CA FOUNDATION

ACCOUNTING (MODULE - 2)

CA Nitin Goel

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PREFACE

A highly skilled professional team of CA Wallah works arduously to ensure that the students receive the best content for their CA-Foundation exams.

A plethora of CA Study Material is available in the market but CA Wallah professionals at PW are continuously working to provide supreme quality study material for the CA-Foundation students.

From the beginning, the content team comprising Subject Matter Experts, Content Creators, Reviewers, DTP operators, Proofreaders, and others is involved in shaping the material to their best knowledge and experience to produce powerful content for the students.

CA Wallah Faculties have adopted a novel style of presenting the content in easy-to-understand language and have provided the content team with expert guidance and supervision throughout the creation and curation of this book.

PW's CA Wallah strongly believes in conceptual and fun-based learning. CA Wallah provides highly examoriented content to bring quality and clarity to the students.

This book adopts a multi-faceted approach to mastering and understanding the concepts by having a rich diversity of questions asked in the CA-Foundation examination and equipping the students with the knowledge for this highly competitive exam.

The main objective of this book is to provide an edge to your preparation with short & crisp yet high-quality content.

BOOK FEATURES

This book, especially designed & amended for CA-Foundation aspirants, contains:

- Syllabus coverage strictly as per ICAI study Material
- All ICAI Study Material Questions
- Latest RTP & MTP Questions
- Detailed Theory with Exam prototype and Concept Applications Questions
- Short Notes and Solve Miscellaneous Examples
- Topic wise, Learning Plus and Advanced Level Questions covered in the Book
- Past Year Exam Questions Covered
- Elaborated Solutions

ABOUT THE AUTHOR

CA Nitin Sir is a highly accomplished individual who has attained significant achievements in the field of chartered accountancy. He has been awarded the prestigious Chartered Accountant designation with All India Ranks (AIR) at all three levels of the CA Exams, including an AIR of 9th in CPT, AIR of 7th in Intermediate, and AIR of 9th in CA Final. In addition, he is a Gold Medalist from Panjab University in Chandigarh, having been the University Topper for all three years of his B.Com degree.

Nitin Sir's academic pursuits also include a Diploma in IFRS from the ACCA Institute of Britain. His practical experience in the field comes from his tenure at ITC Ltd. where he worked for three years, providing him with a practical perspective that he shares with his students.

As an educator, Nitin Sir has made a significant impact on the field of Chartered Accountancy, having taught over 1,00,000 students in the last 10 years. His teaching methodology focuses on building strong conceptual foundations, and he has developed a comprehensive question bank and handwritten summary charts that are popular among CA students. His commitment to his students' success is evident in their consistently high scores, with many of them scoring 90+ marks in his subjects.

One of Nitin Sir's unique contributions to the field of education is his marathon revisionary videos for CA Foundation and CA Inter, which have a cumulative viewership of over 30 lakhs on social media platforms. These videos offer a comprehensive overview of the material, ensuring that students have a thorough understanding of the concepts before sitting for their exams.

Overall, Nitin Sir's achievements and contributions to the field of chartered accountancy are impressive. His academic and practical experience, coupled with his dedication to his students' success, have made him a highly respected and sought-after educator in the field.

PAPER 1: ACCOUNTING (100 MARKS)

Objective

To develop an understanding of the basic concepts and principles of accounting and apply the same in preparing financial statements and simple problem solving.

Contents

1. Theoretical Framework
   - i. Meaning and Scope of Accounting.
   - ii. Accounting concepts, principles and conventions.
   - iii. Capital and revenue expenditure, capital and revenue receipts, contingent assets and contingent liabilities.
   - iv. Accounting policies.
   - v. Accounting as a measurement discipline – valuation principles, accounting estimates. Accounting Standards - concepts and objectives.

2. Accounting Process
   - i. Recording accounting transactions:principles of double entry book-keeping, books of original entry - journal, subsidiary books, cash book, ledger-format, posting from journal and subsidiary books, balancing of accounts.
   - ii. Preparation of trial balance.
   - iii. Rectification of errors.

3. Bank Reconciliation Statement

Introduction, reasons and preparation of bank reconciliation statement.

4. Inventories

Meaning, basis and technique of inventory valuation, cost of inventory, net realizable value and record system.

5. Depreciation and Amortisation

Tangible and intangible assets-Meaning and difference, concepts, methods of computation and accounting treatment of depreciation / amortisation, change in depreciation method.

6. Bills of exchange and Promissory notes

Meaning of bills of exchange and promissory notes and their accounting treatment; accommodation bills.

7. Preparation of Final accounts of Sole Proprietors

Elements of financial statements, closing adjustment entries, trading account, profit and loss account and balance sheet of manufacturing and non-manufacturing entities.

8. Financial Statements of Not-for-Profit Organizations

Significance and preparation of receipt and payment account, income and expenditure account and balance sheet, difference between profit and loss account and income and expenditure account.

9. Accounts from Incomplete Records (excluding preparation of accounts based on ratios).

10. Partnership and LLP Accounts
    i. Final accounts of partnership firms and LLPs.
    ii. Admission, retirement and death of a partner including treatment of goodwill.
    iii. Dissolution of partnership firms and LLPs including piecemeal distribution of assets.

11. Company Accounts
    i. Definition of shares and debentures.
    ii. Issue of shares and debentures, forfeiture of shares, re-issue of forfeited shares.
    iii. Redemption of preference shares and debentures (excluding purchase and redemption of own debentures and sinking fund method).
    iv. Accounting for bonus issue and right issue.

Dear Student

Welcome to my course and I will ensure that me & my team justify the faith you have placed in us.

Accounting just like any other subject is very important from exam point of view but its importance increases being the 1st paper of CA Foundation exams and practical subject where in you can score wonderful marks.

Each Chapter is divided into two parts i.e. Assignment Questions & Practice Questions. All the assignment questions have been done in the class and practice questions you are supposed to do at home.

My module covers all the questions from ICAI module, RTP/MTPs and Past year exams so that you get everything at one place.

The key mantra to pass the exam is mastering PTC- Presentation-Time-Concept. So while studying make sure that your concepts are thoroughly revised so that it can be well presented in exam in the 3 hour time frame.

Best Wishes!

CA. Nitin Goel

Paper 1: ACCOUNTING

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<tr><th>S. No.</th><th>Weightage</th><th>Chapters</th></tr>
<tr><td>1</td><td>5% - 10%</td><td>Theoretical Framework
• Meaning and Scope of Accounting
• Accounting concepts, principles and conventions
• Capital & revenue expenditure, receipts.
• Contingent assets and Contingent liabilities
• Accounting policies
• Accounting as a measurement discipline
• Accounting Standards - concepts & objectives.</td></tr>
<tr><td>2</td><td rowspan="5">30% - 35%</td><td>Accounting Process
Journal, Ledger, Subsidiary books, Cash Book, Trial balance, Rectification of errors</td></tr>
<tr><td>3</td><td>Bank Reconciliation Statement</td></tr>
<tr><td>4</td><td>Inventories</td></tr>
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<tr><td>6</td><td>Bills of exchange and Promissory notes</td></tr>
<tr><td>7</td><td rowspan="3">20% - 25%</td><td>Preparation of Final accounts of Sole Proprietors</td></tr>
<tr><td>8</td><td>Financial Statements of Not-for-Profit Organizations</td></tr>
<tr><td>9</td><td>Accounts from Incomplete Records</td></tr>
<tr><td>10</td><td>15% - 20%</td><td>Partnership and LLP Accounts
• Final Accounts of partnership firms and LLPs
• Treatment of Goodwill
• Admission of Partner
• Retirement and Death of a partner
• Dissolution of Firms and LLPs</td></tr>
<tr><td>11</td><td>15% - 25%</td><td>Company Accounts
• Introduction to Company Accounts
• Issue of Shares, forfeiture & re-issue
• Issue of Debentures
• Accounting for Bonus & Right issue
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• Redemption of Debentures</td></tr>
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WEIGHTAGE IN PAST YEAR EXAMS (From May 2018 to Jan 2025)

	MAY 18	NOV 18	MAY 19	NOV 19	NOV 20	JAN 21	JULY 21	DEC 21	JUNE 22	DEC 22	JUNE 23	DEC 23	JUNE 24	SEP 24	JAN 25
Theoretical Framework	4	4	4	4	4	4	4	4	4	4	4	5	4	4	4
Accounting Process	4+10	10	4	5+10	4+5	10	5+5 +10	5+5 +5	4+5	5+10	4	5	4+12 +5	4	4+5
Bank Reconciliation Statement	10	10	10	10	10	4	5	10	5	10	5	8	5	10	10
Inventories	–	–	5	5	10	5	5	4	5	–	5	4	5	5+5	5
Depreciation	–	4	10	4	5	10	4	5	10	4+5	10	5	8	5	10
Bills of Exchange	–	–	5	–	10	–	–	10	–	15	5	10		10	5
Final Accounts of Sole Proprietors	20	5	10	10+5	10+5	5	10+5	15	20	10	–	15	5	10	15
Not for Profit Organisation	–	10	10	10	10	10+10	10	10	10	10	15	12	12	10	10
Accounts from Incomplete Records	–	15	12	10	10	10	10	5	12	10	10	–	8	5	5
Partnership	10	15	10+5	10+ 15+5	10	5+10	10+5	5+10 +5	5+10 +15	5+10	5+20 +5	5+10	8+12	10+10	5+15
Company Accounts	10+5 +10	10+5 +5	10+5 +10	15+ +5+5	10+ +5+12	15+5 +12	15+5 +10	15+5	15+5	15+5	15+5 +5	15	10+15	10+15	5+15
Accounting Terminology	–	–	–	–	–	4	–	4	–	–	4	4	–	–	–

FINANCIAL STATEMENTS OF NOT FOR PROFIT ORGANISATIONS

CH 8

Every great dream begins with a dreamer, Always remember you have within you a Strength, the Patience, & the Passion to reach for the stars to change the world."

MEANING

NPO is a legal & accounting entity i.e. operated for the benefit of society as a whole rather than for the benefit of a sole proprietor or group of partners or group of shareholders.

FINANCIAL STATEMENTS OF NPO

I. Receipts & Payments Account

- It is a summary of cash book i.e. all the receipts (capital or revenue) are debited & similarly all the payments (capital or revenue) are credited.
- It starts with Opening Cash & Bank balance and also ends with their closing balances
- Items in this account may relate to any year.

II. Income & Expenditure Account:

- It is equivalent to Profit & Loss Account of a business enterprise.
- It is prepared by following accrual principle.
- It may include non-cash items like depreciation, etc. and it related to current year only.
- Only items of revenue nature are included.

III. Balance Sheet:

Note:
1) NPO registered under section 8 of Companies Act, 2013 are required to prepare their Income & Expenditure A/c and Balance Sheet as per Schedule III to Companies Act.
2) Until & unless question specifies, always assume that NPO referred in the question is not registered u/s 8 of Companies Act, 2013 and therefore financial statements are prepared in the normal manner.

GENERAL EXPENSE ITEMS

S.No	Particulars	Journal Entry
1.	Payment during the year	
2.	At the end of the year a) Outstanding b) Prepaid	
3.	At the beginning of the year a) Outstanding b) Prepaid	
4.	Transfer to Income & Expenditure A/c	

Computation of Amount to be transferred to Income & Expenditure A/c

Particulars	Amount
Payment during the year	xxx
Add: Outstanding expense at the end of the year	xxx
Less: Outstanding expense at the beginning of the year	(xxx)
Add: Prepaid expense at the beginning of the year	xxx
Less: Prepaid expense at the end of the year	(xxx)
Amount to be transferred to Income & Expenditure A/c	**xxx**

EXAMPLE
Compute the salaries for the year 2022-2023 from the following information:

Particulars	1.4.2022	31.3.2023
Outstanding salaries	7,500	10,000
Prepaid salaries	2,000	6,500
Salaries paid during 2022-2023 ₹1,50,000		

SUBSCRIPTION (INCOME)

S.No	Particulars	Journal Entry
1.	Received during the year	
2.	At the end of the year a) Outstanding/Accrued b) Pre-received/Received in Advance	
3.	At the beginning of the year a) Outstanding/Accrued b) Pre-received/Received in Advance	
4.	Transfer to Income & Expenditure A/c	

Computation of Amount to be transferred to Income & Expenditure A/c

Particulars	Amount
Subscription received during the year	xxx
Add: Outstanding subscription at the end of the year	xxx
Less: Outstanding subscription at the beginning of the year	(xxx)
Add: Pre received subscription at the beginning of the year	xxx
Less: Pre received subscription at the end of the year	(xxx)
Amount to be transferred to Income & Expenditure A/c	**xxx**

EXAMPLE

Particulars	1.4.2022	31.3.2023
Outstanding subscription	9,500	7,000
Advance subscription	2,800	5,200

Subscription received during 2022-2023, ₹ 1,48,900. Show relevant extracts in financial statements for the year ending 31st March, 2023.

EXAMPLE

A club has 75 members, each paying annual subscription of	1,000
Subscription received during 2022-2023	80,000
Subscription received in advance as at 31.3.2022	15,000
Subscription received in advance as at 31.3.2023	10,000
Subscription outstanding as at 31.3.2022	26,000
Subscription of 12,000 are still in arrears for the year 2021-2022	

Show relevant extracts in financial statements for the year ending 31st March, 2023.

ENTRANCE FEES / ADMISSION FEES

It's an initial amount payable at the time of seeking admission by a person who intends to become member of a club, association, etc.
Since it is payable by a member only once, it is argued that it should be treated as a capital receipt & transferred to capital fund. However when the amount is small it should be treated as income (or revenue receipt) & credited to Income & Expenditure Account. In case question is silent any treatment can be adopted by giving a suitable note.

TREATMENT

EXAMPLE

How will you deal the entrance fees while preparing the final accounts for the year ending on 31st March 2023 in each of the following alternative cases

Case (a)	During the year 2022-2023, Entrance fees received ₹ 1,00,000
Case (b)	During the year 2022-2023 entrance fees received ₹ 1,00,000. The accounting policy of club is to treat entrance fees as of revenue nature.
Case (c)	During the year 2022-2023 entrance fees received ₹ 1,00,000. The accounting policy the club is to treat entrance fees as of capital nature.
Case (d)	During the year 2022-2023 entrance fees received ₹ 1,00,000. According to accounting policy of the club, 40% of the entrance fees is to be capitalized. There was no pending membership as on 31st March, 2023.

DONATIONS

Donations are the amounts which are given to the NPO as gift by the member of the society. It is shown on the receipt side of Receipts & Payments account.

Types	Accounting Treatment
General	When the donor does not lay down any specific condition for using the amount of donation, it is called as general donation. a) If Amount is Small: Treated as **Revenue receipts** (credited to Income & Expenditure Account) b) If Amount is Large: Treated as **Capital receipts** (To be capitalized & added to Capital Fund in Balance Sheet) If nothing is clear any treatment can be adopted by giving a suitable note.
Specific	a) These donations are treated as **capital receipts** and thus, are transferred to a 'Special Fund Account' (e.g., building Fund) maintained for the purposes. **b)** Any **Income** relating to such 'Special Fund Account' is **added to the respective fund.** **c)** Any **revenue expenditure** relating to 'Special Fund Account is **deducted from the respective fund.** d) However, any **expenditure of capital nature** on account of this special fund (e.g., expenditure on the construction of building out of building fund) should be **shown on the assets side** of the balance sheet and an equal amount should be transferred from that special fund to the capital/general fund.

EXAMPLE

How will you deal with the following items while preparing the final accounts of a club for the year ending on March, 31, 2023

Case a)

Prizes awarded ₹ 3,000, Prize Fund as at 31.3.2022 ₹ 15,000.

Case b)

Prizes awarded ₹ 3,000, Prize fund as at 31.3.2022, ₹ 15,000, Donations for prizes received during the year 2022-2023 ₹ 4,900.

Case c)

Prizes awarded ₹ 3,000. Prizes Fund as at 31.3.2022 ₹ 15,000, Donations for prizes received during the year 2022-2023 ₹ 4,900, 10% Prize fund investments as at 31.3.2022 ₹ 15,000.

LIFE MEMBERSHIP SUBSCRIPTION & LEGACIES

Life Membership Subscription	Fees received for life membership is usually treated as **capital receipt** as it is of non-recurring nature & **added to Capital Fund in** Balance Sheet
Legacies	It is the amount which a NPO will receive as per will of a deceased person. It is shown on debit side of Receipts & Payment account. It should be capitalized being an item of **non recurring nature** & should be shown on the liabilities side of the Balance sheet.

SALE OF OLD NEWSPAPERS, etc.

The sale proceeds of old newspapers and periodicals are **treated as Revenue Receipts** and thus, are credited to the income & expenditure account.

