

- When nothing has been mentioned, then date of transaction should always be taken as the due date.

#### Things to note

- In Account current, where the rate of interest differs in respect of debits and credits, interest should be computed for debits and credit separately interest of the net balance of the product should be taken to the ledger.
- The term of the bill after sight commences from the date of acceptance of the bill, whereas the term of a bill after date commences from the date of drawing a bill.
- Account Current is usually sent by
  - A banker to its customers
  - A lender to its borrower
  - Supplier to its customer
- In the case of sale or purchase transaction, if any credit period is allowed then only the due date should be considered as an effective date of transaction **for example** (If goods are sold (on 2 months credit) on 1st June and the date of closing the amount is 30th September, the number of days will be counted as under Due date is 01-08-20X2).

August = 30 days (31-1)

September = 30 days

Total Days = 60 days

**Note:** Days in the account current is calculated from due date of each transaction till the date of making the account current.

- The bills of exchange which is honored will not appear in the Account Current; only in case of dishonour, it will be appearing in the account current.

**Q. 1 Define Account Current. Explain way of preparing Account Current.**

**Ans.** An Account Current is a running statement of transactions between parties for a given period of time and includes interest allowed or charged on various items. It takes the form of a ledger account.

**There are three ways of preparing an Account Current:**

- With help of interest table.
- By means of products.
- By means of products of balances.

**Q. 2 Write short note on Red-ink interest.**

**Ans.** In case the due date of a bill falls after the date of closing the account, then no interest is all owed forth at. However, interest from the date of closing to such due date is written in "Red-Ink" in the appropriate side of the 'Account current'. This interest is called Red-Ink interest. This Red Ink interest is treated as negative interest. In actual practice, however the product of such bill [value of bill X (due date-closing date) is written in ordinary ink in the opposite side on which the bill is entered]. It means interest from future date from date of account current i.e., present date. In earlier periods, it was written in red ink; hence it got the name of red in kinte rest. It implies that rebate will be allowed online rest paid/received, if settlement of future due transaction is done on account current date.

### Preparation of Final Account of sole Proprietors

- Final Accounts is divided into two parts:
  - **Income Statement:** It includes the following

- Trading account and
- Profit and Loss Account
- Position statement including Balance Sheet

#### Closing Entries in respect of trading account:

- Opening Stock: Debit Trading A/c and Credit Opening Stock A/c
- Purchase return: Debit Purchase Return and Credit Purchases A/c
- Sales return / return towards: Debit Sales A/c and Credit Sales Return A/c
- Purchases: Debit Trading A/c and Credit Purchase A/c
- Sales: Debit Sales A/c and Credit Trading A/c
- Closing stock: Debit Stock A/c and Credit Trading A/c

Alternatively, closing stock can be adjusted with purchases

Closing Stock A/c                      Dr.  
     To Purchases A/c

**Note:** If adjusted purchase is shown in the trial balance, then closing stock is shown at one place i.e. Balance sheet only.

#### Closing Entries in respect of profit and loss account:

Profit and loss Account                      Dr.  
     To Salaries A/c  
     To Rent A/c  
     To Interest A/c  
     To Other Expenses A/c

Discount Received A/c                      Dr.  
     Bad Debt Recovered A/c                      Dr.  
     To Profit and Loss A/c

#### Important Adjustments:

- **Bad Debts:** When a customer does not pay the amount due from him and all hopes of recovering the amount is lost, it is said to be a bad debt. The entry is

Bad debt A/c                                      Dr.  
     To Debtors A/c

If later on, the amount is recovered it should be treated as gain. It should be credited to bad debt recovered A/c.

- **Expenses accrued and accruing. Example (Rent, Interest, wages etc.)**

Appropriate Expense A/c                      Dr.  
     To Expenses Accrued A/c

- **Income accrued and accruing. Example (Interest on Government loans)**

Interest / fees Accruing A/c                      Dr.  
     To Appropriate Income A/c

- **Provision for Bad and Doubtful Debts**

Profit and loss A/c Dr.  
To Provision for Bad and Doubtful Debt

- **Other Provisions**

Profit and Loss A/c Dr.  
To Respective Provision A/c

- **For Goods sent on approval, at year end (at selling price)**

a) Sales A/c Dr. (SP)

To Debtor A/c

b) Goods with customers A/c Dr. (Cost)

To Trading A/c

- **Financial Statements:** Consists of a) Income Statement; b) Balance Sheet and c) Cash Flow Statement; d) Notes to accounts
- **Manufacturing Account:** Prepared only by Manufacturing entities – Period Statement.
  - **Purpose:** Used to find out the Cost of Goods Manufactured; Always contain Debit balance;
  - NRV/Scrap Value of byproducts/damaged raw materials will be credited to Manufacturing A/c.
  - Balance in Manufacturing A/c transferred to the Trading Account
- **Trading Account:** Prepared by Manufacturing and Trading entities – Period Statement
  - It is used to determine Gross Profits of the business.
  - It contains all expenses relating to Trading Operations i.e., buying and selling.
  - It is to be credited by Abnormal loss, if any and Closing Stock (if not adjusted in purchases)
  - If the Manufacturing Account is prepared, then all the production expenses like wages, electricity shall be transferred to Manufacturing A/c.
- **Profit and Loss Account:**
  - It is used to determine the Net Profits of the business.
  - **It contains on Debit side:** Indirect Expenses, Administration OH (not related to production), Selling and Distribution OH, Losses and Provision.
  - **It contains on Credit Side:** Gross Profit, Interest received, Dividend received, revenue profits on sale of fixed asset, insurance claim received for loss of stock etc.
- **Balance Sheet:** a) Positional Statement: b) Approaches for preparation.
  - Balance Sheet explains the Financial Position of the Enterprise as on a particular date.
  - It consists of assets and liabilities of the business.
  - **Permanence:**
    - ♦ On Liabilities Side, Long Term Liabilities are shown first and then Current Liabilities are shown.
    - ♦ On Assets Side, Fixed Assets are shown first and then Current Assets are shown.
  - **Liquidity:**
    - ♦ On Liabilities Side, Current liabilities are shown first and then Long-Term Liabilities are shown.
    - ♦ On Assets Side, Current Assets are shown first and then Fixed Assets are shown.

