,000	Furniture		41,000
Capitals:			Premises		80,000
Pankaj	46,000				
Naresh	30,000				
Saurabh	20,000	96,000			
		1,43,200			**1,43,200**

Additional Information:

a) Premises have been appreciated by 20%, stock depreciated by 10% and provision for doubtful debts was to be made at 5% on debtors. Further, provision for legal damages is to be made for ₹ 1,200 and furniture to be brought up to ₹ 45,000.

b) Goodwill of the firm be valued at ₹ 48,000 (As per AS-26)

c) ₹ 26,000 from Naresh's Capital Account be transferred to his Loan Account and balance be paid through bank If required, necessary loan may be obtained from Bank.

d) New profit-sharing ratio of Pankaj and Saurabh is decided to be 5:1.

Prepare: 1) Revaluation A/ c, 2) Partner's Capital Accounts and 3) Balance Sheet of the firm after Naresh's Retirement.

Solution:

Revaluation Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Depreciation on stock (9,000X10/100)	900	By Appreciation on Premises (80,000X20/100)	16,000
To Provision for Legal damages	1,200	By Provision for Bad debts (6,000X5/100 = 300-400	100
By Partners Capital A/c **(profit on Revaluation)**		By Appreciation on Furniture (45,000 - 41,000)	4,000
Pankaj 18,000X3/6 = 9,000			
Naresh 18,000X2/6 = 6,000			
Saurabh18,000X1/6 = 3,000	18,000		
	20,100		**20,100**

Partners' Capital Account

Dr. **Cr.**

Particulars	Pankaj	Naresh	Saurabh	Particulars	Pankaj	Naresh	Saurabh
To Naresh's Capital A/c (16,000X5:1) (Share of Goodwill)	13,333	-	2,667	By Balance b/d	46,000	30,000	20,000
				By General Reserve (12,000 x 3:2:1)	6,000	4,000	2,000
To Naresh's Loan A/c (Balancing Figure)	-	26,000	-	By Pankaj's Capital A/c **(W.n.)** (Share of Goodwill)	-	13,333	-
To Bank A/c	-	30,000	-	By Saurabh's Capital A/c **(W.n.)** (Share of Goodwill)	-	2,667	-
To Balance c/d (Closing Capital)	47,667	-	22,333	By Revaluation A/c	9,000	6,000	3,000
	61,000	**56,000**	**25,000**		**61,000**	**56,000**	**25,000**
				By Balance b/d	49,000	-	21,000

Balance Sheet as on 01.04.2018

Liabilities		₹	Assets		₹
Sundry Creditors		15,000	Debtors	6,000	
Bills payable		12,000	Less: PDD(6,000X5/100)	300	5,700
Provision for Legal damages (6,000+1,200)		7,200	Stock	9,000	
O/s Salary		2,200	Less: Depreciation	900	8,100
Bank Loan (w.n.)		22,400	Furniture	41,000	
Naresh's Loan A/c		26,000	Add: Appreciation	4,000	45,000
Capitals			Premises	80,000	
Pankaj	47,667		Add: Appreciation	16,000	96,000
Saurabh	22,333	70,000			
		1,54,800			**1,54,800**

Bank Account

Dr. **Cr.**

Particulars	Amount	Particulars	Amount
To Balance b/d	7,600	By Naresh capital A/c	30,000
To Loan A/c (Balancing figure BoD)	22,400		
	28,000		30,000

Working Note: **Calculation of Goodwill**

Old Ratio = 3:2:1 Retiring partner share = $\frac{2}{6}$

Total goodwill valued = 48,000

Retiring partner share of Goodwill = 48,000 $X\frac{2}{6}$ = **16,000**

Pannkaj's Share = 16,000 $X\frac{5}{6}$ = **13,333**

Saurabh's Share = 16,000 $X\frac{1}{6}$ = **2,667**

3. Radha, Sheela and Meena were in partnership sharing profits and losses in the proportion of 3:2: 1.On April 1, 2018, Sheela retires from the firm and on that date,

Balance Sheet was as follows:

Liabilities		₹	Assets	₹
Trade Creditors		3,000	Cash in Hand	1,500
Bills Payable		4,500	Cash at Bank	7,500
Expenses Owing		4,500	Debtors	15,000
General Reserve		13,500	Stock	12,000
Capitals:			Factory Premises	22,500
Radha	15,000		Machinery	8,000
Sheela	15,000		Loose Tools	4,000
Meena	15,000	45,000		
		70,500		**70,500**

The terms were:

(a) Goodwill of the firm was valued at ₹13,500 (As per AS-26)

(b) Expenses owing to be brought down to ₹ 3,750.

(c) Machinery and Loose Tools are to be valued at 10% less than their book value.

(d) Factory premises are to be revalued at ₹ 24,300.

Prepare:

1. Revaluation Account
2. Partners' Capital Accounts and
3. Balance Sheet of the firm after retirement of Sheela.

Dr. **Revaluation Account** **Cr.**

Particulars	Amount	Particulars	Amount
To Depreciation on Machinery 8,000x10/100	800	By Expenses owing reduced (4,500 – 3,750)	750
To Depreciation on Loose tools 4,000x10/100	400	By Appreciation on Factory primes (24,300 -22,500)	1,800
To Partners Capital A/c (Profit on Revaluation) Radha 1,350X3/6 = 675, Sheela 1,350X2/6 = 450, Meena 1,350X1/6 = 225	1,350		
	11,000		**2,550**

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

Particulars	Radha	Sheela	Meena	Particulars	Radha	Sheela	Meena
To Sheela's Capital A/c (4,500X3:1)	3,375	-	675	By Balance b/d	15,000	15,000	15,000
To Sheela Loan A/c (Balancing Figure)	-	24,000	-	By General reserve (13,500X3:2:1)	6,750	4,500	2,250
To Balance c/d (Closing Capital)	19,050	-	16,800	By Radha's Capital A/c (4,500X3/4)	-	3,375	-
				By Meena's Capital A/c (4,500X1/4)		1,675	-
				By Revaluation A/c	675	450	225
	22,425	**24,000**	**17,425**		**22,425**	**24,000**	**17,425**
				By Balance b/d	19,050	-	16,800

Balance Sheet As on 31/03/2018

Liabilities		Amount	Assets		Amount
Trade Creditors		3,000	Cash in Hand		1,500
Bills payable		4,500	Cas at Bank		7,500
Expenses owing (4,500 -750)		3,750	Debtors		15,000
			Stock		12,000
Sheela's Loan A/c		24,000	Machinery	8,000	
Partner's Capital			Less: Depreciation	800	7,200
Radha	19,050		Factory premises	22,500	
Meena	16,800	35,850	Add: Appreciation	1,800	24,300
			Loose Tools	4,000	
			Less: Depreciation	400	3,600
		71,100			**71,100**

Working Note:

Calculation of Goodwill

Old Ratio = 3:2:1 Retiring partner share = $\frac{2}{6}$

Total goodwill valued = 13,500

Retiring partner share of Goodwill = 13,500 $X\frac{2}{6}$ = **4,500**

Radha's Share = 4,500 $X\frac{3}{4}$ = 3,375

Meena's Share = 4,500 $X\frac{1}{4}$ = 1,125

Problems on with Capital Adjustment

4. Narang, Suri and Bajaj are partners in a firm sharing profits and losses in proportion of 1/2, 1/6 and 1/3 respectively.

The Balance Sheet on April 1, 2018 was as follows:

Liabilities	₹	Assets	₹
Bills Payable	12,000	Freehold Premises	40,000
Sundry Creditors	18,000	Machinery	30,000
Reserves	12,000	Furniture	12,000
Capital Accounts:		Stock	22,000
Narang 40,000		Sundry Debtors 20,000	
Suraj 20,000		Less: RBD 1000	19,000
Bajaj 28 000	88,000	Cash	7,000
	1,30,000		**1,30,000**

Bajaj retires from the business and the partners agree to the following :

a) Freehold premises and stock are to be appreciated by 20% and 15% respectively.

b) Machinery and furniture are to be depreciated by 10% and 7% respectively.

c) Bad Debts reserve is to be increased to ₹ 1,500.

d) Goodwill is valued at ₹ 21,000 (As per AS-26)

e) The continuing partners have decided to adjust their capitals in their new profit sharing ratio after retirement of Bajaj. Surplus/deficit, if any, in their Capital Accounts will be adjusted through cash.

Prepare:

(i) Revaluation A/ c,

(ii) Partners' Capital Accounts and

(iii) Balance Sheet of the reconstituted firm.

Solution:

Revaluation Account

Dr. **Cr.**

Particulars	Amount	Particulars	Amount
To Depreciation on Machinery (30,000x10/100)	3,000	By Appreciation on Freehold Premises (40,000x20/100)	8,000
To Depreciation on Furniture (12,000x7/100)	840	By Appreciation on Stock (22,000x15/100)	3,300
To Bad debts (1,500 -1,000)	500		
To Partners Capital A/c (Profit on Revaluation) Narag 6,960X3/6 = 3,480 Suraj 6,960X1/6 = 1,160 Bajaj 6,960X2/6 = 2,320	**6,960**		
	11,300		**11,300**

Partners Capital Account

Dr. **Cr.**

Particulars	Narag	Suraj	Bajaj	Particulars	Narag	Suraj	Bajaj
To Baja's Capital A/c (7,000X3:1)	5,250	1,750	-	By Balance b/d	40,000	20,000	28,000
To Baja's Loan A/c (Balancing figure)		-	41,320	By Reserve A/c (12,000X 3:1:2)	6,000	2,000	4,000
			-	By Narag's Capital A/c (7,000X3/4)	-	-	5,250
To Cash A/c (Excess Cap withdrawn)	-	5,000	-	By Suraj's Capital A/c (7,000X1/4)	-	-	1,750
To Balance c/d (Closing Capital)	49,230	16,410	-	By Revaluation A/c	3,480	1,160	2,320
				By Cash A/c (Deficit Cash brings)	5,000	-	-
	54,480	**23,160**	**41,320**		**54,480**	**23,160**	**41,320**
				By Balance b/d	49,230	16,410	-

Balance Sheet As on 1/04/2018

Liabilities		Amount	Assets		Amount
Sundry Creditors		18,000	Freehold premises	40,000	
Bills payable		12,000	Add: Appreciation	8,000	48,000
Baja's Loan A/c		41,320	Machinery	30,000	
Partner's Capital			Less: Depreciation	3,000	27,000
Narag	49,230		Furniture	12,000	
Suraj	16,410	65,640	Less: Depreciation	840	11,160
			Stock	22,000	
			Add: Appreciation	3,300	25,300
			Sundry Debtors	20,000	
			Less: RBD (1000+500)	1,500	18,500
			Cash in Hand		7,000
		1,36,960			**1,36,960**

Cash Account

Dr. **Cr.**

Particulars	Amount	Particulars	Amount
To Balance b/d	7,000	By Suraj capital A/c	5,000
To Narag's Capital A/c	5,000	**By Balance C/d**	7,000
	12,000		12,000
To Balance b/d	7,000		

Working Note 01

A. Calculation of Goodwill As per AS-26

Old Ratio: $\frac{1}{2} : \frac{1}{6} : \frac{1}{3} = \frac{1}{2} x \frac{3}{3} = \frac{3}{6} : \frac{1}{6} : \frac{1}{3} x \frac{2}{2} = \frac{2}{6} = \frac{3}{6} : \frac{1}{6} : \frac{2}{6}$ Retiring partner share = $\frac{2}{6}$

Total Goodwill valued 21,000

Retiring Partner Share of Goodwill = $21,000 X \frac{2}{6} = \mathbf{7,000}$

Narag's Share of Goodwill $= 7,000 X \frac{3}{4} = \mathbf{5,250}$

Suraj's Share of Goodwill $= 7,000 X \frac{1}{4} = \mathbf{1,750}$

B. Calculation of Closing Capital of remaining partners based on New Ratio

Old Ratio $= \frac{3}{6} : \frac{1}{6} : \frac{2}{6}$ New Ratio after retirement is $\frac{3}{4} : \frac{1}{4}$

Total Capital after All Adjustment

Particulars	Narag	Suraj
Opening Capital	40,000	20,000
Reserve fund	6,000	2,000
Revaluation A/c	3,480	1,160
	49,480	**23,160**
Less: Baja's capita (Share of Goodwill)	5,250	1,750
Total	**44,230**	**21,410**

Total Capital = 44,230+21,410 = 65,640

Share of Closing capital of Remaining partners is

a) Capital of Narag = 65,640 x $\frac{3}{4}$ = **49,230**

b) Capital of Suraj = 65,640 x $\frac{1}{4}$ = **16,410**

5. Following is the Balance Sheet of Jain, Gupta and Malik as on March 31, 2018.

Balance Sheet as on March 31, 2018

Liabilities		₹	Assets	₹
Sundry Creditors		19,800	Land and Buildings	26,000
Telephone bills O/S		300	Bonds	14,370
Accounts payable		8,950	Cash	5,500
Accumulated profits		16,750	Bills Receivable	23,450
Capitals:			Sundry Debtors	26,700
Jain	40,000		Stock	18,100
Gupta	60,000		Office Furniture	18,250
Malik	20,000	1,20,000	Plant and Machinery	20,230
			Computers	13,200
		1,65,800		**1,65,800**

Additional Information:

The partners have been sharing profits in the ratio of 5:3:2. Malik decides to retire from business on April 1, 2018 and his share in the business is to be calculated as per the following terms of revaluation of assets and liabilities:

a) Stock ₹ 20,000; Office furniture ₹ 14,250; Plant and Machinery ₹ 23,530; Land and Building ₹ 20,000.

b) A provision of ₹ 1,700 to be created for doubtful debts. The goodwill of the firm is valued at ₹ 9,000.

c) The continuing partners agreed to pay ₹16,500 as cash on retirement of Malik, to be contributed by continuing partners in the ratio of 3:2. The balance in the Capital Account of Malik will be treated as Loan.

Prepare:

(i) Revaluation A/c,

(ii) Capital Accounts, and

(iii)Balance Sheet of the reconstituted firm.

Revaluation Account

Dr. **Cr.**

Particulars	Amount	Particulars	Amount
To Depreciation on Furniture (18,250 – 14,250)	4,000	By Appreciation on Stock (20,000 - 18100)	1,900
To Depreciation on Land & Buildings (26,000 – 20,000)	6,000	By Appreciation on Plant & Machinery (23,530 -20,230)	3,300
To Provision for Bad debts	1,700	By partners Capital A/c (Loss on Revaluation) Jain = 6,500*5/10 = 3,250 Gupta = 6,500*3/10 = 1,950 Malik = 6,500*2/10 = 1,300	6,500
	11,700		**11,700**

Partners Capital Account

Dr. **Cr.**

Particulars	Jain	Gupta	Malik	Particulars	Jain	Gupta	Malik
To Mallik's Capital A/c (1,800x3:2)	1080	720	-	By Balance b/d	40,000	60,000	20,000
				By Accumulated Profit (16,750X 5:3:2)	8,375	5,025	3,350
To Revaluation A/c	3,250	1,950	1,300	By Jain's Capital A/c (1,800X3/5)	-	-	1080
To Cash A/c (payment to Malik)	-	-	16,500	By Gupta's Capital A/c (1,800X2/5)	-	-	720
To Malik Loan A/c	-	-	7,350	By Cash A/c (16,500 x 3:2)	9,900	6,600	-
To Balance c/d **(Closing Capital)**	53,900	69,000	-				
	58,275	**71,625**	**25,150**		**58,275**	**71,625**	**25,150**
				By Balance b/d	53,900	69,000	-

Cash Account

Dr. **Cr.**

Particulars	Amount	Particulars	Amount
To Balance b/d	5,500	By Malik capital A/c	16,500
To Jain Capital A/c	9,900	**By Balance C/d**	5,500
To Gupta Capital	6,600		
	22,000		**22,000**
To Balance b/d	5,500		

Balance Sheet As on 31/03/2018

Liabilities		Amount	Assets		Amount
Sundry Creditors		19,800	Land & Buildings	26,000	
Telephone bill o/s		300	Less: Depreciation	6,000	20,000
Accounts payable		8,950	Bonds		14,370
Malik's Loan A/c		7,350	Cash in Hand		5,500
Partner's Capital			Bills Receivable		23,450
Jain	53,900		Sundry Debtors	26,700	
Gupta	69,000	1,22,900	Less: RBD	1,700	25,000
			Stock	18,100	
			Add: Appreciation	1,900	20,000
			Office Furniture	18,250	
			Less: Depreciation	4,000	14,250
			Plant & Machinery	20,230	
			Add: Appreciation	3,300	23,530
			Computers		13,200
		1,59,300			**1,59,300**

Working Note 01

A. Calculation of Goodwill As per AS-26

Total Goodwill is valued = 9,000 Retiring Partner Share $=\frac{2}{10}$

Retiring partner share of goodwill $= 9{,}000 X \frac{2}{10} = 1{,}800$

Malik's share of Goodwill $= 1{,}800 X \frac{3}{5} = 1{,}080$

Gupta's share of Goodwill $= 1{,}800 X \frac{2}{5} = 720$

6. The Balance Sheet of Amit, Bhima and Chandru who are partners in a firm Sharing profits according to their capitals as on March 31, 2018 was as under:

Balance sheet As on 31-03-2018

Liabilities	₹	Assets		₹
Creditors	21,000	Buildings		1,00,000
Amit's Capital	80,000	Machinery		50,000
Bhimu's Capital	40,000	Stock		18,000
Chandru's Capital	40,000	Debtors	20,000	
General Reserve	20,000	Less: PBD	1,000	19,000
		Cash at Bank		14,000
	2,01,000			**2,01,000**

On that date, Bhima decided to retire from the firm and was paid for his share in the firm subject to the following

a. Buildings to be appreciated by 20%.
b. Provision for Bad debts to be increased to 15% on Debtors.
c. Machinery to be depreciated by 20%.

d. Goodwill of the firm is valued at ₹ 72,000 (As per AS-26)
e. The capital of the new firm be fixed at ₹ 1,20,000 and it should be adjusted equally among Continuing partners and adjustments are to be made in cash.