SALE OF OLD FIXED ASSETS

The sale proceeds of old fixed assets are treated as capital receipts and thus, are credited to the respective fixed asset account. However, the profit or loss on sale of fixed assets is shown in the income & expenditure account.

CONSUMABLES

- Sometimes NPO consume some consumable item e.g. stationery, sports material, medicines, etc.
- A separate stock account is prepared for each consumable item to ascertain the amount of consumable item consumed during the year.
- In such a case, sometimes Trade Creditors account is to be prepared to ascertain the credit purchases (if missing).
- Such amount consumed is to be debited to Income & Expenditure account.

Creditors for Consumable Item A/c

Particulars	Amount	Particulars	Amount

CONSUMPTION

EXAMPLE

How will you deal with the following items while preparing the income and expenditure account for the year ending on March 31, 2023 and a balance sheet as on that date?

Particulars	As at 1.4.2022	As at 31.3.2023
Creditors for Sports Materials	2,000	1,200
Stock of Sports Materials	2,100	500

During 2022-2023, the payment made to these creditors was ₹ 10,800.

TREATMENT OF PROFIT / LOSS FROM TRADING ACTIVITIES

1. Sometimes NPO carry on trading activities e.g. restaurant/bar run by a club, chemist shop by a hospital, book shop by a library, etc.
2. In such case, separate Trading account for each of the trading activities is prepared to ascertain the Profit/Loss from each of such trading activities.
3. Such Profit/Loss is transferred to Income & Expenditure Account.

Trading Account

Particulars	Amount	Particulars	Amount

EXAMPLE

How will you deal with the following items while preparing the income and expenditure account for the year ending on March 31, 2023 and a balance sheet as on that date?

Particulars	As at 1.4.2022	As at 31.3.2023
Creditors for Bar Purchases	5,000	8,000
Bar Stock	10,000	18,000

During 2022-2023, payment for bar purchases were 35,000 and total bar receipts / collections were 42,000

EDUCATIONAL INSTITUTIONS

Educational institutions are quite different from other not-for-profit organisations in terms of sources of finance and items of expenditure.

There are 3 main sources through which amounts are collected by the educational institutions. These are:

(1) Donation from Public;

(2) Fees in the form of annual tuition fees, term fees, admission fees, laboratory fee etc., and

(3) Grants received from the Government. The Government grants are of four kinds namely Maintenance Grant, Equipment grant, Building Grant and such other grants as may be sanctioned by the Government from time to time.

Receipts & Payments Account for the period ending on ...

Receipts		₹	Payments		₹
To Balance b/d:			By Balance b/d (Bank overdraft)		xxx
Cash	xxx		By Annual Sports Expenses		xxx
Bank	xxx	xxx	By Salaries & Wages		xxx
To Subscription:			By Rent, Rates &Taxes		xxx
For previous year	xxx		By Insurance		xxx
For current year	xxx		By Furniture		xxx
For next year	xxx	xxx	By Sports Equipments		xxx
To Entrance fees		xxx	By Books & Periodicals		xxx
To Donation for Building		xxx	By Audit Fees		xxx
To General Donations		xxx	By Printing & Stationary		xxx
To Life Membership Fees		xxx	By Honorarium		xxx
To Legacy		xxx	By Bank Charges		xxx
To Gran from Govt.		xxx	By Postage & Telegrams		xxx
To Contribution for Annual Dinner		xxx	By Water & Electricity		xxx
To Dividend		xxx	By Conveyance & Travelling		xxx
To Interest		xxx	By Repairs & Maintenance		xxx
To Rent		xxx	By Sundry Expenses		xxx
To Receipt on Annual Sports		xxx	By Annual Dinner Expenses		xxx
To Sale of Old Sports Materials		xxx	By __% Investments		xxx
To Sale of Old Magazines		xxx	By Balance c/d:		xxx
To Sundry Receipts		xxx	Cash	xxx	xxx
To Balance c/d (Bank overdraft)		xxx	Bank	xxx	xxx
		XXX			**XXX**

Income and Expenditure Account for the year ending on ....

Expenditure		₹	Income		₹
To Salaries and Wages paid	xxx		By Subscription Received	xxx	
Add: Outstanding at the end	xxx		Add: Outstanding at the end	xxx	
Less: Prepaid at the end	xxx		Less: Advance at the end	xxx	
Add: Prepaid in the beginning	xxx		Add: Advance in the beginning	xxx	
Less: Outstanding in the beg	xxx	xxx	Less: Outstanding in beginning	xxx	xxx
To Rent, Rates and Taxes		xxx	By Entrance Fees (revenue portion)		
To Insurance Premium		xxx	By General Donations/Legacies		xxx
To Depreciation on Furniture and		xxx	By Life membership Fees (revenue		xxx
Sports equipment		xxx	portion)		xxx

To Books and Periodicals	xxx	By Annual Dinner Cont. xxx	
To Audit fees	xxx	Less Expenses <u>xxx</u>	
To Printing & Stationary	xxx	By Profit on Annual sports	xxx
To Honorarium	xxx	(Receipt-expenses)	
To Bank Charges	xxx	By Profit on sale of provisions (Sale	xxx
To Postage & Telegram	xxx	+ closing stock – Purchases-Opening	
To Electricity & Water	xxx	stock)	xxx
To Conveyance & Travelling	xxx	By Dividend & Interest	xxx
To Surplus i.e.,excess of income over exp.	xxx	By Deficit i.e. excess of exp. over income	xxx
	XXX		**XXX**

Balance Sheet of .. as at…

Liabilities	₹	₹	Assets	₹
Capital Fund:			**Fixed Assets:**	
Opening Balance	xxx		<u>Building</u>	
Add: Surplus (or Less: Deficit)	xxx		Opening Balance xxx	
Add: Entrance Fees	xxx		Add: Additions xxx	
(to the extent capitalized)			Less: Depreciation <u>xxx</u>	xxx
Add: Life Membership subsc.	xxx		<u>Furniture</u>	
(to the extent capitalized)			Opening Balance xxx	
Add: Amt. of Capital exp. tfd from			Add: Additions xxx	
special fund (e.g. Building			Less: Assets sold xxx	
fund)	<u>xxx</u>	xxx	Less Depreciation <u>xxx</u>	xxx
Prize Fund:			<u>Sports Equipment</u> xxx	
Opening Balance	xxx		Less Depreciation <u>xxx</u>	xxx
Add: Donation for prizes	xxx			
Add: Income from Prize Fund			**Investments:**	xxx
Investments	xxx		Prize Fund Investments	xxx
Less: Expenses	<u>xxx</u>	xxx	Building Fund Investments	xxx
Building Fund:			10% Govt. Securities	xxx
Add: Donation for Building	xxx		Fixed Deposits	
Add: Income from Building				
Fund Investments	xxx		**Current Assets:**	xxx
Less: Transfer to Capital Fund	xxx		Sports Materials	xxx
Current Liabilities:			Outstanding Subscriptions	xxx
Subscription received in advance		xxx	Accrued Interest	xxx
Outstanding expenses		xxx	Accrued Rent	xxx
Bank overdraft		xxx	Cash in hand	xxx
Creditors		xxx	Cash at bank	
	XXX		**XXX**	

ASSIGNMENT QUESTIONS

Question 1

Pg no.______

A)

Elite Club (not registered under the Companies Act, 2013) has 200 members with an annual subscription of ₹ 3,600 payable by every member. An analysis of subscriptions received by the club during the accounting year ended on 31st March, 2023 revealed the following

For the year 2021-22	25,200
For the year 2022-23	6,98,400
For the year 2023-24	7,200
	7,30,800

On 31st March, 2023 it was noted that a sum of ₹ 3,600 was still in arrears for the year ended 31st March, 2022. Calculate the amount of subscriptions that will appear on the credit side of the Club's Income and Expenditure Account for the year ended 31st March, 2023. Also show how items relating to subscriptions will appear in the Balance Sheet dated 31st March, 2023

B)

From the following information of M/s. Officers Sports Club (A non-profit organization) calculate (i) the total cost of sports material consumed and (ii) Sale value of sports material during the year 2022-23

	₹
Opening balance of sports material as on 1-4-2022	56,800
Closing balance of sports material as on 31-3-2023	32,900
Sports material purchased in cash	23,500
Payment made to creditors of sports material	64,300
Creditors for sports materials Opening Closing	 23,200 29,400

Out of the total sports material used during the year 40% was consumed by the club and the remaining was sold at a profit of 20% of cost.

Question 2 *(RTP Nov 2018) / (RTP Nov 2020) / (RTP Sep 2024)*

Pg no.______

The following information of M/s. TT Club are related for the year ended 31st March, 2023:

Balances	As on 01-04-2022	As on 31-3-2023
Stock of Sports Material	75,000	1,12,500
Amount due for Sports Material	67,500	97,500
Subscription due	11,250	16,500
Subscription received in advance	9,000	5,250

Subscription received during year ₹ 3,75,000. Payments for Sports Material during year ₹ 2,25,000

You are required to:

(A) Ascertain the amount of Subscription and Sports Material that will appear in Income & Expenditure Account for the year ended 31.03.2023 and

(B) Also show how these items would appear in the Balance Sheet as on 31.03.2023.

Question 3

Pg no.______

Noida School maintains separate building fund. As on 31.3.2022, balance of building fund was ₹ 10,00,000 and it was represented by fixed deposit (15% per annum) of ₹ 6,00,000 and current account balance of ₹ 4,00,000. During the year 2022-23, the school collected as donations towards the building fund ₹ 5,60,000 and transferred 40% of developmental fees collected ₹ 22,56,500 to building fund. Capital work progress as on 31st March, 2022 was ₹ 8,25,000 for which contractors' bill upto 75% was paid on 14.4.2022. The extension of building was finished on 31.12.2022 costing ₹ 7,25,000 for which contractors' bill was fully met. It was decided to transfer the cost of completed building (₹ 15,50,000) to the corresponding asset account.

You are required to pass journal entries to incorporate the above transactions in the books of Noida School for the year 2022-23 and show the trial balance of building fund ledger.

Question 4 Pg no.______

The relevant accounts of a Club for the year ended 31st December, 2023 were as follows:

Receipts and Payments Account

To Balance c/d		2,500	By Books purchased	1,000
To Subscriptions:			By Printing and Stationery	200
2022	600		By Salary	1,500
2023	4,300	4,900	By Advertisement	200
To Interest		500	By Electric Charge	400
To Donation for special fund		300	By Balance c/d	7,350
To Rent:				
2022	150			
2023	300	450		
To Govt. Grants		2,000		
		10,650		**10,650**

Income and Expenditure Account

Expenditure	₹	Income	₹
To Salary	2,800	By Interest	400
To Tent Hire	200	By Subscription	4,800
To Electric charges	400	By Rent	2,300
To Depreciation on Building	750	By Govt. Grant	2,000
To Printing and Stationery	200		
To Advertisement	150		
To Surplus	5,000		
	9,500		**9,500**

The club's **assets** as on 1st January 2023 were:
Building ₹ 15,000; Books ₹ 10,000 Furniture ₹ 4,000; Investments ₹ 10,000
Liabilities as on that date were: ₹ 50 for advertisement and ₹ 100 for salary.
You are required to prepare balance sheet of the club on 31st December, 2022 & 31st December, 2023.

Question 5 *(RTP June 2024)* Pg no.______

Hilfiger Sports club gives the following receipts & payments account for the year ended March 31, 2023:

Receipts and Payments Account

Receipts	₹	Payments	₹
To Opening cash & bank balances	1,04,000	By Salaries	3,00,000
To Subscription	6,96,000	By Rent and taxes	1,08,000
To Donations	2,00,000	By Electricity charges	12,000
To Interest on investments	24,000	By Sports goods	40,000
To Sundry receipts	6,000	By Library books	2,00,000

		By Newspapers and periodicals	21,600
		By Miscellaneous expenses	1,08,000
		By Closing cash & bank balances	2,40,400
	10,30,000		**10,30,000**

Liabilities	As on 31.03.2022	As on 31.03.2023
Outstanding expenses:		
Salaries	20,000	40,000
Newspapers and periodicals	8,000	10,000
Rent and taxes	12,000	12,000
Electricity charges	16,000	20,000
Library books	2,00,000	-
Sports goods	1,60,000	-
Furniture and fixtures	2,00,000	-
Subscription receivable	1,00,000	2,40,000
Investment-government securities	10,00,000	-
Accrued interest	12,000	12,000

Provide depreciation: Furniture & fixtures@ 10% p.a; Sports goods@ 20% p.a; Library books@ 10%p.a. Provide full depreciation on additions. Donations are to be capitalised. You are required to prepare Club's opening balance sheet as on 1.4.2022, income and expenditure account for the year ended on 31.3.2023 and balance sheet as on that date.

Question 6

Pg no.______

Following is Receipts & Payments Account of Mayur Club for year ended 31st Mar, 2023

Receipts	₹	Payments	₹
Opening Balance		Sports materials	3,04,500
Cash in Hand	39,100	Salaries	3,15,000
Cash at Bank	50,000	Equipment purchased on 1.10.22	60,000
Subscriptions		Bank fixed deposits on 31.3.23	1,50,000
For the year 2021-22	18,000	Rent	1,48,500
For the year 2022-23	9,63,000	Ground maintenance	22,120
For the year 2023-24	4,500	Insurance	38,400
Interest on Bank F.D. @10%	45,000	Stationery	3,450
		Sundry expenses	5,880
		Closing balance as on 31.3.2023	
		Cash in Hand	31,750
		Cash at Bank	40,000
	11,19,600		**11,19,600**

Following additional information is provided to you:

a. The club has 220 members. The annual subscription is ₹4,500 per member
b. Depreciation to be provided on furniture at 10% p.a. and on sports equipment at 15% p.a.
c. On 31st March, 2023, stock of sports material in hand (after members use during the year) is valued at ₹78,000 and stock of stationery at ₹3,150. Rent for 1 month is outstanding. Unexpired insurance amounts to ₹9,600.
d. On 31st March, 2022 the club had the following assets:

Furniture	2,70,000
Sports equipment	1,80,000
Bank fixed deposit	4,50,000
Stock of stationery	1,500
Stock of sports material	73,500
Unexpired insurance	8,400
Subscription in arrear	22,500

Note: There was no liability on 31.3.2022

You are required to prepare:

(i) Income and Expenditure Account; and

(ii) Balance Sheet as at 31st March, 2023.

Question 7 (RTP Nov 2019) (Similar) / (RTP Nov 2023)

Pg no.______

From the following data, prepare an Income and Expenditure Account for the year ended 31st December, 2023, and a statement of affairs as at that date of the Amar Leela Hospital:

Receipts and Payments Account for the year ended 31 December, 2023

To Balances		By Salaries: (₹ 21,600 for 2022)	93,600
Cash	2,400	By Hospital Equipment	51,000
Bank	15,600	By Furniture purchased	18,000
To Subscriptions :		By Additions to Building	1,50,000
For 2022	15,300	By Printing & Stationery	7,200
For 2023	73,500	By Diet expenses	46,800
For 2024	7,200	By Rent & rates (₹ 900 for 2024)	6,000
To Government Grant :		By Electricity and water charges	7,200
For building	2,40,000	By Office expenses	6,000
For maintenance	60,000	By Investments	60,000
Fees from sundry patients	14,400	By Balances :	
To Donations (not to be capitalized)	24,000	Cash	4,200
To Net collections from benefit shows	18,000	Bank	20,400
	4,70,400		**4,70,400**

Additional Information:-

Value of building under construction as on 31.12.2023	4,20,000
Value of hospital equipment on 31.12.2023	1,53,000
Building Fund as on 1.1.2023	2,40,000
Subscriptions in arrears as on 31.12.2022	19,500
Investments in 8% Govt. securities were made on 1st July, 2023	

Question 8 - (ICAI Study Material)

Pg no.______

Summary of receipts & payments of Bombay Medical Aid society for year ended 2023 are: Opening cash balance in hand ₹ 8,000, subscription ₹ 50,000, donation ₹ 15,000 (raised for meeting revenue expenditure), interest on investments @ 9% p.a. ₹ 9000, payments for medicine supply ₹ 30,000 Honorarium to doctor ₹10,000, salaries ₹ 28,000, sundry expenses ₹ 1,000, equipment purchase ₹ 15,000, charity show expenses ₹ 1,500, charity show collections ₹ 12,500.

Additional information:

	31.12.2022	31.12.2023
Subscription due	1,500	2,200
Subscription received in advance	1,200	700
Stock of medicine	10,000	15,000
Amount due for medicine supply	9,000	13,000
Value of equipment	21,000	30,000
Value of building	50,000	48,000

You are required to prepare receipts and payments account and income and expenditure account for the year ended 31.12.2023 and balance sheet as on 31.12.2023.

