Chapter 1 – Accountancy for Partnership Firms – Fundamentals

- Partnership is the relation between two persons who have agreed to share profits of the business carried on by all or any of them acting for all.
- **Characteristics of Partnership:**
  - Two or More persons
  - Agreement
  - Existence of Business and Profit Motive
  - Sharing of Profits
  - Relationship of Principle and Agent
  - Business carried on by all or any of them acting for all
  - No separate existence
- Minimum 2 and Maximum 50 can be members of a partnership firm.
- A Limited Liability Partnership (LLP) is a body corporate and has separate legal entity and has perpetual succession
- Indian Partnership Act,1932 does not apply to LLP.
- Profit and Loss Appropriation Account is prepared just after Profit and Loss Account. Hence it is an extension of Profit and Loss Account
- In case of absence of partnership deed, profit and losses are to be shared equally, no interest on capital or drawings is to be allowed or charged. Interest at the rate of 6% per annum is to be allowed on partner's loan.
- Any amount payable to a partner such as commission, salary, interest on capital (except interest on Partner's Loan and rent payable to partner) is treated as appropriation of profit and not a charge against profit. So these items are debited to Profit and Loss Appropriation Account.
- In Fixed Capital Accounts of the partners are not allowed to change during the life-time of business except in extraordinary circumstances. Fixed Capital Account can never show a negative balance.
- In Fluctuating Capital Accounts capitals need not to be fixed, the balances of capital accounts go on changing from time to time. Fluctuating Capital Account can show a negative balance.
- Current Accounts are not prepared if capitals are fluctuating.
- Interest on drawings should be calculated from the date of withdrawal of amount. In absence of withdrawal interest should be charged for 6 months.
- **Manager's Commission to Net Profits** :
  (I) On profits before charging such commission: For example, if the profit before charging commission is ₹22,000 and the manager is to be allowed a commission of 10% on the profit before charging commission, the commission will be:
  22,000 × $\frac{10}{100}$ = ₹2,200
  (II)On profits after charging such commission: For example, if the profit before charging commission is ₹22,000 and the manager is to be allowed a commission of 10% on the profit after charging commission, the commission will be:
  22,000 × $\frac{10}{110}$ = ₹2,000
- Commission to manager is shown in Profit and Loss Account whereas Commission to partner is shown in Profit and Loss Appropriation Account.
- Interest on partner's loan is a charge against profits and hence such interest is allowed whether there are profit or not.
- The amount of partner's loan and the interest on loan is not recorded in the Capital Account of the partner. Interest on partner's loan is credited to Partner's Loan A/c.
- Rent paid to partner is an expense incurred for using the property. Hence, it is a charge against the profits and will be debited to Profit and Loss Account, even if firm incurs a loss.
- When appropriation are more than profits, the profits will be distributed in ratio of appropriations.

- Average Period = $\frac{Time\ left\ after\ first\ drawing + Time\ left\ after\ last\ drawing}{2}$
- When the rate of interest is given without the word ‘annum’, interest will be charged without considering the time or date of drawing.

Chapter – 2 Change in Profit Sharing Ratio Among the Existing Partner

- Reconstitution of Partnership Firm is any change in partnership agreement brings to an end the existing agreement and a new agreement comes into force.
- Sacrificing Ratio = Old Ratio – New Ratio. Purpose of calculating sacrificing ratio is to determine the amount of compensation to be paid by the gaining partner to the sacrificing partner.
- Gaining Ratio = New Ratio – Old Ratio
- The term goodwill is generally used to denote the benefit arising from connection and reputation.
- **Characteristics of Goodwill**
  - It is an intangible asset
  - It is a valuable asset
  - It is helpful in earning excess profits.
  - It is valuable when the business is sold.
  - It is difficult to find exact value of goodwill
- **Factors affecting the Value of Goodwill**
  - Favourable Location of business
  - Longevity of business
  - Nature of Goods
  - Possession of License
  - Efficiency of Management
  - Risk Involved
  - Trend of Profit
  - Capital Required
  - Future Competition
  - Efficiency of Management
- **Need for Valuation of Goodwill**
  - When there is change in profit sharing ratio among the existing partners
  - When a new partner is admitted
  - When a partner retires or dies
  - When the firm is sold
  - When the firm is amalgamated with another firm

- Purchased Goodwill is the goodwill which is acquired on making the payment. It arises on purchase of business. It is recorded in the books of accounts because consideration is paid for it.
- Self-Generated Goodwill is internally generated goodwill which arises from a number of attributes which the business possesses. It is not recorded in books of accounts as no money has been paid for it.
- Methods of Calculating the Goodwill
  - **Average Profit Method** - In this method, goodwill is calculated on the basis of past years profits. Average of such profit is multiplied by the agreed number of years. Abnormal profit should be deducted out of net profit and abnormal loss should be added back to net profit.
    Value of Goodwill = Average Profits × Number of years purchase
  - **Weighted Average Profit Method** - As per this method each year’s profit is assigned a weight. The highest weight is attached to the profit of most recent year. Each year’s profit is multiplied by the weights assigned to it in order to find out the products and the total of products is then divided by the total of weights in order to calculate the weighted average profits.

Weighted Average Profit = $\frac{Total\ of\ Product\ of\ Profits}{Total\ of\ Weights}$

Goodwill = Weighted Average Profits × Number of years purchase

- **Super Profit Method** – In this method goodwill is calculated on the basis of excess profits earned by a firm in comparison to average profits earned by other firms. Such excess profits are called super profits. Goodwill is calculated by multiplying Super Profits by reasonable number of years.

  Normal Profit = Capital Invested × $\frac{Normal\ Rate\ of\ return}{100}$

  Super Profit = Average or Actual Profit – Normal Profit

  Goodwill = Super Profit × Number of years purchase

- **Capitalisation of Average Profits** – Under this method first of all we calculate the average profits and then we assess the capital needed for earning such average profits on the basis of normal rate of return. Such capital is also called capitalised value of average profits. It is calculated as under.

  Capitalised value of the firm = Average Profit × $\frac{100}{Normal\ rate\ of\ return}$

  Goodwill is calculated by deducting the actual capital employed in business from the capitalised value of average profits. There will be no goodwill if the actual capital employed in the business exceeds or equals the capitalised value of the average profits.

  Net Assets or Capital employed = Total assets – Outside liabilities

  Goodwill = Capitalized value of average profits – Capital Employed

- **Capitalisation of Super Profits** – Under this method first of all we calculate the super profits and then we assess the capital needed for earning such super profits on the basis of normal rate of return. Such capital is actually the amount of goodwill. Super profits are calculated in the same manner as calculated in super profits method.

  Goodwill of the firm = Super Profits * 100 / Normal rate of return.

- **If, at the time of change in the profit sharing ratio, these are reserves or Accumulated Profits/Losses existing in the books of the firm, these should be transferred to Partner's Capital Accounts in their old profit sharing ratio.**
- If, in case of change in profit sharing ratio, there are reserves and accumulated profits appearing in the Balance Sheet and the partners decide to leave the reserves and accumulated profits undistributed, it will be necessary to pass an adjusting entry for the same. This is, because, at present the partners are entitled to share such reserves and profits in the old profit sharing ratio whereas in future they will be entitled to share such reserves and profits in the new profit sharing ratio. Hence, the gaining partner must compensate the sacrificing partner that share of reserves and profits which is proportionate to the share gained by him.
- Assets and Liabilities must be revalued at the time of change in profit sharing ratio among the existing partner. It is done with the help of 'Revaluation Account' which is a nominal account. If there is loss due to revaluation, revaluation account is debited and if revaluation results in profits, the revaluation is credited. Profit or Loss on Revaluation is divided among the partners in their old ratio.

Chapter – 3 Admission of a Partner

- **Sometimes a new partner is needed into the business due to the following reasons:**
  - When more business is needed for the expansion of the business.
  - When a competent and experienced person is needed for efficient running of the business.
  - To encourage a capable employee by taking him to partnership
- **Rights of a new partner:**
  - Right to share future profits of the firm
  - Right to share in the assets of the firm.
- At admission, old partners have to surrender some of their old shares in favour of the new partner. Goodwill is paid to the old partners in their sacrifice ratio.
- **Accounting treatment of goodwill on Admission of a New Partner:**

- **When the amount of goodwill is paid privately:** When the new partner pays the amount of goodwill in cash to the old partners privately outside the business, no entries are required to be passed.
- **When the new partner brings his share goodwill in cash: When the new partner brings his share of goodwill in cash:** According to this method there are two alternatives:
  (i) When the amount of goodwill brought in by new partner is retained in the business: The following two entries are passed for this purpose:
  (a) Cash A/c or Bank A/c Dr.
  To Premium for Goodwill A/c
  (For the amount of Goodwill brought by new partner)
  (b) Premium for Goodwill A/c Dr.
  To Old Partner's Capital A/c
  (For the amount of Goodwill distributed among the old partners in their sacrificing ratio)
  (ii) When Goodwill brought in by the new partner is withdrawn by old partners: Sometimes, the amount of goodwill brought in by new partner is withdrawn by the old partners. In this case, in addition to the two journal entries explained in (i), one more journal entry is to be passed:
  Old Partner's Capital A/c's Dr.
  To Cash A/c or Bank A/c
  (For the amount of goodwill withdrawn by the old partners)

- **When goodwill already exists in books:**
  If the goodwill already exists in the books of firms and the incoming partner brings his share of goodwill in cash, then the goodwill appearing in the books will have to be written off.
  Old Partner's Capital A/c's Dr.
  To Goodwill A/c
  (For Goodwill written-off in old ratio)
- **When a new partner does not bring his share of goodwill in cash -**
  Following entry is passed for this purpose:
  New Partner Current A/c* Dr.
  To Old Partner's Capital A/cs
  ***Note-**
  New Partner's Current A/c has been debited instead of Current A/c so that his capital is not reduced and remains intact.
  (Current Account of new partner debited from his share of goodwill on his admission and Capital Accounts of old partner's credited in their sacrificing ratio)

- **When Goodwill Already appears in the books and new partner does not bring his share of Goodwill in Cash**
  If goodwill account already exists in the books of the firm, and if the new partner does not bring in his share of goodwill in cash, the amount of goodwill already existing is written off by debiting the capital accounts of old partners in old ratio.

- Assets and Liabilities must be revalued at the time of admission of a partner. It is done with the help of 'Revaluation Account' which is a nominal account. If there is loss due to revaluation, revaluation account is debited and if revaluation results in profits, the revaluation is credited. Profit or Loss on Revaluation is divided among the partners in their old ratio.