Prepare:

(i) Revaluation Account,
(ii) Capital Accounts of the partners, and
(iii) Balance Sheet after retirement of Bhima.

Revaluation Account

Dr. **Cr.**

Particulars	Amount	Particulars	Amount
To Provision for Bad debts (20,000x15/100 = 3,000-1000)	2,000	By Appreciation on Buildings (1,00,000x20/100)	20,000
To Depreciation on Machinery (50,000x20/100)	10,000		
To Partners Capital A/c (Profit on Revaluation) Amith 8,000X2/4 = 4,000 Bhima 8,000X1/4 = 2,000 Chandru8,000X1/4 =2,000	**8,000**		
	20,000		**20,000**

Partners' Capital Account

Dr. **Cr.**

Particulars	Amith	Bhima	Chandru	Particulars	Amith	Bhima	Chandru
To Bhima's Capital A/c (18000x1:1)	9,000	-	9,000	By Balance b/d	80,000	40,000	40,000
				By General Reserve (20,000X 2:1:1)	10,000	5,000	5,000
To Bhima's Loan A/c	-	65,000	-	By Amith's Capital A/c (18,000X1/2)	-	9,000	-
To Cash A/c (Excess Capital withdrawn)	25,000	-	-	By Chandru's Capital A/c (18,000X1/2)		9,000	-
To Balance c/d (Closing Capital) 1,20,000x 1:1	- / 60,000	- / -	60,000	By Revaluation A/c	4,000	2,000	2,000
				By Cash A/c (Deficit Cash brings)	-		22,000
	94,000	**65,000**	**69,000**		**94,000**	**65,000**	**69,000**
				By Balance b/d	60,000	-	60,000

Cash Account

Dr. **Cr.**

Particulars	Amount	Particulars	Amount
To Balance b/d	14,000	By Amith capital A/c	25,000
To Chandru Capital A/c	22,000	**By Balance C/d**	11,000
	36,000		**36,000**
To Balance b/d	11,000		

Balance Sheet As on 31/03/2018

Liabilities		Amount	Assets		Amount
Creditors		21,000	Buildings	1,00,000	
Bhima's Loan A/c		65,000	Add: Appreciation	20,000	1,20,000
Partner's Capital			Machinery	50,000	
Amith	60,000		Less: Depreciation	10,000	40,000
Chandru	60,000	1,20,000	Stock		18,000
			Debtors	20,000	
			Less: PBD	3,000	17,000
			Cash in Hand		11,000
		2,06,000			**2,06,000**

Working Note:

A. Calculation of Old Ratio

Ratio of partners = based on their Capital

=~~80,000~~ : ~~40,000~~ : ~~40,000~~ = 8 : 4 : 4

Old Ratio of Partners = 2 : 1 : 1

B. **Calculation of retiring partner share of Goodwill**

Total Goodwill is valued = 72,000 Retiring Partner share $=\frac{1}{4}$

Retiring partner share of goodwill = $72{,}000X\frac{1}{4} = 18{,}000$

Amith's Share of Goodwill= $18{,}000X\frac{1}{2} = 9{,}000$

Chandru's Share of Goodwill= $18{,}000X\frac{1}{2} = 9{,}000$

C. Calculation of Closing capital

Total Capital of Firm = 1,20,000 New Ratio of remaining Parters $=\frac{1}{2}:\frac{1}{2}$

Amith's Capital = $1{,}20{,}000X\frac{1}{2} = 60{,}000$

Chandru's Capital = $1{,}20{,}000X\frac{1}{2} = 60{,}000$

Part -B

DEATH OF A PARTNER

II. Fill in the blanks :

1. Executors account is generally prepared at the time of **Death** of a Partner.
2. Accounting treatment at the time of retirement and death is **Uniform**.
3. The period from date of the last balance sheet and the date of the partners' death is called **intervening** period.
4. **Profit and Loss Suspense** account is debited for the transfer of share of accrued profit of a deceased partner.
5. Accrued profit is calculated on the basis of **Previous year /Average profit**.
6. Amount payable to the executors of the deceased partner is transfer to **Executors Loan** account.

II. Multiple choice Questions:

1. Accrued profit is ascertained on the following ways:
   a) Average profit b) Previous year's profit
   c) On sales **d) All of the above**
2. Amount due to deceased partner is settled in the following manner:
   a) Immediate full payment
   b) Transferred to Loan Account
   c) Partly paid in cash and the balance transferred to Loan A/ c
   d) All of the above.
3. Deceased partner's share of profit in the accrued profit may be.
   a) Last year's profit b) Average profit of past few years
   c) Sales d) **All the above**
4. Amount payable to the Executors of the deceased partner is transferred to:
   a) Executor Loan Account b) Executors Account
   c) Remaining partner's Capital A/c d) None of the above
5. Items to be considered while calculating the amount payable to the deceased partner
   a) His share of capital b) His share in reserve
   b) His share in accrued profit **d) All the above**

III. True of False

1. Deceased partner's claim is transferred to his Executor's Account . **'True'**
2. Deceased partner's share of profit for the year intervening period may be calculated on the basis of last year's profit / average of past few years or on the basis of sales. **'True'**
3. Deceased partner may be paid in one lump sum or instalments with interest. **'True'**

4. Retirement normally takes place at the end of an accounting period, where as death of a partner may occur any time. **'True'**

5. Amount payable to the Executors of the deceased partner is transferred to Executors Loan Account. **'True'**

IV. Very Short Answer Question:

7. Who is an 'Executor'?
Ans: Executor is the legal representative of a deceased partner in a partnership firm.

8. When do you prepare Executors Account?
Ans: Executer's account is prepared at the time of a death of a partner.

9. Which account is credited for the share of accrued profit of a deceased partner?
Ans: Deceased partner's capital account.

10. What is intervening period ?
Ans: The period from date of last balance sheet and the date of the partner's death is called intervening period.

11. How do you close the Executors Account?
Ans: Executor account is closed by transferring its balance to Executor loan account.

Section B: Two Marks Question

1. Give the meaning of accrued profit .
Ans: The profit from the date of last balance sheet till to the date of a death of a partner in a partnership firm is considered as accrued profit.

2. Write any two ways of settlement of claims to the deceased partner.
Ans: (a) Immediate full payment by cash
(b) Partly paid in cash and balance transferred to loan account

3. Write the journal entry to close the deceased partner's Capital Account.

Ans: Deceased partners' capital A/c……………………………..Dr	xxx	----
To Deceased partners executor A/c	----	xxx
(Being balance of deceased partner capital account transferred)		

4. Pass Journal entry for transfer of accrued profit of the deceased partner.

Ans: Profit and Loos suspense A/c……………………………..Dr	xxx	----
To Deceased partners capital A/c	----	xxx
(Being accrued profit transferred to deceased partner)		

5. Write the journal entry for cash paid immediately to the executors of the deceased partner.

Ans: Deceased partners executor A/c ……………………………..Dr	xxx	----
To BankA/c	----	xxx
(Being payment made to deceased partner executors)		

Format of Deceased partners' capital account

Dr Deceased Partners Capital Account Cr

Particulars	₹	Particulars	₹
To Drawings A/c	xxx	By Balance b/d	xxx
To Interest on Drawing A/c	xxx	By Revaluation A/c	xxx
(Amount x Interest rate x period)		By Profit/Loss A/c (Amount x share)	xxx
To Deceased Partners Executor A/c	xxx	By Reserves A/c (Amount x share)	xxx
(Balancing figure)		By A's Capital A/c (Share of Goodwill)	xxx
		By B's Capital A/c (Share of Goodwill)	xxx
		By Joint life policy A/c (Amount x share)	xxx
		By Salary (Amount x no of month's)	xxx
		By Commission A/c (amount x period)	
		By Interest on capital	xxx
		(Amount x Int rate x Period)	xxx
		By Profit/Loss suspense A/c	
		(Amount x Share x Period)	
	xxx		**xxx**

Six Marks Questions & Answers

1. Akash, Anil and Adarsh are the partners sharing profit and losses in the ratio of 3:2:1, their capitals as on 1-04-2017 were ₹ 70,000, ₹ 90,000 and ₹ 60,000 respectively Akash died on 31-12-2017 and the partnership deed provides the following:
   1) Interest on capital @ 8% p.a
   2) Akash's salary ₹ 2,000 p.m
   3) His share of profit up to the date of death based on previous year's profit. Firms profit for 2016 -17 ₹ 24,000
   4) His share of Goodwill ₹ 12,000

   Ascertain the amount payable to Akash's Executor by preparing Akash's capital a/c

Solution:

Dr Akash's capital Account Cr

Particulars	₹	Particulars	₹
To Akash's executor A/c	1,13,200	By Balance b/d	70,000
(Balancing figure)		By Interest on capital A/c	4,200
		(70000 x 8/100 x 9/12)	
		By Anil's Capital A/c	8,000
		(share of goodwill) (12,000X2/3)	
		By Akash's Capital A/c	4,000
		(share of goodwill) (12,000X1/3)	
		By Profit/Loss suspense A/c	9,000
		(24,000 x 3/6 x 9/12)	
		By Salary A/c (2000 x 9)	18,000
	1,13,200		**1,13,200**

2. Arif, Sunil and Patil are partners sharing profit and losses in the ratio of 4:3:3. Their capital balance on 01-04-2018 stood at ₹ 100,000, ₹ 80,000 and ₹ 50,000 respectively .
Arif died on 01-10-2018. The partnership deed provides the following;
   1) Interest on capital at 10% p.a
   2) He had withdrawn ₹ 5,000 upto the date of death.
   3) Arif share of Goodwill ₹ 6,000 (As per AS-26)
   4) His share of profit up to the date of death on the basis of previous year's profit of ₹ 30,000

Prepare Arif's executor A/c

Solution:

Dr. Arif's Executor's Account Cr.

Particulars	₹	Particulars	₹
To Arif's Drawing A/c	5,000	By Arif's capital A/c	1,00,000
To Balance c/d	**1,12,000**	By Interest on capital A/c (1,00,000 x 10/100 x6/12)	5,000
		By Sunil's Capital A/c (share of goodwill) (6,000X3/6)	3,000
		By Patil's Capital A/c (share of goodwill) (6,000X3/6)	3,000
		By Profit and Losses suspense A/c (30,000 x 4/10 x 6/12)	6,000
	1,17,000		**1,17,000**

3. Pavan, Madan and Suman were partners sharing profit and losses in the ratio of 2:1:1. Their Balance sheet as on 31-03-2017 was as under

Balance sheet as on 31-03-2017

Liabilities		₹	Assets	₹
Sundry creditors		25,000	Cash	6,000
Reserve fund		20,000	Stock	12,000
Capitals :			Debtors	15,000
Pavan -	15,000		Investment	15,000
Madan-	10,000		Building	32,000
Suman-	10,000	35,000		
		80,000		**80,000**

The partnership deed provides that in event death of partner his executor is entitled to get the followings;
   1) The capital at the date of last balance sheet
   2) His proportion of reserve fund
   3) His share profit to the date of death based on the average profit of the last 3 years profits
   4) His share of goodwill. Goodwill of the firm is twice the average profit of last 3 years profits, the profits for the last three years were: 2014-15 -₹ 16,000, 2015-16- ₹ 16,000 and 2016-17- ₹ 15,520

5) Suman died on 01-07-2017. He had also with drawn ₹ 5,000 till to date of his death. Prepare Suman's capital A/c and her executor A/c.

Solution:

Dr. Suman's Capital Account Cr.

Particulars	₹	Particulars	₹
To Drawing	5,000	By Balance b/d	10,000
To Suman executor's A/c	18,910	By Reserve fund (20,000x1/4)	5,000
		By Profit/Loss suspense a/c (15840x1/4x3/12)	990
		By Pavan's Capital (Share of G/w)	5280
		By Madan's Capital (Share of G/w)	2,640
	23,910		**23,910**

Suman's executor Account

Dr. Cr.

Particulars	₹	**Particulars**	₹
		By Suman's capital a/c	18,910

Working note:

Average profit = $\dfrac{\textbf{Total profit}}{\textbf{No of years}}$

$= \dfrac{16,000+16,000+15,520}{3}$

$= \dfrac{47,520}{3} = \textbf{15,840}$

Calculation of Goodwill

Goodwill = Average profit x No of years Purchase

= 15,840 x 2

= **₹ 31,680**

Suman's Share of Goodwill =31,680X1/4 =**7,920**

Shared by Pavan to Suman = 7,920X2/3 = 5280

Share by Madan to Suman = 7,920X1/3 = 2,640

4. Shobha,Sudha and Rathna arte partners. Sharing profit and losses in the ratio of 2:2:1. Their Balance sheet as on 31-03-2018 was as follows: **(QP -2019)**

Balance sheet as on 31-03-2018

Liabilities		₹	Assets	₹
Sundry creditors		30,000	Cash in hand	10,000
Capitals:			Debtors	25,000
Shobha -	15,000		Stock	40,000
Sudha -	25,000		Plant &machinery	40,000
Rathna -	30,000	70,000		
Reserve fund		15,000		
		1,15,000		**1,15,000**

Rathna died on 30-06-2018. Her executor's should be entitled to:

1) Her capital on the date of last balance sheet
2) Her share of reserve fund on the date of last balance sheet
3) Her share of profit up to the date of death, on the basis of previous year's profit. Previous year profit is ₹ 20,000.
4) Her share of Goodwill. Good will of the form is valued at ₹ 40,000.
5) Interest on capital at 10%p.a.