Question 9

Pg no._____

From the following Income and Expenditure Account and the Balance Sheet of a club, prepare its Receipts and Payments Account for the year ended 31st March, 2023:

Income & Expenditure Account for the year 2022-23

To Upkeep of Ground	21,000	By Subscriptions	56,640
To Printing	2,800	By Sale of Newspapers (Old)	530
To Salaries	28,000	By Lectures	8,000
To Depreciation on Ground & Building	9,000	By Entrance Fee	2,900
To Depreciation on Furniture	1,000	By Misc. Income	1,200
To Repairs	3,500		
To Surplus	3,970		
	69,270		**69,270**

Balance Sheet as at 31st March, 2023

Liabilities		₹	Assets	₹
Subscription in Advance (23-24)		700	Furniture	9,000
Outstanding Salary		4,200	Ground and Building	1,43,200
Sports Prize Fund :			Prize Fund Investment	43,000
Opening Balance	51,000		Cash & Bank	19,400
Add : Interest	4,500		Subscription (2022-23)	2,600
	55,500			
Less : Prizes	(6,500)	49,000		
Capital Fund :				
Opening Balance	1,56,430			
Add: Surplus	3,970			
Add : Entrance Fee	2,900	1,63,300		
		2,17,200		**2,17,200**

The following adjustments have been made in the above accounts:

(1) Upkeep of ground ₹ 1,500 & Printing & Stationery ₹ 510 relating to 2021-22 was paid in 2022-23.

(2) One-half of entrance fees have been capitalized.

(3) Subscription outstanding in 2021-22 was ₹ 3,100 and for 2022-23 ₹ 2,600.

(4) Subscription received in advance in 2021-22 was ₹ 1,100 and in 2022-23 for 2023-24 ₹ 700.

(5) Outstanding Salary on 31.03.2022 was ₹ 3,600.

Question 10

Pg no._____

Following is Income and Expenditure Account of Gama Club for year ended 31st March, 2023:

Income and Expenditure Account for the year ended 31st March, 2023

	₹		₹
To Salaries	19,500	By Subscription	68,000
To Rent	4,500	By Donation	5,000
To Printing	750		
To Insurance	500		
To Audit Fees	750		
To Games & Sports	3,500		
To Subscriptions written off	350		
To Miscellaneous Expenses	14,500		
To Loss on sale of furniture	2,500		
To Depreciation: Sports Equipment Furniture	 6,000 3,100		
To Excess of income over expenditure	17,050		
	73,000		**73,000**

Additional information:

	31-03-2022	31-03-2023
Subscriptions in arrears	2,600	3,700
Advance Subscriptions	1,000	1,500
Outstanding expenses Rent Salaries Audit Fee	 500 1,200 500	 800 350 750
Sports Equipment less depreciation	25,000	24,000
Furniture less depreciation	30,000	27,900
Prepaid Insurance	-	150

Book value of furniture sold is ₹ 7,000. Entrance fees capitalized ₹ 4,000. On 1st April, 2022 there was no cash in hand but Bank Overdraft was for ₹ 15,000.
On 31st March, 2023 Cash in hand amounted to ₹ 850 and the rest was Bank balance.
Prepare the Receipts and Payments Account of the Club for the year ended 31st March, 2023.

Question 11

Pg no._____

Income and Expenditure Account of City Sports Club for year ended 31st March, 2023 was as follows:

Expenditure	₹	Income	₹
To Salaries	1,20,000	By Subscriptions	1,60,000
To Printing and Stationery	6,000	By Entrance Fees	10,000
To Depreciation on Sports equipment	6,000	By Contribution for Annual dinner	20,000
To Repairs	10,000	By Profit on Annual Sports meet	20,000
To Sundry Expenses	8,000		
To Annual Dinner Expenses	30,000		
To Interest to Bank	6,000		
To Rent	12,000		
To Excess of Income over Expenditure	12,000		
	2,10,000		**2,10,000**

The above account had been prepared after the following adjustments:

Subscriptions outstanding on 31.03.2022	12,000
Subscriptions received in advance on 31.03.2022	9,000
Subscriptions received in advance on 31.03.2023	5,400
Subscriptions outstanding on 31.03.2023	15,000

Salaries outstanding at the beginning and at the end of the financial year were ₹ 8,000 and ₹ 10,000 respectively. Sundry expenses included prepaid insurance expenses of ₹ 1,200.

The Club owned a freehold ground valued ₹ 2,00,000. The Club has sports equipment on 01.04.2022 valued at ₹ 52,000. At the end of the year, after depreciation, the sports equipment amounted to ₹ 54,000. The Club raised a loan of ₹ 40,000 from a bank on 01.01.2022, which was unpaid till 31.03.2023. On 31.03.2023, cash in hand was ₹ 32,000.

Prepare Receipts and Payments account of the Club for the year ended 31st March, 2023 and Balance Sheet as on that date.

Question 12 *(RTP May 2019) / (RTP Nov 2021) (Similar)* Pg no.______

The Receipts & Payments account of Trustwell Club prepared on 31st March, 23 is as follows.

Receipts and Payments Account

Receipts		₹	Payments	₹
To Balance b/d		450	By Expenses (including payment for sports material ₹ 2,700)	6,300
To Annual income from subscription Add: Outstanding of last year received this year Less: Prepaid of last year	4,590 180 4,770 (90)	4,680	By Loss on sale of furniture (cost price ₹ 450)	180
To Other fees		1,800	By Balance c/d	90,450
To Donation for building		90,000		
		96,930		**96,930**

Additional information:

Trustwell club had balances as on 1.4.2022:

Furniture ₹ 1,800; investment at 5% ₹ 27,000; Sports material ₹ 6,660;

Balance as on 31.3.2023;

Subscription receivable ₹ 270; Subscription received in advance ₹ 90;

Stock of sports material ₹ 1,800.

Do you agree with above receipts and payments account? If not, prepare correct receipts and payments account and income and expenditure account for the year ended 31st March, 2023 and balance sheet as on that date.

Question 13 *(CA Foundation Jan 2021)(10 Marks)/(RTP May 2020)/(May 2023) (Sim.)* Pg no.______

Dr. Deku started private practice on 1st April, 2022 with ₹ 2,00,000 of his own fund and ₹ 3,00,000 borrowed at an interest of 12% per annum on the security of his life policies. His accounts for the year were kept on a cash basis & following is his summarized cash account:

	₹		₹
Own capital	2,00,000	Medicines purchased	2,45,000
Loan	3,00,000	Surgical equipments	2,50,000
Prescription fees	6,60,000	Motor car	3,20,000
Visiting fees	2,50,000	Motor car expenses	1,20,000

Fees from lectures	24,000	Wages and salaries	1,05,000
Pension received	3,00,000	Rent of clinic	60,000
		General charges	49,000
		Household expenses	1,80,000
		Household Furniture	25,000
		Expenses on daughter's marriage	2,15,000
		Interest on loan	36,000
		Balance at bank	1,10,000
		Cash in hand	19,000
	17,34,000		**17,34,000**

One-third of the motorcar expense may be treated as applicable to the private use of car and ₹ 30,000 of the salaries are in respect of domestic servants. The stock of medicines in hand on 31st March, 2023 was valued at ₹ 95,000. You are required to prepare his private practice income and expenditure account and capital account for the year ended 31st March, 2023. Ignore depreciation on fixed assets.

Question 14

Pg no.______

Beer Bar club was registered in a city and the accountant prepared the following Receipts and Payments Account for the year ended 31st March, 2023 and showed a deficit of ₹ 14,520.

Receipts	₹	Payments	₹
Subscriptions	62,130	Premises	30,000
Fair receipts	7,200	Honorarium to Secretary	12,000
Variety show receipt (net)	12,810	Rent	2,400
Interest	690	Rates & taxes	3,780
Bar collection	22,350	Printing & stationary	1,410
Excess cash spent	1,000	Sundry expenses	5,350
Deficit	14,520	Wages	2,520
		Fair expenses	7,170
		Bar purchases payments	17,310
		Repair	960
		New car (less proceeds of old car ₹ 9,000)	37,800
	1,20,700		**1,20,700**

The following additional information are:

	01.04.2022	31.03.2023
Cash in hand	450	-
Bank balances as per pass book	24,690	10,440
Cheque issued but not presented - for sundry expenses	270	90
Subscriptions due	3,600	2,940
Premises at cost	87,000	1,17,000
Accumulated depreciation on premises	56,400	-
Car at cost	36,570	46,800
Accumulated depreciation on car	30,870	-
Bar stock	2,130	2,610
Creditors for the bar purchases	1,770	1,290

Cash excess spent represent honorarium to secretary not withdrawn due to cash deficit. His annual honorarium is ₹ 12,000. Depreciation on premises & car is to be provided at 5% & 20% on WDV method.
Prepare correct Receipts & Payments Account and Income & Expenditure Account.

Question 15 *(ICAI Study Material)* Pg no.______

The following was the Receipts and Payments Account of Exe Club for the year ended March 31, 2023 *(All the figures in thousands)*

Receipts	₹	Payments	₹
Cash in hand	100	Groundsman's Fee	750
Balance at Bank as per Pass Book:		Moving Machine	1,500
Deposit Account	2,230	Rent of Ground	250
Current Account	600	Cost of Teas	250
Bank Interest	30	Fares	400
Donations and Subscriptions	2,600	Printing & Office Expenses	280
Receipts from teas	300	Repairs to Equipment	500
Contribution to fares	100	Honoraria to Secretary/Treasurer of 2021-22	400
Sale of Equipment	80	Balance at Bank as per Pass Book	
Net proceeds of Variety Entertainment	780	Deposit Account	3,090
Donation for forth coming Tournament	1,000	Current Account	150
		Cash in hand	250
	7,820		**7,820**

You are given the following additional information:

	April 1, 2022	March 31, 2023
Subscription due	150	100
Amount due for printing etc.	100	80
Cheques unpresented being payment for repairs	300	260
Estimated value of machinery and equipment	800	1,750
Interest not yet entered in the Pass book		20
Bonus to Groundsman outstanding		300

For the year ended March 31, 2023, the honoraria to the Secretary and Treasurer are to be increased by a total of ₹ 200. Prepare the Income and Expenditure Account and Balance Sheet for period ending 31st March, 2023.

Question 16 *(ICAI Study Material)* Pg no.______

From the following balances and particulars of Republic College prepare Income & Expenditure Account for the year ended March, 2023 and a Balance Sheet as on the date:

	Dr.	Cr.
Seminars & Conference Receipts		4,80,000
Consultancy Receipts		1,28,000
Security Deposit-Students		1,50,000
Capital fund		16,06,000
Research Fund		8,00,000
Building Fund		25,00,000
Provident Fund		5,10,000

Tuition Fee received		8,00,000
Government Grants		5,00,000
Donations		50,000
Interest & Dividends on Investments		1,85,000
Hostel Room Rent		1,75,000
Mess Receipts (Net)		2,00,000
College Stores-Sales		7,50,000
Outstanding expenses		2,25,000
Stock of-stores and Supplies	3,00,000	
Purchases-Stores & Supplies	8,00,000	
Salaries (Teaching staff)	9,70,000	
Scholarships	80,000	
Students Welfare expenses	38,000	
Repairs & Maintenance	1,12,000	
Games & Sports Expenses	50,000	
Misc. Expenses	65,000	
Research Fund Investments	8,00,000	
Other Investments	18,50,000	
Provident Fund Investment	5,10,000	
Seminar & Conference Expenses	4,50,000	
Consultancy Expenses	28,000	
Land	1,00,000	
Building	16,00,000	
Plant and Machinery	8,50,000	
Furniture and Fittings	6,00,000	
Motor Vehicle	1,80,000	
Provision for Depreciation		
Building		4,80,000
Plant & Equipment		5,10,000
Furniture & Fittings		3,36,000
Cash at Bank	6,42,000	
Library	3,60,000	
	1,03,85,000	**1,03,85,000**

Adjustments:

(i)	Materials & Supplies consumed (From College Stores) Teaching Students Welfare Games or Sports	 2,00,000 75,000 25,000
(ii)	Tuition fee receivable from Government for backward class Scholars	80,000
(iii)	Stores selling prices are fixed to give a net profit of 10% on selling price	
(iv)	Depreciation is provided on straight line basis at the following rates: a. Building b. Plant & Equipment c. Furniture & Fixtures d. Motor Vehicle	 5% 10% 10% 20%
(v)	Government grant is treated as revenue receipt	

Question 17 ***(ICAI Study Material)*** **Pg no.______**

The following is the Receipts and Payments Account of Lion Club for the year ended 31st March, 2023.

Receipts and Payments Account

Receipts	₹	Payments	₹
Opening balance		Salaries	1,20,000
Cash	10,000	Creditors	15,20,000
Bank	3,850	Printing and stationary	70,000
Subscription received	2,02,750	Postage	40,000
Entrance donation	1,00,000	Telephones and telex	52,000
Interest received	58,000	Repairs and maintenance	48,000
Sale of assets	8,000	Glass and table linen	12,000
Miscellaneous income	9,000	Crockery and cutlery	14,000
Receipts at		Garden upkeep	8,000
Coffee room	10,70,000	Membership fees	4,000
Wines and spirits	5,10,000	Insurance	5,000
Swimming pool	80,000	Electricity	28,000
Tennis court	1,02,000	Closing balance	
		Cash	8,000
		Bank	2,24,600
	21,53,600		**21,53,600**

The assets and liabilities as on 1.4.2022 were as follows:

Fixed assets (net)	5,00,000
Stock	3,80,000
Investment in 12% Government securities	5,00,000
Outstanding subscription	12,000
Prepaid insurance	1,000
Sundry creditors	1,12,000
Subscription received in advance	15,000
Entrance donation received pending membership	1,00,000
Gratuity fund	1,50,000

The following adjustments are to be made while drawing up the accounts:

a) Subscription received in advance as on 31st March, 2023 was ₹ 18,000.
b) Outstanding subscription as on 31st March, 2023 was ₹ 7,000.
c) Outstanding expenses are salaries ₹ 8,000 and electricity ₹ 15,000.
d) 50% of the entrance donation was to be capitalized. There was no pending membership as on 31st March, 2023.
e) The cost of assets sold net as on 1.4.2022 was ₹ 10,000.
f) Depreciation is to be provided at the rate of 10% on assets.
g) A sum of ₹ 20,000 received in October 2022 as entrance donation from an applicant was to be refunded as he has not fulfilled the requisite membership qualifications. The refund was made on 3.6.2023.
h) Purchases made during the year amounted ₹ 15,00,000.
i) The value of closing stock was ₹ 2,10,000.
j) The club as a matter of policy, charges off to income and expenditure account all purchases made on account of crockery, cutlery, glass and linen in the year of purchase

You are required to prepare an Income and Expenditure Account for the year ended 31st March, 2023 and the Balance Sheet as on 31st March, 2023 along with necessary workings.

PRACTICE QUESTIONS

MULTIPLE CHOICE QUESTIONS

1. Scholarship granted to students out of specific funds provided by Government will be debited to
   a) Income and Expenditure Account.
   b) Receipts and payments Account.
   c) Funds granted for Scholarship Account.

2. In case of NPO, excess of total assets over liabilities is known as
   a) Profits.
   b) Surplus.
   c) Capital Fund.

3. General donations and legacies are credited to
   a) Receipts and Payments Account.
   b) Income and Expenditure Account.
   c) Capital Fund.

4. Interest on prize funds is
   a) Credited to Income and Expenditure Account.
   b) Credited to Receipts and Payments Account.
   c) Added to prize fund.

5. Special aids are
   a) Treated as capital receipts.
   b) Treated as revenue receipts.
   c) Both (a) and (b).

6. If there exist a specific sports fund, the expenses incurred in relation to sports activities will be taken to
   a) Income and Expenditure Account
   b) Receipt and Payment Account
   c) Sports fund

ANSWERS MCQs **1. (c) 2. (c) 3. (b) 4. (c) 5. (c) 6. (c)**

TRUE / FALSE

State with reasons, whether the following statements are true or false:

1) The Receipts and payment account for a non-profit organization follows the accrual concept of accounting. *(Sep 2024)*
2) Both the revenue and capital nature transactions are recorded in the Income and expenditure account.
3) Sale of grass by a sports club is to be treated as sale of an asset.
4) Subscriptions outstanding for the current year are disclosed under the Fixed assets side of the Balance sheet.