#### ■ Provision for Bad Debts:

##### ● Computation of Closing Provision:

[Debtors – Fresh Bad Debts (given in additional information)] × % of provision

**Note:** Bad Debts already written off shown in trial balance should not be deducted.

##### ● Computation of amount to be transferred to Profit and Loss Account:

= Closing Provision + Total Bad Debts (Fresh + Old) – Opening Provision

#### ■ Provision for Discount on Debtors:

##### ● Computation of Closing Provision

= [Debtors – Fresh Bad Debts (Note) – Closing Provision for bad debts] × % of provision for discount on debtors

**Note:** Bad debts already written off should not be deducted.

##### ● Computation of amount to be transferred to Profit and Loss Account:

= Closing Provision + Total discount allowed – Opening Provision.

#### ■ Computation of Manager's Commission:

● Before Charging Commission =  $\frac{\text{Net Profit} \times \text{Rate of Commission}}{100}$

● After Charging such commission =  $\frac{\text{Net Profit} \times \text{Rate of Commission}}{(100 + \text{Rate of Commission})}$

■ A balance sheet is only a statement and not an account.

■ A balance sheet is prepared at a particular point of time and not for a particular period.

■ GST is deducted from sales in trading A/c.

#### ■ Income Tax:

● In case of sole proprietorship, it is treated as Drawings and deducted from capital.

● In case of companies, it is debited to P&L A/c.

■ Establishment Expenses are shown on debit side of P&L A/c.

■ Royalty paid on production basis is shown on debit side of trading A/c.

■ Royalty paid on sales basis is shown on debit side of P&L A/c.

■ Raw material consumed = Opening Stock of raw material + Purchase of raw material – Closing Stock of raw material.

■ Cost of production = Raw material consumed + Opening stock of WIP + All direct manufacturing expenses + All indirect manufacturing expenses = Closing stock of WIP.

■ Cost of goods sold = Sales – Gross Profit; or = Opening Stock of finished goods + Cost of goods produced (or purchases) – Closing Stock of finished goods.

■ Put all adjustments of final accounts in entries/ their treatment in Trading & P&L A/c and Balance Sheet.

■ Gains from the sale or exchange of assets are considered as the revenue of the business. But this revenue is not in the ordinary course of business, so it is a **capital receipt**.

■ The salary paid in advance is an asset. It is not an expense because it neither reduces assets or nor increase liabilities.

■ A Loss is an expenditure of the business which does not bring any gains to the business.

- Current assets are all the assets which are expected to be realised or sold or consumed within one year.
- Current liabilities are liabilities payable within one year.
- Provision for Bad Debts is shown either as a liability or a deduction from the head debtor.
- Premium paid on the life policy of the proprietor is to be debited to capital account, as it is personal expense.
- Closing stock appears in the trial balance by passing the entry. In this case closing stock is not entered in trading account and is shown only in Balance Sheet.
- By-products generally have insignificant value as compared to the value of main product. Therefore, they are generally valued at Net Realisable Value.
- The objective of preparing manufacturing account is to determine manufacturing costs of finished goods for assessing the cost effectiveness of manufacturing activities.
- Overhead is defined as TOTAL COST of indirect material, indirect wages and indirect expenses.

Q. 1 Write shorts notes on:

- a) Balance sheet
- b) Trading account
- c) Closing entries

Ans. a) **Balance Sheet:** The balance sheet may be defined as "a statement which sets out the assets and liabilities of a firm or an institution as at a certain date." Since even a single transaction will make a difference to some of the assets or liabilities, the balance sheet is true only at a particular point of time. That is the significance of the word "as at."

b) **Trading Account:** At the end of the year, it is necessary to ascertain the net profit or the net loss. For this purpose, it is first necessary to know the gross profit or gross loss with the help of Trading A/c. Gross Profit is the difference between the selling price and the cost of the good sold.

c) **Closing entries:** The entries that have to be made in the journal for preparing the Trading and the Profit and Loss Account that is for transferring the various accounts to these two accounts are known as closing entries.

Q. 2 Distinguish between provision and reserve fund.

Ans. **Difference between provision and reserve fund:**

- **Provision:** Any amount written off or retained by way of providing for depreciation, renewal or diminution in the value of assets or retained by way of providing for any known liability of which the amount cannot be determined with substantial accuracy.
- **Reserve Fund:** It signifies the amount standing to the credit of the reserve that is invested outside the business in securities which are readily realizable. **Example** when the amounts set apart for replacement of an asset are invested periodically, in government securities or shares. The account to which these amounts are annually credited is described as the Reserve Fund.

Q. 3 Write short note on By-products.

Ans. By-products generally have insignificant value as compared to the value of main product. They are **generally valued at net realizable value**, if their costs cannot be separately identified. It is often treated, as "Miscellaneous income" but the correct treatment would be to credit the sale value of the by-product to **Manufacturing Account** so as to reduce to that extent, the cost of manufacture a in product.

## Important Adjustments:

Adjustment	Adjustment Entry		Treatment in Trading A/c & Profit & Loss A/c	Treatment in Balance Sheet
1) Closing Stock	Closing Stock, A/c To Trading A/c	Dr.	Shown on the credit side	Shown on the assets side.
2) Goods sold but omitted to be recorded	Debtors A/c To Sales A/c	Dr.	Added to sales on credit side.	Added to Debtors on the assets side.
3) Goods purchased but omitted to be recorded	Purchases A/c To Creditors A/c	Dr.	Added to purchases on debit side.	Added to Creditors on the liabilities side.
4) Sale of goods approval basis on	i) Sales A/c To Debtors A/c (Sale value of goods) ii) Closing Stock, A/c To Trading A/c (Cost price of goods)	Dr. Dr.	Deducted from sales on the credit side. Added to closing stock on the credit side.	Deducted from debtors on the assets side. Added to closing stock on the assets side.
5) Goods distributed as free samples	Free Samples A/c To Purchases A/c	Dr.	Deducted from purchases on the debit side.	Deducted from the capital on liability side.
6) Drawings in goods	Drawings A/c To Purchases A/c	Dr.	Deducted from purchases on the debit side.	Deducted from capital on the liabilities side.
7) Depreciation	Depreciation A/c To Asset A/c	Dr.	Shows on debit side.	Deducted from the concerned asset on the asset side.
8) Provision for Doubtful debts	Profit & Loss A/c To Provision for Doubtful Debts A/c	Dr.	Added to Bad-debts on the debit side.	Deducted from Debtors on the assets side.
9) Provision for discount on Debtors	Profit & Loss A/c To Provision for Discount on Debtors A/c	Dr.	Shown on the debit side as a separate item.	Deducted from Debtors on the assets side.
10) Further Bad-debts	Bad-debts A/c To Sundry Debtors A/c	Dr.	Added to Bad-debts (given in Trial Balance) on the debit side.	Deducted from debtors on the assets side.
11) Outstanding Expenses	Expenses A/c To Outstanding Expenses A/c	Dr.	Added to the respective expense on the debit side.	Shown on the liabilities side.
12) Prepaid or unexpired expenses	Prepaid Expenses A/c To Expenses A/c	Dr.	Deducted from the respective expense on the debit side.	Shown on the assets side.
13) Accrued Income (Income earned but not received)	Accrued Income A/c To Income A/c	Dr.	Added to the respective income on the credit side.	Shown on the assets side.
14) Unearned Income (Income received in advance)	Income A/c To Unearned Income A/c	Dr.	Deducted from the respective income on the credit side.	Shown on the liabilities side.
15) Interest on capital	Interest on Capital A/c To Capital A/c	Dr.	Shown on the debit side.	Added to the capital on the liabilities side.