Chapter -4 Retirement or Death of a Partner

- **A Retiring Partner is entitled to get the following:**
  - Share in goodwill
  - Share in Reserves

- ➢ Share in Revaluation of Assets and Liabilities
- If the new profit sharing ratios of the remaining partners are not given in the question, it will be assumed that the remaining partners continue to share profits and losses in old ratio.
- When the remaining partners purchase the share of retiring partner in some specified proportions. In such cases, the fraction of shares purchased by them is added to their old share and the new ratio is calculated.
- The retiring partner is credited with his share of goodwill and continuing partner's will be debited in gaining ratio. The following journal entry will be recorded:
  Continuing Partner's Capital A/c Dr.
  To Retiring/ Deceased Partner's Capital A/c
- If at the time of retirement or death of a partner, it appears in balance sheet of the firm, it will be written off by debiting all the partner's capital accounts in their old profit sharing ratio.
- At the time of retirement the assets and liabilities are revalued and a revaluation account is prepared in the same way as it is done in admission of a partner. The only difference is that in case of retirement any profit or loss due to revaluation is divided among all partners, including the retiring partner.
- The retiring partner in absence of an agreement is entitled to interest @6%p.a till the loan is paid off. If nothing is mentioned in the question about the payment of the amount due to retiring partner, it will be transferred to his loan account.
- On death of a partner, legal representatives of the deceased partners are entitled to claim the following amounts which are credited to his capital account:
  - ➢ Amount standing to credit of his capital A/c
  - ➢ His share of the increase in the value of goodwill of the firm.
  - ➢ Interest on Capital, if provided in the partnership deed.
  - ➢ His share of profit on the revaluation of assets and liabilities.
  - ➢ His share of undistributed profits or reserves.
  - ➢ His share of profit upto the date of his death.
- The following amounts will be debited to the account of the deceased partner for ascertaining the amount due to his legal representatives:
  - ➢ Drawings
  - ➢ Interest on Drawings
  - ➢ His share of loss on revaluation of assets and liabilities.
  - ➢ His share of undistributed loss
  - ➢ His share of the reduction in the value of goodwill.
- If the death of a partner occurs on any day during the year, the executors of the deceased partner will also be entitled to the share of profits earned by the firm from the beginning of the year till the date of death. Such profit may be ascertained from any of the following methods:
  - ➢ **Calculation of profit for the intervening period:**

Share of profit of a deceased partner

(A) On the basis of time :

$$\text{Profit of the firm till the date of death of partner} = \frac{\text{Previous Year Profit or Average profit of a given number of past years}}{12} \times \text{No's of months from last Balance Sheet to the date of death}$$

$$\text{Share of deceased partner} = \text{Profit of the firm till the date of death} \times \text{Deceased partner share}$$

(B) On the basis of turnover (sale basis) :

$$\text{Profit of the firm till the date of death of partner} = \frac{\text{Average profit of a given numbers of years or Profit of previous year}}{\text{Sale of last year}} \times \text{Sale from the date of last Balance Sheet till the date of death}$$

Share of deceased partner = Profit of the firm till the date of death × Deceased partner share

Chapter -5 Dissolution of Partnership Firm

- Dissolution of partnership 'firm' means that the firm closes down its business and comes to an end.
- Modes of Dissolution of Partnership Firm
  - **Without the Intervention of Court:**
    (i) By Mutual Agreement
    (ii) Compulsory Dissolution
    (iii) On happening of an event like insolvency of a partner, death of a partner or expiry of the period for which the firm was formed.
    (iv) By Notice
  - **By Order of Court:**
    (i) When a partner has become of unsound mind.
    (ii) When court is satisfied that the business cannot be carried on except at a loss.
    (iii) When a partner, other than the partner filing a suit, has permanently incapable of performing his duties as a partner.
    (iv) When a partner, other than filing a suit, wilfully or persistently commits breach of partnership agreement.
    (v) When a partner, other than filing a suit, is guilty of misconduct that may harm the partnership.
    (vi) When a partner, other than filing a suit, has transferred the whole of his interests in the firm to a third party.
- Settlement of Accounts on dissolution
  - First of all, the amount of loss, including the deficiency of capital shall be paid out of profits, next out of capital and lastly, if necessary, will be realised from the partners in their profit sharing ratio.
  - Amount realised from the sale of the assets of the firm (including any sum contributed by the partners, shall be applied in the following manner:
    (i) First of all, outside debts of the firm will be paid.
    (ii) Out of the remaining amount, the loans advanced by partners will be paid off:
    (iii) Thereafter, the balance of partners capitals accounts will be returned.
    (iv) If some amount remains, it will be divided among the partners in their profit sharing ratio.
- Payment of Firm's Debts and Private Debts
  (i) Amount realised from the sale of assets of the firm is used to pay off firm debts and if there is any surplus amount available, it is distributed among partners.
  (ii) Amount realised from the sale of private estate of partners will be used first to pay the private debts of the partners, and if there is any surplus available, it will be used in paying off the firm's debts.
- Assets are always transferred to Realisation Account at their book values.
- If the question is silent about the realisation of an asset, it is assumed that the asset has not realised any amount.
- If the question is silent about the payment of liability, it has to be paid in full.
- Only those liabilities which are related to third parties are transferred to Realisation Account.
- Undistributed profits such as General Reserve, Credit Balance of Profit and Loss Account are not transferred to Realisation Account. These accounts are transferred to Partner's Capital Accounts in their profit sharing ratio.
- Partner's Loan Accounts are not transferred to realisation account. Partner's Loan Accounts are prepared and paid off separately because partner's loan is to be paid after payment of outside liabilities but before payment of partner's capitals.
- If nothing is mentioned about the treatment of realisation expenses it is assumed that the firm has met the realisation expenses.
- If Cash and Bank balance both are given in the balance sheet, only one account either a cash account or bank account is prepared. If cash account is prepared, an entry is prepared for withdrawing the bank balance and if a Bank account is prepared, the cash balance is deposited in the bank.

- 'Loan by Partner to Firm A/c' is prepared separately. It is prepared before Capitals Accounts because at the time of dissolution capitals are paid off only if any balance is left after payment of loan by partner to the firm.
- If the question is silent about the realisation of goodwill, it is assumed that goodwill has not realised any amount.
- If nothing is mentioned in the question about the payment of outside liabilities, it is assumed that these are paid in full.
- Bank Loan and Bank Overdraft are both borrowings. It is first transferred to the credit of Realisation Account and then paid off just like other outside liabilities.
- No entry is passed if an asset is taken over by creditors.

Chapter – 6 Issue of Shares

- A Company is an artificial person created by law, having separate entity with a perpetual succession and a common seal.
- **Characteristics of Company:**
  - Separate Legal entity
  - Perpetual Existence
  - Limited Liability
  - Common Seal
  - Transferability of shares
  - Separation of Management from Ownership
- **Types of Companies**
  - **Unlimited Company:** Unlimited Company is a company where there is no limit on the liability of the members.
  - **Company Limited by Guarantee:** In case of such a company, the liability of members is limited to the extent of guarantee given by them in the event of the winding up of the company.
  - **Private Company:** Restricts the right to transfer its shares and limits the number of its members to 200.
  - **One Person Company:** One Person Company means a private limited company with only one person as its member. Its paid up share capital should not exceed ₹50 lakhs and average annual turnover should exceed ₹2 crore.
  - **Public Company:** A Public Company means a company which is not a private company.
- **Shares:** Total Capital of the Company is divided into units of small denominations. Each unit is called 'share'.
- **Types of Shares:**
  - **Preference Shares:** They have right to receive a dividend at a fixed rate before any dividend is paid on equity shares. When the company is wound up, they have a right to the return of capital before that of equity shares.

    Types of Preference Shares:

    (i) Cumulative Preference Shares: Cumulative Preference Shares are those preference shares, the holders of which are entitled to recover the arrears of preference dividend, before any dividend is paid on equity shares.

    (ii) Non- Cumulative Preference Shares: The holder of such shares get a fixed dividend out of profits of each year. If no dividend is declared in any year, they get nothing.

    (iii) Participating Preference Shares: Such shares, in addition to the fixed preference dividend, carry a right to participate in surplus profits, if any.

    (iv) Non-Participating Preference Shares: Such shares get only a fixed rate of dividend every year and do not carry a right to participate in surplus profit or in any surplus on winding up.

    (v) Redeemable Preference Shares: Such shares are those which will be paid by the company within the stipulated time.

    (vi) Irredeemable Preference Shares: Irredeemable Preference Shares are those which cannot be refunded before winding up.

(vii) Convertible Preference Shares: Holders of such shares have a right to get their preference shares converted into equity shares at their option according to terms of issue.

(viii) Non- Convertible Preference Shares: When the holders of preference shares have not been conferred the right of getting their preference shares converted into equity shares, such shares are called Non-Convertible Preference Shares.

- **Equity Shares:** Equity shares are those shares which are paid dividends only when profits are left after the preference shareholders have been paid fixed rate of dividends.

- **Capital Reserves:** Capital reserves are those reserves which are created out of capital profits. Following are the items that give rise to capital profits and hence capital reserves:
  (i) Profit on sale of fixed assets
  (ii) Profit on revaluation of fixed assets.
  (iii) Profit on redemption of debentures.
  (iv) Profit earned by company prior to its incorporation.
  (v) Profit on forfeiture and re-issue of shares.
  (vi) Premium on issue of shares and debentures.
- **Private Placement of Shares:** In this method, company sells the securities to some selected institutions investors (like UTI, GIC, etc.) and individuals. This method saves the public issue and helps to raise capital more quickly.
- **Employees Stock Option Plan (ESOP):** ESOP means the option given to whole-time directors, officers and employees right to purchase or subscribe at a future date, the securities offered by the company at a pre-determined price, which usually is lower than the market price.
  - **Conditions for Issue of ESOP:**
    (i) A special resolution is passed by company to this effect.
    (ii) Shares must be issued in accordance with SEBI regulations.
    (iii) These shares are of same class of shares already issued by company.
    (iv) The resolution must specify the number of shares, the current market price, the exercise price and the class of directors or employees to whom such equity shares are offered.
- **Preliminary Expenses:** Expenses incurred on the formation of the company are termed as 'Preliminary Expenses'. These include the following:
  (i) Expenses incurred on preparation and printing of various documents needed for registration of a company.
  (ii) Stamp duty and registration fees on these documents.
  (iii) Duty payable on authorised capital.
  (iv) Cost of preliminary books.
- In case nothing is mentioned regarding the class of shares issued, they are always treated as equity shares.
- Amount of securities premium reserve may be used for the following reasons:
  (i) In writing off preliminary expenses of the company
  (ii) For issuing fully paid bonus shares to the shareholders of the company.
  (iii) For buy back of its own shares
  (iv) For providing premium payable on redemption of debentures.
  (v) For writing off the expenses, commission or discount allowed on issue of shares or debentures of the company.
- When it is not mentioned when the securities premium is receivable, it is assumed that securities premium is due along with allotment money.
- Company can charge interest on calls in arrears but not exceeding 10% p.a.
- Company is liable to pay interest on calls in advance subject to maximum rate of 12% p.a.
- When shares are issued at discount the amount of discount cannot exceed the previously received on these shares.

Chapter – 7 Issue of Debentures

- Debentures includes debentures stock, bonds and any other securities of a company.
- **Types of Debentures:**
  - **Secured or Mortgage Debentures:** These debentures are those which are secured either on particular assets of the company.
  - **Unsecured or Naked Debentures:** These debentures are those which are not given any security.
  - **Registered Debentures:** Names and addresses of the holders of such debentures are recorded in the register of the company called, "Registrar of Debentureholders'. Such debentures are not freely transferable.
  - **Bearer Debentures:** Names and addresses of the holders of such debentures are not recorded in the company and these debentures are transferable by mere delivery.
  - **Redeemable Debentures:** Redeemable debentures are those debentures which will be paid by company either in lump sum at the end of a specified period or by instalments during the life time of the company.
  - **Irredeemable Debentures:** Irredeemable debentures are those debentures which are not repayable by the company during its lifetime.
  - **Convertible Debentures:** Convertible Debentures are those debentures which are convertible into equity shares or other securities at a stated rate of exchange either at the option of debentureholders or at the option of the company.
- Discount or loss on issue of debentures is a capital loss. It should be written in the year it occurs. Discount can be written off by debiting first to Securities Premium Reserve Account or from Capital Reserve or Statement of Profit or loss in this order.
- When a company takes a loan from Bank or from some other party, the company may have to issue debentures as a subsidiary or secondary security in addition to principal security. In other words, collateral security means secondary security in addition to principal security. The bank or some other party to whom debentures are issued as collateral security will not be entitled to any interest on these debentures.
- Two methods of dealing of Issue of debentures as Collateral Security are as follows:
  - **First Method:** In this method no entry needs to be passed in books of accounts as debentures are not actually issued. So in this method entry is passed for taking a loan.
  - **Second Method:** In this method, the entry for issuing debentures as collateral security is also recorded with the entry for taking the loan.
- Interest on debentures is usually paid half-yearly. Interest on debentures is a charge against the profits of the company.