5) Receipts & payments account gives the details about the expenses outstanding for year.
6) Adjustments in the form of additional information shall be adjusted in the final accounts of an Nonprofit organisation only in one place.
7) Tournament expenses incurred are more than the Tournament fund, then the excess to be shown as an asset in the closing Balance sheet.
8) For Non-profit organisation, Excess of income over expenditure in the Income and Expenditure account is termed as profit.
9) Surplus of non-profit organizations is distributed among its members.
10) Tournament fund, building fund, library fund is based on the fund based accounting.
11) Subscription fees refers to the one-time fees paid by the memberships to get admission to the benefits of the club.
12) Token payment made to a person, who voluntarily undertakes a service which would normally be paid in case of profitable organization is termed as Honorarium.
13) An Insurance company is an example of non-profit organization.
14) Part amount of entrance fees which is to be capitalized shall be disclosed in the income and expenditure account.
15) Both the income and expenditure of the current and the previous year are recorded in the Income and Expenditure account.
16) Amount received as donation by Non-profit organisation under the will of a deceased person is termed as legacy.
17) Where a Non-profit organisation has a separate trading activity, the profit/loss from the trading account shall be transferred to Income and Expenditure Account at the time of consolidation.
18) Not for profit concerns concentrate their efforts to maximize the profit earning avenues.
19) All the receipts are of revenue nature in case of Non-profit organisation.
20) There is opening balance of Income and expenditure account.
21) Receipts & Payments Account is a summary of all capital receipts & payments
22) If there appears a sports fund, the expenses incurred on sports activities will be taken to income & expenditure account
23) Receipts & Payments Account highlights total income and expenditure
24) Only revenue items are disclosed in Income & Expenditure Account
25) Net income in case of persons practicing vocation is determined by preparing profit and loss account.
26) In case a Sports Fund is kept, expenses on account of sports events should be charged to Sports Fund.
27) Laboratory & library Deposits taken from the students in case of an Educational Institution are shown on the liabilities side of the Balance Sheet.
28) Fees received for Life Membership is a revenue receipt as it is of recurring nature. ***(Nov 2018)***
29) Subscriptions received for the current year shall be shown in the balance sheet as a current asset.
30) In Not for Profit (NPO) organizations, the excess of total assets over total outside liabilities is known as Capital Fund.
31) Both revenue and capital nature transactions are recorded in the Receipts and Payments Account. ***(Dec 2022)***

Solution

1) **False**: It depicts the cash system of accounting rather than the accrual system, as the cash receipts and payments pertaining to any year are entered in the Receipts and

payments account. The principle of accrual is not followed with regard to the receipts and payments account of a non-profit organization.

2) **False**: The income and expenditure account records only the revenue income and expenditure. The capital transactions are being recorded in the Balance sheet.
3) **False**: The grass for a sports club is not a capital item, hence the sale of such grass shall be treated as a revenue receipt.
4) **False**: They are disclosed under the current assets of the Balance sheet as they will be received within the next year and not to be treated as non-current assets.
5) **False**: Receipts and payments account gives information about the expenses paid in cash for the current year, previous or the next year. It is only from the additional information we identify the outstanding expenses.
6) **False**: Additional information means that information which has been identified just before the preparation of the final accounts. As NPO follows the double entry system of book keeping, there shall be 2 effects for each of the additional information.
7) **False**: The excess of expenditure over the tournament fund shall be debited to the income and expenditure account and not taken to the closing balance sheet.
8) **False**: The excess of the income over the expenditure is called as Surplus and not profit for an Nonprofit organisation.
9) **False**: The Non-profit organisation credits the surplus earned in a year to the general/capital fund maintained by it.
10) **True**: It is Fund based accounting that records the fund balances in the balance sheet.
11) **False**: Subscription is regular fees paid by the members to keep the membership alive.
12) **True**: Honorarium refers to the nominal amount paid for the services with a non-commercial intent.
13) **False**: Insurance Company has a profit motive, hence it is not a non-profit organization.
14) **False**: It shall be shown in the Balance sheet- where it is to be capitalized.
15) **False**: It is only the current year income and expenditure which is recorded in the Income and Expenditure account as per the accrual concept.
16) **True**: While on the death bed, if there is any will written that the assets of a person shall be donated to any NPO- then such a donation to the NPO, is termed as LEGACY.
17) **True**: Where in case of the trading activities, the profit /loss from such activity to be transferred to the Income and expenditure account at the time of consolidation.
18) **False**: The Non-profit organisation has its very existence to the main base line of serving the members and the society. Profit earning shall never be its motive.
19) **False**: Receipts can be both of revenue as well as capital nature. Receipts of both the nature are recorded in the receipts and payments account.
20) **False**: It represents a nominal account and is prepared in accordance with the accrual concept, hence there can be no opening balances.
21) **False**- Receipts & Payments Account is a summary of all the cash or bank receipts & payments of both whether of capital or revenue nature.
22) **False-** Such expenses should be deducted from the sports fund and will not be taken to income & expenditure account
23) **False**- Receipts and payments account is a classified summary of cash receipts and payments over a certain period together with cash and bank balances at the beginning and close of the period.
24) **True-** Only revenue items are disclosed in Income & Expenditure Account
25) **False**: Net income is determined by preparing income and expenditure in case of persons practicing vocation.

26) **True**: Institutions sometimes keep special funds for some special purposes. In such a case the income related to such funds should be added to these funds and expenses should be deducted from such funds.
27) **True**: Because the laboratory and library deposits are of the nature of security deposits to be refunded to the students on their leaving the College or University.
28) **False:** Fees received for life membership is a capital receipt as it is of non-recurring nature. It is directly added to capital fund or general fund.
29) **False**: Current year subscription shall be shown in the credit side of the income & expenditure account and not in the balance sheet as it is not a capital item.
30) **True**: The capital fund represents the amount contributed by members through legacies, special donations entrance fee and accumulated surplus over the years
31) **True**: All the receipts and payments whether of revenue or capital nature are included in Receipt and Payment account.

DISTINCTION BETWEEN RECEIPTS & PAYMENT ACCOUNT AND INCOME & EXPENDITURE ACCOUNT

Not for profit organizations such as public hospitals, public educational institutions, clubs, Temples, churches etc., conventionally prepare Receipt and Payment Account and Income and Expenditure Account to show periodic performance for a particular accounting period.

The distinguishing features of both the accounts can be summarized as:

Receipt and Payment Account

- It is an elementary form of account consisting of a classified summary of cash receipts and payments over a certain period together with cash balances at the beginning and close of the period.
- The receipts are entered on the left hand side and payments on the right hand side i.e. same sides as those on which they appear in cash book.
- All the receipts and payments whether of revenue or capital nature are included in this account.
- The balance of the account at the end of a period represents the difference between the amount of cash received and paid up.
- It is always in debit since it is made up of cash in hand and at bank.

Income and Expenditure Account

- It resembles a Profit and Loss Account and serves the same function in respect of a non-profit making concern as the last mentioned account does for a firm, carrying on business or trade.
- Income and Expenditure Account is drawn up in the same form as the Profit and Loss Account.
- Expenditure of revenue nature is shown on the debit side, income and gains of revenue nature are shown on the credit side.
- Income and Expenditure Account contains all the items of income and expenditure relevant to the period of account, whether received or paid out as well as that which have fallen due for recovery or payment. Capital Receipts, prepayments of income and capital expenditures, prepaid expenses are excluded.
- It does not start with any opening balance. The closing balance represents the amount by which the income exceeds the expenditure only or vice versa.

HOMEWORK QUESTIONS

Question 1 (ICAI Study Material) Pg no.______

During 2023, subscription received in cash is ₹ 42,000. It includes ₹ 1,600 for 2022 and ₹ 600 for 2024. Also ₹ 3,000 has still to be received for 2023. Calculate the amount to be credited to Income and Expenditure Account in respect of subscription.

Question 2 (ICAI Study Material) Pg no.______

During the year ended 31st March, 2023, the subscriptions received by the Jaipur Literary Society were ₹ 4,50,000. These subscriptions include ₹ 20,000 received for the year ended 31st March, 2022. On 31st March, 2023, subscriptions due but not received were ₹ 15,000. Advance subscription received for the year ending 31st March 2023 but pertaining to year 2024 amounted to ₹ 26,000. The Subscriptions received in advance for the year ending 31st March, 2022 includes ₹ 18,000 pertaining to year 2022-23.
Show the subscription account in book of the society?

Question 3 (ICAI Study Material) Pg no.______

From the following information, calculate amount of subscriptions outstanding for the year ended 31st March, 2023
A club has 350 members each paying an annual subscription of ₹ 1,050. The Receipts and Payments Account for the year showed a sum of ₹ 4,10,000 received as subscriptions.
The following additional information is provided:
Subscriptions Outstanding on 31st March, 2022 – ₹ 45,000
Subscriptions Received in Advance on 31st March, 2023 – ₹ 62,000
Subscriptions Received in Advance on 31st March, 2022 – ₹ 30,000

Question 4 Pg no.______

Omshanti Club has 500 members with annual fee of ₹ 1,000 per member. At the end of the accounting year, accountant noticed that 40 members have not paid annual fee and 70 members had paid fee in advance. Help the accountant to compute cash receipts of annual fee for the year.

Question 5 (ICAI Study Material) Pg no.______

During the year ended 31st March, 2023, Sachin Cricket Club received subscriptions as follows

For year ending 31st March, 2022	12,000
For year ending 31st March, 2023	6,15,000
For year ending 31st March, 2024	18,000
Total	**6,45,000**

There are 500 members and annual subscription is ₹ 1,500 per member. On 31st March, 2023, a sum of ₹ 15,000 was still in arrears for subscriptions for the year ended 31st March, 2022.
Ascertain the amount of subscriptions that will appear on the credit side of Income and Expenditure Account for the year ended 31st March, 2023. Also show how the items would appear in the Balance Sheet as on 31st March, 2022 and the Balance Sheet as on 31st March, 2023

Question 6 Pg no.______

From the following extract of Receipts and Payments Account and the additional information, you are required to calculate the Income from Subscription for the year ending March 31, 2023 and show them in the Income & Expenditure Account, and the Balance Sheet of a Club
An extract of Receipts and Payments Account for the year ended 31st March, 2023

Receipts		₹	Payments	₹
To Subscription				
2021-22	4,000			
2022-23	20,000			
2023-24	5,000	29,000		

Information:

Subscription outstanding on 31.03.2022	5,000
Subscription outstanding on 31.03.2023	4,000
Subscription received in advance on 31.03.2022 for 2022-23	5,000

Question 7 *(ICAI Study Material)* Pg no.______

Suppose salaries paid during 2022-23 were ₹ 23,000. The following further information is available:

Salaries unpaid on 31st March 2022	1,400
Salaries prepaid on 31st March 2022	400
Salaries unpaid on 31st March 2023	1,800
Salaries prepaid on 31st March 2023	600

Calculate the amount to be debited to Income and expenditure account in respect of salaries and also show necessary ledger accounts. (In other words, how will you disclose in financial statements of NPO?)

Question 8 *(ICAI Study Material)* Pg no.______

From the following information of a club show the amounts of match expenses and match fund in the appropriate Financial Statements of the club for the year ended on 31st March, 2023:

Details	Amount
Match expenses paid during the year ended 31st March 2023	1,10,000
Match fund as on 01.04.2022	30,000
Donations for Match fund (received during the year)	55,000
Proceeds from the sale of the match tickets (during the year)	20,000

Question 9 *(ICAI Study Material)* Pg no.______

Following is the Receipts and Payments Account of New bird Forty Club for the year ended 31st March, 2023:

Receipts & Payments Account for the year ending on 31st March, 2023

Receipts	₹	Payments	₹
To Balance b/d	2,50,000	By Salaries & Wages	1,65,000
To Subscription		By Office Expenses	35,000
2021-2022	65,000	By Sports Equipment	3,42,000
2022-2023	3,55,000	By Telephone charges	28,000
To Donations	55,000	By Electricity charges	32,000
To Entrance Fees	85,000	By Travelling & conveyance	65,000
		By Balance c/d	1,43,000
	8,10,000		**8,10,000**

Additional information:

(a) Outstanding Subscriptions for the year ended 31st March, 2023 – 55,000.

(b) Outstanding Salaries & Wages for the year ended on 31st March 2023 – 40,000

(c) Depreciate Sports Equipments by 25% for the year ended on 31st March 2023.

(d) Capitalize 50% of the entrance fees
Prepare Income and Expenditure Account of the club from the above particulars for the year ended on 31st March 2023.

Question 10 *(ICAI Study Material)* Pg no.______

The Sportwriters Club gives the following Receipts & Payments Account for year ended March 31, 2023:

Receipts	₹	Payments	₹
To Balance b/d	4,820	By Salaries	12,000
To Subscriptions	28,600	By Rent and electricity	7,220
To Miscellaneous income	700	By Library books	1,000
To Interest on Fixed deposit	2,000	By Magazines & newspapers	2,172
		By Sundry expenses	10,278
		By Sports equipments	1,000
		By Balance c/d	2,450
	36,120		**36,120**

Figures of other assets and liabilities are furnished as follows:

	31st March, 2022	31st March, 2023
Salaries outstanding	710	170
Outstanding rent & electricity	864	973
Outstanding for magazines and newspapers	226	340
Fixed Deposit (10%) with bank	20,000	20,000
Interest accrued thereon	500	500
Subscription receivable	1,263	1,575
Prepaid expenses	417	620
Furniture	9,600	
Sports equipments	7,200	
Library books	5,000	

The closing values of furniture and sports equipments are to be determined after charging depreciation at 10% and 20% p.a. respectively inclusive of the additions, if any, during the year. The Club's library books are revalued at the end of every year and the value at the end of March 31, 2023 was ₹ 5,250. From the above information you are required to prepare:
(a) The Club's Balance Sheet as at March 31, 2022;
(b) The Club's Income and Expenditure Account for the year ended March 31, 2023.
(c) The Club's Closing Balance Sheet as at March 31, 2023.

Question 11 Pg no.______

The following is the Receipt and Payment Account of Park View Club in respect of the year ended 31st March, 2023.

Receipts		₹	Payments	₹
To Balance b/d		1,02,500	By Salaries	2,08,000
To Subscriptions			By Stationery	40,000
2021-22	4,500		By Rent	60,000
2022-23	2,11,000		By Telephone expenses	10,000
2023-24	7,500	2,23,000	By Investment	1,25,000
To Profit on sports meet		1,55,000	By Sundry expenses	92,500
To Income from investments		1,00,000	By Balance c/d	45,000
		5,80,500		**5,80,500**

Additional information:
1) There are 450 members each paying an annual subscription of ₹ 500. On 1st April, 2022 outstanding subscription was ₹ 5,000.
2) There was an outstanding telephone bill for ₹ 3,500 on 31st March, 2023.
3) Outstanding sundry expenses as on 31st March, 2022 totalled ₹ 7,000.
4) Stock of stationery: On 31st March, 2022 ₹ 5,000 On 31st March, 2023 ₹ 9,000
5) On 31st Mar, 2022 building stood in the books at ₹ 10,00,000 & was subject to depreciation@5% p.a
6) Investment on 31st March, 2022 stood at ₹ 20,00,000.
7) On 31st March, 2023, income accrued on investments purchased during year amounted to ₹ 3,750.

Prepare Income & Expenditure A/c for the year ended 31st March, 2023 & Balance Sheet as at that date.

Question 12 *(CA Foundation July 2021) (10 Marks)* Pg no.______

Summary of receipts & payments of AMA Society for year ended 31st March 2023 are as follows:

Receipts	₹	Payments	₹
Subscription Received	5,00,000	Payment for Medicine Supply	3,00,000
Donation Raised for meeting revenue expenditure	1,50,000	Honorarium to Doctors	1,00,000
Interest on Investments @ 9% p.a.	90,000	Salaries	2,80,000
Charity Show Collection	1,25,000	Sundry Expenses	10,000
		Equipment Purchase	1,50,000
		Charity Show Expenses	15,000

Additional information:

Particulars	01.04.2022	31.03.2023
Subscription due	15,000	22,000
Subscription received in advance	12,000	7,000
Stock of medicine	1,00,000	1,50,000
Amount due for medicine supply	90,000	1,30,000
Value of equipment	2,10,000	3,00,000
Value of building	5,00,000	4,80,000
Cash balance	80,000	90,000
Opening balance of Capital Fund	18,03,000	

You are required to prepare
a) Income and Expenditure Account for the year ended 31.03.2023
b) Balance sheet as on 31.03.2023.

Question 13 *(CA Foundation June 2023) (15 Marks)* Pg no.______

Following is the Receipts and Payments account of Pune Medical Aid Society for the year ended 31-12-2022.

Receipts and Payments Account for the year ended 31-12-2022

Receipts	Amount ₹	Payments	Amount ₹
To Opening cash in hand	12,000	By Medicine supply	35,000
To Subscription	65,000	By Honorarium to Doctors	15,000
To Donations	25,000	By Salaries	36,000

To Interest on Investment (10%)	10,000	By Sundry expenses.	950
To Charity show collection	16,500	By Purchase of Medical equipment	25,000
		By Charity show expenses	2,750
		By Closing Cash in hand	13,800
	1,28,500		**1,28,500**

The following is the additional information provided.

	01-01-2022	31-12-2022
	Amount ₹	Amount ₹
Subscription due	2,500	3,100
Subscription received in advance	1,800	1,400
Stock of medicine	12,500	17,250
Amount due for medicine supply	12,000	16,500
Value of equipment	21,500	37,200
Value of building	65,000	61,750

You are required to prepare Income and Expenditure account, and Balance sheet as on 31-12-2022.