16)	Interest on Drawings	Interest on Drawings A/c To Interest on Drawings A/c	Dr.	Shown on the credit side.	Added to the drawings and then deducted from Capital.
17)	Interest on Loan (taken from someone)	Interest on Loan A/c To Loan A/c	Dr.	Shows on the debit side.	Added to the loan on the liabilities side.
18)	Abnormal loss of stock	Insurance Company A/c Profit & Loss A/c To Purchases A/c	Dr. Dr.	Total amount of loss is deducted from purchases on the debit side. Amount not recovered from the insurance company is shown on the debit side.	Amount to be recovered from the insurance company is shown on the assets side.
19)	Charity in the form of goods	Charity A/c To Purchases A/c	Dr.	Deducted from purchases on the debit side. Shown on the debit side as a separate item in P&L A/c.	
20)	Manager's Commission	Manager's Commission A/c To Outstanding Commission, A/c	Dr.	Shown on the debit side of P&L A/c.	Shown on the liabilities side.

### Partnership Accounts

- Partnership is the relation between person who have agreed to share profits of the business carried on by all or any of them acting for all.
- Distinction between an ordinary partnership firm and an LLP:

	Key Elements	Partnerships	LLPs
a)	Applicable Law	Indian Partnership Act, 1932	The Limited Liability Partnerships Act, 2008
b)	Registration	Optional	Compulsory with ROC
c)	Creation	Created by an Agreement	Created by Law
d)	Body Corporate	No	Yes
e)	Separate Legal Entity	No	Yes
f)	Perpetual Succession	Partnerships do not have perpetual succession.	It has perpetual succession and individual partners may come and go.
g)	Number of Partners	Minimum 2 and Maximum 50	Minimum 2 but no maximum limit.

#### ■ Main clauses required in a partnership deed:

- Name of the firm and the partners;
- Commencement and duration of business;
- Amount of capital to be contributed by each partner;
- Amount to be allowed to each partner as drawings and the timings of such drawings;
- Rate of interest to be allowed to each partner on his capital and on his loan to the firm, and to be charged on his drawings;
- The ratio in which profits or losses are to be shared.

■ There are two ways of maintaining capital accounts:

- **Fixed capital method:** Under these two accounts are prepared  
(a) Capital account; (b) Current account
- **Fluctuating capital method:** Under this only 1 account i.e., Capital account is prepared.

■ **Methods of valuation of goodwill:**

- **Simple Average method:**  
Goodwill = Average profits × No. of years of purchase
- **Weighted Average method:**  
Goodwill = Weighted Average Profit × No. of years of purchase
- **Super profit method:**  
Super profit = Actual Average profit – Normal profit.  
Goodwill = Super profit × No. of year of purchase
- **Capitalization method:**  
Goodwill = Average of annual super profit × 100 / Normal Rate of return
- **Annuity method:**  
Goodwill = Super profit × Annuity factor of No. of years of purchase

■ **Calculation of Interest on Capital**

$$\text{Interest on Capital} = \frac{\text{Capital} \times \text{Interest} \times \text{No. of months / days from date of introduction till year end}}{12 \text{ or } 365}$$

**Note:** However, maximum interest on capital is restricted to the amount of profits available.

■ **Calculation of Interest on Drawings:** Total Drawings × Interest Rate × Multiplication Factor

- **Fixed Amount is drawn:**

Time of drawings	Multiplication Factor	Time of drawings	Multiplication factor
Beginning of every month	6.5/12	Beginning of each Quarter	7.5/12
Middle of every month	6/12	Middle of each quarter	6/12
End of every month	5.5/12	End of each quarter	4.5/12

**Note:** Where the date of drawings not given then interest on drawing is always calculated for 6 months' /multiplication factor will be 6/12.

- Different amount is withdrawn at various dates: use product method.

■ **Guarantee of Profits for a Particulars partner:**

- Any of the partners may be **guaranteed** a minimum share of profits by all or some of the remaining partners.
- In case his share of Profits < Guaranteed profits = Short fall to be paid by the remaining partners or the agreed partners in their profits sharing ratio/and other agreed ratio.

■ **New Profit-Sharing Ratio and Gaining Ratio (For Retirement/Death):**

- **Situation I: All partners' share is given i.e., 3:2:1; Profit share after retirement is not given:**
  - ♦ Remove the profit share of the Outgoing Partner from the ratio.



- The remaining ratio shall be the new profit-sharing ratio for the existing partners i.e., 3:2.
- **Situation II:** All partners' share is given; Ratio in which the Outgoing Partners' share to be divided among the existing partners' also given:
  - Divide the outgoing partner's share in the agreed ratio.
  - Existing Partners' New Ratio: Old Profit Share + Gaining Share

■ **Hidden goodwill:**

When the value of the goodwill of the firm is not specifically given the value of goodwill has to be inferred as follows:

Partners	(₹)
Incoming partner's capital x Reciprocal of share of incoming partner	xxx
Less: Total capital after talking into consideration the capital brought in by incoming partner	xxx
<b>Value of Goodwill</b>	<b>xxx</b>

Alternatively, only the retiring partner's share may be transferred to his Capital Account if the others continue at the same profit-sharing ratio.