You are required to ascertain amount payable to executor of Rathna by Preparing Rathna's capital A/c

Solution:

Dr Rathna's Capital Account Cr

Particulars	₹	Particulars	₹
To Rathna's Executor a/c	42,750	By Balance b/d	30,000
		By Reserve fund (15,000x1/5)	3,000
		By Profit & Loss Suspense A/c (20,000x1/5x3/12)	1,000
		By Shobha's Capital A/c	4,000
		By Sudha's Capital A/c	4,000
		By Interest on capital A/c (30,000x10/100x3/12)	750
	42,750		**42,750**

A. Calculation of Goodwill

Rathna's Share of Goodwill = 40,000X1/5 = **8,000**
Shared by Shobha to Rathna's = 8,000X2/4 = 4,000
Share by Sudha to Rathna's = 8,000X2/4 = 4,000

5. Puneet ,Pankaj and Prakash are partners in a business sharing profit and losses in the ratio of 2:2:1 respectively.their balance sheet as on 31-03-2017 was as follows

Balance sheet as on 31-03-2017

Liabilities		₹	Assets	₹
Sundry creditors		1,00,000	Cash at bank	20,000
Capital account			Stock	30,000
Puneet -	60,000		Sundry Debtors	80,000
Pankaj -	1,00,000		Investments	70,000
Prakash -	40,000	2,00,000	Furniture	35,000
Reserve fund		50,000	Buildings	1,15,000
		3,50,000		**3,50,000**

Mr. Praksh died on 30-09-2017. The partnership deed provides the following;

a) The deceased partner will be entitled to his share of profit up to the date of death calculated on the basis of previous year's profit.
b) He will be entitled to his share of Goodwill of the firm calculated on the basis of three year's purchase of average of last 4 year's profit. The profits for the last four financial year's are given below: 2013-14 - ₹ 80,000, 2014-15- ₹ 50,000 ,2015-16- ₹ 40,000 and 2016-17 ₹ 30,000
c) The drawing of the deceased partner up to the date of death amounted to ₹ 10,000.
d) Interest on capital is to be allowed at 12% p.a.

Show Mr. Prakash's capital Account.

Solution:

Dr **Prakash's capital Account** **Cr**

Particulars	₹	Particulars	₹
To Drawing A/c	10,000	By Balance b/d	40,000
To Prakash's Executors A/c	75,400	By Interest on capital A/c (40,000X12/100X6/12)	2,400
		By Reserve fund A/c (50,000x1/5)	10,000
		By Puneet's Capital (Share of G/w)	15,000
		By Pankaj's Capital (Share of G/w)	15,000
		By Profit/Loss suspense A/c(30,000x1/5x6/12)	3,000
	85,4000		**85,400**

Working note:

Average profit = $\frac{\textbf{Total profit}}{\textbf{No of years}}$

$= \frac{80,000+50,000+40,000+30,000}{4}$

$= \frac{2,00,000}{4} = \textbf{50,000}$

Calculation of Goodwill

Goodwill = Average profit x No of years Purchase

= 50,000 X 3

= **1,50,000**

Prakash's Share of Goodwill = 1,50,000X1/5 =**30,000**

Shared by Puneet to Prakash = 30,000X2/4 = 15,000

Share by Pankaj to prakash = 30,000X2/4 = 15,000

SECTION – E

PRACTICAL ORIENTED QUESTIONS AND ANSWERS

1. Prepare Executors Loan Account with imaginary figures showing the repayment in two annual equal installment along with interest.

A's Executor's Loan Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
31.3.2018	To Bank A/c [10,000+2,000]	12,000	01.4.2017	By A's Capital A/c	20,000
31.3.2018	To Balance c/d	10,000	31.3.2018	By Interest A/c (20,000X10/100)	2,000
		22,000			**22,000**
31.3.2019	By Bank A/c 10,000+1,000]	11,000	01.4.2018	By Balance b/d	10,000
			31.3.2019	By Interest A/c (10,000X10/100)	1,000
		11,000			**11,000**

END

BOOK - 1

CHAPTER -5

Dissolution of Partnership Firm

Section B

I. Two Marks questions:

1. What is Dissolution of partnership?
   Ans: Dissolution of partnership means some of the partners terminate their connections with the firm and remaining partners will continue the business of the firm.
2. Give the meaning of Dissolution of Partnership Firm?
   Ans: Dissolution of partnership Firm means dissolution of partnership between all the partners of the Firm. All the partners cut off their connections with the firm and the business of the firm is closed down.
3. State any two circumstances under which a partnership firm is dissolved?
   Ans: (a) With the Consent of all the partners (b) With a Contract between the partners
   (c) Expiry of fixed period (d) Completion of venture (any two)
4. State any two difference between dissolution of partnership and dissolution of partnership firm?
   Difference between:-

Dissolution of Partnership	Dissolution of Partnership Firm
a. Business is not closed / terminated	a. Business is closed
b. Assets and Liabilities revalued	b. Assets are sold and liabilities are paid off

5. What is Realisation Account?
   Ans: Realisation Account is an account, which is prepared at the time of Dissolution of a partnership firm to ascertain the profit or loss on realisation assets and payment of liabilities.
6. Why is Realisation Account is prepared?
   Ans: Realisation Account is prepared to close all the ledger Accounts and to make settlement of accounts.
7. What is the accounting treatment for unrecorded Asset Realised on Dissolution of a Firm?
   Ans: Unrecorded asset realised is debited to cash (Bank) account and credited to realisation account
8. What is the accounting treatment for unrecorded Liability paid on dissolution of a Firm?
   Ans: Unrecorded Liability paid is debited to realisation account and credited to cash (Bank) account.
9. How do you treat PBD on Dissolution of a Firm?
   Ans: P.B.D is closed by transferring it to credit side of realisation account.
10. Give the journal entry for an asset taken over by a partner on dissolution of a firm?

Ans: Partner's Capital A/c………………….	Dr	xxx	--
To Realisation A/c		--	xxx
(Being asset taken over by partner)			

11. Give the journal entry for an liability taken over by a partner on dissolution of a Firm?

Ans: Realisation A/c……………………… Dr xxx --
To Partner's Capital A/c -- xxx
(Being liability taken over by partner)

12. Give the journal entry for transferring an asset to realisation account?

Ans: Realisation A/c………………….. Dr xxx --
To Asset A/c -- xxx
(Being transfer of asset)

13. Give the journal entry for the transfer of an outside liability to realisation Account?

Ans: Liability A/c…………………….. Dr xxx --
To Realisation A/c -- xxx
(Being transfer to Liability)

14. Give the journal entry for the payment of partners Loan on Dissolution of an Firm?

Ans: Partners Loan A/c……………….. Dr xxx --
To Cash /Bank A/c -- xxx
(Being partner's loan paid)

15. Give the journal entry for sale of an asset on Dissolution of a firm?

Ans: Cash / Bank A/c…………………… Dr xxx --
To Realisation A/c -- xxx
(Being sale of Asset)

16. Give the journal entry for the payment of Liability of an Dissolution of Firm?

Ans: Realisation A/c…………………….. Dr xxx --
To Cash (Bank) -- xxx
(Being payment of Liability)

17. Give the journal entry for the transfer of profit on Realisation?

Ans: Realisation A/c………………….. Dr xxx --
To Partner's Capital A/c s -- xxx
(Being profit transferred)

18. Give the journal entry for the transfer of loss on Realisation?

Ans: Partner's Capital A/c……………… Dr xxx --
To Realisation A/c -- xxx
(Being Transfer for loss)

19. Give the journal entry for realisation expenses paid by the Firm?

Ans: Realisation A/c…………………… Dr xxx --
To Cash (Bank) A/c -- xxx
(Being realistion expenses paid)

20. How do you close realisation A/c on Dissolution of Firm?

Ans: Realisation account is closed by transferring its balance to partners' capital account.

21. Give the journal entry for realisation expenses paid by the partner on behalf of the Firm?

Ans: Realisation A/c……………………. Dr xxx --
To Partner's Capital A/c -- xxx
(Being realisation expenses paid by the partner)

Section -D: Questions for 12 Marks:

1. Suvarna and Sunanda are partners sharing profits and losses equally. Their Balance Sheet as on 31. 3. 2018 was as follows :

Balance Sheet as on 31. 3. 2018

Liabilities	₹	Assets		₹
Bills Payable	10,000	Cash at Bank		15,000
Creditors	50,000	Debtors	55,000	
Sunanda's loan	25,000	*Less* : P.B.D.	3,000	52,000
Reserve fund	15,000	Stock		40,000
Capitals:		Furniture		15,000
Suvarna	60,000	Machinery		25,000
Sunanda	80,000	Buildings		81,000
		Profit and Loss A/c		12,000
	2,40,000			2,40,000

On the above date the firm was dissolved. The following information is available:

a) The assets realised as follows: Debtors ₹ 52,000, Stock ₹ 39,000, Machinery ₹ 24,000,
b) Buildings ₹ 75,000 and Furniture ₹ 13000,
c) Creditors and Bills payable were paid@ 5% discount.
d) Dissolution expenses amounted to ₹ 4000.

Prepare: i) Realisation Account
ii) Partners' Capital Accounts and
iii) Bank Account.

Realisation Account

Dr. Cr.

Particulars		Amount	Particulars		Amount
Book value of Assets			Book value of Liabilities:		
To Debtors		55,000	By PBD		3,000
To Stock		40,000	By Bills Payable		10,000
To Furniture		15,000	By Creditors		50,000
To Machinery		25,000	By Bank A/c (Assets Realised)		
To Buildings		81,000	Debtors	52,000	
To Bank A/c (Liabilities paid)			Stock	39,000	
Bills payable	9,500		Machinery	24,000	
[10,000 -500 (10,000x5/100)]			Buildings	75,000	
Creditors	47,500	57,000	Furniture	13,000	2,03,000
[50,000- 2,500 (50,000x5/100)]			By Partner's Capital A/c		
To Bank A/c		4,000	(Loss on Realisation)		
(Dissolution expenses)			Suvarna 11,000x1/2 =	5,500	
			Sunanda 11,000x1/2=	5,500	**11,000**
		2,77,000			**2,77,000**

Partners Capital Account

Dr. Cr.

Particulars	Suvarna	Sunanda	Particulars	Suvarna	Sunanda
To Profit & Loss A/c 12,000x1:1	6,000	6,000	By Balance b/d	60,000	80,000
To Realisation A/c (Loss on Realisation)	5,500	5,500	By Reserve Fund (15,000x1:1)	7,500	7,500
To Bank A/c (Closing Capital)	56,000	76,000			
	67,500	**8 7,500**		**67,500**	**87,500**

Bank Account

Dr. Cr.

Particulars	Amount	Particulars		Amount
To Balance b/d	15,000	By Sunanda's Loan		25,000
To Realisation A/c (Assets Realised)	203,000	By Realisation A/c (Liabilities Paid)		57,000
		By Dissolution Expenses		4,000
		By Partners Capital		
		Suvarna	56,000	
		Sunanda	76,000	1,32,000
	2,18,000			**2,18,000**

2. Anitha and Sunitha are partners sharing profits and losses equally. Their Balance Sheet as on 31. 3. 2014 was as follows :

Balance Sheet as on 31. 3. 2018

Liabilities		Assets		
Bills Payable	6,000	Cash at Bank		6,000
Creditors	20,000	Debtors	28,000	
Anitha's loan	5,000	Less: P.B.D.	2,000	26,000
Vanitha's loan	5,000	Stock		40,000
Reserve fund	30,000	Investments		20,000
Capitals		Furniture		14,000
Anitha	50,000	Buildings		60,000
Sunitha	50,000			
	1,66,000			1,66,000

On the above date the firm was dissolved. The following information is available:

a) Thse assets realised as follows: Debtors ₹ 25,600, Stock ₹ 39,000, Building ₹ 66,000

b) Anitha took over 50% of investments at 10% less on its book value and remaining investments were sold at a gain of 20%.

c) Furniture was taken over by Sunitha at ₹ 12,000.

d) Anitha agreed to bear all Realisation expenses. For the service Anita is paid ₹ 2,600. Actual Realisation Expenses amounted to ₹ 2,000.

Prepare: i) Realisation Account ii) Partners' Capital Accounts and iii) Bank Account.

Solution:

Dr. **Realisation Account** **Cr.**

Particulars		Amount	Particulars		Amount
Book value of Assets:			Book value of Liabilities:		
To Debtors		28,000	By Creditors		20,000
To Stock		40,000	By Bills Payable		6,000
To Investment		20,000	By Vanitha's Loan		5,000
To Buildings		60,000	By PBD		2,000
To Furniture		14,000	By Bank A/c (Assets Realised)		
To Bank A/c (Liabilities paid)			Debtors	25,600	
Creditors	20,000		Stock	39,000	
Bills Payable	6,000		Buildings	66,000	
Vanitha's Loan	5,000	31,000	Investment(50%)	12,000	1,42,600
To Anitha's Capital A/c		2,600	(10,000 + 20%)		
(Dissolution Exps took over)			By Anitha's Capital A/c		9,000
To Partner's Capital A/c			(Investment Took over by)		
(Profit on Realisation)			(20,000x50/100 = 10,000 – 10%)		
Anitha 1,000x1/2 =	500		By Sunitha's Capital A/c		12,000
Sunitha1,000x1/2 =	500	1,000	(Furniture Took over by)		
		1,96,600			**1,96,600**

Dr. **Partners Capital Account** Cr.

Particulars	Anitha	Sunitha	Particulars	Anitha	Sunitha
To Realisation A/c (Investment Took over)	9,000	-	By Balance b/d	50,000	50,000
			By Reserve Fund (30,000x1:1)	15,000	15,000
To Realisation A/c (Furniture took over)		12,000	By Realisation A/c (Dissolution exps took over)	2,600	-
To Bank A/c **(Closing Capital)**	59,000	53,500	By Realisation A/c (Profit on Realisation)	500	500
	68,100	**65,500**		**68,100**	**65,500**

Dr. **Bank Account** Cr.

Particulars	Amount	Particulars		Amount
To Balance b/d	6,000	By Anitha's Loan		5,000
To Realisation A/c (Assets Realised)	1,42,600	By Realisation A/c (Liabilities paid)		31,000
		By Partners Capital		
		Anitha	59,100	
		Sunitha	53,500	1,12,600
	1,48,600			**1,48,600**

3. Ramya, Kavy a and Divy a are partners sharing profits and losses in the ratio of 1:2:1. their balance sheet as on 31.3.2018 was as follows:

Liabilities	₹	Assets	₹
Creditors	20,000	Cash	15,000
Bills Payable	6,000	Debtors	15,000
Bank 0/D	4,000	Stock	18,000
Reserve fund	8,000	Furniture	12,000
Vani's loan	5,000	Machinery	20,000
Capitals:		Buildings	60,000
Ramya	42,000		
Kavya	35,000		
Divya	20,000		
	1,40,000		**1,40,000**

On the above date they decided to dissolve the firm:

a) Assets realised as follows: Debtors ₹ 13500, Stock ₹ 19,800, Buildings ₹ 62,000, Vehicle which was unrecorded also realised ₹ 4,000 and Machinery realised at book value .

b) Furniture was taken over by Ramya at a valuation of ₹ 9000

c) Creditors were settled at 10% less. Divya a took over Vani's loan.

d) Interest on Bank O/D due ₹ 400 was also paid off.

e) Realisation expenses amounted to ₹ 4,000.