Question 14 *(RTP May 2018) / (ICAI Study Material)*

Pg no.______

Smith Library Society showed the following position on 31st March, 2022:

Balance Sheet as on 31st March, 2022

Liabilities	₹	Assets	₹
Capital fund	7,93,000	Electrical fittings	1,50,000
Expenses payable	7,000	Furniture	50,000
		Books	4,00,000
		Investment in securities	1,50,000
		Cash at bank	25,000
		Cash in hand	25,000
	8,00,000		**8,00,000**

The receipts and payment account for the year ended on 31st March, 2023 is given below:

Receipts	₹	Payments	₹
To Balance b/d		By Electric charges	7,200
Cash at bank 25,000		By Postage and stationary	5,000
Cash in hand 25,000	50,000	By Telephone charges	5,000
To Entrance fee	30,000	By Books purchased	60,000
To Membership subscription	2,00,000	By Outstanding expenses paid	7,000
To Sale proceeds of old papers	1,500	By Rent	88,000
To Hire of lecture hall	20,000	By Investment in securities	40,000
To Interest on securities.	8,000	By Salaries	66,000
		By Balance c/d	
		Cash at bank 20,000	
		Cash in hand 11,300	31,300
	3,09,500		**3,09,500**

You are required to prepare income and expenditure account for the year ended 31st March, 2023 and a balance sheet as at 31st, March, 2023 after making the following adjustments:

Membership subscription included ₹ 10,000 received in advance.
Provide for outstanding rent ₹ 4,000 and salaries ₹ 3,000.
Books to be depreciated @ 10% including additions. Electrical fittings and furniture are also to be depreciated at the same rate. 75% of the entrance fees is to be capitalized.
Interest on securities is to be calculated @ 5% p.a. including purchases made on 1.10.2022 for ₹ 40,000

Question 15 (CA Foundation Sep 2024) (10 Marks) / (RTP May 2022) (Similar) Pg no.______

From the following Receipts and Payments Account of Delhi Club, prepare Income & Expenditure Account for the year ended 31.12.2023 and its Balance Sheet as on that date.

Receipts	₹	Payments	₹
Cash in hand (Opening)	8,100	Salary	3,000
Cash at Bank (Opening)	15,000	Repair Expenses	500
Donations	7,000	Purchase of Furniture	7,000
Subscriptions	10,000	Purchase of Investments	6,000
Entrance fee	1,500	Misc. Expenses	500
Interest on investments	100	Insurance premium	300
Interest received from bank	400	Billiard table	10,000
Sale of old newspaper	250	Paper, Ink etc.	250
Sale of drama tickets	1,250	Drama expenses	500
		Cash in hand (Closing)	4,500
		Cash at Bank (Closing)	11,050
	43,600		**43,600**

Information:
(1) Subscriptions in Arrear for 2023 ₹ 1,200, subscription in advance for 2024 ₹ 550.
(2) Insurance Premium outstanding ₹ 80, Miscellaneous Expenses prepaid ₹ 90.
(3) 50% of Donation is to be capitalized.
(4) Entrance fee are to be treated as Revenue Income.
(5) 8% Interest has accrued on Investments for 5 months.
(6) Billiards Table costing ₹ 30,000 were purchased during the last year and ₹ 20,000 were paid for it.

Question 16 (CA Foundation Nov 2018) (10 Marks) Pg no.______

You are provided with the followings:

Balance Sheet as on 31st March, 2022

Liabilities	₹	Assets	₹
Capital Fund	1,06,200	Building	1,50,000
Subscription received in Advance	6,000	Outstanding Subscription	3,800
Outstanding Expenses	14,000	Outstanding Locker Rent	2,400
Loan	40,000	Cash in Hand	20,000
Sundry Creditors	10,000		
	1,76,200		**1,76,200**

Receipts & Payments Account for the year ended on 31st March, 2023

Receipts	₹	Payments		₹
To Balance b/d		By Expenses		
Cash in Hand	20,000	For 2022	12,000	
To Subscriptions		For 2023	20,000	32,000

For 2022	2,000		By Land	40,000
For 2023	21,000		By Interest	4,000
For 2024	1,000	24,000	By Miscellaneous Expenses	4,700
To Entrance fees		38,000	By Balance c/d	
To Locker Rent		7,000	Cash in Hand	18,300
To Sale Proceeds of old newspapers		1,000		
To Miscellaneous Income		9,000		
		99,000		**99,000**

You are required to prepare Income & Expenditure A/c for the year ended 31st March, 2023 & Balance Sheet as at 31st March 2023 (Workings should form part of your answer).

Question 17 *(RTP May 2021) / (RTP Jan 2025)* Pg no.______

The following is the Receipts and payments account of Rotary Club for the year ended on 31st March, 2023.

Receipts	₹	Payments	₹
To balance b/d	8,450	By Salaries and wages	12,250
To Subscription	23,000	By Supply of refreshment	18,250
To Sale of refreshments	22,000	By Sports equipment	27,500
To Entrance fees	26,000	By Telephone Charges	2,800
To interest on investments @ 7%	4,550	By Electricity charges	15,600
		By Honorarium charges	6,500
		By balance c/d	1,100
	84,000		**84,000**

Additional information:

1. Following are the assets and liabilities on 31st March, 2022:
   Assets- Sports equipment- ₹ 32,000; Subscription in arrears- ₹ 7,600; Furniture- ₹ 12,480
   Liabilities- Outstanding Electricity charges- ₹ 5,400; Subscription in advance- ₹ 6,250
2. Following are the assets and liabilities on 31st March, 2023-
   Assets- Sports equipment- ₹ 50,500; Subscription in arrears- ₹ 5,200; Furniture- ₹ 11,180
   Liabilities- Outstanding Electricity charges- ₹ 3,800; Subscription in advance- ₹ 4,850
3. 50% of the entrance fees to be capitalized.
4. Interest on the investments is being received in full, and the investments have been made on 1.4.2021

You are required to prepare Income and Expenditure account and the Closing balance sheet as of 31st March 2023 in the books of Rotary Club.

Question 18 *(ICAI Study Material)* Pg no.______

The Receipts & Payments for the Swaraj Club for the year ended 31st March, 2023 were: Entrance Fees ₹ 300, Membership Fees ₹ 3,000, Donation for Club Pavilion ₹ 10,000, Foodstuff Sales ₹ 1,200, Salaries & wages ₹ 1,200, Purchase of Foodstuff ₹ 800, Construction of Club Pavilion ₹ 11,000, General Expenses ₹ 600, Rent & Taxes ₹ 400, Bank Charges ₹ 160.
Cash in hand–April 1st ₹ 200, March 31st ₹ 350
Cash in Bank–April 1st ₹ 400; March 31st ₹ 590
You are required to prepare Receipts & Payments A/c.

Question 19 *(CA Foundation Nov 2019) (10 Marks) / (ICAI Study Material) (Similar)* Pg no.______

From the following Income and Expenditure account and Balance sheet of a club, prepare its Receipts and Payments Account and subscription account, for year ended 31st March 2023:

Income & Expenditure Account for the year 2022-23

Particulars	₹	Particulars	₹
To Upkeep of ground	11,000	By Subscriptions	19,052
To Printing	1,100	By Sale of Newspapers (Old)	286
To Salaries	11,100	By Lectures (Fee)	1,650
To Depreciation on furniture	1,100	By Entrance Fee	2,145
To Rent	1,660	By Misc. Income	440
		By Deficit	2,387
	25,960		**25,960**

Balance sheet as at 31st March 2023

Liabilities		₹	Assets	₹
Subscription in advance (2023-24)		110	Subscription(outstanding) (2022-2023)	770
Prize fund:			Furniture	9,900
Opening balance	27,500		Ground and Building	51,700
Add: Interest	1,100		Prize Fund Investment	22,000
	28,600		Cash in Hand	2,530
Less: Prizes given	(2,200)	26,400		
General Fund:				
Opening balance	62,062			
Less: Deficit	(2,387)			
	59,675			
Add: Entrance Fee	715	60,390		
		86,900		**86,900**

The following adjustments have been made in the above accounts:

a) Upkeep of ground ₹ 660 and printing ₹ 264 relating to 2021-22 were paid in 2022-23
b) One fourth of entrance fee has been capitalized by transfer to General Fund
c) Subscription outstanding in 2021-22 was ₹ 880 and for 2022-23 ₹ 770.
d) Subscription received in advance in 2021-22 was ₹ 220 & in 2022-23 for 2023-24 was 110
e) Furniture was purchased during the year.

Question 20

Pg no._____

Income & Expenditure Account for year ended 31st March, 2023 of Asia Club is given below:

Expenditure	₹	Income	₹
To Salaries & wages	47,500	By Subscription	75,000
To Miscellaneous expenses	5,000	By Entrance fee	2,500
To Audit fee	2,500	By Contribution for annual day (After deducting expenses ₹ 7,500)	7,500
To Executive's honorarium	10,000		
To Sports day expenses	5,000		
To Printing & stationary	4,500		
To Interest on bank loan	1,500		
To Depreciation on sports equipment	3,000		
To Excess of income over expenditure	6,000		
	85,000		**85,000**

Following additional information are also available:

	31.03.2022	31.03.2023
Subscription received in advance	4,500	2,700
Subscription outstanding	6,000	7,500
Salaries outstanding	4,000	4,500
Sports equipment (After deducting depreciation)	26,000	27,000
Cash in hand on 31-3-23 was ₹ 16,000.		
The club took a 5% loan of ₹ 30,000 from a bank during 2021-22 for which interest was not paid in the financial year 2022-23.		

Prepare Receipts and Payments account of Asia Club for the year ending 31st March 2023.

Question 21 *(CA Foundation Dec 2021) (10 Marks) / (ICAI Study Material)* **Pg no.______**

The Income and Expenditure Account of the Women Club for the year ended on December 31, 2023 is as follows:

To Salaries	47,500	By Subscription	75,000
To General Expenses	5,000	By Entrance Fees	2,500
To Audit Fee	2,500	By Contribution for annual dinner	10,000
To Secretary's Honorarium	10,000	By Annual Sports Meet Receipts	7,500
To Stationery & Printing	4,500		
To Annual Dinner Expenses	15,000		
To Interest & Bank Charges	1,500		
To Depreciation	3,000		
To Surplus	6,000		
	95,000		**95,000**

This account had been prepared after the following adjustments:

Subscription outstanding at the end of 2022	6,000
Subscription received in Advance on 31st December, 2022	4,500
Subscription received in advance on 31st December, 2023	2,700
Subscription outstanding on 31st Dec., 2023	7,500

Salaries Outstanding at the beginning and the end of 2023 were respectively ₹ 4,000 and ₹ 4,500. General Expenses include insurance prepaid to the extent of ₹ 600. Audit fee for the year 2023 is as yet unpaid. During 2023 audit fee for 2022 was paid amounting to ₹ 2,000.

The Club owned a freehold lease of ground valued at ₹ 1,00,000. The club had sports equipment on 1st January, 2023 valued at ₹ 26,000. At the end of the year, after depreciation, this equipment amounted to ₹ 27,000. In 2022, the Club has raised a bank loan of ₹ 20,000. This was outstanding throughout 2023. On 31st December, 2023 cash in hand amounting to ₹ 16,000.

You are required to:

Prepare the Receipts and Payments Account for the year ended on December 31, 2023 and Balance Sheet as on that date.

Question 22 *(CA Foundation Dec 2022) (10 Marks)* **Pg no.______**

The Income and Expenditure Account of the Young Boys Club for the year 2022 is as follows:

Expenditure	Amount (₹)	Income	Amount (₹)
To Salaries	3,750	By Subscription	8,500
To General Expenses	1,500	By Entrance Fees	250

To Audit fee	250	By Contribution for Annual Dinner	1,000
To Secretary's Honorarium	1,000		
To Stationery and Printing	450	By Annual Sports meet receipts	750
To Annual Dinner expenses	1,500		
To Interest and Bank Charges	150		
To Depreciation	400		
To Surplus	1,500		
	10,500		10,500

This Account has been prepared after the following adjustments:

	Amount (₹)
Subscription outstanding on 31st December, 2021	700
Subscription received in advance on 31st December, 2021	550
Subscription received in advance on 31st December, 2022	370
Subscription outstanding on 31st December, 2022	750

Salaries outstanding at the beginning and at the end of 2022 were respectively ₹ 600 and ₹ 450. General Expense include insurance prepaid to the extent of ₹ 150. Audit fee for 2022 is still unpaid. During 2022 audit fee for 2021 was paid amounting to ₹ 200.

The club owned a freehold lease of ground valued at ₹ 20,000. The club had sports equipment on 1st January, 2022 valued at ₹ 2600. At the end of the year, after depreciation, the balance of equipment amounted to, 3,600. In 2021, the club raised a bank loan of ₹ 5,000, This was outstanding throughout 2022. On 31st December, 2022 cash in hand amounted to ₹ 1600.

You are required to prepare:

a. Receipts and Payments Account for 2022
b. Balance Sheet as on 31st December, 2022
c. Balance Sheet as on 31st December, 2021.

Question 23

Pg no.______

From the following Income & Expenditure A/c of Premium Sports Club for the year ended 31st March, 2023, prepare Receipts & Payment A/c for the year ended 31st March, 2023 and Balance Sheet as on that date:

Expenditure	₹	Income	₹
To Salaries	1,18,800	By Subscriptions	4,20,000
To Rent	2,16,000	By Entrance Fee	1,20,000
To Printing & Stationery	28,000	By Profit on sale of Sports Material	5,500
To Postage & Telephone	41,600	By Interest on 8% Government bonds	12,000
To Membership Fee	3,200	By Sale of Old Newspaper	11,600
To Electricity Charges	38,500		
To Garden Upkeep	19,300		
To Sports Material Utilized	62,800		
To Repairs & Maintenance	18,700		
To Depreciation	13,000		
To Miscellaneous Expenses	5,700		
To Surplus carried to Capital Fund	3,500		
	5,69,100		**5,69,100**

The following additional information is provided to you:

	Balances as on 01.04.2022	Balances as on 31.03.2023
Fixed Assets	2,40,000	-
Bank Balance	8,300	-
Stock of Sports Material	43,450	35,670
Outstanding Subscription	10,200	5,700
Subscription received in advance	2,400	4,900
8% Government Bonds	1,50,000	1,50,000
Outstanding Salaries	16,000	14,300
Outstanding Rent	21,000	15,000
Advance for Stationery	1,350	1,550
Outstanding Repairs & Maintenance	1,200	Nil
Creditors for purchase of Sports Material	3,400	4,200

a. Some of Fixed Assets were purchased on 01.10.2022 and depreciation is to be charged @ 5% p.a.
b. Sports Material worth ₹ 72,000 was purchased on credit during the year.
c. The Club became member of State Table Tennis Association on 01.01.2023 when it paid fee up to 31.12.2023.
d. 50% of Entrance Fee is to be capitalized.
e. Interest on 8% Government Bonds was received for two quarters only.
f. A Fixed Deposit of ₹ 80,000 was made on 31st March, 2023.

Question 24 *(CA Foundation Jan 2021) (10 Marks)* Pg no.______

From the following Income and Expenditure Account and additional information of ATK Club, prepare Receipts and Payments Accounts and Balance Sheet of the club as on 31st March, 2023. Income and Expenditure Account for the year ending 31st March, 2023

Expenditure	₹	Income	₹
To Salaries	4,80,000	By Subscription	6,80,000
To Printing and Stationery	24,000	By Entrance Fees	16,000
To Postage	2,000	By Misc. Income	1,44,000
To Telephone	6,000		
To Office expenses	48,000		
To Bank Interest	22,000		
To Audit Fees	10,000		
To Annual General Meeting Exp.	1,00,000		
To Depreciation (Sports Equipment)	28,000		
To Surplus	1,20,000		
	8,40,000		**8,40,000**

Additional Information:

	As on 31.03.2022	As on 31.03.2023
Outstanding subscription	64,000	72,000
Subscription received in advance	52,000	33,600
Salaries Outstanding	24,000	32,000
Audit Fees Payable	8,000	10,000
Bank Loan	1,20,000	1,20,000
Value of Sports Equipment	2,08,000	2,52,000
Value of Club Premises	7,60,000	7,60,000
Cash in Hand	?	1,14,000

Question 25

Pg no.______

Highend Club appointed a new accountant for maintaining books of account. He prepared following Receipts and Payments A/c for the year ended as on 31st March, 2023.