■ **Joint Life Policy Account (JLP):**

Particulars	Explanation
<b>Meaning</b>	Life Insurance taken on all the partners together.
<b>Accounting – I Method</b>	<ul style="list-style-type: none"> <li>• JLP premium is treated as <b>expense</b> and written off in P &amp; L A/c.</li> <li>• At the time of <b>retirement surrender value</b> is divided among all the partners in profit sharing ratio.</li> <li>• At the time of <b>maturity/death of any partner</b>, entire JLP proceed shared among all the partners in the profit-Sharing Ratio(PSR).</li> </ul>
<b>Accounting – II Method</b>	<ul style="list-style-type: none"> <li>• JLP Premium is treated as <b>asset</b> to the extent of <b>surrender value</b>.</li> <li>• Balance Premium transferred to the Profit &amp; Loss A/c.</li> <li>• <b>Surrender Value</b> means "value realized from policy if it is surrendered now to the insurance company".</li> <li>• At the time of <b>retirement when surrender value is received nothing is transferred to partners</b>.</li> <li>• At the time of <b>maturity/death</b> of any partner, the difference between the surrender value and the maturity proceeds transferred to Partners Capital in PSR.</li> </ul>
<b>Accounting – III Method</b>	<ul style="list-style-type: none"> <li>• JLP Premium treated as <b>asset and reserve to the extent of surrender value</b>.</li> <li>• JLP Reserve is created for the premium paid by debiting to the profit and loss Account.</li> <li>• JLP The amount of [JLP Premium – increase in Surrender Value] is transferred from the JLP reserve A/c to the JLP A/c.</li> <li>• At the time of <b>maturity/death</b> of any partner <b>full maturity amount</b> is transferred to partners in profit sharing ratio.</li> </ul>

■ In the absence of agreement, the partner is entitled to **interest on loan/Advance @ 6%p.a.**



- Husband and Wife can be partners in the same firm
- Concept of agency applies to every partner and firm as well.
- Goodwill is an intangible asset and can be valued in terms of money
- Normal profit depends upon Normal Rate of Return only and not a past profits.
- All the partners have same rights at all times unless something else is provided in partnership deed.
- Revaluation Account is also known as P/L Adjustment A/c.
- Memorandum Revaluation Account is made when all the Assets and Liabilities are shown at old figures after Admission/Retirement/Death of any partners.
- New Partner is not entitled to profit on revaluation. It belongs to old partners in their old profit-sharing ratio.
- At the time of Retirement of a partner all the reserves appearing in the balance sheet are transferred to all the partners in their profit-sharing ratio.
- Retiring partner is entitled to his share of goodwill in the firm.
- Profit on revaluation is credited to all partners in PSR in Retirement of partners.
- Legal heirs of deceased partners are entitled to dues of the deceased partner. They cannot become partners automatically.
- When JLP is taken on individual name of deceased partner or JLP is taken as a whole, the proceeds are shared among ALL the partners in PSR.

**Q. 1 Write short note on methods for valuation of goodwill.**

**Ans. There are three methods for valuation of goodwill:**

- Average profit basis:** Simple and Weighted;
- Super profit basis:** Number of Year Purchase, Annuity basis, and Capitalization of Super Profit.
- Capitalization basis.**

In case of change in profit sharing ratio, the value of goodwill should be determined and preferably adjusted through capital accounts of the partners on the basis of profits sacrificing ratio.

**Q. 2 Distinguish between Super profit basis and Capitalizations.**

**Ans. Difference between Super profit basis and capitalization basis:**

- Super Profit Basis:** In case of average profit basis, goodwill is calculated on the basis of average profit multiplied by certain number of years. **Super Profit** = Actual Profit - Normal Profit Actual Profit is average profit and **Normal Profit** = Capital employed X (NRR).
- Capitalization Basis:** Under this basis, value of whole business is determined applying normal rate of return. If such value (arrived at by applying normal rate of return) is higher than the capital employed in the business, then the difference is goodwill.

### Not for Profit Organizations

- Not for profit organization refer to those organization which are formed for the purpose of promoting commerce, art, science, religion, charity, education etc. **Example** (ICAI, ICWAI, Shirdi Sai Baba Trust, Mata Vison Devi Shrine Board, Sri Sathya Sai Central Trust etc.)
- **Receipt and Payment Accounts** shows the **summary** of transactions of a cashbook (without any date column) along with the cash and bank balance at the beginning and at end of the accounting year.

- **Income and Expenditure Account** is like a profit and loss account, which show summary of revenue income, revenue losses for current accounting period.
- **Treatment of Important Item in Not-for-Profit Organization:**
  - **Subscription:** It is the regular fees received by an institution from its members. It is a revenue receipt for the concern and shown on the credit side of Income and Expenditure A/c.
  - **Donation:** It is gift in cash or kind from some person. It may be of two types: -
    - **Specific Donation:** It is received for certain specific purpose like Building Donation, Library Books donation etc. It should be capitalized and shown on the liabilities side of the balance sheet.
    - **General Donation:** It is not received for any specific purpose and shown on the credit side of Income and Expenditure Account.
  - **Entrance Fees:** It may also be known as admission fees. **As per AS-9 issued by ICAI, Entrance Fees should be capitalized** and added to the capital fund for all organization. If the question gives any specific treatment of Entrance fees, then it should be followed accordingly.
  - **Legacy:** It is an amount received by an organization as per the **will** of the person. It should be capitalized and shown on the liabilities side of the balance sheet by adding to the Capital Fund.
  - **Life Membership Fees:** It should be **capitalized** and shown on the liabilities side of the balance sheet. If the question gives any specific treatment of Life membership Fees, then it should be followed accordingly.
  - **Endowment Fund Donation:** It is a donation received and **only income from that donation is to be used for certain specific purpose** for Example CA institute receives certain prize fund donation with specified purpose that only income is to be used for giving prizes. In such cases income relating to special funds should be added to these funds in the liabilities side of the B/S. All the expenses should be deducted from that fund on the liabilities side of the B/S.
  - **Capital Fund:** It consists of **contribution made by promoters of the concern, surplus accumulated over the year** and other capitalized item like Entrance Fees etc. It is also known as General Fund.
  - **Treatment of Sale of Old Newspaper and Periodicals:** The amount received on such sale is shown as Income.
  - **Sale of old Fixed Assets:** The Sale proceeds of old Fixed Assets are treated as capital receipts. The profit or loss on sale of fixed asset is shown in the Income and Expenditure A/c.