Prepare: (i) Realization A/ c (ii) Partners Capital Accounts and (iii) Cash A/c

Solution:

Dr. **Realisation Account** **Cr.**

Particulars	**Amount**	**Particulars**	**Amount**
Book value of Assets		Book value of Liabilities:	
To Debtors	15,000	By Creditors	20,000
To Stock	18,000	By Bills Payable	6,000
To Furniture	12,000	By Bank over Draft	4,000
To Machinery	20,000	By Vani's Loan	5,000
To Buildings	60,000	By Cash A/c (Assets Realised)	
To Cash A/c (Liabilities paid)		Debtors 13,500	
Creditors 18,000		Stock 19,800	
[20,000 – 2,000(10000x10/100)]		Buildings 62,000	
Bills Payable 6,000		Unrecorded Vehicle 4,000	
Bank over Draft 4,000		Machinery 20,000	1,19,300
Add: O/s interest 400 4,400	28,400	By Ramya's Capital A/c	9,000
To Cash A/c (Dissolution Expenses)	4,000	(Furniture Took over by)	
To Divya's Capital A/c	5,000		
(Vani's Loan Took over)			
To Partner's Capital A/c			
(Profit on Realisation)			
Ramya = 900x1/4 = 225			
Kavya = 900x2/4 = 450			
Divya =900x1/4 = 225	**900**		
	1,63,300		**1,63,300**

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

Particulars	**Ramya**	**Kavya**	**Divya**	**Particulars**	**Ramya**	**Kavya**	**Divya**
To Realisation A/c (Ramya took over the furniture)	9,000	-	-	By Balance b/d	42,000	35,000	20,000
				By Reserve Fund (8,000X 1:2:1)	2,000	4,000	2,000
To Cash A/c (Closing Capital) 1,20,000x 1:1	35,225	39,450	27,225	By Realisation A/c (Divya took over Vani's Loan)	-	-	5,000
				By Revaluation A/c	225	450	225
	44,225	**39,450**	**27,225**		**44,225**	**39,450**	**27,225**

Cash Account

Dr. **Cr.**

Particulars	Amount	Particulars		Amount
To Balance b/d	15,000	By Realisation A/c		28,400
To Realisation A/c	1,19,300	(Liabilities paid)		
(Assets Realised)		By Dissolution Expenses		4,000
		By Partners Capital		
		Ramy	35,225	
		Kavya	39,450	
		Divya	27,225	1,01,900
	1,34,300			**1,34,300**

4. X, Y and Z are partners sharing profits and losses in the ratio of 3:2: 1. Their Balance Sheet as on 31.3.2018 was as follows:

Balance Sheet as on 31.3.2018

Liabilities	₹	Assets	₹
Capitals:		Machinery	40,500
X	30,000	Investments	20,830
Y	20,000	Stock in trade	17,550
Z	10,000	Joint Life Policy	14,000
Mrs.Y's loan	10,000	Debtors	8,700
Creditors	18,500	Profit and loss A/ c	1,500
Life Policy Fund	14,000	Cash at bank	5,420
Investment Fluctuation	6,000		
	1,08,500		**1,08,500**

The firm was dissolved on the above date.

a) Joint life policy is surrendered for ₹ 12, 000. Machinery is realised for ₹ 55,000, Stock is realised for ₹15, 000, Debtors realised ₹ 6,150
b) Investments are taken over by Mr. X for ₹ 17, 500
c) Mr. Y agrees to discharge his wife's loan.
d) It is found that an investment not recorded in the books is worth ₹ 3,000. The same is taken over by one of the creditors.
e) Expenses of realisation amounted to ₹ 600.

Prepare: (i) Realisation A/ c
(ii) Partners' capital Accounts and
(iii) Bank A/c

Solution:

Dr. Realisation Account Cr.

Particulars	Amount	Particulars	Amount
Book value of Assets:		Book value of Liabilities:	
To Machinery	40,500	By Creditors	18,500
To Investment	20,830	By Life policy fund	14,000
To Stock in Trade	17,550	By Investment fluctuation fund	6,000
To Joint Life policy	14,000	By Mrs. Y's Loan	10,000
To Debtors	8,700	By Bank A/c (Assets Realised)	
To Bank A/c (Liabilities paid)		Joint Life Policy 12,000	
Creditors 18,500		Machinery 55,000	
Less: Unrecorded		Stock 15,000	
Investment taken over 3,000	15,500	Debtors 6,150	88,150
To Bank A/c (Dissolution Expenses)	600		
To Y's Capital A/c (Mrs. Y's Loan taken over)	10,000	By X's Capital A/c (Investment Took over by)	17,500
To Partner's Capital A/c (Profit on Realisation)			
X 26,470X3/6 = 13,235			
Y 26,470X2/6 = 8,823			
Z 26,470X1/6 = 4,412	26,470		
	1,54,150		**1,54,150**

Dr. Partners Capital Account Cr.

Particulars	X	Y	Z	Particulars	X	Y	Z
To Realisation A/c (Investment took over)	17,500	-	-	By Balance b/d	30,000	20,000	10,000
To profit & Loss A/c (1,500X3:2:1)	750	500	250	By Realisation A/c (Profit on Realisation)	13,235	8,823	4,412
To Bank A/c **(Closing Capital)**	24,985	38,323	14,162	By Realisation A/c (Mrs. Y's Loan took over)	-	10,000	-
	35,000	**22,500**	**22,500**		**35,000**	**22,500**	**22,500**

Dr. Bank Account Cr.

Particulars	Amount	Particulars	Amount
To Balance b/d	5,420	By Realisation A/c (Liabilities paid)	15,500
To Realisation A/c (Assets Realised)	88,150	By Realisation A/c (Realisation paid)	600
		By Partners Capital	
		X 24,985	
		Y 38,323	
		Z 14,162	77,470
	93,570		**93,570**

5. Amara, Madhura and Prema are partners sharing profits and losses in the ratio of 2:1:1. Their Balance Sheet as on 31.3.2018 was as follows:

Balance sheet as on 31.3.2018

Liabilities	₹	Assets		₹
Bills payable	4,300	Cash in hand		1,000
Creditors	5,700	Bills Receivable		400
Capitals:		Stock		20,000
Amara	30,000	Debtors	7,000	
Madhura	20,000	Less: PBD	400	6,600
Prema	20,000	Joint Life Policy		4,000
Joint Life Policy Fund	4,000	Machinery		50,000
		Prepaid Rent		2,000
	84,000			**84,000**

The firm was liquidated on the above date:

a) Amara took over Joint Life Policy for ₹ 5,000

b) Stock realised for ₹22,000, Debtors realised ₹4,100 and Machinery was sold for ₹ 58,000.

c) Bills on hand realised in full.

d) One bill for ₹ 500 under discount was dishonoured and had to be paid by the firm.

Prepare: (i) Realisation A/ c (ii) Partners' capital Accounts and (iii) Bank A/c

Solution:

Dr. **Realisation Account** **Cr.**

Particulars		Amount	Particulars		Amount
Book value of Assets:			Book value of Liabilities:		
To Bills Receivable		400	By PBD		400
To Stock		20,000	By Bills Payable		4,300
To Debtors		7,000	By Creditors		5,700
To Joint Life policy		4,000	By Joint Life Policy Fund		4,000
To Machinery		50,000	By Cash A/c (Assets Realised)		
To Prepaid Rent		2,000	Stock	22,000	
To Cash A/c (Liabilities paid)			Debtors	4,100	
Bills payable	4,300		Machinery	58,000	
Creditors	5,700		Bills Receivable	400	84,500
Bill Dishonoured	500	10,500	By Amara's Capital A/c (Joint Life policy Took over by)		5,000
To Partner's Capital A/c (Profit on Realisation)					
Amara 10,000x2/4 =	5,000				
Madhura 10,000x1/4 =	2,500				
Prema 10,000x1/4 =	2,500	10,000			
		1,03,900			**1,03,900**

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

Particulars	Amara	Madhura	Prema	Particulars	Amara	Madhura	Prema
To Realisation A/c (Joint life policy took over)	5,000	-	-	By Balance b/d	30,000	20,000	20,000
To Cash A/c **(Closing Capital)**	30,000	22,500	22,500	By Realisation A/c (Profit on Realisation)	5,000	2,500	2,500
	35,000	**22,500**	**22,500**		**35,000**	**22,500**	**22,500**

Dr. **Bank Account** **Cr.**

Particulars	Amount	Particulars		Amount
To Balance b/d	1,000	By Realisation A/c (Liabilities paid)		10,500
To Realisation A/c (Assets Realised)	84,500	By Partners Capital		
		Amara	30,000	
		Madhura	22,500	
		Prema	22,500	75,000
	85,500			**85,500**

6. Mohan, Nagaraju and Prakash are partners sharing profits and losses in the ratio of 4:3:2. Their Balance sheet as on 31.3.2018 was as follows

Balance Sheet as on 31. 3. 2018

Liabilities	₹	Assets	₹
Creditors	25,000	Cash	9,000
Bills Payable	17,000	Debtors	27,000
Prakash's Loan	10,000	Stock	15,000
Reserve Fund	18,000	Investments	5,000
Capitals: Mohan	30,000	Furniture	14,000
Nagaraj	20,000	Buildings	40,000
Prakash	10,000	Goodwill	20,000
	1,30,000		**1,30,000**

On the above date the firm was dissolved and following information is available.

a) The assets realised as follows : Debtors realised 10% less than the book value, Investments realised 20% more than the book value, Buildings realised ₹ 60,000, Stock realised ₹ 12,000 and Furniture sold for ₹ 15,000.

b) Goodwill is taken over by Mohan at ₹ 15,000

c) Creditors and Bills payable are settled at discount of 5% each.

d) Realisation expenses ₹ 2,000.

Prepare: (i) Realisation A/ c (ii) Partners' capital Accounts and (iii) Bank A/c

Solution:

Realisation Account

Dr. **Cr.**

Particulars	Amount	Particulars	Amount
Book value of Assets:		Book value of Liabilities:	
To Debtors	27,000	By Creditors	25,000
To Stock	15,000	By Bills Payable	17,000
To Investment	5,000	By Cash A/c (Assets Realised)	
To Furniture	14,000	Debtors 24,300	
To Buildings	40,000	[27,000-2,700(27,000X10/100)]	
To Goodwill	20,000	Investment 6,000	
To Cash A/c (Liabilities paid)		[5,000+ 1,000(5,000X20/100)]	
Creditors 23,750		Buildings 60,000	
(25,000-1,250)		Stock 12,000	
(10,000x10/100)		Furniture 12,000	1,17,300
Bills payable			
(17,000-850) 16,150	39,900	By Mohan's Capital A/c	15,000
(10,000x5/100)		(Goodwill Took over by)	
To Cash A/c	2,000		
(Realisation Expenses)			
To Partner's Capital A/c			
(Profit on Realisation)			
Mohan 11,400x4/9 =5,067			
Nagaraj11,400x3/9 = 3,800			
Prakash11,400x2/9 = 2,533	11,400		
	1,74,300		**1,74,300**

Partners Capital Account

Dr. **Cr.**

Particulars	Mohan	Nagaraj	Prakash	Particulars	Mohan	Nagaraj	Prakash
To Realisation A/c	15,000	-	-	By Balance b/d	30,000	20,000	10,000
(Goodwill took over)				By Reserve Fund	8,000	6,000	4,000
To Cash A/c	28,067	29,800	16,533	(18,000x4:3:2)			
(Closing Capital)				By Realisation A/c	5,067	3,800	2,533
				(Profit on Realisation)			
	43,067	**29,800**	**16,533**		**43,067**	**29,800**	**16,533**

Bank Account

Dr. **Cr.**

Particulars	Amount	Particulars		Amount
To Balance b/d	9,000	By Realisation A/c		39,900
To Realisation A/c	1,17,300	(Liabilities paid)		
(Assets Realised)		By Realisation A/c		2,000
		(Realisation Exps)		
		By Praksh Loan		10,000
		By Partners Capital		
		Mohan	28,067	
		Nagaraj	29,800	
		Prakash	16,533	74,400
	1,26,300			**1,26,300**

END

BOOK – 2

CHAPTER – 1

Accounting for Share Capital

Section A: One Marks Questions

I. Fill in the blanks.

1. A Company is an **Artificial** Person.
2. **Subscribed capital** is the part of the issued capital.
3. Call money received in advance is called **Calls in advance**
4. **₹ 5 lakh** is the minimum paid up capital of a public company.
5. **One month** must elapse between two calls.
6. **Seven (7)** is the minimum number of members in a Public Company.
7. **Two** is the minimum number of members in a Private Company.\
8. The amount of buy back of shares in any financial year should not exceed **25%** of the paid-up capital.
9. Minimum paid up capital of a private company is **₹ 1,00,000**
10. Profit on forfeiture of shares is transferred to **Capital reserve** account.

II. Multiple Choice Questions:

1. Equity share holder are:
   a) Creditors **b) Owners**
   c) Customers of the company d) None of the above

2. Interest on calls in arrears is charged according to table 'F' at the rate of :
   a) 10 % b) 6%
   c) 8% d) 11%

3. Shares can be forfeited for :
   a) Non-payment of call money b) Failure to attend meeting
   c) Failure to repay the loan to the bank d) The pledging of shares as a security

4. Balance of share forfeiture Account is shown in the Balance Sheet under the head:
   a) Current Liabilities and Provisions b) Reserves and Surplus
   c) Share Capital d) Unsecured Loans

5. Issued capital is a part of:
   a) Reserve capital b) Unissued capital
   c) Authorised capital d) None of the above

6. Maximum number of members in a private company is
   a) 40 **b) 200** c) 70 d) No limits

7. More applications are received than offered to public is called
   a) Less offers b) Under subscription'
   c) Over subscription d) More offer

8. Paid up capital is part of
   a) Authorised capital b) Reserve capital
   c) Called-up capital d) Subscribed capital

9. If a shareholder fails to pay call money, it is called.
   a) Calls unpaid b) Calls in advance
   c) Calls in arrears d) None of the above

10. Minimum number of members in a public company is.
    a) 20 b) 50 c) no limit **d) 7**

III. True or False Type Questions:

1. A company is an Artificial person: **True**
2. Shares of a company are generally transferable: **True**
3. Share application account is a liability account: **True.**
4. Paid –up capital may exceed called-up capital: **False**
5. Capital Reserves are created out of capital profits: **True.**
6. The part of capital which is called-up only on winding up is called reserve capital: **True**
7. Private companies invite the application to public: **False.**
8. Forfeiture of shares is cancellation of the rights of shareholder: **True**
9. All the shares of buy-back should be fully paid-up: **True**
10. The Articles of Association must authorise the company for the buy-back of shares: **True**

IV. Very short answer Questions:

1. State any one kind of a company.
   Ans: (a) Companies limited by shares
   (b) Companies limited by Guarantee
   (c) Unlimited companies

2. What is issued capital?
   Ans: Issued capital is part of authorized capital which is actually issued to the public for subscription.

3. What is buy-back of shares?
   Ans: Buy-back of share means purchase of its own shares by a company.

4. What is minimum paid-up capital of a private company?
   Ans: ₹ 1 lakh

5. When the Reserve capital used
   Ans: It is used for contingencies or set of capital loss.

6. What is under subscription?
   Ans: under subscription means number of shares applied is less than the number of share application have been invited for subscription.

7. What is over subscription?
   Ans: over subscription means application for more shares are received than the number of share offered to the public for subscription.

8. What is issue of shares at par?
   Ans: issue of share at par means issue of share at the face value.

9. What is issue of shares at premium?
   Ans: issue of shares at premium means issue of shares at the value which is more than the face value.

10. What is forfeiture of shares?
    Ans: Forfeiture of share means cancellation of rights of shareholders due to non-payment of allotment or any call money or both.

Section B:

V. Short answer Question Two marks

1. What is a company?
   Ans: It is an artificial person having corporate legal entity, distinct from its members and has a common seal.

2. State any one features of a company.
   Ans: (a) Limited liability of members
   (b) Transferability of shares

3. What is prospectus?
   Ans: Prospects is an invitation to the public by a new company to raise the funds.

4. What is calls in arrears?
   Ans: Shareholder fails to pay the amount due on allotment or on any of the calls is called calls in arrears.

5. State any two methods of issue of shares.
   Ans: (i) Issue of shares at par ii) Issue of shares at premium

6. What is issue of shares for consideration other than cash?
   Ans: Issue of shares for consideration other than cash means issuing of shares for purchasing of assets instead of cash.

7. What is forfeiture of shares?
   Ans: Forfeiture of shares means cancellation of membership of a shareholder who fails to pay allotment money or any calls or both.

8. Give the journal entry for transfer of profit on re-issue of forfeited shares.

Ans: Share Forfeiture A/c…………………………………..Dr xxx ----
To Capital reserve A/c ---- xxx
(Being profit on re-issue transfer to capital reserve account)

9. State any two categories of share capital.

a) Authorised capital b) Issued capital c) Subscribed capital
d) Called up capital e) Paid up capital

Section -C
Six Marks problems

1. ABC Company Ltd., issued 20,000 Equity Shares of ₹10 each. The amount was payable is as follows.

On application ₹2. On allotment ₹3. On first and final call ₹5

All the shares were subscribed and the money duly received.

Pass the journal entry upto the stage of first and final call money received.