Receipts and Payments Account

Receipts		₹	Payments	₹
To Balance b/d		9,000	By Loss on sale of furniture (cost price ₹ 90,000)	36,000
To Annual income from subscription Add: Outstanding of last year received this year Less: Prepaid of last year	9,18,000 36,000 9,54,000 (18,000)	9,36,000	By Repair & Maintenance Expenses (including payment for sports material ₹ 54,000)	1,26,000
To Sale of Old Newspaper		36,000	By Printing & Stationery	21,000
To 5% Interest on Investments		27,000	By Telephone Expenses	45,000
To Entrance Fees		68,000	By Garden Upkeep	55,000
To Donation for building		18,00,000	By Electricity Charged	36,000
			By Balance c/d	25,57,000
		28,76,000		**28,76,000**

Additional information: Highend Club had following balances:

	01-04-2022	01-04-2023
Furniture	3,60,000	
Stock of Sports material	1,33,200	36,000
Subscription receivable		54,000
Subscription received in advance		18,000
Outstanding Printing & Stationery Exp.	1,500	2,500
Outstanding Electricity Charges		3,200

50% Entrance Fees is to be capitalized.

Do you agree with above Receipts and Payments Account? If not, prepare correct Receipts and Payments Account and Income and Expenditure Account for the year ended 31st March, 2023 and Balance Sheet as on that date.

Question 26

Pg no.______

The Accountant of Diana Club furnishes you the following receipts and payments account for the year ending 30th September, 2023:

Receipts	₹	Payments	₹
Opening balance:		Honoraria to secretary	9,600
Cash & Bank	16,760	Misc. expenses	3,060
Subscription	21,420	Rates and taxes	2,520
Sale of old newspapers	4,800	Ground man's wages	1,680
Entertainment fees	8,540	Printing and stationary	940
Bank interest	460	Telephone expenses	4,780
Bar receipts	14,900	Payment for bar purchases	11,540
		Repairs	640
		New car (Less sale proceeds of old car ₹ 6,000)	25,200
		Closing balance:	
		Cash and bank	6,920
	66,880		**66,880**

Additional information:

	01.10.2022	30.09.2023
Subscription due (not received)	2,400	1,960
Cheques issued, but not presented for payment of printing	180	60
Club premises at cost	58,000	-
Depreciation on club premises provided so far	37,600	-
Car at cost	24,380	-
Depreciation on car	20,580	-
Value of Bar stock	1,420	1,740
Amount unpaid for bar purchases	1,180	860

Depreciation is to be provided @ 5% p.a. on the written down value of the club premises and @ 15% p.a. on car for the whole year.

You are required to prepare an income and expenditure account of Diana Club for the year ending 30th September, 2023 and balance sheet as on that date

Question 27 *(CA Foundation June 2022) (10 Marks)* Pg no.______

The following is the Receipts and Payments Account of Mumbai Club for the year ended March 31, 2023:

Receipt and Payment Account of Mumbai Club

Receipts	Amount	Payments	Amount
Cash in hand	20,000	Ground man's Fee	75,000
Balance at Bank as per PassBook		Purchase of Equipment's	1,55,000
Saving Account	1,93,000	Rent of Ground	25,000
Current Account	60,000	Club night expenses	38,000
Bank Interest	5,000	Printing and Office Expenses	30,000
Donations and Subscriptions	2,50,000	Repairs to Equipment	50,000
Entrance fees	18,000	Honorarium to Secretary(2021-22)	40,000
Contribution to Club night	10,000	Balance at Bank as per PassBook	
Sale of Equipment	8,000	Saving Account	2,04,000
Bar Room receipts	20,000	Current Account	20,000
Proceeds from club night	78,000	Cash in hand	25,000
	6,62,000		**6,62,000**

You are given the following additional information (All figures are in ₹)

	01.04.22	31.03.23
Subscription due	15,000	10,000
Amount due for printing etc.	10,000	8,000
Cheques unpresented being payment for repairs	30,000	25,000
Interest not yet entered in the Passbook	-	2,000
Estimated value of machinery and equipment	80,000	1,75,000

For the year ended March 31, 2023, the honorarium to the Secretary is to be increased by a total of ₹ 20,000 and Ground man is to receive a bonus of ₹ 20,000. Prepare the Income and Expenditure Account for period ended 31st March,2023 and the Balance Sheet as at that date.

Question 28 *(CA Foundation Nov 2020) (10 Marks)* Pg no.______

From the following balances and particulars of AS College prepare Income & Expenditure Account for the year ended March, 2023 and a Balance Sheet as on the date:

	Dr.	Cr.
Security Deposit-Students		1,55,000
Capital fund		13,08,000
Building Fund		19,10,000
Tuition Fee received		8,10,000
Government Grants		5,01,000
Interest & Dividends on Investments		1,75,000
Hostel Room Rent		1,65,000
Mess Receipts (Net)		2,05,000
College Stores-Sales		7,60,000
Outstanding expenses		2,35,000
Stock of-stores and Supplies (opening)	3,10,000	
Purchases-Stores & Supplies	8,20,000	
Salaries-Teaching	8,75,000	
Salaries-Research	1,25,000	
Scholarships	85,000	
Students Welfare expenses	37,000	
Games & Sports Expenses	52,000	
Other Investments	12,75,000	
Land	1,50,000	
Building	15,50,000	
Plant and Machinery	8,50,000	
Furniture and Fittings	5,40,000	
Motor Vehicle	2,40,000	
Provision for Depreciation		
Building		4,90,000
Plant & Equipment		5,05,000
Furniture & Fittings		3,26,000
Cash at Bank	3,16,000	
Library	3,20,000	
	75,45,000	**75,45,000**

Adjustments:

(i)	Materials & Supplies consumed (From college stores)	
	Teaching	52,000
	Research	1,45,000
	Students Welfare	78,000
	Games or Sports	24,000
(ii)	Tuition fee receivable from Government for backward class Scholars	82,000
(iii)	Stores selling prices are fixed to give a net profit of 15% on selling price	
(iv)	Depreciation is provided on straight line basis at the following rates:	
	a) Building	5%
	b) Plant & Equipment	10%
	c) Furniture & Fixtures	10%
	d) Motor Vehicle	20%

Question 29 *(CA Foundation May 2019) (10 Marks) / (RTP Nov 2022) (Similar)* Pg no.______

From the following information supplied by M.B.S. Club, prepare Receipts and Payments account and Income and Expenditure Account for the year ended 31st March 2023.

	01.04.2022	31.03.2023
Outstanding subscription	1,40,000	2,00,000
Advance subscription	25,000	30,000
Outstanding salaries	15,000	18,000
Cash in Hand and at Bank	1,10,000	?
10% Investment	1,40,000	70,000
Furniture	28,000	14,000
Machinery	10,000	20,000
Sports goods	15,000	25,000

Subscription for the year amount to ₹ 3,00,000/-. Salaries paid ₹ 60,000. Face value of the Investment was ₹ 1,75,000, 50% of the Investment was sold at 80% of Face Value. Interest on investments was received ₹ 14,000. Furniture was sold for ₹ 8000 at the beginning of the year. Machinery and Sports Goods purchased and put to use at the last date of the year. Charge depreciation @ 15% p.a. on Machinery and Sports goods and @10% p.a. on Furniture.

Following Expenses were made during the year:

Sports Expenses: ₹ 50,000
Rent: ₹ 24,000 out of which ₹ 2,000 outstanding
Misc. Expenses: ₹ 5,000

Question 30 *(CA Foundation Dec 2023) (12 Marks)* Pg no.______

ABC sports club had following income and expenditure account for year ended 31st Dec 2022.

Income and Expenditure Account for the year ended 31 December, 2022

Particulars	Amount	Particulars	Amount
To Salaries	2,35,000	By Subscriptions	2,50,000
To Stationary Expenses	30,000	By Interest	90,000
To Rent and Taxes	5,000	By Donations	40,000
To Insurance	2,000	By Misc. Receipts	3,000
To Office Expenses	8,000		
To Depreciation			
Building	37,500		
Furniture	1,200		
Sports Equipment	1,000		
To Excess of Income over Expenses	63,300		
	3,83,000		**3,83,000**

Additional information:

	31-12-2021	31-12-2022
Govt. Securities	18,00,000	18,00,000
Subscription outstanding	70,000	1,00,000
Subscription received in advance	2,000	6,000
Salaries unpaid	10,000	15,000
Furniture	20,000	19,800
Land and Building	20,00,000	19,62,500
Sports Equipment	35,000	39,000
Stock of stationary	3,000	5,500

Cash in hand and Cash at bank as on 31-12-2021 is ₹ 1,08,000.
You are required to prepare Receipts and Payments Account for the period ending 31.12.2022 and Balance Sheet as on 31.12.2022

Question 31 *(CA Foundation June 2024) (12 Marks)* Pg no.______

The Receipts and Payments Account of Vandana Sports Club for the year ended 31st March, 2024 are as follows:

Receipts and Payments Account

Receipts		Amount	Payment		Amount
To Balance b/d			By Salaries		1,55,000
Cash in hand	5,200		By Rent & Electricity		69,750
Cash at Bank	35,500	40,700	By Library Books		10,500
To Subscriptions		2,95,000	By Newspaper & Magazines		16,600
To Entrance fees		50,000	By Sports Equipment		28,500
To Miscellaneous Income		19,850	By Sundry Expenses		71,050
To Interest on Investments		8,000	By Balance c/d		
			Cash in hand	8,750	
			Cash at Bank	53,400	62,150
		4,13,550			**4,13,550**

Details of other assets and liabilities are furnished as follows:

Particulars	31st March 2023	31st March 2024
Salaries Outstanding	10,200	12,400
Outstanding Rent & Electricity	6,500	7,600
Investment (8% Govt. Bonds)	1,00,000	1,00,000
Interest Accrued on Bonds	2,000	2,000
Subscription receivable	18,700	20,600
Subscription received in advance	7,000	8,400
Furniture	65,500	
Sports Equipment	41,500	
Library Books	22,000	

The closing values of furniture and sports equipment are to be determined after charging depreciation at 10% and 15% respectively inclusive of additions, if any during the year. The Club's library books are revalued at the end of every year and the value at the end of 31st March,2024 was ₹ 30,000. 60% of the Entrance fee is to be capitalized.
You are required to prepare:
(i) Income and Expenditure Account for the year ended 31st March,2024
(ii) Balance Sheet as on 31st March, 2024

Question 32 *(CA Foundation Jan 2025) (10 Marks)* Pg no.______

From the following income and expenditure account of a Club for the year ending 31st March, 2024, you are required to prepare receipt and payment account for the year ending 31st March, 2024 and Balance Sheet as on 1st April, 2023.

INCOME AND EXPENDITURE ACCOUNT
For the year ending 31st March, 2024

Expenditure	Amount (₹)	Income	Amount (₹)
To Law Maintenance	42,000	By Subscription	1,05,000
To General Expenses	13,000	By Admission Fees	12,000

To Depreciation on Sports Material	22,000	By Sports material (Sale of Second-Hand Material)	2,400
To Stationery (Depreciation)	1,500	By Entertainment	14,000
To Honorarium	10,400		
To Excess of Income over Expenditure	44,500		
	1,33,400		**1,33,400**

Additional Information:

(Amount in ₹)

Particulars	1st April, 2023	31st March, 2024
Cash at Bank	60,000	–
Stock of sports material	30,000	–
Tournament fund (after deducting tournament expenses of ₹ 14,000)		6,000
Donations for club building		1,40,000
Subscription due	10,000	15,000
Stationery stock	4,000	–

Stationery was depreciated by 25% and Sports material by 50%.

Question 33 *(RTP May 2025)* **Pg no.______**

From the following Receipts and Payments Account of Finance Professionals Club.

Receipts and Payments Account
for the year ended 31st March, 2024

Receipts	₹	Payments	₹
To Cash in Hand (Opening)	67,500	By Salaries	7,42,500
To cash at Bank (Opening)	18,90,000	By Stationery	1,34,550
To Subscriptions	22,86,000	By Billard Table	8,70,750
To Donations	10,80,000	By Investments	9,29,700
To Interest on Investments	27,000	By Miscellaneous Expenses	1,12,500
To Entrance Fees	2,70,000	By Furniture	18,45,000
To Interest Received from Bank	94,500	By Insurance Premium	40,500
To Sale of Old Newspapers	13,500	By Cash in Hand (Closing)	49,500
		By Cash at Bank (Closing)	10,03,500
	57,28,500		57,28,500

(i) Subscriptions in arrears for the year ended 31st March, 2024- ₹2,02,500 and Subscriptions received in advance during the year ended 31st March,2024 - ₹58,500.

(ii) Insurance Premium prepaid is ₹ 4,500.

(iii) The detail with respect to Stationery of Accountants Club is as follows:

	1st April,2023	31st March,2024
Stock of Stationery	7,500	45,000
Creditors for Stationery	39,000	60,000
Advance paid for Stationery purchased during the year	---	10,500

Prepare the Income and Expenditure Account for the year ended 31st March, 2024. As per the club rules, donations are to be capitalized and entrance fees is the income of club.

ACCOUNTS FROM INCOMPLETE RECORDS

CH 9

"You don't have to be Great to Start, but you have to Start to be Great."

MEANING OF SINGLE-ENTRY

The term "Single Entry System" is popularly used to describe the problems of accounts from incomplete records.

Very often the small sole proprietorship and partnership businesses do not maintain double entry book keeping system. Sometimes they keep record only of the cash transactions and credit transactions. Sometimes they maintain no record of many transactions. But at the end of accounting period they want to know the performance and financial position of their businesses. This creates some special problems to the accountants.

FEATURES

➢ It is an inaccurate, unscientific and unsystematic method of recording business transactions.
➢ There is generally no record of real and personal accounts and, in most of the cases; a record is kept for cash transactions and personal accounts.
➢ Cash book mixes up business and personal transactions of the owners.
➢ There is no uniformity in maintaining the records and the system may differ from firm to firm depending on the requirements and convenience of each firm.
➢ Profit under this system is only an estimate and therefore true and correct profits cannot be determined. The same is the case with the financial position in the absence of a proper balance sheet.

TYPES

Pure single entry	In this, only personal accounts are maintained with the result that no information is available in respect of cash and bank balances, sales and purchases, etc.. In view of its failure to provide even the basic information regarding cash etc., this method exists only on paper and has no practical application.
Simple single entry	In this, only: (a) personal accounts, and (b) cash book are maintained. Although these accounts are kept on the basis of double entry system, postings from cash book are made only to personal accounts and no

	other account is to be found in the ledger. Cash received from debtors or cash paid to creditors is simply noted on the bills issued or received as the case may be.
Quasi single entry	In this: (a) personal accounts, (b) cash book, and (c) some subsidiary books are maintained. The main subsidiary books kept under this system are Sales book, Purchases book and Bills book. No separate record is maintained for discounts which are entered into the personal accounts. In addition, some scattered information is also available in respect of few important items of expenses like wages, rent, rates, etc. In fact, this is the method which is generally adopted as a substitute for double entry system.

Difference between Statement of Affairs and Balance Sheet

Basis	Statement of Affairs	Balance Sheet
Source	It is prepared on the basis of transactions partly recorded under the double entry bookkeeping and partly under the single entry. Most of the assets are recorded based on the estimates, assumptions, information gathered from memory rather from the records.	It is based on transactions recorded strictly on the basis of double entry bookkeeping; each item in the balance sheet can be verified from the relevant subsidiary books, ledger and documentary evidences.
Capital	In this statement, capital is merely a balancing figure being excess of assets over liabilities. Hence assets need not be equal to liabilities.	Capital is derived from the capital account in the ledger and therefore the total of assets side will always be equal to the total of liabilities side.
Omission	Since this statement is prepared from incomplete records, it is very difficult, to identify and record those assets and liabilities, if omitted from the books.	There is no possibility of omission of any item of asset and liability since all items are properly recorded. Moreover, it is easy to locate the missing items since the balance sheet will not agree.
Basis of Valuation	The valuation of assets is generally done in an arbitrary manner; therefore, no method of valuation is disclosed	The valuation of assets is done on scientific basis, fixed assets are shown at the original costs less depreciation till date. Any change in the method of valuation is properly disclosed.
Objective	The objective of preparing this statement is to identify the capital figures in the beginning and at the end of the accounting period respectively.	The objective of preparing the balance sheet is to ascertain the financial position on a particular date.