■ **Important Adjustment in Not-for-Profit Organization:**

- **Subscription (Income)**

Income(subscription)	₹
Total Subscription received during the year (As per Receipt and payment A/c)	xx
Add: O/s Subscription for C.Y.	xx
Less: O/s Subscription for P.Y. or O/s subscription received in C.Y.	xx
Add: Subscription received in advance in P.Y.	xx
Less: Subscription received in advance in C.Y.	xx
<b>Total Subscription to be shown in Income and Expenditure A/c</b>	<b>xxx</b>

Dr.		Subscription Account		Cr.
Particulars	₹	Particulars	₹	
To Balance b/d [O/s subscription in the beginning of year]	xx	By Balance b/d [Advance subscription in the beginning of the year]	xx	xx
To Income & Expenditure A/c (Subscription income to be shown in Income and expenditure account)	xx	By bank A/c [Total subscription received during the current year]	xx	xx
To Balance c/d [Advance Subscription at the end of the year]	xx	By Balance c/d [O/s Subscription at the end of the year]	xx	xx
	xxx			xxx

Expenses (Salaries):

Particulars	₹
Total Salaries paid during the year	xx
Add: Outstanding Salary for C.Y.	xx
Less: Outstanding Salary for P.Y.	xx
Add: Salary paid in advance in P.Y.	xx
Less: Salary paid in advance in C.Y.	xx
<b>Total salary to be shown as expense in Income and Expenditure A/c</b>	<b>xxx</b>

Consumption (Medicine Stock):

Particulars	₹
Amount paid for Medicine in C.Y. (as per receipt and payment account)	xx
Add: Closing Creditor for Medicine	xx
Less: Opening creditors for Medicine	xx
Add: Creditors paid in advance in P.Y.	xx
Less: Creditors paid in advance in C.Y.	xx
<b>Purchase of Medicine</b>	<b>xx</b>
Add: Opening Stock of Medicine	xx
Less: Closing stock of Medicine	xx
<b>Amount of Medicine to be shown as Consumption in Income of Expenditure A/c</b>	<b>xxx</b>

**Note:** These above three adjustments are shown to calculate the amount to be shown in Income and Expenditure Account. If above items are to be shown in Receipt and Payment account then above addition and deduction are REVERSED to get the amount to be shown in Receipt and payment Account.

### Company Accounts

- Company is an **artificial person** created by law with a perpetual succession and a common seal.
- **Features of a company**
  - a) Incorporated Association
  - b) Separate legal Entity
  - c) Perpetual Existence
  - d) Common seal
  - e) Limited liability

### Different Types of companies:

- **Statutory company:** Companies formed by a special Act. Example (RBI, LIC etc.)
- **Government company:** Company is which not less than 51% of the paid-up capital is held by the Government.
- **Foreign company:** Company incorporated outside India.
- **Holding company:** A company have more than 50% shares of other limited company.
- **Subsidiary company:** Example: Mohan Ltd. holds 55% shares of Gopal Ltd. Then Mohan Ltd. is a holding company and Gopal Ltd. is a subsidiary company.
- **Public company means a company** which is not a private company, and no minimum paid up capital and shares are freely transferable. No limit for maximum number of shareholders.
- **Private company:** Means a company, which has no minimum paid up share capital; which restricts the right of members to transfer its shares. It limits the number of its members to 200.
  - As per companies Act, companies are required to maintain proper books of accounts.
  - The items interest accrued on Investment appear in the Balance sheet under the category of current assets, loans and advances.
- **One-person company:** [Section 2(62)] of the Companies Act, 2013 defines "One Person Company" as a company which has only one person as a member.
- **Small Company:** [Section 2(85)] of the Companies Act, 2013 defines "Small company" means a company, other than a public company;
  - **Paid-up share capital** of which does not exceed two crores rupees or such higher amount as may be prescribed which shall not be more than five crore rupees; or
  - **Turnover** of which as per its last profit and loss account does not exceed twenty crore rupees or such higher amount as may be prescribed which shall not be more than twenty crore rupees.

**Note:** The status of a company as a Small Company may change from year to year.

- **Listed Company:** As per [Section 2(52)] of the Companies Act, 2013, "listed company" means a company which has any of its securities listed on any recognized stock exchange.
- **Company Limited by Guarantee:** As per [Section 2(22)] of the Companies Act, 2013, "Company limited by shares" means a company having the liability of its members limited by the memorandum to the amount, if any, unpaid on the shares respectively held by them.
- **Unlimited Company:** [Section 2(92)] of the Companies Act, 2013 defines "Unlimited company" means a company not having any limit on the liability of its members.
- **Holding Company:** According to [Section 2(46)] of the Companies Act, 2013, "Holding company", in relation to one or more other companies, means a company of which such companies are subsidiary companies.
- **Subsidiary Company:** [Section 2(87)] of the Companies Act, 2013 defines "subsidiary company" as a company in which the holding company:
  - Controls the composition of the Board of Directors; or
  - Exercises or controls more than one-half of the total share capital either at its own or together with one or more of its subsidiary companies.