Chapter 8 Redemption of Debentures

- Redemption of debentures means repayment of the loan due on debentures to debenture holders.
- **Sources of Finance for Redemption of Debentures**
  - **(i) Redemption of Debentures out of Capital:** When no profits are set aside for redemption of debentures, it is called redemption out of capital. Listed Companies are not required to create any Debenture Redemption Reserve. Unlisted companies are required to create Debenture Redemption Reserve equal to at least 10% of the nominal value of outstanding debentures out of divisible profits.
  - **(ii) Redemption of Debentures out of profits:** Redemption of profit means that an amount equal to debentures issued is transferred from 'divisible profits' to a newly opened account named 'Debenture Redemption Reserve Account'.
  - **(iii) Redemption of Debentures Out of Capital and Profits:** It means redemption of debentures partly out of capital and partly out of profits. For example an unlisted company creates DRR equal to 10% of the outstanding debentures, then 10% redemption will be called out of profits and 90% redemption will be out of capital.
- **Exemptions to the rule of Creating Debenture Redemption Reserve** (For both public as well as private placed debentures)

(i) All India Regulated Institutions regulated by Reserve Bank of India.
(ii) Banking Companies.
(iii) Other Financial Institutions within the meaning of Section 2(72) of the Companies Act,2013.
(iv) Housing Finance Companies registered with National Housing Bank.
(v) Non- Banking Finance Companies Registered with Reserve Bank of India.
(vi) Other Listed Companies

- **Conditions for Investing 15% of the Debentures maturing during the year:** As per Rule 18(7) (C) of the Companies Rules,2014, every company listed or non listed that are to redeem debentures, shall before the 30th day of April of each year, deposit or invest, a sum not less than 15% of the amount of its debentures maturing during the year ending on 31st March of the next year.
- **Exemptions to the rule of investing 15% in specified securities**:
  Following categories of companies are exempt from making Debenture Redemption Investment: (For both Public as well as Privately Placed Debentures:
  (i) All Indian Financial Institutions, regulated by Reserve Bank of India.
  (ii) Banking Companies
  (iii) Other Financial Institutions within the meaning of Section 2(72) of the Companies Act, 2013. So following companies are required to invest at least 15% of the nominal value of its debentures maturing during the year.
  (i) Listed Companies (including NBFCs registered with RBI and HFCs registered with National Housing Banks)
  (ii) Unlisted Companies

- **Methods of the Redemption of Debentures:** The various methods of redemption of debentures are as under:
  (i) Lump Sum Payment at the end of fixed period: It means debentures can be redeemed by paying the debenture holders in one lump sum at the expiry of the agreed time or earlier at the option of the company
  (ii) Redemption of debentures in instalments by drawing of lots: It means the redemption is made in annual instalments. The amount of instalment is worked out by dividing the total amount of debentures by the number of years it is to last.
  (iii) Purchase in Open Market: A company, if authorized by its Articles of Association, can purchase its own debenture in the open market. Debentures so purchased may be cancelled and it means the debentures have been paid.
  (iv) Conversion of Existing Debentures into Shares or New Debentures: It means the debenture holder can exchange their debenture either for shares or new debentures of the company and the debentures which carry such right are called convertible debentures.

Chapter – 9 Financial Statements for Not for Profit Organisations

- Not-For-Profit Organisations are those organizations whose main aim/objective is to rendering service to their members or the society at large and not the earning of profits.
- **Characteristics of Not-For-Profit Organisation:**
  (i) Service Motive
  (ii) Not-For-Profit Organisations are organized as charitable trusts or societies.
  (iii) Managed by Elected Members
  (iv) **Source of Income:** The main source of income of these organizations are:
  1. Subscriptions from members
  2. Life-membership fees
  3. financial assistance from government in form of grant-in-aid
  4. Donations

5. Legacies
6. Grant-in-aid
7. Income from investments etc.

(v) Separate Entity
(vi) Surplus Added to Capital Fund

- A Receipts and Payments Account is a summary of cash transactions. It is prepared at the end of the accounting period from the cash receipts journal and cash payment journals.
- **Features of Receipts and Payment Account:**
  (i) Real Account
  (ii) Starts with opening balance of cash in hand and bank
  (iii) Closing balance of this account shows closing balance of Cash in hand and at Bank
  (iv) Do not show non-cash items
- **Income and Expenditure Account:**
  It is a nominal account of the Not-For-Profit Organisation equivalent to the profit and loss account of the trading concerns. The terms profit is substituted by the words excess of income over expenditure (surplus) and the loss is expressed as an excess of expenditure over income (deficit).
- **Features of Income and Expenditure Account:**
  (i) Nominal Account
  (ii) Ignore Items of Capital Nature
  (iii) Omission of opening and closing balance of cash
  (iv) It records income and expenditure of current period
- **Balance Sheet:**
  Not-For-Profit organizations prepare a Balance Sheet at the end of an accounting period to ascertain the financial position of the organization. The preparation of their Balance Sheet is the same as that of the business or trading entities. It is prepared in the usual way showing assets on the 'right-hand side' and the liabilities on the 'left-hand side. However, the term capital is not to be found.
- In absence of any information, entrance fees may be treated as revenue receipt and as such may be shown on credit side of Income and Expenditure Account.

Chapter -10 Financial Statements of Companies

- **Financial Statements should include the following**:
  (i) A Balance Sheet as at the end of the financial year
  (ii) A Statement of Profit and Loss for the financial year
  (iii) Cash Flow Statement for the financial year
  (iv) A statement of changes in equity, if applicable
  (v) Explanatory Notes
- **Objectives of Preparing Financial Statements**:
  (i) To present a true and fair view of the financial performance
  (ii) To present a true and fair view of financial position

FORM OF BALANCE SHEET
Name of the Company ……………
Balance Sheet as at ……………….
(₹ *in* ……………………)

Particulars	Note No.	Figures as at the end of current reporting period	Figures as at the end of the previous reporting period
1	2	3	4
I. EQUITY AND LIABILITIES:			

(1) Shareholders' funds (a) Share capital (b) Reserves and surplus (c) Money received against share warrants (2) **Share application money pending allotment** (3) **Non-current liabilities** (a) Long-term borrowings (b) Deferred tax liabilities (net) (c) Other Long-term liabilities (d) Long-term provisions (4) **Current liabilities** (a) Short-term borrowings (b) Trade payables (c) Other current liabilities (d) Short-term provisions			
TOTAL			
II. ASSETS: **(1) Non-current assets** (a) Fixed Assets (i) Tangible assets (ii) Intangible assets (iii) Capital work-in-progress (iv) Intangible assets under development (b) Non-current investments (c) Deferred tax assets (net) (d) Long-term loans and advances (e) Other non-current assets (2) **Current assets** (a) Current investments (b) Inventories (c) Trade receivables (d) Cash and cash equivalents (e) Short-term loans and advances (f) Other current assets			
TOTAL			

- Non Current Liabilities shall include the liabilities due after one year.
  - **Long Term Borrowings:** Such as Loan from Bank, Debentures, Loan from Other Parties
  - **Deferred Tax Liabilities**
  - **Other Long term Liabilities:** Such as premium payable on redemption of debentures, Premium payable on Redemption of Preference Shares, Public Deposits
  - **Long Term Provisions:** Such as Provision for Employee Benefits, Provision for Provident Fund, Provision for Warranties
- **Current Liabilities:** shall include the liabilities due within one year.
  - **Short Term Borrowings:** Such as Bank Overdraft, Cash Credit
  - **Trade Payables:** Sundry Creditors and Bills Payable will be termed as Trade Payables
  - **Other Current Liabilities:**
    (i) Interest accrued but not due on borrowings
    (ii) Interest accrued and due on borrowings

(iii) Income received in advance
(iv) Unpaid Dividends, Unclaimed Dividends
(v) Outstanding Expenses
(vi) Calls in advance and interest thereon

- **Short Term Provisions: Such as**
  (i) Provision for Tax
  (ii) Proposed Dividends
  (iii) Provision for Doubtful Debts

- Non Current Assets shall include the assets held for more than one year. It should include the following:
  - Tangible Assets: Such as Buildings, Plant, Furniture, Office Equipments etc.
  - Intangible Assets: Such as Goodwill, Patents, Computer Software etc,
  - Capital Work in Progress
  - Intangible Assets Under Development
- **Non Current Investments:** Such as
  - Investment in Equity Shares
  - Investment in Preference Shares
  - Investment in Government and Trust Securities
  - Investment in Debentures and Bonds
  - Investment in Mutual Funds
- Deferred Tax Assets
- **Other Non-Current Assets:** Such as share issue expenses and Discount on Debentures to be amortized after 12 months.
- Current Assets shall include the assets held for one year or less. It shall include the following:
  - Current Investments: Short Term Investments
  - **Inventories**: Stock, Work in Progress, Loose Tools, Goods in Transit etc.
  - **Trade Receivables:** Sundry Debtors and Bills Receivables will be termed as Trade Receivables
  - **Cash and Cash Equivalents:** Cash and Bank Balance, Cheques and Drafts in Hand
  - **Short term Loans and Advances:** Such as advances recoverable in cash
  - **Other Current Assets :** Such as Prepaid Expenses, Accrued Income, Advance Tax, Share Issue Expenses and Discount on Debentures to be amortized in the next 12 months.
- Contingent Liabilities and Commitments shall include the following:
  - **Contingent Liabilities**:
    (i) Claims against the company not acknowledged debts
    (ii) Guarantees given by the company
    (iii) Bill discounted but not yet matured
  - **Commitments:**
    (i) Contracts remaining to be executed
    (ii) Uncalled Liability on party paid shares
    (iii) Arrears of dividends on cumulative preference shares

Statement of Profit & Loss

For the year ended

(₹ In.........)

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

Profit and loss statement for the year ended..........

(₹ in..........)

Particulars		Note No.	Figures for the current reporting period	Figures for the previous reporting period
I.	Revenue from operations		xxx	xxx

II.	Other Income		xxx	xxx
III	Total Revenue (I + IV)		xxx	xxx
IV.	Expenses: Cost of materials consumed Purchases of Stock-in-Trade Changes in inventories of finished goods, work-in-progress and Stock-in-Trade Employee benefits expenses Finance costs Depreciation and amortization expenses Other expenses		 xxx xxx xxx	 xxx xxx xxx
	Total expenses		xxx	xxx
V.	Profit before tax (III-IV)		xxx	xxx
VI.	Tax		xxx	xxx
VII.	Profit after (V-VI)		xxx	xxx

- Debit balance of Statement of Profit and Loss shall be known as a negative figure under the head 'Surplus'.
- A deferred tax liability comes into existence when accounting income is more than taxable income.
- In case of finance company, following will be revenue from operations:
  (i) Interest Income
  (ii) Dividend Income
  (iii) Net gain/ Loss on sale of Investments
  (iv) Revenue from other financial services
- Materials such as stores, fuel, spare parts, etc. which do not enter physically into the composition of finished goods are excluded from raw materials and hence are shown under other expenses.
- Difference in the opening and closing inventories of materials is not shown against change in inventories because it is considered while computing cost of materials consumed.
- Bank Charges are not included in Finance Costs because they are not incurred in connection with loan but for availing the services provided by the bank.
- Preliminary Expenses are to be written off entirely in the year in which they are incurred. They should be written first from Securities Premium and in its absence from Statement of Profit and Loss
- Borrowing Costs such as discount Discount on issue of debentures could be written off over loan period.