Solution:

Journal Entries in the books of ABC Company Ltd.,

Date	Particulars	L.F.	Debit	Credit
1.	Bank A/c (20,000x2) Dr. To Equity share Application A/c (Being equity share application money received on 20,000 shares at ₹2 per share)		40,000 -	- 40,000
2.	Equity Share Application A/c Dr. To Equity Share Capital A/c (Being application money transferred to share capital A/c)		40,000 -	- 40,000
3.	Equity Share Allotment A/c (20,000x3) Dr. To Equity Share Capital A/c (Being allotment money due on 20,000 shares at ₹3 per share)		60,000 -	- 60,000
4.	Bank A/c Dr. To Equity Share Allotment A/c (Being allotment money received)		60,000 -	- 60,000
5.	Equity Share 1st & Final Call A/c (20,000x5) Dr. To Equity Share Capital A/c (Being share 1st & Final call money due on 20,000 shares at ₹5 per share)		1,00,000 -	- 1,00,000
6.	Bank A/c 20,000X5 Dr. To Equity Share A/c (Being share Final call money received on 20,000 shares at ₹5 per share)		1,00,000 -	- 1,00,000

2. Ram Company Ltd., issued 10,000 Equity Shares of ₹100 each at premium ₹ 10 per share. The amount was payable is as follows.
   On application ₹20. On allotment ₹60 (Including Premium) & On first and final call ₹50

All the shares were subscribed and the money duly received. Except the first and final Call on 1,000 shares. Pass the journal entry upto the stage of first and final call money received.

Solution:

Journal Entries in the books of Ram Company Ltd.,

Date	Particulars	L.F.	Debit	Credit
1.	Bank A/c (10,000x20) Dr.		2,00,000	-
	To Equity share Application A/c		-	2,00,000
	(Being equity share application money received on 10,000 shares at ₹20 per share)			
2.	Equity Share Application A/c Dr.		2,00,000	-
	To Equity Share Capital A/c		-	2,00,000
	(Being application money transferred to share capital A/c)			
3.	Equity Share Allotment A/c (10,000x60) Dr.		6,00,000	-
	To Equity Share Capital A/c (10,000X50)		-	5,00,000
	To Security Premium A/c (10,000X10)		-	1,00,000
	(Being allotment money due on 10,000 shares at ₹60 per share including premium of ₹10 per share)			
4.	Bank A/c Dr.		600,000	-
	To Equity Share Allotment A/c		-	600,000
	(Being allotment money received)			
5.	Equity Share 1st & Final Call A/c (10,000x50) Dr.		5,00,000	-
	To Equity Share Capital A/c		-	5,00,000
	(Being share 1st & Final call money due on 10,000 shares at ₹50 per share)			
6.	Bank A/c 9,000X50 Dr.		4,50,000	-
	To Equity Share A/c		-	4,50,000
	(Being share Final call money received on 9,000 shares at ₹50 per share)			

3. 'A' Company Ltd., issued 5,000 Equity Shares of ₹100 each. The amount was payable is as follows.
   On application ₹20.
   On allotment ₹40
   On first and final call ₹40

All the shares were subscribed and the money duly received.

Pass the journal entry upto the stage of first and final call money received.

Solution:

Journal Entries in the books of 'A' Company Ltd.,

Date	Particulars	L.F.	Debit	Credit
1.	Bank A/c (5,000x20) Dr. To Equity share Application A/c (Being equity share application money received on 5,000 shares at ₹20 per share)		1,00,000 -	- 1,00,000
2.	Equity Share Application A/c Dr. To Equity Share Capital A/c (Being application money transferred to share capital A/c)		1,00,000 -	- 1,00,000
3.	Equity Share Allotment A/c (5,000x40) Dr. To Equity Share Capital A/c (5,000X40) (Being allotment money due on 5,000 shares at ₹40 per share)		2,00,000 -	- 2,00,000
4.	Bank A/c Dr. To Equity Share Allotment A/c (Being allotment money received)		2,00,000 -	- 2,00,000
5.	Equity Share 1st & Final Call A/c (5,000x40) Dr. To Equity Share Capital A/c (Being share 1st & Final call money due on 5,000 shares at ₹40 per share)		2,00,000 -	- 2,00,000
6.	Bank A/c (5,000X40) Dr. To Equity Share A/c (Being share Final call money received on 5,000 shares at ₹40 per share)		2,00,000 -	- 2,00,000

Section -D
12 Marks Problems

1. PROBLEMS ON ISSUE OF SHARES AT PAR:

Sun Shine Company issued 5,000 equity shares at ₹100 each. The amount was payable ₹20 on application, ₹30on allotment, ₹50 on first and final call.

All the shares were subscribed and the money duly received except the 1st & final call on 200 shares. The directors decided to forfeit these shares and re-issued at ₹90 per share as fully paid-up.

Pass the necessary journal entries to record the above transactions in books of companies.

Solution:

Journal Entries in the books of Sun Shine Company Ltd.,

Date	Particulars	L.F.	Debit	Credit
1.	Bank A/c (5,000x20) Dr. To Equity share Application A/c (Being equity share application money received on 5,000 shares at ₹20 per share)		1,00,000 -	- 1,00,000
2.	Equity Share Application A/c Dr. To Equity Share Capital A/c (Being application money transferred to share capital account)		1,00,000 -	- 1,00,000
3.	Equity Share Allotment A/c (5,000x30) Dr. To Equity Share Capital A/c (Being allotment money due on 5,000 shares at ₹30 per share)		1,50,000 -	- 1,50,000
4.	Bank A/c Dr. To Equity Share Allotment A/c (Being allotment money received)		1,50,000 -	- 1,50,000
5.	Equity Share 1st & Final Call A/c (5,000x50) Dr. To Equity Share Capital A/c (Being share 1st & Final call money due on 5,000 shares at ₹50)		2,50,000 -	- 2,50,000
6.	Bank A/c (5,000-200 = 4,800x50) Dr. To Equity Share A/c (Being share Final call money received on 4,800 shares at ₹50 per share)		2,40,000 -	- 2,40,000
7.	Equity Share Capital A/c (200x100) Dr. To Forfeited Shares A/C (20+30 = 50x200) To Equity Share Final Call A/c(200x50) (Being forfeiture of 2,000 shares for non-payment of Final call)		20,000 - -	- 10,000 10,000
8	Bank A/c (200x90) Dr. Forfeited Shares A/c (200x10) Dr. To Equity Share Capital A/c (200x100) (Being re-issue of 200 forfeited shares at ₹90 fully paid up)		18,000 2,000 -	- - 20,000
9	Forfeited Shares A/c (10,000-2,000) Dr. To Capital Reserve A/c (Being the balance in forfeited shares account 10,000 - 2,000 transferred to capital reserve account)		8,000 -	- 8,000

2. ISSUE OF SHARES AT PREMIUM:

XYZ company limited issued 8,000 equity shares of ₹ 100 each at a premium of ₹ 10. The amount was payable as follows. ₹30 on application, ₹ 60 on allotment (including premium), ₹ 20 on first and final call

All the shares were subscribed and the money duly received except the 1st and final call on 400 shares. The directors decided to forfeit these shares and re-issued at ₹ 90 per share fully paid-up. Pass the necessary journal entries.

Solution:

Journal Entries in the XYZ Company Ltd.,

Date	Particulars	L.F	Debit	Credit
1.	Bank A/c (8,000X30) Dr. To Equity share Application A/c (Being equity share application money received on 8,000 shares at ₹30 per share)		2,40,000 -	- 2,40,000
2.	Equity Share Application A/c Dr. To Equity Share Capital A/c (Being application money transferred to share capital account)		2,40,000 -	- 2,40,000
3.	Equity Share Allotment A/c (8,000x60) Dr. To Equity Share Capital A/c (8,000x50) T Security Premium A/c (8,000x10) (Being allotment money due on 8,000 shares at ₹60 per share)		4,80,000 - -	- 4,00,000 80,000
4.	Bank A/c Dr. To Equity Share Allotment A/c (Being allotment money received)		4,80,000 -	- 4,80,000
5.	Equity Share 1st and Final Call A/c (8,000x20) Dr. To Equity Share Capital A/c (Being share 1st and final call money due on 8,000 shares at ₹20)		1,60,000 -	- 1,60,000
6.	Bank A/c (8,000-400 = 7600x20) Dr. To Equity Share 1st and Final Call A/c (Being share 1st & Final call money received on 7,600 shares)		1,52,000 -	- 1,52,000
7.	Equity Share Capital A/c (400x100) Dr. To Forfeited Shares A/C (30+50 =80x400) To Equity Share 1st & Final Call A/c (400x20) (Being 400 Shares forfeiture on non-payment of 1st & Final call)		40,000 - -	- 32,000 8,000
8.	Bank A/c (400x90) Dr. Forfeited Shares A/c (400x10) Dr. To Equity Share Capital A/c (400x100) (Being re-issue of 400 shares at ₹ 90 fully paid up)		36,000 4,000 -	- - 40,000
9.	Forfeited Shares A/c (32,000-4,000) Dr. To Capital Reserve A/c (Being the balance in forfeited shares account (32,000-4,000) transferred to capital reserve account)		28,000 -	- 28,000

3. PROBLEMS ON UNDER SUBSCRIPTION:

Bright company limited with an authorized capital Rs. 6,00,000 is divided in to shares of 10 each, issued 40,000 shares at a premium of ₹ 2 per share. The amount was payable as follows.

₹3 on application
₹5 on allotment (including premium)
₹4 on first and final call

All the shares were subscribed and the money duly received except the final call on 1,000 shares. The directors decided to forfeit these shares and re-issued at ₹ 7 per share fully paid-up. Pass the necessary journal entries to record the above transactions in books of companies.

Solution:

Journal Entries in the books of Bright Company Ltd.,

Date	Particulars	L.F.	Debit	Credit
1.	Bank A/c (40,000x3) Dr. To Equity share Application A/c (Being equity share application money received on 40,000 shares at ₹ 3 per share)		1,20,000 -	- 1,20,000
2.	Equity Share Application A/c Dr. To Equity Share Capital A/c (Being application money transferred to share capital account)		1,20,000 -	- 1,20,000
3.	Equity Share Allotment A/c (40,000x5) Dr. To Equity Share Capital A/c (40,000x3) To Security Premium A/c (40,000x2) (Being allotment money due on 40,000 shares at ₹ 5 per share)		2,00,000 - -	- 1,20,000 80,000
4.	Bank A/c Dr. To Equity Share Allotment A/c (Being allotment money received)		2,00,000 -	- 2,00,000
5.	Equity Share First and Final Call A/c (40,000x4) Dr. To Equity Share Capital A/c (Being share first and final call money due on 40,000 shares at ₹ 4)		1,60,000 -	- 1,60,000
6.	Bank A/c (40,000-1,000 =39,000x4) Dr. To Equity Share 1st Call A/c (Being share 1st and final call money received on 39,000 shares)		1,56,000 -	- 1,56,000

7.	Equity Share Capital A/c (1,000x10) Dr. To Forfeited Shares A/c (3+3 = 6x1,000) To Equity Share Final Call A/c (1,000x4) (Being forfeiture of 1,000 shares for non-payment of Final call)		10,000 - -	- 6,000 4,000
8.	Bank A/c (1,000x7) Dr. Forfeited Shares A/c (1,000x3) Dr. To Equity Share Capital A/c (Being re-issue of 1,000 forfeited shares at ₹ 7)		7,000 3,000 -	- - 10,000
9.	Forfeited Shares A/c (6,000 -3,000) Dr. To Capital Reserve A/c (Being the balance in forfeited shares account (6,000-3,000) transferred to capital reserve account)		3,000 -	- 3,000

4. PROBLEMS ON OVER SUBSCRIPTION:

Anand company limited issued 10,000 Equity shares of ₹100 each at a premium of ₹ 20. Payable ₹ 20 on application, ₹ 50 on allotment(including premium ₹ 20) , ₹ 25 on first call and ₹25 on final call. The application received on 13,000 shares and allotted 10,000 share. 2,000 applications rejected and amount returned. 1,000 application money adjusted to allotment account. All the money was duly received.

Pass the necessary journal entries.

Solution:

Journal Entries in the books of Anand Company Ltd.,

Date	Particulars	L.F.	Debit	Credit
1.	Bank A/c (13,000x20) Dr. To Equity share Application A/c (Being equity share application money received on 13,000 shares at ₹20 per share)		2,60,000 -	- 2,60,000
2.	Equity Share Application A/c Dr. To Equity Share Capital A/c (10,000x20) To Equity Share Allotment A/c (1,000X20) To Bank A/c (2,000X20) (Being application money transferred to share capital account, Excess application money transfer to Allotment account and rejected application money refunded.		2,60,000 - - -	- 2,00,000 20,000 40,000

3.	Equity Share Allotment A/c (10,000X50) Dr. To Equity Share Capital A/c (10,000x30) To security premium A/c (10,000x20) (Being allotment money due on 10,000 shares at ₹50 per share)		5,00,000 - -	- 3,00,000 2,00,000
4.	Bank A/c (5,00,000-20,000) Dr. To Equity Share Allotment A/c (Being balance allotment money received 5,00,000-20,000)		4,80,000 -	- 4,80,000
5.	Equity Share 1st Call A/c (10,000x25) Dr. To Equity Share Capital A/c (Being share 1st call money due on 10,000 shares at ₹ 25)		2,50,000 -	- 2,50,000
6.	Bank A/c Dr. To Equity Share 1st Call A/c (Being share 1st call money received)		2,50,000 -	- 2,50,000
7.	Equity Share Final Call A/c (10,000x25) Dr. To Equity Share Capital A/c (Being share final call money due on 10,000 shares at ₹ 25)		2,50,000 -	- 2,50,000
8.	Bank A/c (10,000x25) Dr. To Equity Share Final call A/c (Being share Final call money received)		2,50,000 -	- 50,000

5. PROBLEM ON PARTLY RE-ISSUE:

ABC company limited issued 1,00,000 equity shares of ₹ 10 each at a premium of ₹ 2. The amount was payable as follows.

₹ 2 on application

₹ 7 on allotment (including premium)

₹ 3 on first and final call

A shareholder holding 5,000 shares did not pay final call. His shares were forfeited. Out of these 3,500 shares were re-issued at ₹ 8 per share fully paid-up. Give journal entries in the books of the company.

Solution:

Journal Entries in the ABC Company Ltd.,

Date	Particulars	L.F.	Debit	Credit
1.	Bank A/c (1,00,000x2) Dr. To Equity share Application A/c (Being equity share application money received on 1,00,000 shares at ₹ 2 per share)		2,00,000 -	- 2,00,000
2.	Equity Share Application A/c Dr. To Equity Share Capital A/c (Being application money transferred to share capital account)		2,00,000 -	- 2,00,000
3.	Equity Share Allotment A/c (1,00,000x7) Dr. To Equity Share Capital A/c (1,00,000x5) T Security Premium A/c (1,00,000x2) (Being allotment money due on 1,00,000 shares at ₹7 per share)		7,00,000 - -	- 5,00,000 2,00,000
4.	Bank A/c Dr. To Equity Share Allotment A/c (Being allotment money received)		7,00,000 -	- 7,00 ,000
5.	Equity Share First and Final Call A/c(1,00,000x3) Dr. To Equity Share Capital A/c (Being share first and final call money due on 1,00,000 shares at ₹ 3)		3,00,000 -	- 3,00,000
6.	Bank A/c (1,00,000-5,000 = 95,000x3) Dr. To Equity Share final Call A/c (Being share first and final call money received on 95,000 shares)		2,85,000 -	- 2,85,000
7.	Equity Share Capital A/c (5,000x10) Dr. To Forfeited Shares A/C (2+5 =7x5,000) To Equity Share Final Call A/c (5,000x3) (Being forfeiture of 5,000 shares for nonpayment of Final call)		50,000 - -	- 35,000 15,000
8.	Bank A/c (3,500x8) Dr. Forfeited Shares A/c (3,500x2) Dr. To Equity Share Capital A/c (Being re-issue of 3,500 forfeited shares at ₹ 8 fully paid up)		28,000 7,000 -	- - 35,000

9.	Forfeited Shares A/c (24,500-7,000) Dr. To Capital Reserve A/c (Being the balance in forfeited shares account (24,500-7,000) transferred to capital reserve account)		17,500 -	- 17,500

NOTE: Calculation of capital reserve

Forfeited shares amount of 3,500 shares = 3,500x7=24,500
Less: discount on reissue of forfeited shares= 3,500x2= 7,000
----
difference is capital reserve 17,500

6. ISSUE OF PREFERENCE SHARES AT PREMIUM:

R.J. company limited issued 20,000 Preference shares of ₹ 100 each at a premium of ₹20. The amount was payable as follows.
₹ 30 on application
₹ 60 on allotment (including premium ₹ 20)
₹ 30 on first and final call

All the shares were subscribed and the money duly received except the final call on 1,000 shares. The directors decided to forfeit these shares and re-issued at ₹ 90 per share fully paid-up. Pass the necessary journal entries.