- A company shall be deemed to be a subsidiary company of the holding company even if the rests indirect control through the subsidiary company.
- The control over the composition of a subsidiary company's Board of Directors means exercise of some power to appoint or remove all or a majority of the directors of the subsidiary company.
- **Government Company:** According to [Section 2(45)] of the Companies Act, 2013, "Government company" means any company in which not less than fifty-one per cent of the paid-up share capital is held by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments, and includes a company which is a subsidiary company of such a Government company.
- **Foreign Company:** According to [Section 2(42)] of the Companies Act, 2013, "Foreign company" means any company or body corporate incorporated outside India which -
  - Has a place of business in India whether by itself or through an agent physically or through electronic mode; and
  - Conducts any business activity in India in any other manner.
- **Private Company:** [Section 2(68)] of the Companies Act, 2013 defines 'Private company' as a company which by its articles,
  - Restrict the right to transfer its shares;
  - Except in case of One Person Company limits the number of its members to two hundred: Provided that where two or more persons hold one or more shares in a company jointly, they shall, for the purposes of this sub-clause, be treated as a single member:
  - **Provided further that:**
    - Persons who are in the employment of the company and
    - Persons who, having been formerly in the employment of the company, were members of the company while in that employment and have continued to be members after the employment ceased, shall not be included in the number of members and
    - Prohibits any invitation to the public to subscribe for any securities of the company. Shares of a Private Company are not listed on Stock Exchange.
- **Public Company:** [Section 2(71)] of the Companies Act, 2013 defines Public Company as a company which—(a)is not a private company; provided that a company which is a subsidiary of a company, not being a private company, shall be deemed to be public company for the purposes of this Act even where such subsidiary company continues to be a private company in its articles.
  - A company which is a listed public company if it gets unlisted continues to be a public company.
  - **No Minimum Paid-up Share Capital:** The minimum paid-up share capital requirement of ₹ 1,00,000 (in case of a private company) and ₹ 5,00,000 (in case of a public company) has been done away with under Companies Act, 2013. Accordingly, no minimum paid-up capital requirements will now apply for incorporating private as well as public companies in India.
- **Share Capital:** Total capital of the company is divided into a number of small indivisible units of a fixed amount and each such unit is called a share.
- **Reserve capital** refers to that part of uncalled capital which a company can call only at the time of winding up of the company.
- **Calls in Advance:**

- Where the amount paid before the call is made
- Interest on calls in Advance paid at the rate of 12% p.a. as per **Table F** of Schedule I of the companies Act shareholders are not entitled to any dividend on calls in advance.

#### ■ Call in Arrears:

- Where the amount payable on calls is not yet paid by the shareholder when call was made.
- Interest on Calls in Arrears received at the rate of 10% p.a. as per **Table F** of Schedule I of the companies Act.

#### ■ Calculation of shares in Pro Rata Allotment:

- No. of shares applied by an application =  $\frac{\text{Total No. of Share Applied}}{\text{Total No. of Shares Allotted}} \times \text{No. of Shares allotted to an applicant}$
- No. of shares allotted to an application =  $\frac{\text{Total No. of Share Allotted}}{\text{Total No. of Shares Applied}} \times \text{No. of Shares allotted to an applicant}$

■ **Minimum subscription:** Its amount must be disclosed by the BOD in the prospectus. As per SEBI, the minimum subscription to be received shall not be less than 90% of the document. If the company does not receive the amount of minimum subscription of 90% of the issue, all application money received shall be refunded to the applicants. As per Companies Act, minimum subscription amount should be stated in the prospectus. The amount of minimum subscription to be disclosed in prospectus by board of directors.

- Every listed company is a public company, but every public company is not a listed company. Listed company implies that company whose shares are listed in the stock exchange.
- It is mandatory or compulsory to incorporate every company under the **Companies Act**.
- If shares of the company are fully paid-up then there is no future liability of any shareholder.
- Schedule III Part I explains Balance Sheet and Schedule III Part II explain Profit & Loss Account.
- Liability of the holder of shares is limited to the issue price of shares acquired by them.
- Authorized capital is the amount of capital mentioned in **capital clause** of the Memorandum of Association. Authorized Capital is not considered in total of balance sheet.
- **Rate of % Dividend** on preference shares is always fixed.
- Equity Dividend fluctuates from year to year.
- As per **[Section 53]** of the Companies Act, a company can issue shares at discount only in case of sweat equity shares issued to employees or Director of the company.
- As per **Table F**, rate of interest on calls in arrears is 10% p.a. and interest on calls in advance is 12% p.a.
- Non-participating preference shares **do not enjoy any voting rights**. They do not share any additional profits, only fixed dividend is payable on them.
- **Reissue of forfeited shares** is not allotment of shares but only a **sale of shares**.
- Loss on re-issue of shares should not exceed the forfeited amount.
- Debentures holder are **the creditors** of the company.
- **Perpetual debentures** are also known as **irredeemable debentures**. These are not repayable during the life time of the company.
- Registered debentures are not transferable by delivery. **Bearer debentures** are transferable by delivery.
- If debentures are issued as collateral security and company is unable to repay its Loan & the interest there on the due date, then lender becomes the **debenture holder** who can exercise all the **rights of a debenture holder**.



- Debenture Suspense Account appears on asset side of balance sheet under **non-current assets**.
- Company has to **pay interest on debenture** whether it earns profit or suffer loss.

### Forfeiture of Shares

- **Meaning:** Forfeiture of Shares means the **cancellation of shares** allotted to the shareholders who have defaulted in payment of allotment /calls money and the amount paid by them is forfeited by the Company with itself.

#### Entry for Forfeiture:

Share Capital A/c                      Dr. (No. of shares forfeited x Called up valued)  
 Securities Premium A/c Dr. (No. of shares forfeited x Premium) - will arise only if premium not paid  
 To Unpaid Call Amt. A/c (No. of shares forfeited x amount not paid)  
 To Share Forfeited A/c (No. of shares forfeited x amount received excluding premium)

**Note:** Balance in Shares Forfeited A/c shall be shown under the head of Share Capital on the liabilities side of the Balance Sheet.

#### Re -Issue of Forfeited Shares:

##### Entry for Reissue:

Bank A/c    Dr. (No. of shares reissued x reissue price)  
 Share Forfeited A/c                              Dr. [No. of shares reissued x (Issue price -Called up value)]  
 To Share Capital A/c (No. of Share reissued x Called up Value or face value)  
 To Securities Premium A/c [No. of shares reissued x (reissue price - Face value)]

Transfer of balance in Shares Forfeited A/c to Capital Reserve - Related to shares reissued

Share Forfeited A/c                              Dr.  
 To Capital Reserve A/c

#### The amount to be transferred to Capital Reserve shall be computed as follows:

Amount received/share at the time of forfeiture (excluding Securities Premium)	xx
<b>Less:</b> Difference between reissue price and called up value (excl. Discount, if any, on original issue)	(xx)
Net Amount to be transferred to Capital Reserves per shares (a)	xx
No. of shares reissued(b)	xx
<b>Total Amount transferred to Capital Reserve[(a) x(b)]</b>	<b>xxx</b>

#### Things to note

- Loss on re-issue should not exceed the forfeited amount.
- When loss on reissue of shares is less than amount forfeited, then surplus will be transferred to Capital Reserve.
- The forfeited amount on shares not yet reissued should be shown under the heading share capital.
- If shares are reissued at a price which is more than face value of shares, the excess amount will be credited to Securities Premium A/c.
- As per SEBI the minimum application amount should be at least 25% of the issue price.
- Every Listed Company is a public company but every public company is not a listed company.