Profitability

- Final Accounts Approach
  - Trading and P&L A/c
- Capital Approach
  - * Finding Opening & closing capital
  - * Making capital A/c or Statement of P&L

Capital A/c

Particulars	Amount	Particulars	Amount
To Share of Loss	xx	By Bal. b/d (Opening)	xx
To Drawings	xx	By cash / Bank (Additional)	xx
To Interest on Drawings	xx	By Interest on capital	xx
To Bal c/d (Closing)	xx	By Share of Profits	xx

Statement of Profit & Loss

Particulars	Amount
Capital at the end (Closing capital)	xx
Add: Drawings	xx
Add: Interest on Drawings	xx
Less: capital at the beginning (Opening capital)	(xx)
Less: Additional capital	(xx)
Less: Interest on capital	(xx)
Profit / (Loss) (+ve) (-ve)	xx

Bills of Exchange

A → B : Sale : 10000

B 10000 To Sales 10000	Purchases 10000 To A 10000
B/R 10000 To B 10000	A 10000 To B/P 10000

Books of DRAWER (A)

	Held Bill Till Maturity	Discounting With Bank	Endorse to Creditor	Sent to Bank for collection
1) Event	–	Bank 9800 Discount 200 To B/R 10000	Creditor/C 10000 To B/R 10000	BSFC 10000 To B/R 10000
2) Maturity a) Honour	Bank 10000 To B/R 10000	–	–	Bank 10000 To BSFC 10000
OR b) Dishonour (Noting charges 100)	B 10100 To B/R 10000 To Bank 100	B 10100 To Bank 10100	B 10100 To C 10100	B 10100 To BSFC 10000 To Bank 100

Books of DRAWEE (B)

In all 4 cases, same entries to be passed :

Honour

B/P A/c - Dr 10000
To Bank A/c 10000

Dishonour

B/P A/c - Dr 10000
Noting charges A/c - Dr 100
To A 10100

Debtors A/c

Particulars	Amount	Particulars	Amount
To Balance b/d		By cash A/c	
To Sales (Credit)		By Bank A/c	
To Interest charged		By B/R A/c	
Dishonour of B/R: To B/R (Normal)		By Discount Allowed A/c	
Dishonour of B/R: To Bank (Discounted)		By Bad debts A/c	
Dishonour of B/R: To Creditors (Endorsed)		By Sales Return A/c	
		By Balance c/d	

Creditors A/c

Particulars	Amount	Particulars	Amount
To Purchase Return A/c		By Balance b/d	
To cash A/c		By Purchases (Credit)	
To Bank A/c		By B/P [Dishonoured]	
To Discount Received		By Noting charges	
To B/P A/c		By Debtors A/c [Endorsed B/R Dish.]	
To B/R (Endorsed)		By Interest A/c	
To Balance c/d			

Bills Receivable (B/R) A/c

Particulars	Amount	Particulars	Amount
To Balance b/d		By Bank [Discounted	
To Debtors A/c		By Discount with Bank]	
		By Creditors (Endorsed)	
		By Bank (Payment Rec.)	
		By Debtors (Dishonour)	
		By Balance c/d	

Bills Payable (B/P) A/c

Particulars	Amount	Particulars	Amount
To Bank (Paid)		By Balance b/d	
To Creditors (Dishonour)		By Creditors	
To Balance c/d			

ASSIGNMENT QUESTIONS

TOPIC 1: CAPITAL COMPARISON / STATEMENT OF AFFAIRS METHOD

Question 1 *(ICAI Study Material)* Pg no.______

Raju does not maintain proper records of his business. However, he provides the following information:

Opening capital	10,000
Closing capital	12,500
Drawings during the year	3,000
Capital added during the year	3,750

You are required to calculate the profit or loss for the year.

Question 2 *(ICAI Study Material)* Pg no.______

Rakesh started his business on 1st of April 2022. He invested a capital of ₹ 1,00,000. On 31st March 2023, he has the following information available as per the Single-entry system maintained by him.

Cash balance (counted)	3,200
Inventory (physically verified)	34,800
Receivable from Ajay against credit sales	31,000
Machine	85,000
Payable to Vinod towards credit purchase	12,000
Loan taken from Bank	10,000
Drawings made during the year	24,000

You are required to calculate the profit or loss earned by Rakesh for the year ended 31st March 2023.

Question 3 *(ICAI Study Material)* Pg no.______

Assets and Liabilities of Mr. X as on 31-03-2022 and 31-03-2023 are as follows:

Particulars		31-03-2022	31-03-2023
Assets	Building	1,00,000	-
	Furniture	50,000	-
	Inventory	1,20,000	2,70,000
	Sundry Debtors	40,000	90,000
	Cash at Bank	70,000	85,000
	Cash in Hand	1,200	3,200
Liabilities	Loans	1,00,000	80,000
	Sundry Creditors	40,000	70,000

Decided to depreciate building by 2.5% & furniture by 10%. One Life Insurance Policy of the Proprietor was matured during the period and the amount ₹ 40,000 is retained in the business. Proprietor took @ ₹ 2,000 p.m. for meeting family expenses.
Prepare Statement of Affairs as on 31-03-2022 & 31-03-2023 and compute profit for the year ended 31-03-2023.

Question 4 *(ICAI Study Material)* Pg no.______

The Income Tax Officer, on assessing the income of Shri Moti for the financial years 2020-2021 and 2021-2022 feels that he has not disclosed full income. He gives you the following particulars of assets and liabilities of Shri Moti as on 1st April, 2020 and 1st April, 2022

1-4-2020	Assets	Cash in Hand	25,500
		Inventory	56,000
		Sundry Debtors	41,500
		Land & Building	1,90,000
		Wife's Jewellery	75,000
	Liabilities	Owing to Moti's Brother	40,000
		Sundry Creditors	35,000
1-4-2022	Assets	Cash in Hand	16,000
		Inventory	91,500
		Sundry Debtors	52,500
		Land & Building	1,90,000
		Motor Car	1,25,000
		Wife's Jewellery	1,25,000
		Loan to Moti's Brother	20,000
	Liabilities	Sundry Creditors	55,000

During the two years the domestic expenditure was ₹ 4,000 p.m. The declared income of the financial years were ₹ 1,05,000 for 2020-2021 & ₹ 1,23,000 for 2021-2022 respectively. State whether the Income-tax Officer's contention is correct. Explain by giving your workings.

Question 5 *(CA Inter Nov 2022) (10 Marks)* Pg no.______

Ramesh had ₹ 3,30,000 in the bank account on 1st January,2021 when he started his business. He closed his accounts on 31st March, 2022. His single-entry books (in which he did not maintain any bank account for the bank) showed his position as follows:

Particulars	31.3.2021	31.3.2022
Stock	20,900	31,900
Debtors	1,100	3,200
Cash	2,200	3,300
Creditors	5,500	4,300

On and from 1st February,2021, he began drawings at ₹ 770 per month for his personal expenses from the cash box of the business. His account with the bank had the following entries:

Particular	Deposits	Withdrawals
1.1.2021 to 31.3.2021	-	2,45,300
1.4.2021 to 31.3.2022	2,53,000	2,97,000

a) The above withdrawals included payment by cheque of ₹ 2,20,000 and ₹ 66,000 during the period from 1st January, 2021 to 31st March,2021 and from 1st April,2021 to 31st March,2022 respectively for the purchase of Machines for the business.

b) The deposits after 1st January, 2021 consisted wholly of sale proceeds received from the customers by cheques.

c) One customer (Suresh) had directly deposited a cheque of ₹ 2,700 on 25th March, 2022 into bank account of Ramesh. Ramesh has no knowledge of this and this cheque is not included in the deposits for the period 1st April 2021 to 31st March 2022 given above.

You are required to draw up Ramesh's Statement of Affairs as at 31st March, 2021 and 31st March, 2022 respectively and work out his Profit or Loss for the year ended 31st March, 2021 and 31st March, 2022.

TOPIC 2: FINAL ACCOUNTS METHOD

Question 6 — Pg no.______

Calculate the credit sales from the below information:

Opening balance of Debtors	10,00,000
Closing balance of Debtors	6,00,000
Payments collected in cash	13,00,000
Discount allowed	30,000
Bad debts	10,000

Question 7 (ICAI Study Material) — Pg no.______

Calculate the bad debts from the below information:

Opening balance of Debtors	5,00,000
Closing balance of Debtors	7,00,000
Amount received in Cash	6,00,000
Discount allowed	10,000
Credit Sales	11,40,000
Bills Receivable	3,00,000
Bad Debts	??

Question 8 (CA Foundation Sep 2024) (5 Marks) — Pg no.______

Following information relates to Mr. Prem who maintains his books under single entry system. He is not able to ascertain the amount of bad debts incurred by him and seeks your help.

- Debtors as on 01.04.2023 ₹ 6,50,000
- Debtors as on 31.03.2024 ₹ 8,50,000
- Sale for Financial Year 2023-2024 is 16,00,000 out of which 80% is on credit.

Payment received during the year is ₹ 7,50,000 out of which cheques of ₹ 18,000 were dishonored. Bills of exchange accepted by customers ₹ 2,90,000
Discount allowed is 1% of the credit sale.

Question 9 (ICAI Study Material) — Pg no.______

Calculate the credit purchases from the below information:

Opening balance of Creditors	4,00,000
Closing balance of Creditors	5,00,000
Payments made in Cash	8,50,000
Discount received	20,000

Question 10 – (ICAI Study Material) — Pg no.______

A.Admajee keeps his books on single entry basis. The analysis of the cash book for the year ended on 31st March, 2023 is given below:

Receipts	₹	Payments	₹
Bank Balance as on 1st April, 2022	2,800	Payments to Sundry creditors	35,000
Received from Sundry Debtors	48,000	Salaries	6,500
Cash Sales	11,000	General expenses	2,500
Capital brought during year	6,000	Rent and Taxes	1,500
Interest on Investments	200	Drawings	3,600

		Cash purchases	12,000
		Balance at Bank on 31st Mar, 2023	6,400
		Cash in hand on 31st Mar, 2023	500
	68,000		**68,000**

Particulars of other assets and liabilities are as follows:

Particulars	01-04-2022 (Amount in ₹)	31-03-2023 (Amount in ₹)
Sundry Debtors	14,500	17,600
Sundry Creditors	5,800	7,900
Machinery	7,500	7,500
Furniture	1,200	1,200
Stock	3,900	5,700
Investments	5,000	5,000

Prepare final accounts for the year ending 31st March, 2023 after providing depreciation at 10 percent on machinery and furniture and ₹ 800 against doubtful debts.

Question 11 – *(ICAI Study Material)* Pg no.______

Lucky does not maintain proper books of accounts. However, he maintains a record of his bank transactions and also is able to give the following information from which you are required to prepare his final accounts for the year 2022:

Particulars	01.01.22 (₹)	31.12.22(₹)
Debtors	1,02,500	-
Creditors	-	46,000
Stock	50,000	62,500
Bank Balance	-	50,000
Fixed Assets	7,500	9,000

Details of his bank transactions were as follows:

Received from debtors	3,40,000
Additional capital brought in	5,000
Sale of fixed assets (book value ₹2,500)	1,750
Paid to creditors	2,80,000
Expenses paid	49,250
Personal drawings	25,000
Purchase of fixed assets	5,000

No cash transactions took place during the year. Goods are sold at cost plus 25%. Cost of goods sold was ₹ 2,60,000.

Question 12 *(ICAI Study Material)* Pg no.______

From the following data furnished by Mr. Manoj, you are required to prepare a Trading and Profit and Loss Account for the year ended 31st March, 2023 and a Balance Sheet as at that date.

Assets & Liabilities	As on 1st April,2022	As on 31st March,2023
Creditors	15,770	12,400
Sundry expenses outstanding	600	330
Sundry Assets	11,610	12,040
Inventory in trade	8,040	11,120
Cash in hand and at bank	6,960	8,080
Trade debtors	?	17,870

Details relating to transactions in the year:		
Cash & discount credited to debtors		64,000
Sales return		1,450
Bad debts		420
Sales (cash and credit)		71,810
Discount allowed by trade creditors		700
Purchase returns		400
Additional capital-paid into Bank		8,500
Realisations from debtors-paid into Bank		62,500
Cash purchases		1,030
Cash expenses		9,570
Paid by cheque for machinery purchased		430
Household expenses drawn from Bank		3,180
Cash paid into Bank		5,000
Cash drawn from Bank		9,240
Cash in hand on 31-3-2023		1,200
Cheques issued to trade creditors		60,270

Question 13 – (RTP Nov 2018) / (RTP May 2023) Pg no.______

The following information relates to the business of ABC Enterprises, who requests you to prepare a Trading and Profit & Loss A/c for the year ended 31stMarch,2023 and a Balance Sheet as on that date.

(a) Assets and Liabilities as on:

	01.04.2022	31.03.2023
Furniture	60,000	63,500
Stock	80,000	70,000
Sundry Debtors	1,60,000	??
Sundry Creditors	1,10,000	1,50,000
Prepaid Expenses	6,000	7,000
Outstanding Expenses	20,000	18,000
Cash in Hand & Bank Balance	12,000	26,250

(b) Cash transaction during the year:

(i) Collections from debtors, after allowing discount of ₹ 15,000 amounted to ₹ 5,85,000

(ii) Collections on discounting of bills of exchange, after deduction of discount of ₹ 1,250 by the bank, totalled to ₹ 61,250.

(iii) Creditors of ₹ 4,00,000 were paid ₹ 3,92,000 in full settlement of their dues.

(iv) Payment for freight inwards ₹ 30,000.

(v) Amount withdrawn for personal use ₹ 70,000.

(vi) Payment for office furniture ₹ 10,000.

(vii) Investment carrying annual interest of 6% were purchased at ₹ 95 (200 bonds, Face value ₹ 100 each) on 1st October, 2022 and payment made thereof.

(viii) Expenses including salaries paid ₹ 95,000.

(ix) Miscellaneous receipts ₹ 5,000.

(x) Bills of exchange drawn on and accepted by customers during the year amounted to ₹ 1,00,000. Of these, bills of exchange of ₹ 20,000 were endorsed in favour of creditors. An endorsed bill of exchange of ₹ 4,000 was dishonoured.

(xi) Goods costing ₹ 9,000 were used as advertising materials.

(xii) Goods are invariably sold to show a gross profit of 20% on sales.

(xiii) Difference in cash book, if any, is to be treated as further drawing or introduction of capital by proprietor of ABC Enterprises.

(xiv) Provide at 2% for doubtful debts on closing debtors.

Question 14 Pg no._____

Mr. Vivek keeps his books under single entry system. On 31st March, 2022 his Balance Sheet was as follows:

Liabilities	₹	Assets	₹
Capital of Mr. Vivek	4,50,000	Fixed Assets	2,25,000
Creditors	8,70,000	Stock	9,15,000
Bills Payable	1,87,500	Debtors	2,22,000
Expenses Outstanding	67,500	Bills Receivable	90,000
		Prepaid Insurance	3,000
		Cash/Bank Balance	1,20,000
	15,75,000		**15,75,000**

(i) Following are the summary of cash and bank transactions for the year ended 31st March, 2023

Cash sales	1,10,70,000
Collection from debtors	22,65,000
Payments to creditors	1,12,60,500
Paid for bills payable	12,22,500
Sundry expenses paid	9,31,050
Drawings for domestic expenses by Mr.Vivek	3,60,000
Cash and bank balance as on 31.3.2023	1,90,950

(i) Following further details are furnished:

Gross profit on sales @ 10%	
Bills receivable from debtors during the year	6,52,500
Discount allowed to debtors	54,000
Discount received from creditors	42,000
Bills receivable endorsed to creditors	22,500
Annual fire insurance premium paid (This is paid on 1st August every year)	9,000
Depreciate fixed assets @ 10%	

(ii) Balances as on 31.3.2023 are given below:

Stock in hand	9,75,000
Debtors	2,28,000
Bills Receivable	2,10,000
Bills Payable	2,10,000
Outstanding Expenses	7,500

Prepare Trading, Profit and Loss Account for the year ended 31st March, 2023 and Balance Sheet on that date.

Question 15 *(CA Inter May 2022) (12 Marks)* Pg no._____

Stevie and Alicia are in partnership sharing profits and losses equally. They maintain their books on Single Entry System. The following balances are available from their books as on 31.3.2021 and 31.3.2022:

Particulars	31.3.2021 ₹	31.3.2022 ₹
Building	3,00,000	3,00,000
Equipment	4,80,000	5,44,000
Furniture	50,000	50,000
Debtors	?	2,00,000
Creditors	1,30,000	?
Stock	?	1,40,000
Bank loan	90,000	70,000
Cash	1,20,000	?

The transactions during the year ended 31.3.2022 were the following:

Collection from Debtors	7,60,000
Payment to Creditors	5,00,000
Expenses Paid	80,000
Drawings by Stevie	60,000
Discount allowed	11,000
Discount received	9,600

Other information:

a) On 1.4.2021, an equipment of book value ₹ 40,000 was sold for ₹ 30,000. On 1.10.2021, some more equipment were purchased.
b) Cash sales amounted to 10% of total sales.
c) Credit sales amounted to ₹ 9,00,000.
d) Credit purchases were 80% of total purchases.
e) Cash Purchases amounted to ₹ 1,30,000.
f) The firm sells goods at cost plus 25%.
g) Outstanding expenses were ₹ 6,000 as on 31.3.2022.
h) Capital of Stevie as on 31.3.2021 was ₹ 30,000 more than the capital of Alicia, equipment and furniture to be depreciated at 10% p.a. and building @ 2% p.a. (apply depreciation of new equipment for 1/2 year)

You are required to prepare:

1. Trading and Profit and Loss Account for the year ended 31.3.2022 and;
2. Balance Sheet as on that date.

Question 16 (RTP Nov 2019) / (RTP Jan 2025) Pg no.______

Following are the incomplete information of Moonlight Traders:

Balances	31.03.2023	31.03.2024
Land	5,00,000	5,00,000
Plant and Machinery	2,20,000	3,30,000
Office equipment	1,05,000	85,000
Debtors	?	2,25,000
Creditors for purchases	95,000	?
Creditors for office expenses	20,000	15,000
Stock	?	65,000
Long term loan from SBI @ 12%.	1,60,000	1,00,000
Bank	25,000	?