Chapter -11 Financial Statement Analysis

"Financial analysis consists in separating facts according to some definite plan, arranging them in groups according to certain circumstances and then presenting them in a convenient and easily read and understandable form."

- **Types or Methods of Financial Analysis**
  (i) Horizontal Analysis: In such type of analysis, financial statements for a number of years are reviewed and analysed
  (ii) Vertical Analysis: In such type of analysis, financial statements for a single year or on a particular date are reviewed and analysed with the help of proper devices like ratios.
- **Objectives or Purpose of Financial Analysis**
  (i) To Measure the Earning Capacity or Profitability
  (ii) To Measure the Solvency
  (iii) To Measure the Financial Strength
  (iv) To Make Comparative Study with other Firms
  (v) To Measure the Capability of Payment of Interest and Dividend
  (vi) To Identify the Trend of the Business

(vii) To Judge the Efficiency of Management
(viii) To Provide Useful Informations to the Management

- **Uses of Financial Analysis**

(i) For taking Investment Decisions
(ii) For taking Credit Decisions
(iii) For taking Dividend Decisions
(iv) For Taking Various Managerial Decisions
(v) For Estimating Trend of the Business

- **Significance or Importance of Financial Analysis**

(i) Significance for Management- Management of a firm is always interested in the solvency profitability and the capital structure of the firm
(ii) Significance for Investors- Investors and shareholders of the business are interested in the longevity of the business enterprise
(iii) Significance for Government: Government can judge on the basis of analysis of financial statements, which industry is progressing on the desired lines and which industry needs the financial help
(iv) Significance for Financial Institutions: All the financial institutions which provide finance to the industries such as Banks, Insurance companies, Unit Trust etc. want to know the profit earning capacity of the business and its long-term solvency
(v) Significance for Employees: Analysis of financial statements helps the employees in determining the profitability of the business enterprise
(vi) Significance for Stock Exchange Authorities- They analyse the financial statements of a company to determine its price earning ratio and earning per share (E.P S.).
(vii) Significance for Taxation Authorities- They analyse the financial statements of a company to know whether the financial statements have been prepared in accordance with the legal provisions
(viii) Significance for Researchers: Analysis of financial statements of a company is of much importance to a researcher who is conducting research in respect of the profitability, solvency, efficiency, financial soundness and future growth potential of that company

- **Limitations of Financial Analysis**

(i) Affected by Window-dressing
(ii) Do not Reflect Changes in Price Level
(iii) Different Accounting Policies
(iv)Effect of Personal Ability and Bias of the Analyst
(v) Difficulty in Forecasting
(vi) Lack of Qualitative Analysis
(vii) Limited Use of Single Year's Analysis of Financial Statements

Chapter 12 Comparative Statements

- **Tools of Financial Analysis**

(i) **Comparative Statement Analysis:** Comparative statements compares financial numbers at two points of time and helps in deriving meaningful conclusions regarding the changes in financial positions and operating results and to enable the reader to understand the significance of such changes.
(ii) **Common Size Statement Analysis:** These Statements indicate the relationship of different items of Financial Statements with some common item by expressing each item as a percentage of the common item.
(iii) **Trend Analysis:** It is a technique of studying several Financial Statements over a series of years. Using the previous years' data of a business enterprise, trend analysis can be done to observe the percentage changes over time in the selected data.

(iv) **Ratio Analysis:** Accounting ratios measure the comparative significance of the individual items of the income and position statements. It is possible to assess the profitability, solvency, and efficiency of an enterprise through the techniques of ratio analysis.
(v) **Cash Flow Analysis:** It refers to the analysis of the actual movement of cash in and out of an organization. Cash Flow Statements is prepared to project the manner in which the cash received has been utilized during an accounting year.
(vi) **Fund Flow Statement:** A fund flow statement is designed to show the changes in the assets, liabilities and capital of the firm between the dates of the two balance sheets It indicates the causes of changes in the working capital of an enterprise during the year.
(vii) **Break Even Point Analysis:** Break even Point is the point where total costs are exactly equal to the total sales. At this point, there is neither any profit nor any loss.

- **Purpose or Utility or Importance of Comparative Statements**

(i) To make the data simpler and more understandable:
(ii) To indicate the trend
(iii) To indicate the strong points and weak points of the concern
(iv) To compare the firm's performance with the average performance of the industry
(v) To help in forecasting

- Format of Comparative Statements

COMPARATIVE BALANCE SHEET
as at 31st March 2016 and 2017

Particulars	*Note No.*	*31.3.2016*	*31.3.2017*	*Absolute Change (Increase or Decrease)*	*Percentage Change (Increase or Decrease)*
1		2	3	4	5
		A	B	(B – A) = C	C/A × 100 = D
		₹	₹	₹	%
I. EQUITY AND LIABILITIES:					
(1) Shareholder's Funds					
(a) Share Capital		...	...	...	...
(b) Reserve and Surplus		...	...	...	...
(2) Non Current Liabilities :					
(a) Long term Borrowings		...	...	...	...
(b) Long term Provisions		...	...	...	...
(3) Current Liabilities :					
(a) Short term Borrowings		...	...	...	...
(b) Trade Payables		...	...	...	...
(c) Other Current Liabilities		...	...	...	...
(d) Short-term Provisions		...	...	...	...
TOTAL		...	...	...	...
II. ASSETS:					
(1) Non Current Assets:					
(a) Fixed Assets:					
(i) Tangible Assets		...	...	...	...
(ii) Intangible Assets		...	...	...	...
(b) Non-Current Investments		...	...	...	...
(c) Long-term Loans and advances		...	...	...	...

(2) Current Assets:				
(a) Current investments	…	…	…	…
(b) Inventories	…	…	…	…
(c) Trade Receivables	…	…	…	…
(d) Cash and Cash Equivalents	…	…	…	…
(e) Short-term loans and advances	…	…	…	…
(f) Other Current Assets	…	…	…	…
TOTAL	…	…	…	…

COMPARATIVE STATEMENT OF PROFIT & LOSS

for the years ended 31st March 2016 and 2017

Particulars	*Note No.*	*2015–16*	*2016–17*	*Absolute Change (Increase or Decrease)*	*Percentage Change (Increase or Decrease)*
1		2	3	4	5
		A	B	(B – A = C)	C/A × 100 = D
		₹	₹	₹	%
I. Revenue from Operations		…	…	…	…
II. *Add* : Other Incomes		…	…	…	…
III. Total Revenue I + II		…	…	…	…
IV. *Less* : Expenses					
Cost of Materials Consumed		…	…	…	…
Purchase of Stock-in Trade		…	…	…	…
Changes in Inventories of Finished Goods, Work- Goods, Work- in-Progress and Stock- In-Trade		…	…	…	…
Employee Benefit Expenses		…	…	…	…
Finance Costs		…	…	…	…
Depreciation and Amortization Exp.		…	…	…	…
Other Expenses		…	…	…	…
Total Expenses		…	…	…	…
V. Profit before Tax (III – IV)		…	…	…	…
VI. *Less* : Tax		…	…	…	…
VII. Profit after tax (V – VI)		…	…	…	…

Chapter 13 Common Size Statements

- **Purpose or Utility of Common Size Statements**
  (i) To present the change in various items in relation to revenue from operations, total assets or total liabilities
  (ii) To establish a relationship
  (iii) To provide for a common base for comparison
- **Purpose or Utility of Common Size Balance Sheet**
  (i) To analyse changes in individual items of balance sheet.
  (ii) To establish the trend in various items of assets and liabilities.

COMMON SIZE BALANCE SHEET
as at 31st March, 2016 and 2017

Particulars	*Note No.*	*Absolute Amounts*		*Percentage of Balance Sheet Total*	
		31.3.2016	*31.3.2017*	*31.3.2016*	31.3.2017
		₹	₹	%	%
I. EQUITY AND LIABILITIES:					
1. Shareholder's Funds					
(a) Share Capital		. . .	. . .	. . .	. . .
(b) Reserve & Surplus		. . .	. . .	. . .	. . .
2. Non-Current Liabilities					
(a) Long term Borrowings		. . .	. . .	. . .	. . .
(b) Long term Provisions		. . .	. . .	. . .	. . .
3. Current Liabilities					
(a) Short-term Borrowings		. . .	. . .	. . .	. . .
(b) Trade Payables		. . .	. . .	. . .	. . .
(c) Other Current liabilities		. . .	. . .	. . .	. . .
(d) Short-term provisions		. . .	. . .	. . .	. . .
TOTAL		. . .	. . .	100	100
II. Assets					
1. Non-Current Assets					
(a) Fixed Assets		. . .	. . .	. . .	. . .
(i) Tangible Assets		. . .	. . .	. . .	. . .
(ii) Intangible Assets		. . .	. . .	. . .	. . .
(b) Non-Current Investments					
(c) Long-Term Loans and Advances		. . .	. . .	. . .	. . .
2. Current Assets		. . .	. . .	. . .	. . .
(a) Current Investments		. . .	. . .	. . .	. . .
(b) Inventories		. . .	. . .	. . .	. . .
(c) Trade Receivables		. . .	. . .	. . .	. . .
(d) Cash and Cash Equivalents		. . .	. . .	. . .	. . .
(e) Short-term loans and advances					
(f) Other Current Assets		. . .	. . .	. . .	. . .
TOTAL		. . .	. . .	100	100

- **Purpose or Utility of Common Size Statement of Profit and Loss**
  (i) To establish a relationship between individual items of statement of profit and loss and revenue from operations.
  (ii) To analyse changes in individual items of statement of profit and loss in relationship to revenue from operations.
  (iii) To judge the relative efficiency of cost items of the two or more firms belonging to same industry.

COMMON SIZE STATEMENT OF PROFIT & LOSS
for the year ended 31st March, 2016 and 2017

Particulars	*Note No.*	*Absolute Amounts*		*Percentage of Revenue from Operations*	
		2015-16	*2016-17*	*2015-16*	*2016-17*
		₹	₹	%	%
1. Revenue from Operations		. . .	. . .	100	100
II. *Add* : Other Income		. . .	. . .	. . .	. . .
III. Total Revenue (I + II)		. . .	. . .	. . .	. . .
IV. *Less* : Expenses:					
Cost of Materials Consumed		. . .	. . .	. . .	. . .
Purchase of Stock in Trade		. . .	. . .	. . .	. . .
Changes in Inventories of Finished Goods, work in Progress and Stock in Trade		. . .	. . .	. . .	. . .
Employee Benefit Exp.		. . .	. . .	. . .	. . .
Finance Costs		. . .	. . .	. . .	. . .
Depreciation and amortization Exp.		. . .	. . .	. . .	. . .
Other Expenses		. . .	. . .	. . .	. . .
Total Expenses		. . .	. . .	. . .	. . .
V. Profit before Tax (III – IV)		. . .	. . .	. . .	. . .
VI. *Less* : Tax		. . .	. . .	. . .	. . .
VII. Profit after tax (V – VI)		. . .	. . .	. . .	. . .