**Q. 1 Write short notes on:**

- a) Utilization of securities premium account
- b) Re-issue of forfeited shares

**Ans. a) Utilization of Securities Premium account:**

- i) To issue fully paid bonus shares to its existing shareholders.
- ii) It can be used for writing off any preliminary expenses of the company.
- iii) To write off expenses of issue of shares and debentures, such as commission paid or discount given on the issue of shares.
- iv) It can also be used to provide for the premium that is payable on redemption of debentures or of preference shares of the company.
- v) It can also be utilized to buy-back its own shares.

**b) Reissue of forfeited Shares:**

A forfeited share is merely a share available to the company for sale and remains vested in the company for that purpose only. Reissue of forfeited shares is not allotment of shares but only a sale. The share, after forfeiture, in the hands of the company is subject to an obligation to dispose it out. In practice, forfeited shares are disposed out by auction. These shares can be re-issued at any price so long as the total amount received (from the original allottee and the second purchaser) for those shares is not less than the amount in arrears on those shares.

**Q. 2 Distinguish between:**

- a) Calls-in-Arrears and Calls-in-advance.
- b) Issue of shares for cash and Issue of Shares for Consideration other than Cash.

**Ans. a) Difference between Calls -in-arrears and Calls-in-advance:**

- i) **Calls-in-Arrears:** Sometimes shareholders fail to pay the amount due on allotment or calls. The total unpaid amount on one or more instalments is known as Calls-in-Arrears or Unpaid Calls. Such amount represents the uncollected amount of capital from the shareholders; hence, it is shown by way of deduction from called-up capital to arrive at paid-up value of the share capital.
- ii) **Calls-in-advance:** Some shareholders may sometimes pay a part, or whole, of the amount not yet called up, such amount is known as Calls-in-advance.

**b) Difference between Issue of shares for cash and Issue of shares consideration other than cash:**

The shares can be issued by a company either for cash or for consideration other than cash. Public limited companies, generally, issue their shares for cash and use such cash to buy the various types of assets needed in the business. Sometimes however, a company may issue shares in a direct exchange for land, buildings or other assets.

**Q. 3 Can a company issue share at discount?**

**Ans.** According to [Section 53] of the Companies Act, 2013, a Company cannot issue shares at a discount except in the case of issue of sweat equity shares (issued to employees and directors). Thus, any issue of shares at discount shall be void.

## Issue of Debentures

- **Meaning:**
  - Debentures refer to the **loan** showing the indebtedness of the company towards its holders.
  - Normally redeemed at the end of the specified period of time.
- **Types of Debentures:**
  - First Mortgage and Second Mortgage debentures.
  - Bearer and Registered Debentures
  - Redeemable and Irredeemable Debentures.
  - Secured and Unsecured Debentures.
  - Convertible and Non - Convertible Debentures.
- **Treatment of loss/discount on issue of debentures: Written off over the period of debentures:**
  - Debentures redeemed at the end of the specified period - Loss **equally** written off over the period.
  - Debentures redeemed in instalments after fixed period - Written off in the ratio of the Outstanding amount.
- **Note: Loss on issue of debentures = Premium on redemption + Discount on issue of debentures.**
- Interest on Debentures: Computed always on the face value/nominal value of the debentures.
- **Issue of Debentures as a collateral security - Accounting Methods:**
  - **I Method:** NOT Accounted in the Books, but issue shall be shown under the respective liability. (preferred method)
  - **II Method:** Debentures suspense account shown on the **assets (under other noncurrent assets)** and Debentures shown on the liabilities of the Balance Sheet. Further, a note that "such debentures are issued as collateral security" shall be written in the Balance Sheet.
- A company can buy its own shares (buyback or equity shares) and debentures.
- **Discount on issue of debenture is a capital loss** to be written off over the **tenure of debentures**
- As per companies Act, "Interest accrued and due on debentures" should be shown under debentures.
- Debentures cannot be issued in **lieu of dividends** (in place of dividends).
- When debentures are issued as **collateral securities** then the journal entry is debenture suspense A/c is debited and debentures account credited.
- Loss on issue of debentures is shown under as **other non-current assets in the balance sheet**
- When debentures are issued as collateral security against any loan then holder of such debentures is entitled to interest only on the amount of loan. no interest is paid on debentures issued as collateral security. Interest on those debentures become payable only when there is any default in payment of interest on loan.
- Minimum no. of members in public company is 7 and in case of private company is 2.
- Maimum Numbers of members in public company is unlimited and in case of private company are 200.
- The equity shares are not convertible. It cannot be converted in to preference shares or debentures.
- Securities Premium, Capital Redemption Reserve etc. are shown under the head of Reserve and Surplus.

- Share Application, share final call etc. are personal accounts.
- A preference share which carries the right of participating in the surplus left after paying equity dividend is called participating preference share.
- Voluntary return of shares for cancellation by the shareholders is called **Surrender of shares**.
- The Reserve which is created for a particular purpose and which is a charge against revenue is called **Specific Reserve**.
- Short term provision as per schedule III:** The amount shall be classified as: provision for employee benefit, provision for dividend, Provision for Taxation, Provision for warranties, Prov. For bad debts etc. Proposed dividends is shown in the Balance Sheet of a Company under the head of Provisions.
- The amount of capital that is mentioned in capital clause OF THE MEMORANDUM OF ASSOCIATION is known as Authorized Capital or Registered Capital or Nominal Capital.

### SCHEDULE III

PART I - Form of Balance Sheet Name of the Company .....

Balance Sheet as at .....

(₹ In .....