Solution:

Journal Entries in the R.J. company Ltd.,

Date	Particulars	L.F.	Debit	Credit
1.	Bank A/c (20,000x30) Dr. To Preference share Application A/c (Being preference share application money received on 20,000 shares at ₹ 30 per share)		6,00,000 -	- 6,00,000
2.	Preference Share Application A/c Dr. To Preference Share Capital A/c (Being application money transferred to share capital account)		6,00,000 -	- 6,00,000
3.	Preference Share Allotment A/c (20,000x60) Dr. To Preference Share Capital A/c (20,000x40) T Security Premium A/c (20,000x20) (Being allotment money due on 20,000 shares at ₹60 per share)		12,00,000 - -	- 8,00,000 4,00,000

4.	Bank A/c Dr. To Preference Share Allotment A/c (Being allotment money received)		12,00,000 -	- 12,00,000
5.	Preference Share 1st & Final Call A/c(20,000x30) Dr. To Preference Share Capital A/c (Being share final call money due on 20,000 shares at ₹ 30)		6,00,000 -	- 6,00,000
6.	Bank A/c (19,000x30) Dr. To Preference Share 1st & final Call A/c (Being share first and final call money received on 19,000 shares)		5,70,000 -	- 5,70,000
7.	Preference Share Capital A/c (1,000x100) Dr. To Forfeited Shares A/C (30+40 =70x1,000) To Preference Share 1st &Final Call A/c (1,000x30) (Being forfeiture of 1,000 shares for nonpayment of Final call)		1,00,000 - -	- 70,000 30,000
8.	Bank A/c (1,000x90) Dr. Forfeited Shares A/c (1,000x10) Dr. To Preference Share Capital A/c (Being re-issue of 1,000 forfeited shares at ₹ 90 fully paid up)		90,000 10,000 -	- - 1,00,000
9.	Forfeited Shares A/c (70,000-10,000) Dr. To Capital Reserve A/c (Being the balance in forfeited shares account (70,000-10,000) transferred to capital reserve account)		60,000 -	- 60,000

7.ISSUE OF SHARES AT PREMIUM:

MCM company limited issued 50,000 equity shares of ₹ 10 each at a premium of ₹ 2. The amount was payable as follows.

₹ 2 on application
₹ 7 on allotment (including premium ₹ 2)
₹ 3 on first and final call

All the shares were subscribed and the money duly received except the final call on 700 shares. The directors decided to forfeit these shares and re-issued at ₹ 7 per share fully paid-up. Pass the necessary journal entries.

Solution:

Journal Entries in the MCM Company Ltd.,

Date	Particulars	L.F.	Debit	Credit
1.	Bank A/c (50,000x2) Dr. To Equity share Application A/c (Being equity share application money received on 50,000 shares at ₹ 2 per share)		1,00,000 -	- 1,00,000
2.	Equity Share Application A/c Dr. To Equity Share Capital A/c (Being application money transferred to share capital account)		1,00,000 -	- 1,00,000
3.	Equity Share Allotment A/c (50,000x7) Dr. To Equity Share Capital A/c (50,000x5) To Security Premium A/c (50,000x2) (Being allotment money due on 50,000 shares at ₹7 per share)		3,50,000 - -	- 2,50,000 1,00,000
4.	Bank A/c Dr. To Equity Share Allotment A/c (Being allotment money received)		3,50,000 -	- 3,50,000
5.	Equity Share 1st and Final Call A/c (50,000x3) Dr. To Equity Share Capital A/c (Being share 1st and final call money due on 50,000 shares at ₹ 3)		1,50,000 -	- 1,50,000
6.	Bank A/c (50,000-700 = 49,300x3) Dr. To Equity Share 1st Call A/c (Being share 1st call money received on 49,300 shares)		1,47,900 -	- 1,47,900
7.	Equity Share Capital A/c (700x10) Dr. To Forfeited Shares A/C (2+5 =7x700) To Equity Share Final Call A/c (700x3) (Being forfeiture of 700 shares for non-payment of Final call)		7,000 - -	- 4,900 2,100
8.	Bank A/c (700x7) Dr. Forfeited Shares A/c (700x3) Dr. To Equity Share Capital A/c (Being re-issue of 700 forfeited shares at ₹ 7 fully paid up)		4,900 2,100 -	- - 7,000

9.	Forfeited Shares A/c (4,900-2,100) Dr. To Capital Reserve A/c (Being the balance in forfeited shares account (4,900-2,100) transferred to capital reserve account)		2,800 -	- 2,800

Section E

PRACTICAL ORIENTED QUESTIONS AND ANSWERS

1. Give the disclosure requirements pertaining to Share Capital in Notes to Accounts of Balance Sheet of a Company with imaginary figures.

<u>Notes to Accounts:</u> Share Capital:

Particulars	₹	₹
1. <u>Share Capital</u>		
Authorized Share Capital		
50,000 equity shares of Rs.100 each		50,00,000
Issued Capital		
40,000 equity shares of Rs.100 each		40,00,000
Subscribed Capital		
35,000 equity shares of Rs.100 each		35,00,000
Called up Capital		
35,000 equity shares of Rs.100 each	35,00,000	
Less: Calls-in-arrears	20,000	
Paid up Capital		**34,80,000**

END

BOOK – 2
CHAPTER – 3
FINANCIAL STATEMENT OF A COMPANY

Section A : One Marks Questions

1. Fill in the blanks:-

1. **Financial** Statements are the basic and formal annual report.
2. Financial statement includes **Statement of Profit & loss** and balance sheet.
3. Income statement and **Position statement** are the financial statements.
4. The object of preparation of balance sheet is to ascertain the **Financial status of the enterprise.**
5. Income statement is prepared to ascertain **profit or loss of the enterprise**
6. Share capital appears under the head **Shareholders' fund**
7. Capital reserve is shown under **Reserves & surplus** head.
8. Debit balance of statement of profit & loss shall be shown as **Surplus** figure under surplus head.
9. Loans, which are repayable within **12** months, are called as short-term borrowings.
10. Fixed assets are classified as tangible and **Intangible** assets.

2. Multiple Choice Questions:-

1. Financial statements generally include:
   a) Comparative statement b) Fund flow statement
   c) Income statement and balance sheet d) None of the above
2. The prescribed form of Balance sheet for the companies has been given in the schedule ___
   a) VI part I b) VI part II c) VI part IV **d) III schedule**
3. Which of the following is shown under the head "fixed assets"
   a) good will b) Patents c)Trade mark **d) All of the above**
4. Current assets does not include:
   a) Short term investments **b) Buildings**
   c) Inventories d) Cash and cash equivalents
5. Current liabilities are to be paid with in ___ month
   a) 3 months b) 6 months c) 9 months **d) 12 months**
6. External users of financial statements does not include:
   a) Banks **b) shareholders** c) Creditors d) Government
7. Share capital is shown as _____
   a) Authorized capital b) Issued capital
   c) Subscribed capital **d) All the above**

8. Financial statements are prepared based on:
   a) Accounting postulate b) Accounting conventions
   c) Recorded facts **d) All the above**

9. Non current assets are:
   a) Expected to use in the business for long period
   b) Involved in entries operating cycle
   c) Primarily held for trading
   d) Cash and cash equivalents

3. True or False:-

1. The original cost is the basis of recording transactions. **True**
2. Going concern postulates assumes that the enterprise exists for a long period of time. **True**
3. The financial statements do not show current financial condition of a business. **False**
4. The stationery is valued at cost. **True**
5. Provisions are maintained for known liabilities. **True**
6. While preparing financial statements, inventories valued at market price or cost price which ever is less. **True**
7. Cash and cash equivalents are to be disclosed in accordance to IAS – 3.**True**
8. Rounding off of figures in financial statements is not mandatory. **False**
9. In the balance sheet of a company, goodwill is shown under the heading of 'Fixed assets' **True**
10. Proposed dividend is shown under the head, 'Provisions'. **True**

4. Very Short Answer Questions:-

1. Name any one type of financial statements.
   Ans: a) Income statement & b) Balance sheet (Position statement)

2. State any one feature of financial statements.
   Ans: (a) Financial statements are prepared on the basis of facts.
   (b) Certain accounting conventions are followed while preparing FS

3. Name any one internal user of financial statements.
   Ans: 1) Owners 2) Managers

4. Write any one objective of financial statements.
   Ans: (a) To provide information about cash flows.
   (b) To judge effectiveness of management.

5. State any one type of reserve.
   Ans: 1) Capital reserve, 2) General reserve

6. Give an example for non-current asset.
   Ans: 1) Land & building, 2) Plant & machinery

7. Where do you record the money received against share warrants?
   Ans: It shown under Equities & Liabilities in the Balance sheet under the heading shareholders fund.

8. How do you treat credit balance of income statement under the head surplus?
   Ans: Profit & Loss balance (Cr)

9. Write any one feature of current asset.
   Ans: (a) Current assets is cash or is expected to realised with in 12 months
   (b) Current assets is held primarily for trading

10. How do you treat preliminary expenses?
    Ans: It should be written off first out of profits, then it is treated as other non-current assets.

Section – B

IV. Two Marks Questions:

1. Give the meaning of financial statements.
   Ans: The basic & formal annual reports through which the corporate management communicates financial information to its owners & other external parties.

2. State any two benefits of financial statements.
   Ans: (a) It forms as basis for granting of credit.
   (b) Report the performance of the management to the shareholders.

3. State any two limitations of financial statements.
   Ans: (a) Do not reflect current situation
   (b) Assets may not realise

4. State any two postulates
   Ans: 1) Going concern postulate, 2) Money measurement postulate.

5. How will you disclose the following items in the balance sheet of a company.
   A) Loose tools B) Proposed dividends

   Ans: A) Loose tools – Current assets as inventories
   B) Proposed dividend – Current liabilities as short term provisions.

6. State any two difference between current liabilities and non-current liabilities.
   Ans: (a) Current liabilities are expected to be settled within 12 months; while non-current liabilities are expected to be settled in a period exceeding 12 months.
   (b) Current liabilities are incurred in entities operating cycle; while non-current liabilities are not incurred in entities operating cycle.

7. Mention any two items which are shown under the head 'Reserves and surplus'.
   Ans: 1) Security premium & 2) Capital redemption reserve.

Section –C: 6 Marks problem:

1. From the following information prepare statement of profit and loss for the year ending 31-03-2018 as per schedule III of Companies act, 2013.

Particulars	₹
Revenue from operations	5,00,000
Purchase of goods	3,00,000
Salaries to employees	40,000
Leave encashment	10,000
Rent and taxes	30,000
Repairs to machinery	20,000
tax	30%

Solution:

Statement of profit and loss for the year ending 31.03.2018

particulars	Note No.	₹
I. Revenue from operation		5,00,000
II. Other income		-
III. Total income (I + II)		5,00,000
IV. Expenses		
Purchases of goods		3,00,000
Employees benefit expenses	1	50,000
Other expenses	2	50,000
Total expenses		4,00,000
V. Profit before tax (PBT) (III-IV)		1,00,000
VI. Tax expenses @ 30% on PBT		30,000
VII.Profit for the year (V-VI)		70,000

Notes to accounts:

Note 1: **Employee benefit expenses:**

Particular	₹
Salaries to employees	40,000
Leave encashment	10,000
Total	**50,000**

Note 2: Other expenses:

Particular	₹
Rent & taxes	30,000
Repaira to machinery	20,000
Total	**50,000**

2. From the following information, prepare statement of profit & loss for the year ending31-03-2018 as per schedule III of Companies act, 2013.

Particulars	₹
Plant and machinery	40,000
Furniture	20,000
Share capital	4,00,000
Sales	3,00,000
Purchases	1,80,000
Trade payables	30,000
Depreciation on plant and machinery	4,000
Amortization of goodwill	6,000
Interest on debentures	30,000
Interest on borrowings	20,000
tax	30%

Solution:

Statement of profit and loss
For the year ending 31.03.2018

particulars	Note No.	₹
I. Revenue from operation		3,00,000
II. Other income		-
III. Total income (I + II)		3,00,000
IV. Expenses		
Purchases of goods		1,80,000
Finance cost	1	50,000
Depreciation & Amortization expenses	2	10,000
Total expenses		2,40,000
V. Profit before tax (PBT) (III-IV)		60,000
VI. Tax expenses @ 30% on PBT		18,000
VII.Profit for the year (V-VI)		42,000

Notes to accounts:

Note 1: Finance cost:

Particular	₹
Interest on debentures	30,000
Interest on borrowings	20,000
Total	**50,000**

Note 2:

Depreciation & Amortization expenses:

Particular	₹
Depreciation on plant & machinery	4,000
Amortization of goodwill	6,000
Total	**10,000**

3. From the following information, prepare Balance sheet of Jindal Co. Ltd. as at 31/03/2018 as per schedule III of Companies act, 2013.

Particulars	₹
Share capital	10,00,000
Reserve & surplus	5,00,000
10% Debentures	5,00,000
Creditors	2,00,000
Bills payable	3,00,000
Fixed assets	15,00,000
Trade receivables	5,00,000
Short term investments	2,00,000
Cash & cash equivalents	3,00,000

Solution

Notes to accounts

No.	Particulars	₹
Note 1	Long term barrowings:	
	10% Debentures	5,00,000
	Total	**5,00,000**
Note 2	Trade payable:	
	Creditors	2,00,000
	Bills payable	3,00,000
	Total	**5,00,000**
Note 3	Current investments:	
	Short term investment	2,00,000
	Total	**2,00,000**

Balance sheet as at 31st March, 2018

Particulars	Note No.	₹
I Equity & Liabilities:		
1. Shareholders' fund:		
Share Capital		10,00,000
Reserves and surplus		5,00,000
2. Non current Liabilities:		
10% Debentures	1	5,00,000
3. Current liabilities:		
Trade payable	2	5,00,000
Total Equity and Liabilities		**25,00,000**
II. Assets:		
1. Non current assets		
Fixed assets		15,00,000
Tangible assets		-
Intangible assets		-
2. Current assets:		
Current investment	3	2,00,000
Trade receivables		5,00,000
Cash & cash equivalents		3,00,000
Total Assets		**25,00,000**

4. From the following information prepare statement of profit & loss for the year ending 31-03-2018 as per schedule III of Companies act, 2013. **Note: Tax rate 30%**

Sl.No.	Accounts head	Debit (₹)	Credit(₹)
1.	Sales		10,00,000
2.	Salaries	90,000	
3.	Wages	1,10,000	
4.	Stock	1,50,000	
5.	Purchases	4,00,000	
6.	Bank overdraft		2,00,000
7.	12% debentures (issued at 1/4/2017)		1,00,000
8.	Plant and machinery	1,60,000	
9.	Depreciation on plant & Machinery	16,000	
10.	Equity share capital(shares of Rs.10/- each)		2,00,000
11.	7% Preference share capital		1,00,000
12.	land	6,74,000	
		16,00,000	**16,00,000**

Solution:Notes to accounts:

Note 1: Employment benefit expenses:

Particular	₹
Salaries	90,000
Wages	1,10,000
Total	2,00,000

Note 2: Finance costs:

Particulars	₹
Interest on debenture outstanding	12,000
Total	**12,000**

Note 3 Depreciation & Amortization expenses:

Particulars	₹
Depreciation on plant & machinery	16,000
Total	**16,000**

Solution:

Statement of profit and loss for the year ending 31.03.2018

particulars	Note No.	₹
I. **Revenue from operation**		**10,00,000**
II. Other income		-
III. **Total income (I + II)**		**10,00,000**
IV. **Expenses**		
Purchases of goods		4,00,000
Changes of inventories of finished goods		1,50,000
Employment benefit expenses	1	2,00,000
Finance cost	2	12,000
Depreciation & Amortization expenses	3	16,000
Total expenses		**7,78,000**
V. **Profit before tax (PBT) (III-IV)**		**2,22,000**
VI. Tax expenses @ 30% on PBT		66,600
VII.**Profit for the year (V-VI)**		**1,55,400**

5. From the following information, prepare Balance sheet for the year ending 31/03/2018 as per schedule III of Companies act, 2013.