Chapter 14 Accounting Ratios

- The accounting ratio provides a quantitative relationship that the analyst may use to make a qualitative judgment about various aspects of the financial position and performance of an enterprise.
- **Cross-sectional Analysis -** It involves the comparison of the firm's ratios with some selected firms in the same industry or industry average at the same point of time.
- **Time-series Analysis -** When ratios of the same firm over a period of time are compared, it is known as time series or trend analysis.
- **Objectives of Ratio Analysis**
  (i) To locate the weak spots of business which need more attention.
  (ii) To provide deeper analysis of the liquidity, solvency, activity and profitability of business
  (iii) To facilitate intra-firm comparison of the performance of the different divisions of the firm.
  (iv) To facilitate inter-firm comparison.
  (v) To provide information useful for making estimates and preparing the plans for the future.

- **Advantages of Ratio Analysis:**
  (i) Useful in the analysis of financial statements

(ii) Useful in judging the operating efficiency of business
(iii) Useful in simplifying accounting figures
(iv) Useful in Inter-firm and Intra-firm comparison
(v) Effective Control
(vi) Useful in locating the weak spots (problem areas) of the business
(vii) Helpful in Forecasting
(viii) Estimate about the trends of the business
(ix) Fixation of Ideal Standards

- **Limitations of Ratio Analysis**
  (i) Ratio ignores qualitative factors
  (ii) Defective accounting information
  (iii) Ignores Price-Level Changes
  (iv) Change in accounting procedures
  (v) Ratios may be misleading in the absence of absolute data
  (vi) Window dressing
  (vii) Lack of Proper Standards
  (viii) Ratios Alone are not Adequate for Proper Conclusions
  (ix) Effect of Personal Ability and Bias of the analyst
  (x) Limited use of Single Ratio

- **Current Ratio** = Current Assets/Current Liabilities. An ideal ratio is 2:1
- **Quick Ratio** = Quick Assets/Current Liabilities. A quick ratio of 1: 1
- **Debt-Equity Ratio** = Long term Debts/Shareholder's Funds. The debt-equity ratio of 2:1 is generally accepted as ideal.
- **Total Assets to Debt Ratio** = Total Assets/Long Term Debts
- **Proprietary ratio** = Equity/ Total Assets
- **Interest Coverage Ratio** = Net Profit before Interest and Tax/Fixed Interest Charges. An interest coverage ratio of 6 to 7 times is considered appropriate.
- **Inventory Turnover Ratio** = Cost of Revenue from Operations /Average Inventory
- **Average age of Inventory** = $\frac{Days\ in\ year}{Inventory\ Turnover\ Ratio}$
- **Debtors Turnover Ratio** = Net Credit Revenue form Operations/Average Trade Receivable
- **Average Collection Period** = $\frac{365}{Trade\ Receivables\ Turnover\ Ratio}$ = Number of Days
- **Creditors Turnover Ratio** = Net Credit Purchases/ Average Trade Payables
- **Average Payment Period** = $\frac{365}{Trade\ Payables\ Turnover\ Ratio}$
- **Working Capital Turnover Ratio** = Net Revenue from Operations/Working Capital
- **Gross Profit Ratio** = $\frac{\text{Gross Profit}}{\text{Revenue From Operations}} \times 100$
- **Operating Ratio** = $\frac{\text{Cost of Revenue From Operations + Operating Expenses}}{\text{Revenue From Operations}} \times 100$
- **Operating Profit Ratio** = $\frac{\text{Operating Profit}}{\text{Revenue From Operations}} \times 100$
- **Net Profit Ratio** = $\frac{\text{Net Profit } after\ Tax}{\text{Other Operating Incomes}} \times 100$
- **Return on Investment** = $\frac{Net\ Profit\ before\ Interest, Tax\ and\ Dividend}{Capital\ Employed} \times 100$
- Provision for doubtful debts is deducted from trade receivables for calculating Current Ratio and Quick Ratio

Chapter 15 Cash Flow Statement

- A cash flow statement is a statement showing inflows and outflows of cash during a particular period.
- **Objectives of Cash Flow Statement**:
  (i) To ascertain the sources of Cash and Cash equivalents from operating, investing and financing activities of the enterprise.
  (ii) To ascertain the applications of Cash and Cash equivalents under operating, investing and financing activities of the enterprise.
  (iii) To ascertain the net change in Cash and Cash equivalents
  (iv) To highlight the major activities that have provided cash and that have used cash during a particular period and to show off their effect on the overall cash balance

- **Uses of Cash Flow Statement**
  (i) It enables the management to for short term financial planning
  (ii) It helps in preparing cash budget
  (iii) It explains the deviations of cash from earnings
  (iv) It helps in studying trend of Cash Receipts and Payments
  (v) It helps in ascertaining cash flows from various activities separately
  (vi) It is helpful in making dividend decisions
  (vii) Useful to outsiders

- **Limitations of Cash Flow Statement**
  (i) Ignores non cash transactions
  (ii) Not suitable for judging the liquidity
  (iii) Possibility of Window Dressing
  (iv) Ignores the accrual concept of accounting
  (v) No substitute for an income statement
  (vi) Historical in nature
- Bank overdraft and Cash Credit will be considered as financing activity as they are short term borrowings. Hence they will not be considered as cash and cash equivalents.
- While calculating cash from operating activities, provision for doubtful debts is added back to net profits because creation of provision does not result in outflow of cash.
- Current Investments will be taken as Marketable Securities and hence are treated as Cash and Cash Equivalents.
- Proposed Dividend appearing on the liabilities of previous year's balance sheet must have been have been paid during the year. It will be shown as a payment under the heading 'Cash Flow from Financing Activities'.
- 'Proposed Dividend appearing on the liabilities side of current year's balance sheet will be added back to profits under the heading 'Cash flow from Operating Activities'.
- If dividend paid is given in adjustments in question, it will be added back to profits while calculating 'Net Profit before Tax' and will also be shown as payment of cash under the heading 'Cash flows from financing Activities'.
- Income Tax given in adjustments in question will be added back to profits and will also be deducted from Cash generated from Operating Activities.

Name	: _______________
Date of Exam.	: _______________
Duration	: **3 hours**
Max. Marks	: **80**
Study Centre	: _______________

GENERAL INSTRUCTIONS:
1. This question paper contains 34 questions. All questions are compulsory.
2. This question paper is divided into two parts, Part A and B.
3. Question 1 to 16 and 27 to 30 carries 1 mark each.
4. Questions 17 to 20, 31and 32 carries 3 marks each.
5. Questions from 21 ,22 and 33 carries 4 marks each
6. Questions from 23 to 26 and 34 carries 6 marks each

Q1. There are two statements marked as Assertion (A) and Reason (R). Read the statements and choose the appropriate option from the options given below

Assertion (A) It is necessary to ascertain new profit sharing ratio for old partners when a new partner is admitted.
Reason (R) New partner acquires his share from old partners which reduces old partner's share in profits.
(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
(b) Both Assertion (A) and Reason (R) are true but Reason (R) is not the correct explanation of Assertion (A).
(c) Assertion (A)is false, but Reason (R) is true.
(d) Assertion (A)is true, but Reason (R) is false.

Q2. Contingency reserve, profit and loss account (credit) balance and deferred revenue expenditure account are credited to capital accounts of old partner in old ratio at the time of admission of new partners.
(a) True
(b) False
(c) Partially true
(d) Can't say

Q3. Suri Ltd issued 70,000 equity shares to public. The company received applications for 60,000 Shares. Which of the following statement is correct?
(a) The company will make full allotment to all the applicants.
(b) Allotment will not be made, and application money will be refunded.
(c) Allot the shares on pro rata basis.
(d) Any of the above

Q4. X Ltd. issued 2,50,000 Equity Shares of ₹10 each at a premium of ₹1 each payable as ₹3 on application, ₹4 on allotment and balance on the first and final call. Applications were received for 5,00,000 shares. The company allotted 2,50,000 shares. After adjusting excess application money towards allotment, balance amount was refunded. Last call 500 share was not received, and share were forfeited after due date, this is a case of
(a) Oversubscription
(b) pro rata allotment
(c) forfeiture of share

(d) All of the above

Q5. State the order of the payment of the following, in case of dissolution of partnership firm:
(i) To each partner's proportionately what is due to him/her from the firm for the advances as distinguished from capital
(ii) To each partner proportionately what is due to him on account of capital
(iii) For the debts of the firm to the third party
(a) (iii), (i), (ii)
(b) (iii), (ii), (i)
(c) (ii), (iii), (i)
(d) None of these

Q6. Ravi and Bhuvi are partners in the ratio of 5 : 3. Their capitals are ₹2,00,000 and ₹1,00,000 respectively. As per the Partnership Deed, they are allowed interest on capitals @ 8% p.a. Interest charged on drawings of Ravi and Bhuvi were ₹ 2,500 and ₹ 1,500 respectively. Firm incurred a loss of ₹ 20,000 for the year ended 31st March, 2022. Loss transferred to the Capital Accounts of Ravi and Bhuvi would be
(a) ₹25,000; ₹15,000
(b) ₹15,000; ₹25,000
(c) ₹10,000; ₹6,000
(d) ₹6,000; ₹10,000

Q7. Capital invested in a firm is ₹5,00,000.Normal rate of return is 10% .Average profit of the firm are ₹64,000(after an abnormal loss of 4,000).Value of goodwill at four times the super profits will be:
(a) ₹72,000
(b) ₹40,000
(c) ₹2,40,000
(d) ₹1,80,000

Q8. Any change in relationship of existing partners which results in an end of the existing agreement and enforces making of a new agreement is called :
(a) Revaluation of Partnership
(b) Reconstitution of Partnership
(c) Realization of Partnership
(d) None of the above

Q9. Ram ,Shyam and Manoj were partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. Manoj died on 31st October,2019. According to partnership agreement, his share of profits from the closure of last accounting year till the death of her death was to be calculated on the basis of aggregate profits of two completed years before death. Profits of the firm for the years ending 31st March,2018 and 31st March,2019 were ₹57,000 and ₹63,000 respectively. The firm closes its books on 31st March every year. Manoj's share of profit till the date of his death is :
(a) ₹24,000
(b) ₹7,000
(c) ₹14,000
(d) ₹12,000

Q10. E, F ,G and H are sharing profits and losses in the ration of 1 : 4 : 3 : 2 . H died and goodwill is valued at ₹4,00,000. New ratio among E, F and G is 4 : 3 : 3. In Journal entry F will be :
(a) Debited by ₹ 40,000

(b) Debited by ₹ 1,20,000
(c) Credited by ₹ 40,000
(d) None of the above

Q11. On death of a partner, while revaluation of assets and liabilities, firm will be in profit:
(i) There is unrecorded assets
(ii) There is unexpired insurance
(iii) Employee provident is to pe paid more
(iv) Creditors are to paid less
(a) (i) , (ii), (iii), (iv)
(b) (ii), (iii), (iv)
(c) (i), (ii), (iv)
(d) (ii), (i), (iii)

Q12. Gold Spot Ltd. Purchased an automated machine for ₹6,86,000. As per the agreement, the payment is to be made by issuing 8% Debentures of ₹100 each and a bank draft of ₹35,000. If the debentures are issued at a discount of 7% the entry passed for allotment of 8% Debentures will be:

(a) Dr. Machinery A/c by ₹6,86,000 and Premium on Redemption A/c by ₹49,000;
Cr. 8% Debentures A/c by ₹7,00,000 and Bank A/c by ₹35,000.
(b) Dr. Vendor's A/c by ₹7,35,000;
Cr. 8% Debentures A/c by ₹7,00,000 and Bank A/c by ₹35,000.
(c) Dr. Vendor's A/c by ₹6,86,000 and Discount on issue of Debentures A/c by ₹49,000;
Cr. 8% Debentures A/c by ₹7,00,000 and Bank A/c by ₹35,000.
(d) Dr. Vendor's A/c by ₹6,86,000 and Loss on issue of Debentures A/c by ₹49, 000;
Cr. 8% Debentures A/c by ₹6,51,000 and Bank A/c by ₹35,000.