		Particulars	Notes No.	Figures as at the end of current reporting period	Figures as at the end of previous reporting period
		(1)	(2)	(3)	(4)
		<b>EQUITY AND LIABILITIES</b>			
1.		<b>Shareholder's Funds</b>			
	a.	Share Capital	xx	xx	xx
	b.	Reserve and Surplus	xx	xx	xx
	c.	Money received against share warrants	xx	xx	xx
2.		<b>Shares application money pending allotment</b>	xx	xx	xx
3.		<b>Non-current Liabilities</b>			
	a.	Long term borrowings	xx	xx	xx
	b.	Deferred tax liabilities (Net)	xx	xx	xx
	c.	Other long-term liabilities	xx	xx	xx
	d.	Long term provisions	xx	xx	xx
4.		<b>Current Liabilities</b>			
	a.	Short term borrowings	xx	xx	xx
	b.	Trade Payables	xx	xx	xx
		(A) Total outstanding dues of micro enterprise small enterprise; and			
		(B) Total outstanding due of creditors other than micro enterprises and small enterprises.			
	c.	Other current liabilities	xx	xx	xx
	d.	Short-term provisions	xx	xx	xx
		<b>Total</b>		<b>xxx</b>	<b>xxx</b>

			ASSETS		
1.	<b>Non-current Assets</b>				
	i.	Property, Plant and equipment	xx	xx	xx
	ii.	Intangible Assets	xx	xx	xx
	iii.	Capital Work - in - Progress	xx	xx	xx
2.	iv.	Intangible assets under development	xx	xx	xx
	<b>Non-current investment</b>				
3.	Deferred tax assets		xx	xx	xx
	Long-term loans and advances		xx	xx	xx
	Other non-current assets		xx	xx	xx
	<b>Current Assets</b>				
	a.	Current Investments	xx	xx	xx
b.	Inventories		xx	xx	xx
	Trade Receivables		xx	xx	xx
	Cash and Cash Equivalent		xx	xx	xx
	Short-term loans and advances		xx	xx	xx
c.	Other current assets		xx	xx	xx
	<b>Total</b>			xxx	xxx

#### Explanations of individual items:

- **Share capital:** it includes both equity and preference share capital.
- **Reserve and surplus:** All types of reserves shown in it.
- Money received against share Warrants- share warrants are issued to promoters and others in terms of the Guidelines for preferential issues viz., SEBI Guideline, 2009 Companies (Accounting Standards Rules, 2006 defines 'share warrants' as "financial instruments which give the holders the right to acquire equity share". Thus "effectively, share warrants are nothing but the amount which would ultimately form part of the Shareholders' funds. Since shares are yet to be allotted against the same these are shown as Money received against share warrant.
- **Share application Money pending allotment:** Share application money not exceeding the issued capital and to the extent **not refundable** is to be disclosed under this line item. However, amount shown as 'share application money pending allotment will not include share application money to the **extent refundable**.
- **Non-current liabilities:** the following items shall be disclosed under non-current liabilities:
  - Long term borrowings;
  - Deferred tax liabilities (Net);
  - Other long-term liabilities;
  - Long term provisions;
  - Borrowings shall further be sub-classified as secured and unsecured. Nature of security shall be specified separately in each case;
    - ♦ **Other long-term liabilities:** This should be classified into: a) Trade payables b) Others Non-current liabilities.
    - ♦ **Long term Provision:** This should be classified into provision for employee benefits and others specifying the nature. Provision for employee benefits should be divided into long - term (non - current) and other current. **Accordingly, a liability is classified as current**

If a company has to pay it within the time span of 12 months of the reporting date. Each company will need to apply these criteria to its specific facts and circumstances and decide an appropriate classification for its employee benefit obligations. Example (Prov for Gratuity, Prov for any employee welfare fund.)

■ **Current liabilities:** This should be classified on the face of the Balance Sheet as follows:

- Short -term borrowings;
- Trade payables;
- Other current liabilities;
- Short -term provisions.
- **Short term borrowings** will include all loans payable within period of 12 months from the date of loan. Current maturity of long -term borrowings should not be classified as short -term borrowing. They have to be classified under other current liabilities.
- **Other Current Liabilities:** The amounts shall be classified as:
  - Current maturity of long -term debt;
  - Interest accrued but not due on obligations;
  - Interest accrued and due on borrowings;
  - Income received in advance;
  - Unpaid dividends;
  - Application money received for allotment of securities and due for refund and interest accrued thereon;
- **Unpaid matured deposit/debentures and interest accrued thereon.**
- **Short term provision:** The amount shall be classified as: provision for employee benefit, provision for dividend, Provision for Taxation, Provision for warranties, Prov. For bad debts. etc.

■ **Non - current Assets:**

- **Property, Plant & Equipment:**
  - ◆ **Tangible Assets:** Example (Land, Building, Plant and Equipment, Furniture.)
  - ◆ **Intangible Assets:** Example (Goodwill, Trade Mark, Software, Patents, Licenses and franchise;)
  - ◆ **Capital work - in progress:** Capital Assets under construction
  - ◆ Intangible Assets under development
- **Non -current investments:** All long-term investment as per AS - 13 like investment property etc. The value of each long -term investment should be carried at cost less, provision for other than temporary diminution in the value there of.
  - ◆ Deferred tax assets(net)
  - ◆ Long- term loans and advances
- **Other non -current Assets:** Example (Long term Trade Receivable, all other items shown under the head of miscellaneous expenditure except preliminary expenses) to be written off in more than one year.) (If they are to be written off within 12 months then they will be shown under the head of other current assets.)

**Current Assets:**

- Current investment as per AS -13;

- Inventories shall be classified as: Example (Raw Materials, Work – in progress, Finished Goods, Stores and spares, loose tools etc.);
- Trade Receivable(current);
- Cash and cash equivalents: Balance with bank, Cash in hand, Cheques, drafts on hand;
- Short term loans and & advances.
- **Other Current Assets:** current assets that do not fit into any other asset's categories, all other item shown under the head miscellaneous expenditure to be written off within 12 months.

**Q 1. Explain the purpose for raising of debenture by the company. Also give the main features of debentures.**

**Ans.** Debenture is one of the most commonly used debt instruments issued by the company to raise funds for the business. The most common method of supplementing the capital available to a company is to issue debentures which may either be simple or naked carrying no charge on assets, or mortgage debentures carrying either a fixed or a floating charge on some or all of the assets of the company.