Particulars	₹
Equity share capital	20,00,000
Inventories	14,00,000
Plant and machinery	10,00,000
Preference share capital	12,00,000
Debenture redemption reserve	6,00,000
Outstanding expenses	3,00,000
Proposed dividend	5,00,000
Land and building	20,00,000
Current investments	8,00,000
Cash equivalents	10,00,000
Short term loan from Z Ltd.,	4,00,000
Public deposit	12,00,000

Solution **Balance sheet as at 31st March, 2018**

Particulars	Note No.	₹
I Equity & Liabilities:		
1. Shareholders' fund:		
Share Capital	1	32,00,000
Reserves and surplus		6,00,000
2. Non current Liabilities:		
Public deposit		12,00,000
3. Current liabilities & provisions:		
Payables & Provisions	2	12,00,000
Total =		**62,00,000**
II. Assets:		
4. Non current assets		
Fixed assets	3	30,00,000
5. Current assets:		
Current investment /Inventories/Cash	4	32,00,000
Total =		**62,00,000**

Notes to accounts

No.	Particulars	₹	No.	Particulars	₹
Note 1	**Share capital:** Equity share capital Preference share capital	 20,00,000 12,00,000	Note 3	**Fixed & tangible assets**: Plant & machinery Land & building	 10,00,000 20,00,000
	Total	**32,00,000**		**Total**	**30,00,000**
Note 2	**Current Liabilities & provisions**: Proposed Dividend O/s Expenses Short term Loan from Z co	 5,00,000 3,00,000 4,00,000	Note 4	**Current Assets:** Current investments Inventories Cash & Cash equivalents	 8,00,000 14,00,000 10,00,000
	Total	**12,00,000**		**Total**	**32,00,000**

Section –C: 5 Marks

PRACTICAL ORIENTED QUESTION:

1. Write pro-forma of Balance Sheet of a company with main heads only.

Balance sheet as at 31st March, 2018

	Particulars	Note No.	₹
I	**EQUITY AND LIABILITIES**		
	1. Shareholders Fund		XXXX
	2. Non-Current Liabilities		XXXX
	3. Current Liabilities		XXXX
	Total		**XXXX**
II	**ASSETS**		
	1. Non-Current Assets		XXXX
	2. Current Assets		XXXX
	Total		**XXXX**

2. Prepare a Statement of Profit & Loss of a Company in vertical form with imaginary figures of 5 heads only.

Statement of Profit and Loss for the year ended 31.03.2019

Particulars	Note No.	₹
I Revenue from Operations		100000
II Other Income		10000
III Total Revenue (I + II)		110000
IV Less: Expenses		50000
Profit Before Tax		60000
V Less: Tax (50%)		30000
Profit After Tax		30000

3. Name the major heads under which the following items will be presented in the Balance Sheet of a Company [5 items only]

Example-1:

1) Goodwill - Non-Current Assets
2) Forfeited Shares - Shareholders' fund
3) Preliminary Expenses - Non-Current Assets
4) Capital Reserve - Shareholders' Fund
5) Loans from Banks - Non-Current Liabilities
6) Investments in shares & debentures (2years) - Non-Current Assets
7) Securities premium reserve - Shareholders' Fund
8) Surplus - Shareholders' Fund
9) Loose tools - Current Assets
10) Provision for taxation - Current Liabilities
11) Unclaimed dividend - Current Liabilities
12) Short term loans & advances - Current Assets
13) Live stock - Non-Current Assets
14) Call in arrears / Calls unpaid - Shareholders' Fund
15) Prepaid insurance - Current Assets
16) Advance from customers - Current Liabilities
17) Debenture redemption reserve - Shareholder's Fund
18) Premium on redemption of debentures - Non-Current Liabilities
19) Loss on issue of debentures - Non-Current Assets
20) Sinking fund - Shareholders' Fund
21) Sinking fund investments - Non-Current Assets
22) Advances to suppliers - Current Assets
23) Patents, trademarks, design - Non-Current Assets
24) Calls in advance - Current Liabilities
25) Furniture and fittings - Non-Current Assets
26) Statement of profit & loss (Dr.) - Shareholders' Fund
27) 10% Debentures - Non-Current Liabilities
28) Proposed dividend - Current Liabilities
29) Computer software - Non-Current Assets
30) Public deposits - Non-Current Liabilities
31) Capital redemption reserve - Shareholders' Fund
32) Work in progress - Current Assets
33) Bills receivable - Current Assets
34) Statement of profit & loss (Cr.) - Shareholder's Fund
35) Stores and spare parts - Current Assets

END

BLUE PRINT

Chapter wise Hours Allotted, Weightage of Marks and Typology of Questions: 2020-2021(Revised)

Subject: ACCOUNTANCY (CODE- 30) **Class: II PUC**

Book	Chapter No.	Chapter Head	Hours Allotted	Total Marks	Section wise questions (Excluding POQ)				
					Sec -A (01 marks)	Sec - B (02 marks)	Sec - C (06 marks)	Sec - D (12 marks)	Sec - E (05 marks POQs)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Part -I	1	Accounting for Not-For-Profit Organization	15	25	1	-	-	2	-
	2	Accounting for Partnership: Basic Concepts	10	18	2	2	2	-	-
	3	Reconstitution of a Partnership Firm - Admission of a Partner	15	25	1	-	-	2	-
	4	Reconstitution of Partnership Firm - Retirement / Death of a Partner	15	26	2	-	2	1	-
	5	Dissolution of Partnership Firm	10	16	-	2	-	1	-
	Total of Part - I		**65**	**110**	**6**	**4**	**4**	**6**	**-**
Part -II	1	Accounting for Share Capital	12	24	2	2	1	1	-
	3	Financial Statements of a Company	10	18	2	2	2	-	-
	Total of Part - II		**22**	**42**	**4**	**4**	**3**	**1**	**-**
Grand Total (Part I + 11) excluding Bridge Course & POQ)			**87**	**152**	**10**	**8**	**7**	**7**	**-**
Bridge Course			-	-	-	-	-	-	-
POQ (3 Questions of 5 Marks each in Section E)			11	15	-	-	-	-	15
Total hours,marks and sectionwise marks			**98**	**167**	**10**	**16**	**42**	**84**	**15**

MODEL QUESTION PAPER-I
2020-21 for reduced syllabus
SECOND YEAR P.U.C ACCOUNTANCY

Time: 3 Hours 15 Minutes Max Marks: 100

Instructions:

1. All the sub questions of Section-A should be answered continuously at one place.
2. Provide working notes wherever necessary.
3. 15 minutes extra has been allotted for candidates to read the questions.
4. Figures in the right hand margin indicate full marks.

Section –A

Answer any Eight questions, each question carries ONE mark. 08×01=08

1. Not-For-Profit Organisations are formed for
   a) Profit
   b) Service
   c) Profit & Service
   d) None of these
2. The agreement between partners must be in writing. (state T/F)
3. State any one features of Partnership.
4. Expand NPSR.
5. New ratio – Old ratio = ________
6. Who is an 'Executor'?
7. A company is an_Person.
8. Shares can be forfeited for:
   a) Non-payment of call money
   b) The pledging of shares as a security
   c) Failure to repay the loan to the bank.
   d) Failure to attend meeting
9. Give an example for non-current asset.
10. State any one type of reserve.

Section –B

Answer any FIVE questions, each question carries TWO marks. 05×02=10

11. Define partnership.
12. Name any two contents of Partnership Deed.
13. State any two circumstances under which a Partnership Firm is dissolved.
14. Why is Realisation Account prepared?
15. State any two features of a company.
16. What do you mean by Over subscription?
17. Give the meaning of financial statements.
18. Write any two objectives of financial statements.

Section –C

Answer any FOUR questions, each question carries SIX marks. 04×06=24

19. X & Y are Partners commenced Partnership business on 1.04.2019, sharing profits & losses in 3:2 ratio with capitals of ₹ 1,00,000 and ₹ 80,000 respectively. They earned profits of ₹ 15,000 for the year before allowing:
    a) Interest on Capitals @ 10% p.a.
    b) Interest on drawings: X ₹ 1,000 & Y ₹ .800
    c) Commission payable to X ₹ 2000
    d) Salary payable to Y ₹ 3000

    Prepare P & L Appropriate A/c for the year ending 31.03.2020.

20. Yasashvi and Tapashvi are partners in a firm. During the year ended on 31st March 2020, Yasashvi makes the drawings as under:

Date of Drawings	₹
01.08.2019	5,000
31.10.2019	8,000
31.12.2019	10,000
31.03.2020	15,000

Partnership Deed provided that partners are to be charged interest on drawings @ 12% p.a. Calculate the interest on drawings of Yasashvi under Product Method.

21. Ankit,Suchit and Chandru are partners in a firm sharing profits and losses in the ratio of 4:3:2.Ankit retires from the firm.Suchit and Chandru agreed to share in the ratio of 5:3 in future. Calculate gain ratio of Suchit and Chandru.

22. Ramesh, Prakash and Suresh were partners in a firm sharing profits & losses in the ratio of 5:3:2. On 31st March 2020, their balance sheet was as under:

Balance Sheet as on 31.3.2020

Liabilities		₹	Assets	₹
Creditors,		14,000		8,000
Reserve Fund		6,000	Cash	11,000
Capitals:		70,000	Debtors	11,000
Ramesh	30,000		Patents	10,000
Prakash	25,000		Stock	50,000
Suresh	15,000		Machinery	
		90,000		90,000

Ramesh died on 30th Sept 2019. It was agreed between his executors and the surviving partners that:

a) Good will to be valued at two and half years purchase of the average

profits of the previous four years, which were:
2016-17 ₹ 12, 000, 2017-18 ₹ 20,000, 2018-19 ₹ 13, 000, 2019-20 ₹ 15, 000 (**as per AS26**)

b) Share in the profit from the date of last balance sheet till to the date of death to be calculated on the basis of last year's profit.

c) Interest on capital to be allowed at 12% p.a.

Prepare Ramesh's capital account.

23. 'A' Company issued 5,000 Equity shares of ₹ 100 each. The amount was payable as follows:

On application	₹ 20
On allotment	₹ 40
On first call and final call	₹ 40

All the shares were subscribed and the money duly received.

Pass the journal entries up to the stage of first and final call money received.

24. From the following details you are required to prepare statement of profit and loss for the year ended 31-03-2020 as per Schedule III of Companies Act, 2013.

Particulars	₹
Plant and Machinery	40,000
Furniture	20,000
Share capital	4,00,000
Sales	3,00,000
Purchases	1,80,000
Trade Payables	30,000
Depreciation on plant and machinery	4,000
Amortisation of goodwill	6,000
Interest on debentures	30,000
Interest on borrowings	20,000
Tax	30%

25. Form the following information, prepare Balance Sheet of Jindal Company Ltd as at 31/03/2020 as per Schedule III of Companies Act, 2013.

Particulars	₹
Share Capital	10,00,000
Reserves and Surplus	5,00,000
10% Debentures	5,00,000
Creditors	2,00,000
Bills payable	3,00,000
Fixed Assets	15,00,000
Trade receivables	5,00,000
Short term investments	2,00,000
Cash and cash equivalents	3,00,000

Section –D

Answer any FOUR questions, each question carries TWELVE marks. 04×12=48

26. Followings are the Balance Sheet and Receipt and Payment Account of Sree Sports Club, Bengaluru.

Balance Sheet as on 31-03-2018

Liabilities	₹	Assets	₹
Outstanding salary	2,000	Cash balance	7,300
Capital fund	32,500	O/S subscriptions	1,200
		Sports Materials	16,000
		Furniture	10,000
	34,500		34,500

Receipt and Payment A/C for the year ended 31-03-2019

Dr. Cr.

Receipts	₹	Payments	₹
To Balance b/d	7,300	By Salary	10,000
To Subscriptions	38,000	By purchase of Sports Materials	6,000
To Entrance Fees	2,000	By Investments	20,000
To Sale of old newspapers	200	By Fixed Deposits	10,000
To Sale of old sports materials	1,200	By Postage	300
To Rent	7,000	By General expenses	400
		By Lighting Charges	1,300
		By Balance c/d	7,700
	55,700		**55,700**

Adjustment:

a. Subscriptions outstanding for the year 2019 is ₹ 3,000.
b. Subscriptions received in advance for the year 2020 ₹ 1,000.
c. Depreciate sports materials by ₹ 5,000.
d. Capitalize entrance fees.
e. Outstanding lighting charges ₹ 300.

Prepare:

1. Income and Expenditure Account and 2. Balance Sheet as on 31-03-2019.

27. From the following Receipt and Payment Account and information given below, prepare Income and Expenditure Account and the Balance Sheet of Adult Literacy Orgnisation as on March 31, 2018

Receipt and Payment A/C for the year ending 31-03-2018

Dr. **Cr.**

Receipts	₹	Payments	₹
To Balance b/d	19,550	By General Expenses	3,200
To Subscriptions		By News papers	1,850
2017-18 27,700		By Electricity	3,000
2018-19 500	28,200	By Fixed Deposit with Bank	18,000
To Sale of old newspaper	800	(on 30-06- 17@10%)	
To Govt. Grant	12,000	By Books	7,000
To Sale of old furniture	3,700	By Salary	3,600
(Book value ₹ 5,000)		By Rent	6,500
To Interest received on		By Postage charges	300
Fixed Deposits	900	By Furniture (purchased)	10,500
		By Balance c/d	11,200
	65,150		**65,150**

Additional Information:

1) Subscription due on 31-03-2018 ₹ 1500
2) On March 31,2018 Salary outstanding ₹ 600
3) On April 1,2017 Orgnisation owned furniture ₹ 12,000, Books ₹ 5,000

28. Raja and Rani are partners in a firm sharing profits and losses in the ratio of 3:2. Their balance sheet as on 31.03.2020 was as follows.

Balance Sheet as on 31.03.2020

Liabilities	₹	Assets	₹
Creditors	40,000	Cash	5,000
Bills Payable	20,000	Machinery	60,000
General Reserve	25,000	Stock	25,000
Capitals:		Debtors 23,000	
Raja 60,000		Less: PDD 3,000	20,000
Rani 40,000	100,000	Buildings	50,000
		Investments	20,000
		P & L Account	5,000
	185,000		**185,000**

On 01.04.2020 they admitted Mantri as a partner and offer him 1/5th share in the future profits on the following terms.

a. Mantri has to bring in Rs. 30,000 as his capital and ₹ 10,000 towards goodwill.
b. Goodwill is to be withdrawn by the old partners.**(as per AS26)**
c. Depreciate Machinery by 5%.
d. Appreciate buildings by 10%.
e. PDD is reduced to ₹ 2,000 and investments are to be revalued at ₹ 25,000.

Prepare: i. Revaluation Account
ii. Partners' Capital Account.
iii. Balance sheet after admission.