Q13. In case of dissolution, total creditors of the firm were ₹40,000; creditors worth Rs10000 were given a piece of furniture costing ₹8000 in full and final settlement. Remaining creditors allowed a discount of 10%. What will be the the amount with which cash will be credited in the realisation account for payment to creditors:
(a) ₹28,000
(b) ₹27,000
(c) ₹20,000
(d) ₹25,000

Q14. At the time of dissolution total assets are worth ₹3,00,000 and external liabilities are worth ₹1,20,000. If assets realised 120% and realisation expenses paid were ₹4,000, then profit/loss on realisation will be:
(a) Profit ₹56,000
(b) Loss ₹60,000
(c) Loss ₹56,000
(d) Profit ₹60,000

Q15. Zee Ltd issued 15,000 equity shares of ₹20 each at a premium of ₹5 payable ₹5 on application, ₹10 on allotment (including premium) and the balance on first and final call. The company received applications for 22,500 shares and allotment was made pro rata. Bittoo to whom 1,200 shares were allotted, failed to pay the amount due on allotment. All his shares were forfeited after the call was made. The forfeited shares were reissued to Dheeraj at par. Assuming that no other bank transactions took place, the bank balance of the company after the above transactions is :

(a) ₹6,85,000
(b) ₹3,60,500
(c) ₹3,78,000
(d) ₹6,34,000

Q16. A , B and C were partners in a firm sharing profits and losses in the ratio of 2 : 2 : 1. The capital balances are ₹50,000 for A, ₹70,000 for B, ₹35,000 for C . B decided to retire from the firm and the balance in reserve on the date was ₹25,000. If the Goodwill of the firm was valued at ₹30,000 and profit on revaluation ₹7,500 then, what will be amount payable to B?
(a) ₹70,820
(b) ₹76,000
(c) ₹75,000
(d) ₹95,000

Q17. ABC Ltd issued 20,000, 9% debentures of ₹100 each at a discount of 4% payable ₹30 on application and the balance on allotment. The debentures are redeemable after 5 years. Give necessary journal entries for the issue of debentures.

Q18. AK and BK are partners sharing profits and losses in the ratio of 5 : 1. They agreed to admit CK as a partner. Profits will be shared equally in future. CK brought in ₹60,000 as a premium for his share in profits. Pass necessary journal entries in the books of the firm.

Q19. X, Y and Z are partners sharing profits in the ratio of 4 : 3 : 2. On 1st April, 2017, Y gave a notice to retire from the firm. X and Z decided to share future profits in the ratio of 1 : 1. The capital accounts of X and Z after all adjustments showed a balance of ₹21,500 and ₹40,250 respectively. The total amount to be paid to Y was ₹47,750. This amount was to be paid by X and Z in such a way that their capitals become proportionate to their new profit sharing ratio. Pass necessary journal entries in the books of the firm for the above transactions. Show your working clearly.

Q20. Pass the necessary journal entries for the following transactions on the dissolution of firm of Anju, Manju and Sanju (who were sharing profits in the ratio of 2 : 2 : 1, after the transfer of all assets (other than cash) and external liabilities to realisation account.
(i) Debtors were of ₹62,100. Anju takes over debtors amounted to ₹60,000 at ₹58,600 and the remaining debtors were sold to a debt collecting agency at 50% of the value.
(ii) Sundry assets were of ₹58,500. Manju is to take over some sundry assets at ₹36,000 (being 10% less than the book value). Sanju is to take over remaining sundry assets at 80% of the book value.
(iii) Sanju assumes the responsibility of discharge of Mrs Sanju's loan of ₹5,750 together with accrued interest of ₹1,150.

Q21. Bhagwan and Insaan are two partners in Natural and Sons, a partnership firm sharing profits in the ratio of 1 : 2. They decided to admit Sagar into the firm for 1/4th share on 1st April, 2019. Sagar brings ₹60,000 share of premium for goodwill in cash out of ₹90,000. Goodwill already appears ₹3,00,000 in the old books of the firm at the time of admission. Pass journal entries related with goodwill using raising and writing-off method of goodwill.

Q22. Malakar's Ltd is authorised with a capital of ₹50,00,000 divided into 50,000 shares of ₹100 each. The company issued 30,000 shares to the public for subscription. The company received application for 25,000 shares. In 1st year, ₹80 is called by the company. Ranjeet and Sandeep are two shareholders holding 2,000 and 4,000 shares respectively. Both the shareholders did not paid first call money of ₹20 per share. Sandeep's

shares forfeited by the company after first call and later on 3,000 shares out of forfeited were re-issued at ₹60 per share as ₹80 called-up.
Show the following
(i) Share capital in the balance sheet of the company as per Schedule III, Part I of the Companies Act 2013.
(ii) Also prepare notes to accounts for the same.

Q23. From the following receipts and payments account and information given below, prepare income and expenditure account and balance sheet of Adult Literacy Organisation as on 31st December, 2019.

Receipts and Payments Account

Dr for the year ending 31 st December, 2019 Cr

Receipts		Amt (₹)	Payments	Amt (₹)
Balance b/d			General Expenses	3,200
Cash in Hand		4,000	Newspaper	1,850
Cash at Bank		15,550	Electricity	3,000
Subscriptions			Fixed Deposit with Bank (on 30th June,2019) @10% p.a.	18,000
2018	1,200		Book	7,000
2019	26,500		Salary	3,600
2020	500	28,200	Rent	6,500
Sale of Old Newspapers		1,250	Postage Charges	300
Government Grant		12,000	Furniture (Purchased)	10,500
Sale of Old Furniture (Book value Rs. 5,000)		3,700	Balance c/d	
			Cash in Hand	3,000
Interest Received on FD		450	Cash at Bank	8,200
		65,150		65,150

Additional Information
(i) Subscription outstanding as on 31st December, 2018, ₹2,000 and on 31st December, 2019, ₹1,500.
(ii) On 31st December, 2019, salary outstanding ₹600 and one month rent paid in advance.
(iii) On 1st January, 2019, organisation owned furniture ₹12,000, books ₹5,000.

Q24. Krishna Ltd issued 40,000 equity shares of ₹10 each at a premium of ₹2.50 per share. The amount was payable as follows. On application ₹2 per share, on allotment ₹4.50 per share (including premium) and on call ₹6 per share.
Owing to heavy subscription the allotment was made on pro-rata basis as follows
(i) Applicants for 20,000 shares were allotted 10,000 shares.
(ii) Applicants for 56,000 shares were allotted 14,000 shares.
(iii) Applicants for 48,000 shares were allotted 16,000 shares.
It was decided that the excess amount received on applications would be utilised on allotment
and the surplus would be refunded. Riya, to whom 1,000 shares were allotted and who belongs to category (i), failed to pay allotment money. Her shares were forfeited after the call. Pass the necessary journal entries in the books of Krishna Ltd for the above transactions.

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Q25. A, B and C are partners with profit sharing ratio 5:3:2. Their balance sheet is as follows

Balance Sheet
as at...

Liabilities		Amt (₹)	Assets	Amt (₹)
Creditors		80,000	Bank	40,000
Bills Payable		60,000	Debtors	60,000
General Reserve		30,000	Furniture	40,000
Reserve for Contingency		20,000	Investment	30,000
Workmen Compensation Fund		40,000	Building	1,00,000
Provident Fund		40,000	Prepaid Insurance	10,000
Capital A/cs			Goodwill	20,000
A	40,000		Patents	30,000
B	30,000		Profit and Loss	40,000
C	30,000	1,00,000		
		3,70,000		3,70,000

Adjustments

(i) C takes retirement, new ratio of A and B is 3:2.
(ii) ₹10,000 given to C in cash and balance transferred to C's loan account.
(iii) Capital of new firm fixed at ₹2,00,000 and difference adjusted in cash.
(iv) Prepaid insurance is no more required.
(v) ₹10,000 unrecorded typewriter has to be shown in the balance sheet.
(vi) Investment is valued at ₹20,000 and is taken over by A at this value.
(vii) Make 5% provision for discount on creditors.
(viii) Outstanding repair bills due ₹10,000.
(ix) Provident fund decreased by ₹10,000.
(x) Accrued commission ₹5,000.
(xi) Building increased by 20%.
(xii) Goodwill of the firm valued at ₹40,000.

Prepare necessary ledgers.

Q26. Difference between Dissolution of Partnership and Dissolution of Partnership firm?

Q27. From the following particulars, what will be the amount of provision for tax made during the year?

Provision for Taxation
31.3.2011 50,000
31.3.2012 40,000

The Company paid taxes Rs 45,000 for the year 2011-2012.

(a) ₹45,000
(b) ₹35,000
(c) ₹40,000
(d) ₹50,000

Q28. Calculate Return on Investment from the following information:

Net Profit after Tax : ₹6,50,000;
12.5% Convertible Debentures : ₹8,00,000;
Income Tax : 50%
Fixed Assets at cost : ₹24,60,000;
Depreciation Reserve : ₹4,60,000;
Current Assets : ₹15,00,000;
Current Liabilities : ₹7,00,000.

(a) 40%
(b) 60%
(c) 45%
(d) 50%

Q29. Total revenue from operations ₹9,00,000; Cash revenue from operations ₹3,00,000; Trade Receivables at the beginning of year ₹1,80,000: Trade Receivables at the end of year ₹60,000 Trade Receivables Turnover Ratio will be :
(a) 5 Times
(b) 6 Times
(c) 7.5 Times
(d) 9 Times

Q30. Which of the following items is not shown under the head 'Shareholders' Funds' while preparing the Balance Sheet of a company?
(a) Capital Reserve
(b) Subscribed Capital
(c) Premium on redemption of debentures
(d) Securities Premium Reserve

Q31. From the following information given, prepare common size statement of profit and loss

Particulars	2018 Amt (₹)	2019 Amt (₹)
Revenue from Operations	10,00,000	12,50,000
Depreciation and Amortisation	20,000	30,000
Changes in Inventories of Stock-in-trade	30,000	(20,000)
Other Expenses	30,000	50,000
Purchases of Stock-in-trade	7,20,000	8,70,000
Tax	50,000	50,000

Q32. XYZ Ltd is in the process of preparing its balance sheet as per Schedule III, Part I of the Companies Act, 2013 and provides its true and fair view of the financial position.
(i) Under what head and sub-head will the company show stores and spares and loose tools in its balance sheet?
(ii) What is the accounting treatment of stores and spares and loose tools, when the company will calculate its inventory turnover ratio?
(iii) Write any one objective of this analysis?

Q33. (i) From the following information, calculate Inventory Turnover Ratio : Net Sales ₹40,000; Average Inventory ₹5,500; Gross Loss on Sales is 10%.
(ii) From the following information, calculate Inventory Turnover Ratio : Total Sales ₹22,000; Sales Return ₹2,000; Gross Profit ₹5,000; Closing Inventory ₹6,000;
Excess of Closing Inventory over Opening Inventory ₹2,000.

Q34. From the following, calculate the net cash flow from operating activities

Particulars	Note No.	31st March, 2019 Amt (₹)	31st March, 2018 Amt (₹)
1. EQUITY AND LIABILITIES			
1. **Shareholders' Funds**			
(a) Share Capital	1	1,87,500	1,87,500
(b) Reserves and Surplus	2	77,500	(5,000)
2. **Non-current Liabilities** (8% Debentures)		65,000	37,500
3. **Current Liabilities**			
(a) Short-term Borrowings	3	10,000	12,500
(b) Trade Payables		30,000	27,500
(c) Short-term Provisions	4	12,500	10,000
Total		3,82,500	2,70,000
II. **ASSETS**			
1. Non-current Assets			
(a) Tangible Fixed Assets (Net)		2,15,000	1,55,000
(b) Intangible Assets	5	3,750	10,000
(c) Non-current Investments		31,250	20,000
2. **Current Assets**			
(a) Current Investments		1,250	3,750
(b) Inventories		48,750	25,000
(c) Trade Receivables		50,000	50,000
(d) Cash and Cash Equivalents		32,500	6,250
Total		3,82,500	2,70,000

Notes to Accounts

Particulars	2019 (₹)	2018 (₹)
1. **Share Capital**		
Equity Share Capital	1,37,500	1,12,500
5% Preference Share Capital	50,000	75,000
	1,87,500	1,87,500
2. **Reserves and Surplus**		
General Reserve	37,500	30,000
Statement of Profit and Loss	37,500	(35,000)
Securities Premium Reserve	2,500	—
	77,500	(5,000)
3. **Short-term Borrowings**		
8% Bank Loan	10,000	12,500
4. Short-term Provisions		
Provision for Tax	12,500	10,000
5. **Intangible Assets**		
Goodwill	3,750	10,000

Additional Information
During the year, a piece of machinery costing ₹15,000 on which depreciation charged was Rs.5,000 was sold for ₹5,000. Depreciation provided on fixed assets ₹15,000. Dividend on equity shares @ 8% was paid on opening balance. Income tax ₹11,250 was provided. Additional debentures were issued at par on 1st October, 2018 and bank loan was repaid on the same date. At the end of the year, preference shares were redeemed at a premium of 5%.

Solutions
S1. Ans. (a)
S2. Ans. (c)
S3. Ans. (b)
S4. Ans. (d)
S5. Ans. (a)
S6. Ans. (c)
Net Loss = ₹20,000 – ₹2,500 – ₹1,500 = ₹16,000
Loss of ₹16,000 will be transferred in the ratio of 5 : 3 in the capital accounts of Ravi and Bhuvi.
S7. Ans. (a)
Average profits after adding abnormal gain = 64,000 + 4,000 = 68,000
Normal profits = 10% of 5,00,000 = 50,000
Super profits = 68,000 – 50,000 = 18,000
Goodwill = 18,000 × 4 = 72,000

S8. Ans. (b)
S9. Ans. (c)
Manoj's share of profit = 1,20,000$\times\frac{7}{12} \times \frac{2}{10} = 14,000$
S10. Ans. (c)
F's sacrifice or gain = $\frac{4}{10} - \frac{3}{10} = \frac{1}{10}$ (Sacrifice)
So F will be credited with = 4,00,000 × $\frac{1}{10}$ = 40,000
S11. Ans. (c)
S12. Ans. (c)
Number of debentures issued = $\frac{6,86,000-35,000}{100-7} = 7,000$
So amount of ₹7,00,000 + ₹35,000 will be credited .
Vendor's Account will be debited by ₹6,86,000
Discount on issue of Debentures A/c will be debited by ₹49,000
S13. Ans. (b)
amount with which cash will be credited in the realisation account for payment to creditors = 40,000 – 10,000 – 10% of 30,000 = 27,000.
S14. Ans. (a)
Profit on realization = 120% of 3,00,000 – 4,000 = 56,000
S15. Ans. (c)
Total amount if all money due on shares was received = 15,000 × 25 = 3,75,000
Add : Amount of share forfeiture = 1,800 × 5 = 9,000
Less : Premium money not received which were issue at par = (1,200 × 5) = (6,000)
So amount in Bank amount = 3,78,000
S16. Ans. (d)
Amount payable to B = 70,000 + 10,000 + 12,000 + 3,000 = 95,000

S17. Ans. Sol.

Journal

Date	Particulars		LF	Amt (Dr)	Amt (Cr)
	Bank A/c (20,000 x 30)	Dr		6,00,000	6,00,000
	To Debenture Application A/c				
	(Being the application money on 20,000 debentures @ ₹30 received)				
	Debenture Application A/c	Dr		6,00,000	6,00,000
	To 9% Debentures A/c				
	(Being the debenture application money transferred to debentures account)				
	Debenture Allotment A/c (20,000 x 66)	Dr		13,20,000	
	Discount on Issue of Debentures A/c (20,000 x 4)	Dr		80,000	14,00,000
	To 9% Debentures A/c (20,000 x 70)				
	(Being the allotment money due on 20,000 debentures)				
	Bank A/c	Dr		13,20,000	13,20,000
	To Debenture Allotment A/c (Being the amount received on allotment)				

S18. Ans. Sol.

Journal

Date	Particulars		LF	Amt (Dr)	Amt (Cr)
	Bank A/c	Dr		60,000	
	To Premium for Goodwill A/c (Being amount of premium brought in by CK)				60,000
	Premium for Goodwill A/c Dr			60,000	
	BK's Capital A/c Dr			30,000	
	To AK's Capital A/c				90,000
	(Being sacrificing partner's account is credited with his share of sacrifice)				

S19. Ans. Sol.

Journal

Date	Particulars		LF	Amt (Dr)	Amt (Cr)
2017				47,750	
Apr 1	Cash A/c	Dr			
	To X's Capital A/c				33,250
	To Z's Capital A/c				14,500
	(Being cash to be paid to Y brought in by X and Z)				
Apr 1	Y's Capital A/c	Dr		47,750	
	To Cash A/c				47,750
	(Being cash paid to Y for his capital)				

Working Notes

1 **Particulars**	**Amt ₹**
Adjusted Capitals of X and Z (₹ 21,500 + ₹ 40,250)	61,750
(+) Amount to be Paid to Y	47,750
Total Capital of New Firm	1,09,500

2. **Amount to be Brought in or Withdrawn**

Particulars	X	Z
I. New Capital (₹ 1,09,500 in new ratio, i.e. 1:1)	54,750	54,750
II. Existing Capitals	(21,500)	(40,250)
III. Cash to be Brought in (Paid-off) (1 - II)	33,250	14,500

S20. Ans. Sol.

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
(i)	Anju's Capital A/c Dr To Realisation A/c (Being some debtors taken over by Anju)		58,600	58,600
	Cash/Bank A/c [(62,100 - 60,000) x 50/100] Dr To Realisation A/c (Being the remaining debtors sold to a debt collecting agency)		1,050	1,050
(ii)	Manju's Capital A/c Dr To Realisation A/c (Being sundry assets of value ₹ 40,000 taken over by Manju ₹ 36,000)		36,000	36,000
(iii)	Sanju's Capital A/c [(58,500 - 40,000) x 80/100] Dr To Realisation A/c (Being the remaining sundry assets taken over by Sanju)		14,800	14,800
(iv)	Realisation A/c Dr To Sanju's Capital A/c (5,750 + 1,150) (Being Mrs Sanju's loan paid by Sanju)		6,900	6,900

S21. Ans. Sol.

Journal

Date	*Particulars*	*L.F.*	*Amount Dr.*	*Amount Cr.*
S. No.			₹	₹
(i)	Bhagwan's Capital A/c Dr. Insaan's Capital A/c Dr. To Goodwill A/c (Being existing goodwill is written-off in old partners in old ratio i.e., 1 : 2)		1,00,000 2,00,000	3,00,000
(ii)	Cash A/c Dr. To Premium for Goodwill A/c (Being some amount of premium is bring by the Sagar in cash)		60,000	60,000
(iii)	Goodwill A/c Dr. To Bhagwan's Capital A/c		1,20,000	40,000

	To Insaan's Capital A/ c (Being raising of goodwill in old ratio, i.e. 1 : 2 in old ratio)			80,000
(iv)	Bhagwan's Capital A/c Dr. Insaan's Capital A/c Dr. Sagar's Capital A/c Dr. To Goodwill A/c (Being goodwill written-off in new ratio, i.e. 1 : 2 : 1 in all partners)		30,000 60,000 30,000	1,20,000
(v)	Premium for Goodwill A/c Dr. To Bhagwan's Capital A/c To Insaan's Capital A/c (Being brought amount of goodwill is distributed between sacrificing ratio, i.e. 1 : 2		60,000	20,000 40,000

Working Notes:

1. Goodwill amount not brought by the Sagar = 90,000 - 60,000 = ₹30,000

Goodwill of the firm = 30,000 x Reciprocal of Sagar's share = 30,000 x $\frac{4}{1}$ ₹ 1,20,000

2. Calculation of New Profit Sharing Ratio

Let the total share be = 1

Remaining share = 1 - 1/4 = 3/4; Bhagwan's new share = 1/3 x 3/4 = 3/12

Insaan's new share = 2/3 x 3/4 = 6/12; Sagar's new share = 1/4 x 3/3 = 3/12

New ratio among Bhagwan, Insaan and Sagar = 3:6:3 or 1:2:1

S22. Ans. Sol.

In the Books of Malakar's Ltd
Balance Sheet
as at...

Particulars	Note No.	Amt Current Year	Amt Previous Year
I EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital	1	20,00,000	

Notes to Accounts

Particulars		Amt (₹)
1. Share Capital		50,00,000
Authorised Share Capital		30,00,000
50,000 Shares @ ₹ 100 each **Issued Share Capital**		
30,000 Shares @ ₹ 100 each		
Subscribed but not Fully Paid-up Share Capital	19,20,000	20,00,000
24,000 Shares of ₹100 each, ₹80 called-up (-) Calls-in-arrears (2,000 x 20)	(40,000)	
	18,80,000	
(+) Share Forfeiture A/c (From forfeiture and re-issued amount)	1,20,000	

S23. Ans. Sol.

Income and Expenditure Account

Dr for the year ending 31 st December, 2019 Cr

Expenditure		Amt (₹)	Income		Amt (₹)
General Expenses		3,200	Subscriptions		
Newspaper		1,850	Total Subscription Received	28,200	
Electricity		3,000	(+) Subscription Outstanding as on 31st Dec., 2019	2,300	
				30,500	
Salary	3,600		(-) Subscription Outstanding as on 31st Dec., 2018	(2,000)	
(+) Outstanding Salary	600	4,200		28,500	
Rent	6,500		(-) Subscription Received in Advance for 2020	(500)	28,000
(-) Prepaid Rent	(500)	6,000			
Postage Charges		300	Sale of Old Newspaper		1,250
Loss on Sale of Furniture		1,300	Interest Received on FD	450	
(5,000-3,700)			(+) Accrued Interest	450	900
			Government Grant		12,000
Excess of Income over Expenditure (Surplus)		22,300			
		42,150			42,150

Opening Balance Sheet

as at 1st January, 2019

Liabilities	Amt (Rs.)	Assets	Amt (Rs.)
Capital Fund (Balancing figure)	38,550	Furniture	12,000
		Books	5,000
		Subscription Outstanding	2,000
		Cash at Bank	15,550
		Cash in Hand	4.000
	38,550		38,550

Closing Balance Sheet

as at 31st December, 2019

Liabilities		Amt (₹)	Assets		Amt (₹)
Capital Fund	38,550		Furniture	12,000	
(+) Surplus	22,300	60,850	(-) Sale	(5,000)	
Subscription Received in Advance		500		7,000	
			(+) Purchased Furniture	10,500	17,500
Salary Outstanding		600	Books	5,000	
			(+) Purchased Book	7,000	12,000
			Fixed Deposit		18,000
			Interest Accrued		450
			Subscription Outstanding 2018	800	
			2019	1,500	2,300
			Prepaid Rent		500
			Cash at Bank		8,200
			Cash in Hand		3,000
		61,950			61,950

S24. Ans. Sol.