29. Gouri and Ganesh are partners in a firm sharing profit equally. Following is their Balance Sheet as on 31.03.2020.

Balance Sheet as on 31.03.2020

Liabilities	₹	Assets		₹
Creditors	20,000	Cash in Hand		7,000
Bills Payable	4,000	Stock		25,000
General Reserve	6,000	Buildings		40,000
Capitals:		Debtors	17,000	
Gouri	80,000	Less: PDD	1,500	15,500
Ganesh	40,000	Furniture		14,500
		Patents		30,000
		Plant & Machinery		18,000
	150,000			**150,000**

On 01.04.2020, Shiva is admitted into partnership on the following terms:

a) Shiva should bring ₹ 25,000 as capital.

b) Goodwill of the firm is valued ₹ 16,000**. (as per AS26)**

c) Stock is to be increased by 8%.

d) Provision for doubtful debts is increased to ₹ 2,600.

e) Capital accounts of partners are to is be adjusted in their new profit-sharing ratio 3:2:1, based on Shiva's capital (Adjustments to be made in cash).

Prepare: i). Revaluation Account.

ii). Partners' Capital Accounts &

iii). Balance sheet of the new firm.

30. Radha, Sheela and Meena were in partnership sharing profits and losses in the proportion of 3:2:1. On April 1, 2020 Sheela retires from the firm and on that date, their Balance Sheet was as follows:

Liabilities		₹	Assets	₹
Trade Creditors		3,000	Cash in Hand	1,500
Bills Payable		4,500	Cash at Bank	7,500
Expenses Owing		4,500	Debtors	15,000
General Reserve		13,500	Stock	12,000
Capitals :			Factory Premises	22,500
Radha	15,000		Machinery	8,000
Sheela	15,000		Loose Tools	4,000
Meena	15,000	45,000		
		70,500		**70,500**

The terms were:

a) Goodwill of the firm was valued at ₹ 13,500 (**as per AS26**)
b) Expenses owing to be brought down to ₹ 3,750.
c) Machinery and Loose Tools are to be valued at 10% less than their book value.
d) Factory premises are to be revalued at ₹ 24,300.

Prepare :

1) Revaluation Account
2) Partners' Capital Accounts and
3) Balance Sheet of the firm after retirement of Sheela.

31. Rashmi and Geetha are partners sharing profits and losses in the ratio of 3:2. Their Balance Sheet as on 31-3-2018 is as follows:

Balance Sheet as on 31. 3. 2020

Liabilities	₹	Assets	₹
Sundry Creditors	10,000	Cash at Bank	5,000
Bills payable	10,000,	Bills Receivable	10,000
Rashmi's Loan	5,000	Sundry Debtors	20,000
Reserve Fund	10,000	Stock	15,000
Capitals:		Machinery	15,000
Rashmi	30,000	Furniture	10,000
Geetha	40,000	Goodwill	30,000
	1,05,000		**1,05,000**

On the above date the firm was dissolved.

a) The assets were realised as follows:
Bills Receivable ₹ 7,500, Sundry Debtors and Stock 10% less than the book value, Machinery realised 5% more than the book value, and Goodwill realized for ₹ 12,000.
b) Furniture was taken over by Geetha at ₹ 8,000.
c) Dissolution expenses were ₹ 600.
d) All the liabilities were discharged in full. Prepare:

Prepare:

1. Realization A/c , 2. Partners' capital Accounts and 3. Bank A/c.

32. Sun India Ltd. issued 20,000 Equity Shares of ₹ 100 each at premium of ₹ 10 each. The amount payable was as follows:

₹ 20 on application

₹ 50 on allotment (including premium)

₹ 40 on first and final call

All the shares were subscribed and money duly received except the first and final call on 1,000 shares. The Directors forfeited these shares and re-issued them as fully paid at ₹ 90 per share.

Section –E
(Practical Oriented Questions)

Answer any TWO questions, each question carries FIVE marks. 02×05=10

33. How do you treat the followings in the absence of Partnership Deed?
    a) Profit Sharing Ratio
    b) Interest on Capital
    c) Interest on Drawing
    d) Interest on Advances from Partners
    e) Partner Salary.

34. Write two Partners' Capital Accounts under Fluctuating Capital System with 5 imaginary figures.

35. Write the pro-forma of a Balance Sheet of a Company with main heads only.

****END****

MODEL QUESTION PAPER-II

2020-21 for reduced syllabus

SECOND YEAR P.U.C ACCOUNTANCY

Time: 3 Hours 15 Minutes **Max Marks: 100**

Instructions:

1. **All the sub questions of Section-A should be answered continuously at one place.**
2. **Provide working notes wherever necessary.**
3. **15 minutes extra has been allotted for candidates to read the questions.**
4. **Figures in the right-hand margin indicate full marks.**

Section –A

Answer any Eight questions, each question carries ONE mark. **08×01=08**

1. Not-For-Profit Organisations are used for the welfare of the_______.
2. Partnership deeds contains,
   a) Name of firm b) Name and address of the partners
   c) P/L sharing ratio d) All of the above
3. Name any one method of maintaining capital accounts of partners.
4. Expand SR.
5. What do you mean by retirement of a partner?
6. Deceased partner's claim is transferred to his Executor's Account (State T/F).
7. Issued capital is part of
   a) Reserve capital
   b) Unissued capital
   c) Authorised capital
   d) None of the above
8. State the meaning of under subscription.
9. Share capital appears under the head_.
10. Give an example for non-current liabilities.

Section –B

Answer any FIVE questions, each question carries TWO mark **05×02=10**

11. State any two features of partnership.
12. What is fluctuating capital method?
13. Give the meaning of Dissolution of a Partnership Firm.
14. State any two circumstances under which a Partnership Firm is dissolved.
15. Give the meaning of calls in arrears.
16. State any two categories of share capital.
17. State any two benefits of financial statements.
18. Mention any two items which are shown under the head' Reserves and Surplus'.

Section –C

Answer any FOUR questions, each question carries SIX marks. 04×06=24

19. Sachin and Pratham commenced business in partnership with capital of ₹ 1,00,000 and ₹ 80,000 respectively on 01.04.2018 agreeing to share profits and losses in the ratio of 3:2. For the year ending 31.03.2019 they earned the profits of ₹ 36,000 before allowing:
    i) Interest on capital at 5% p.a.
    ii) Interst on drawings, Sachin ₹ 600 and Pratham ₹ 1,000
    iii) Yearly salary of Pratham ₹ 10,000
    iv) Their drawings during the year Sachin ₹ 16,000 and Pratham ₹ 20,000.

    Prepare profit and loss appropriation account.

20. Sahana and Saniya are partners in firm. Sahana's drawings for the year 2019-20 are given as under:

    ₹ 4,000 on 01.06.2019
    ₹ 6,000 on 30.09.2019
    ₹ 2,000 on 30.11.2019
    ₹ 3,000 on 01.01.2020

    Caluculate interest on Sahan's drawings at 8% p.a. for the year ending on 31.03.2020, under product method.

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

22. Raju,Ravi and Roopa are partners sharing profit and losses in the ratio of 4:3:3. Their capital balances on 01.04.2019 stood ₹ 1,00,000, ₹ 80,000 and ₹ 50,000respectively. Raju died on 01.10.2019. The partnerships deed provides the followings:
    a) Interest on capital at 12% p.a.
    b) He had withdrawn ₹ 5, 000 up to date of death.
    c) Raju's share of good will ₹ 5, 000 (**as per AS26)**
    d) His share of profit up to the date of death on the basis of previous year profits. Previous year profits ₹ 20,000.

    Prepare Raju's executors account.

23. ABC Company Ltd., issued 20,000 Equity shares of ₹ 10 each. The amount payable is as follows.

On application	₹ 2
On allotment	₹ 3
On first and on final call	₹ 5

    All shares were subscribed. **Give the necessary journal entries up to the stage of first and final call money received.**

24. From the following information prepare statement of profit and loss for the year ended 31-03-2020 as per Schedule III of Companies Act, 2013.

Particulars	₹
Revenue from operations	5,00,000
Purchase of goods	3,00,000
Salaries to employees	40,000
Leave encashment	10,000
Rent and taxes	30,000
Repairs to machinery	20,000
Tax	30%

25. From the following details you are required to prepare balance sheet for the year ended 31-03-2020 as per Schedule III of Companies Act, 2013.

Particulars	₹
Inventories	7,00,000
Equity Share Capital	16,00,000
Plant and Machinery	8,00,000
Preference Share Capital	6,00,000
General Reserve	6,00,000
Creditors	3,50,000
Provision for taxation	2,50,000
Land and Building	26,00,000
Cash at Bank	5,00,000
12% Debentures	12,00,000

Section –D

Answer any FOUR questions, each question carries TWELVE marks. 04×12=48

26. Following are the Balance Sheet and Receipts and Payments Account of Hassan Sports Club, Hassan.

Balance Sheet as on 31-03-2017

Liabilities	₹	Assets	₹
Capital fund	61,000	Buildings	64,000
Subscription for 2017-18	1,000	O/S Subscriptions	1,600
O/S Office expenses	4,000	O/S Rent	400
Bank loan	20,000	Furniture	12,000
		Cash in Hand	8,000
	86,000		86,000

Dr. Receipt and Payment A/C for the year ending 31-03 2018 Cr.

Receipts	₹	Payments	₹
To Balance b/d	8,000	By Office Expenses:	
To Subscriptions:		2016-17	4,000
2016-17	1,600	2017-18	6,000
2017-18	17,600	By Subscription to Newspapers	
2018-19	2,800	& Journals	2,000
To Entrance Fees	4,000	By Refreshment Expenses	4,000
To Rent	4,000	By Investments	10,000
To Income from Drama	6,000	By Bank Loan	8,000
To Sale of newspapers	400	By Salary	4,400
		By Balance c/d	6,000
	44,000		44,000

Adjustments:

a) Subscriptions outstanding ₹ 1,000,
b) Salary outstanding ₹ 400,
c) Interest payable ₹ 2,400,
d) Depreciation on Building ₹ 5,000
e) Entrance Fees is to be Capitalised.

Prepare: 1) Income and Expenditure Account and 2) Balance Sheet as on 31-03-2018.

27. Receipt and Payment Account of Shankar Sports Club is given below, for the year ended March 31, 2018

Dr . Receipt and Payment A/C for the year ending 31-03-2018 Cr.

Receipts	₹	Payments	₹
To Cash in Hand	2,600	By Rent	18,000
To Entrance fees	3,200	By Wages	7,000
To Donation for Building	23,000	By Billiard table	14,000
To Locker Rent	1,200	By Furniture	10,000
To Life Membership fee	7,000	By Interest	2,000
To profit from entertainment	3,000	By Postage	1,000
To Subscription	40,000	By Salary	24,000
		By Cash in hand	4,000
	80,000		80,000

Prepare Income and Expenditure Account and Balance Sheet With the help of following Information: Subscription outstanding on March31, 2017 is ₹ 1,200 and ₹ 2,300 on March 31, 2018, opening stock of postage stamps is ₹ 300 and closing stock is ₹ 200, Rent ₹ 1,500 related to 2016-17 and ₹ 1,500 is still unpaid.

On April 1, 2017 the club owned Furniture ₹ 15,000, Furniture valued at ₹ 22,500 on March 31, 2018. The club took a loan of ₹ 20,000 (@10 p. a)2016-17.

28. Rajesh and Rakesh are partners in a firm sharing profits and losses in the ratio of 3:2. Their balance sheet as on 31.03.2020 stood as follows.

Balance Sheet as on 31.03.2020

Liabilities	₹	Assets		₹
Creditors	41,500	Cash at Bank		22,500
General Reserve	4,000	Bills Receivable		3,000
Capital Accounts:		Debtors	18,000	
Rajesh	30,000	Less: PDD	1,000	17,000
Rakesh	16,000	Stock		20,000
		Buildings		25,000
		Machinery		4,000
	91,500			**91,500**

On 01.04.2020 they admitted Shyam as partner and offered him 1/5th share in the future profits on the following terms.

a. He has to bring in ₹ 10,000 as his capital and ₹ 5,000 towards Goodwill.
b. Goodwill treatment as per AS26.
c. Appreciate buildings by 20%.
d. Maintain at 5% PDD on debtors.
e. Provide for outstanding repair bills ₹ 1,000.

Prepare: i). Revaluation Account ii). Partners' Capital Account.
iii). New Balance sheet of the firm

29. Mahendra and Surendra are equal partners in a firm. Their balance sheet as on 31.03.2020 stood as follows.

Balance Sheet as on 31.03.2020

Liabilities		₹	Assets		₹
Creditors		40,000	Stock		39,000
Bank Loan		8,000	Debtors	32,000	
			Less: PDD	1,000	31,000
Capitals:			Land & Buildings		40,000
Mahendra	80,000		Machinery		36,000
Surendra	40,000	120,000	Motor Car		8,000
			Cash at Bank		14,000
		168,000			**168,000**

On 01.04.2020 Chandra is admitted into partnership for 1/6th share in profits on the following terms.

a. Chandra brings ₹ 26,000 as capital.
b. Goodwill of the firm is valued at ₹ 14,000 (**as per AS26**)
c. Motor car and machinery are to be depreciated by 20% and ₹ 3,800 respectively.
d. Provision for doubtful debts is to be maintained at 10%.
e. The Capital accounts of all the partners be adjusted in their new profit sharing ratio 3:2:1 based on Chandra's capital (Adjustments to be made in cash)

Prepare:
i). Revaluation Account
ii). Partners' Capital Account.
iii). New Balance sheet of the firm.

30. Radha, Sheela and Meena were in partnership sharing profits and losses in the proportion of 3:2:1. On April 1, 2020, Sheela retires from the firm and on that date, their Balance Sheet was as follows:

Liabilities		₹	Assets	₹
Trade Creditors		3,000	Cash-in-Hand	1,500
Bills Payable		4,500	Cash at Bank	7,500
Expenses Owing		4,500	Debtors	15,000
General Reserve		13,500	Stock	12,000
Capitals :			Factory Premises	22,500
Radha	15,000		Machinery	8,000
Sheela	15,000		Losse Tools	
Meena	15,000			
		70,500		**70,500**

The terms were :

a) Goodwill of the firm was valued at ₹ 13,000. (**as per AS26)**
b) Expenses owing to be brought down to ₹ 3,750.
c) Machinery and Loose Tools are to be valued at 10% less than their book value.
d) Factory premises are to be revalued at ₹ 24,300.

Prepare :
1) Revaluation account
2) Partner's capital accounts and
3) Balance sheet of the firm after retirement of Sheela.

31. Shruti, Shilpa and Shreya were partners in a firm, sharing profits and losses in the ratio of 2 : 2 : 1. They decided to dissolve the firm. Their Balance Sheet on the date of dissolution was as follows :

Balance Sheet as on 31. 3. 2020

Liabilities	**₹**	**Assets**	**₹**
Creditors	30,000	Cash at Bank	6,000
Bills payable	20,000	Debtors	30,000
Shreya's Loan	8,000	Stock	30,000
General Reserve	10,000	Furniture	22,000
Capitals:		Machinery	20,000
Shruti,	40,000	Buildings	50,000
Shilpa	30,000		
Shreya	20,000		
	1,58,000		**1,58,000**

The assets realised as follows :

a) Debtors realised 10% less than the book value, the Stock realised 15% more than the book value, Building realised ₹ 60,000.
b) The Furniture was taken over by Shruti at ₹ 20,000.
c) The Machinery was taken over by Shilpa at ₹ 15,000.
d) Creditors and Bills Payable were paid off at a discount of 5%.
e) Cost of dissolution amounted to ₹ 1,500.

Prepare :

i) Realisation Account
ii) Partner's Capital Accounts
iii) Bank Account.

32. XYZ Co. Ltd. issued 30,000 equity shares of ₹ 10 each at a premium of ₹ 1 per share to the public, payable as follows:

₹ 2 on application
₹ 5 on allotment (including premium)
₹ 4 on first call and final call

All the shares subscribed and the money duly received except the first and final call on 2000 shares. The directors forfeited these shares and re-issued them as fully paid up at ₹ 8 per share.

Pass the necessary Journal entries.

Section –E

(Practical Oriented Questions)

Answer any TWO questions, each question carries FIVE marks. 02×05=10

33. Write two Partners Current Account under Fixed Capital System with 5 imaginary figures.

34. Give the disclosure requirements pertaining to Share Capital in Notes to Accounts of Balance Sheet of a Company with imaginary figures.

35. Write the proforma of a Balance Sheet of a Company with main heads only.

****END****