Journal

Date	Particulars		LF	Amt (Dr)	Amt (Cr)
	Bank A/c (1,24,000 x 2)	Dr		2,48,000	
	To Equity Share Application A/c				2,48,000
	(Being the application money recieved @ ₹ 2 per share on 1,24,000 shares)				
	Equity Share Application A/c	Dr		2,48,000	
	To Equity Share Capital A/c (40,000 x 2)				80,000
	To Equity Share Allotment A/c				1,47,000
	To Bank A/c				21,000
	(Being the application money adjusted)				
	Equity Share Allotment A/c (40,000 x 4.5)	Dr		1,80,000	
	To Equity Share Capital A/c (40,000 x 2)				80,000
	To Securities Premium Reserve A/c (40,000 x 2.5)				1,00,000
	(Being the allotment money due)				
	Bank A/c (WN 2)	Dr		30,500	
	To Equity Share Allotment A/c				30,500
	(Being the allotment money received except on 1,000 shares)				
	Equity Share First and Final Call A/c	Dr		2,40,000	
	To Equity Share Capital A/c (40,000 x 6)				2,40,000
	(Being the first and final call money due)				
	Bank A/c (39,000 x 6)	Dr		2,34,000	
	To Equity Share First and Final Call A/c (Being the first and final call money received except on 1,000 shares)				2,34,000
	Equity Share Capital A/c (1,000 x 10)	Dr		10,000	
	Securities Premium Reserve A/c (1,000 x 2.5)	Dr		2,500	
	To Forfeited Shares A/c				4,000
	To Equity Shares Allotment A/c (WN3)				2,500
	To Equity Share First and Final Call A/c (1,000 x 6)				6,000
	(Being 1,000 shares forfeited)				

Working Notes

Money Due from Riya on Allotment

1. Category (i) applicants for 20,000 shares were allotted 10,000 shares. Riya was allotted 1,000 shares. So she applied for 2,000 shares.

	Amt (₹)
Therefore, application money paid by Riya (2,000 x 2) = ₹ 4,000	
Application money received on application	4,000
(-) Amount due on application (1000 x ₹ 2)	(2,000)
Excess application money to be adjusted on allotment	2,000
Money due on allotment (1,000 x 4.5)	4,500
(-) Excess application money adjusted on allotment	(2,000)
Allotment money not paid by Riya	2,500
2 Money Received on Allotment	
Total amount due on allotment	1,80,000
(-) Excess application money adjusted	(1,47,000)
Allotment money to be received	33,000
(-) Money not paid by Riya	(2,500)
Allotment money received	30,500

S25. Ans. Sol.

Dr Revaluation Account Cr

Particulars		Amt (₹)	Particulars	Amt (₹)
To Prepaid Insurance A/c		10,000	By Typewriter A/c (Unrecorded)	10,000
To Investment A/c		10,000	By Provision for Creditors A/c	4,000
To Outstanding Repair Bill A/c		10,000	By Provident Fund A/c	10,000
To Profit Transferred to			By Accrued Commission A/c	5,000
A's Capital A/c	9,500		By Building A/c	20,000
B's Capital A/c	5,700			
C's Capital A/c	3,800	19,000		
		49,000		49,000

Dr **Partners' Capital Account** Cr

Particulars	A (₹)	B (₹)	C(₹)	Particulars	A (₹)	B (₹)	C(₹)
To Investment A/c	20,000	—	—	By Balance b/d	40,000	30,000	30,000
To Goodwill A/c	10,000	6,000	4,000	By General Reserve A/c	15,000	9,000	6,000
To Profit and Loss A/c	20,000	12,000	8,000	By Reserve for			
To C's Capital A/c	4,000	4,000	—	Contingency A/c	10,000	6,000	4,000
To Cash A/c	—	—	10,000	By Workmen Compen-			
To C's Loan A/c	—	—	37,800	sation Fund A/c	20,000	12,000	8,000
To Balance c/d	1,20000	80,000	—	By A's Capital A/c	—	—	4,000
				By B's Capital A/c	—	—	4,000
				By Revaluation A/c	9,500	5,700	3,800
				(Profit)	79,500	39,300	
				By Bank A/c			
	1,74000	1,02,000	59,800		1,74000	1,02,000	59,800

Dr **Bank Account** Cr

Particulars	Amt (₹)	Particulars	Amt (₹)
To Balance b/d	40,000	By C's Capital A/c	10,000
To A's Capital A/c	79,500	By Balance c/d	1,48,800
To B's Capital A/c	39,300		
	1,58,800		1,58,800

Balance Sheet
as at ....

Liabilities		Amt (₹)	Assets	Amt (₹)
Creditors (80,000 - 4,000)		76,000	Bank	1,48,800
Outstanding Repair Bill		10,000	Typewriter (Unrecorded)	10,000
Provident Fund (40,000 - 10,000)		30,000	Accrued Commission	5,000
Bills Payable		60,000	Building (1,00,000 + 20,000)	1,20,000
C's Loan		37,800	Debtors	60,000
Capital A/cs			Furniture	40,000
A	1,20,000		Patents	30,000
B	80,000	2,00,000		
		4,13,800		4,13,800

S26. Ans. Sol.

Basis of Distinction	**Dissolution of Partnership**	**Dissolution of Firm**
Meaning	It refers to a change in the existing agreement between the partners. The firm continues its business.	It refers to closure of the firm.
Continuation of the Business	The firm continues its business	Business of the firm comes to an end.
Economic Relationship	Economic relationship between the partners continues though in a change form.	Economic relationship between the partners comes to an end.
Closure of Books of Accounts	Books of accounts need to be closed.	Books of accounts have to be closed.
Settlement of Assets and Liabilities	Assets are revalued and liabilities are reassessed and gain or loss on revaluation is distributed among the partners in their old profit sharing ratio.	Assets are sold and liabilities paid off and balance, if any, is distributed among all the partners.
Effect	Dissolution of partnership does not necessarily means the dissolution of firm.	Dissolution of firm necessarily means the dissolution of partnership also.
Court's Intervention	There is no intervention by the court since the partnership is dissolved by mutual consent.	A Firm can be dissolved either without the intervention of court or by the order of the court

S27. Ans. (b)

Provision for Tax A/c

Particulars	₹	Particulars	₹
To Bank A/c (Tax Paid)	45,000	By Balance b/d	50,000
To Balance c/d	40,000	By Statement of P and L (Balancing figure)	35,000

	85,000		85,000

S28. Ans. (d)

Calculation of net profit before interest and tax = 6,50,000 $\times\frac{100}{50}$ + 12.5% of 8,00,000 = ₹14,00,000

Capital Employed = 24,60,000- 4,60,000 + 15,00,000-7,00,000 = ₹28,00,000

Return on Investment = $\frac{14,00,000}{28,00,000} \times 100$ = 50%

S29. Ans. (a)

Credit Revenue from Operations = 9,00,000 – 3,00,000 = ₹6,00,000

Average Trade Receivables = (1,80,000 + 60,000)/2 = ₹1,20,000

Trade Receivables Turnover Ratio = $\frac{6,00,000}{1,20,000}$ = 5 times

S30. Ans. (c)

S31. Ans. Sol.

Common Size Statement

for the year ended 2018 and 2019

Particulars	Absolute Amounts		Percentage of Revenue from Operations (Net Sales)	
	2018 (₹)	2019 (₹)	2018(%)	2019(%)
1. Revenue from Operations (Net Sales)	10,00,000	12,50,000	100.00	100.00
II. Expenses (a) Purchases of Stock-in-Trade	7,20,000	8,70,000	72.00	69.60
(b) Changes in Inventories of Stock-in-Trade	30,000	(20,000)	3.00	(160)
(c) Depreciation and Amortisation	20,000	30,000	2.00	2.40
(d) Other Expenses	30,000	50,000	3.00	4.00
Total Expenses	8,00,000	9,30,000	80.00	74.40
III. Profit Before Tax (I-II)	2,00,000	3,20,000	20.00	25.60
(-) Tax	(50,000)	(50,000)	(5.00)	(4.00)
IV. Profit after Tax	1,50,000	2,70,000	15.00	21.60

S32. Ans. Sol.

(i) Head Current Assets; Sub-head Inventories.

(ii) While calculating inventory turnover ratio, these are not included in inventories.

(iii) Objectives of such analysis are

(a) Assessing the ability of the enterprise to meet its short-term and long-term commitments.

S33. Ans. Sol.

(i) Inventory Turnover Ratio = $\frac{\text{Cost of revenue from Operation}}{\text{Average inventory}}$ = $\frac{44,000}{5,500}$=8 times

Working Note

Net Sales = ₹40,000

Gross Loss = 10% of ₹40,000 = ₹4,000

Cost of Revenue from Operations = Net Sales + Gross Loss

= ₹40,000 + ₹4,000 = ₹44,000

(ii) Inventory Turnover Ratio = = $\frac{\text{Cost of revenue from Operation}}{\text{Average inventory}}$ = $\frac{15,000}{5,000}$=3 times

Calculation of Inventory

Opening Inventory = Closing Inventory - Excess of Closing Inventory over Opening Inventory = 6,000- 2,000= ₹4,000

Average Inventory = (Opening Inventory + Closing Inventory)/ 2 = ₹5,000
Cost of Revenue from Operations = Net Sales - Gross Profit
= 20,000- 5,000=₹15,000

S34. Ans. Sol.
Calculation of Net Cash Flow from Operating Activities

Particulars		Amt (₹)
1. Cash Flow from Operating Activities		
Net Profit before Tax		1,04,000
(+) Adjustment for Non-cash and Non-operating Items Depreciation on Fixed Assets	15,000	
Loss on Sale of Machinery	5,000	
Interest on Debentures	4,100	
[(37,500 x 8/100) + (₹ 27,500 x 8/100 x 6/12)]	900	
Interest on Bank Loan [(₹12,500 x 8/100 x 6/12) + (₹ 10,000 x 8/100 x 6/12)]		
Goodwill Amortised	6,250	
Premium on Redemption of Preference Shares	1,250	32,500
Operating Profit before Working Capital Changes		1,36,500
(-) *Increase in Current Assets and Decrease Current Liabilities* Inventories		(23,750)
(+) *Decrease in Current Assets and Increase in Current Liabilities* Trade Payables		2,500
Net Cash Flow from Operating Activities before Tax		1,15,250
(-)Tax Paid		(8,750)
Net Cash Inflow from Operating Activities after Tax		1,06,500

Working Notes

1. **Calculation of Net Profit before Tax**

Particulars	Amt (₹)
Closing Balance of Profit and Loss A/c	37,500
(+) Opening Balance of Profit and Loss A/c (Debit)	35,000
(+) Transfer to Reserve	7,500
(+) Dividend on Equity Shares	9,000
(+) Dividend on Preference Shares	3,750
(+) Provision for Tax	11,250
Net Profit before Tax	1,04,000

2.
Dr **Tangible Fixed Assets Account** Cr

Particulars	Amt (₹)	Particulars	Amt (₹)
To Balance b/d	1,55,000	By Depreciation A/c	15,000
To Bank A/c (Purchases)	85,000	By Bank A/c (Sale)	5,000
		By Profit and Loss (Loss)	5,000
		By Balance c/d	2,15,000
	2,40,000		2,40,000

3

Dr Provision for Tax Account Cr

Particulars	Amt (Rs.)	Particulars	Amt (Rs.)
To Bank A/c (Balancing figure) (Tax paid during the year)	8,750	By Balance b/d	10,000
To Balance c/d	12,500	By Profit and Loss A/c (Tax made during the year)	11,250
	21,250		21,250