Other Information	₹
Collection from debtors	9,25,000
Payment to creditors for purchases	5,25,000

Payment of office expenses (excluding interest on loan)	42,000
Salary paid	32,000
Selling expenses	15,000
Cash sales	2,50,000
Credit sales (80% of total sales)	
Credit purchases	5,40,000
Cash purchases (40% of total purchases)	
GP Margin at cost plus 25%	
Discount Allowed	5,500
Discount Received	4,500
Depreciation to be provided as follows	
Plant and Machinery	10%
Office Equipment	15%

Other adjustments:

(a) On 01.10.23 they sold machine having Book Value ₹ 40,000 (as on 31.03.2023) at a loss of ₹ 15,000. New machine was purchased on 01.01.2024.

(b) Office equipment was sold at its book value on 01.04.2023.

(c) Loan was partly repaid on 31.03.24 together with interest for the year.

Prepare Trading P & L A/c and Balance Sheet as on 31.03.2024.

Question 17 *(ICAI Study Material)* Pg no.______

Mr. Anup runs a wholesale business where in all purchases and sales are made on credit. He furnishes the following closing balances:

Particulars	31-03-2022	31-03-2023
Sundry debtors	70,000	92,000
Bills receivable	15,000	6,000
Bills payable	12,000	14,000
Sundry creditors	40,000	56,000
Inventory	1,10,000	1,90,000
Bank	90,000	87,000
Cash	5,200	5,300

Summary of cash transactions during the year 2022-23:

a) Deposited to bank after payment of shop expenses @ ₹ 600 p.m., salary @ ₹ 9,200 p.m. and personal expenses @ ₹ 1,400 p.m. ₹ 7,62,750.

b) Cash Withdrawn from Bank ₹ 1,21,000

c) Cash payment to suppliers ₹ 77,200 for supplies and ₹ 25,000 for furniture.

d) Cheques collected from customers but dishonoured ₹ 5,700.

e) Bills accepted by customers ₹ 40,000.

f) Bills endorsed ₹ 10,000.

g) Bills discounted ₹ 20,000, discount ₹ 750.

h) Bills matured and duly collected ₹ 16,000.

i) Bills accepted ₹ 24,000.

j) Paid suppliers by cheque ₹ 3,20,000.

k) Received ₹ 20,000 on maturity of one LIC policy of the proprietor by cheque.

l) Rent received ₹ 14,000 by cheque for the premises owned by the proprietor.

m) A building was purchased on 30-11-2022 for opening branch for ₹ 3,50,000 via cheque & some expenses were incurred on this building, details of which are not maintained.

n) Electricity and telephone bills paid by cash ₹ 18,700, due ₹ 2,200.

Other transactions:

(i) Claim against the firm for damage ₹ 1,55,000 is under legal dispute. Legal expenses ₹ 17,000. The firm anticipates defeat in the suit.
(ii) Goods returned to suppliers ₹ 4,200.
(iii) Goods returned by customers ₹ 1,200.
(iv) Discount offered by suppliers ₹ 2,700.
(v) Discount offered to the customers ₹ 2,400.
(vi) The business is carried on at the rented premises for an annual rent of ₹ 20,000 which is outstanding at the year end.

Prepare Trading and Profit & Loss Account of Mr. Anup for year ended 31-03-2023 and Balance Sheet as on that date.

Question 18 *(CA Inter July 2021) (10 Marks) / (ICAI Study Material) (Similar)* **Pg no.______**

Mr. Arun runs a business of readymade garments. He closes the books of accounts on 31st March. The Balance Sheet as on 31st March, 2022 was as follows:

Liabilities	₹	Assets	₹
Capital A/c	5,05,000	Furniture	50,000
Creditors	1,02,500	Closing Stock	3,50,000
		Debtors	1,25,000
		Cash in Hand	35,000
		Cash at Bank	47,500
	6,07,500		**6,07,500**

You are furnished with following information :

1) His sales, for the year ended 31st March, 2023 were 20% higher than the sales of previous year, out of which 20% sales was cash sales.
2) Total Sales during the year 2021-22 were ₹ 6,25,000
3) Payments for all the purchases were made by cheques only.
4) Goods were sold for cash and credit both. Credit customers pay by cheques only.
5) Deprecation on furniture is to be charged 10% p.a.
6) Mr. Arun sent to bank the collection of the month at the last date of each month after paying salary of ₹ 2,500 to clerk, office expenses ₹ 1,500 and personal expenses ₹ 625.

Analysis of bank pass book for the year ending 31st March, 2023 disclosed the following:

	₹
Payment to creditors	3,75,000
Payment to rent up to 31st March, 2023	20,000
Cash deposited into bank during the year	1,00,000

The following are the balances on 31st March, 2023:

	₹
Stock	2,00,000
Debtors	1,50,000
Creditors for goods	1,82,500

On the evening of 31st March, 2023, the cashier absconded with the available cash in the cash book.

You are required to prepare Trading and Profit and Loss A/c for the year ended 31st March, 2023 and Balance Sheet as on that date. All the working should form part of the answer.

TOPIC 3: FINAL ACCOUNTS METHOD: TIME LAG / CREDIT PERIOD

Question 19 — Pg no.______

A company sold 25% of the goods on cash basis and the balance on credit basis. Debtors are allowed 2 months credit and their balance as on 31.3.2023 is ₹1,40,000. Assume that sale is uniform throughout the year. Calculate total sales for the year ended 31.3.2023.

Question 20 *(RTP May 2022) (Similar)* — Pg no.______

The following is the Balance Sheet of Sri Dev as on 31st March, 2022:

Liabilities	₹	Assets	₹
Capital Account	2,52,500	Machinery	1,20,000
Sundry Creditors for Purchases	45,000	Furniture	20,000
		Stock	33,000
		Debtors	1,00,000
		Cash in Hand	8,000
		Cash at Bank	16,500
	2,97,500		**2,97,500**

Riots occurred and fire broke out on the evening of 31st March, 2023, destroying the books of account and Furniture. The cashier was grievously hurt and the cash available in the cash box was stolen.

The trader gives you the following information:

a. Sales are effected as 25% for cash and the balance on credit. His total sales for the year ended 31st March, 2023 were 20% higher than the previous year. All the sales and purchases of goods were evenly spread throughout the year (as also in the last year).

b. Terms of credit
   i. Debtors 2 Months
   ii. Creditors 1 Month

c. Stock level was maintained at ₹ 33,000 all throughout the year.

d. A steady Gross Profit rate of 25% on the turnover was maintained throughout. Creditors are paid by cheque only, except for cash purchase of ₹ 50,000.

e. His private records and the Bank Pass-book disclosed the following transactions for the year.
   i. Miscellaneous Business expenses ₹ 1,57,500 (including ₹ 5,000 paid by cheque and ₹ 7,500 was outstanding as on 31st March, 2023)
   ii. Repairs ₹ 3,500 (paid by cash)
   iii. Addition to Machinery ₹ 60,000 (paid by cheque)
   iv. Private drawings ₹ 30,000 (paid by cash)
   v. Travelling expenses ₹ 18,000 (paid by cash)
   vi. Introduction of additional capital by depositing into the Bank ₹ 5,000

f. Collection from debtors were all through cheques.

g. Depreciation on Machinery is to be provided @ 15% on the Closing Book Value.

h. The Cash stolen is to be charged to the Profit and Loss Account.

i. Loss of furniture is to be adjusted from the Capital Account.

Prepare Trading, Profit and Loss Account for the year ended 31st March, 2023 and a Balance Sheet as on that date. Make appropriate assumptions whenever necessary.

Question 21

Pg no.______

The following is the Balance Sheet of a concern on 31st March, 2022:

Liabilities	₹	Assets	₹
Capital	10,00,000	Fixed Assets	4,00,000
Creditors (Trade)	1,40,000	Stock	3,00,000
Profit & Loss A/c	60,000	Debtors	1,50,000
		Cash & Bank	3,50,000
	12,00,000		**12,00,000**

The management estimates the purchases and sales for the year ended 31st March, 2023 as under:

	Upto 28.02.23 (₹)	March 2023 (₹)
Purchases	14,10,000	1,10,000
Sales	19,20,000	2,00,000

It was decided to invest ₹ 1,00,000 in purchases of fixed assets, which are depreciated @ 10% on cost.

The time lag for payment to Trade Creditors for purchase and receipt from Sales is one month. The business earns a gross profit of 30% on turnover. The expenses against gross profit amount to 10% of the turnover. The amount of depreciation is not included in these expenses.

Draft a Balance Sheet as at 31st March, 2023 assuming that creditors are all Trade Creditors for purchases and debtors for sales and there is no other item of current assets and liabilities apart from stock and cash and bank balances. Assume that all sales and purchases are on credit basis.

PRACTICE QUESTIONS

MULTIPLE CHOICE QUESTIONS

1. In case of net worth method, profit is determined by
   (a) Preparing a trading and profit and loss account.
   (b) Comparing the capital in the beginning with the capital at the end of the accounting period
   (c) Comparing the net assets in the beginning with the net assets at the end of the accounting period.

2. Single entry system can be followed by
   (a) Small firms.
   (b) Joint stock companies.
   (c) Co-operative societies.

3. Closing capital is calculated as
   (a) Opening capital +Additional capital -Drawings
   (b) Opening capital +Additional capital –Drawings + Profit.
   (c) Opening capital +Additional capital +Drawings - Profit

4. Under single entry system, only personal accounts are kept and, in some cases
   (a) Cash book is maintained
   (b) Fixed assets' accounts are maintained
   (c) Liabilities' accounts are maintained.

5. The closing capital of Mr. B as on 31.3.2023 was ₹ 4,00,000. On 1.4.2022 his capital was ₹ 3,50,000. His net profit for the year ended 31.3.2023 was ₹ 1,00,000. He introduced ₹ 30,000 as additional capital in February, 2023 Find out the amount drawn by Mr. B for his domestic expenses.
   (a) ₹ 1,00,000
   (b) ₹ 80,000
   (c) ₹ 1,20,000

6. Given information:

Opening capital:	60,000
Drawings:	5,000
Capital introduced during the period:	10,000
Closing capital:	90,000

   Profit earned during the period. ?
   (a) ₹ 20,000
   (b) ₹ 25,000
   (c) ₹ 30,000

ANSWERS MCQs

1. (b) **2. (a)** **3. (b)** **4. (a)** **5. (b)** **6. (b)**

TRUE / FALSE

State with reasons whether the following are true or false:

1) A Trial Balance cannot be drawn up from books kept under Single Entry.
2) Nominal Accounts are kept under Single Entry System.
3) Single Entry System can be adopted by small firms
4) Profit under single entry system is always correct and accurate.
5) Profits computed under single entry system by different business entities are not comparable.

Solution

1) **True**: Since incomplete records are maintained, trial balance cannot be prepared
2) **False:** Under the single entry system of bookkeeping, generally cash book and personal accounts of creditors and debtors are maintained, and no other ledger is maintained.
3) **True**: A single entry system is the one where financial transactions are recorded as a single entry in a log and is usually used by new small businesses.
4) **False:** Profit under single entry system is only an estimate based on available information and correct profits cannot be determined.
5) **True**: Since entry system has no fixed set of principles for recording the financial transaction, different organizations maintain records as per their needs. Hence their accounts are not comparable.

HOMEWORK QUESTIONS

TOPIC 1: CAPITAL COMPARISON / STATEMENT OF AFFAIRS METHOD

Question 1 *(RTP June 2024)* Pg no.______

Ankur keeps his books of account by single entry system. Following is the list of his assets and liabilities in the beginning as well as at the end of the year.

Particulars	On 1st April,2022 (₹)	On 31st March,2023 (₹)
Cash in hand	1,750	1,400
Cash at bank	20,000	-
Bank Overdraft	-	1,800
Bills Receivable	15,000	25,000
Stock	93,500	98,700
Debtors	60,000	70,000
Furniture and Fittings	65,000	65,000
Creditors	45,000	31,000
Bills Payable	5,000	Nil

Ankur introduced ₹ 10,000 as fresh capital on 1st October, 2022. He also withdrew ₹ 5,000 every month for his household expenses. During the year, there was no sale or fresh purchase of furniture and fittings.

Ascertain the profit earned by Ankur during the year ended 31st March, 2023 after depreciating furniture and fittings @ 10% per annum and creating a provision for bad debts @ 5% on debtors

Question 2 *(CA Foundation Jan 2025) (5 Marks)* Pg no.______

Following are the details of Assets and Liabilities of Mr. Sarthak for the year ended 31st March, 2023 and 31st March, 2024:

	31st March, 2023 (₹)	31st March, 2024 (₹)
Assets:		
Building	2,00,000	?
Furniture	75,000	?
Inventory	1,05,000	1,95,000
Sundry Debtors	68,000	94,000
Cash at Bank	72,500	86,800
Cash in hand	2,400	3,800
Liabilities:		
Loans	1,50,000	1,25,000
Sundry Creditors	58,400	79,500

It was decided to depreciate Building by 5% p.a. and Furniture by 10% p.a. On 1st June, 2023 an additional capital of ₹ 40,000 was brought in the business. Proprietor has withdrawn @ ₹ 2,500 p.m. for meeting the family expenses.

Prepare Statement of Affairs as on 31st March, 2023 and 31st March, 2023 and 31st March, 2024. Find the profit or loss earned by Mr. Sarthak for the year ended 31st March, 2024.

TOPIC 2: FINAL ACCOUNTS METHOD

Question 3 (RTP May 2020) Pg no.______

Balance sheet position of RukRukMaan is as follows:

	31.03.2022	31.03.2023
Furniture & fixtures	2,60,000	2,34,000
Stock	2,45,000	3,20,000
Debtors	1,25,000	?
Cash in Hand & at bank	1,10,000	?
Creditors	1,35,000	1,90,000
Bills payable	70,000	80,000
Outstanding salaries	19,000	20,000

An analysis of the cash book revealed the following:

Cash sales	16,20,000
Collection from debtors	10,58,000
Discount allowed to debtors	20,000
Cash purchases	6,15,000
Payment to creditors	9,73,000
Discount received from creditors	32,000
Payment for bills payable	4,30,000
Drawings for domestic expenses	1,20,000
Salaries paid	2,36,000
Rent paid	1,32,000
Sundry trade expenses	81,000

Depreciation is provided on furniture & fixtures @10% p.a. on diminishing balance method. RukRukMaan maintains a steady gross profit rate of 25% on sales.

You are required to prepare Trading and Profit and Loss account for the year ended 31st March, 2023 and Balance Sheet as on that date.

Question 4 (RTP Nov 2021) Pg no.______

From the following furnished by Mittalji, prepare Trading and Profit and Loss account for the year ended 31.3.2023. Also draft his Balance Sheet as at 31.3.2023.

Assets & Liabilities	As on 1st April,2022	As on 31st March,2023
Creditors	3,15,400	2,48,000
Sundry expenses outstanding	12,000	6,600
Plant & Machinery	2,32,200	2,40,800
Stock in trade	1,60,800	2,22,400
Cash in hand	59,200	24,000
Cash at bank	80,000	1,37,600
Trade debtors	3,30,600	?
Details relating to transactions in year:		
Cash and discount credited to debtors		12,80,000
Return from Debtors		29,000
Bad debts		8,400
Sales (cash and credit)		14,36,200
Discount allowed by creditors		14,000
Returns to Creditors		8,000
Capital introduced by Cheque		1,70,000

Collection from debtors (Deposited into bank after receiving cash)		12,50,000
Cash purchases		20,600
Expenses paid by cash		1,91,400
Drawings by cheque		8,600
Machinery acquired by cheque		63,600
Cash deposited into Bank		1,00,000
Cash withdrawn from Bank		1,84,800
Cash Sales		92,000
Payment to creditors by cheque		12,05,400

Note: Mittalji has not sold any machinery during the year.

Question 5 *(ICAI Study Material) / (RTP May 2021)* Pg no.______

Ram carried on business as retail merchant. He has not maintained regular account books. However, he always maintained ₹ 10,000 in cash and deposited the balance into the bank account. He informs you that he has sold goods at profit of 25% on sales. Following information is given to you:

Assets & Liabilities	As on 01.04.2022	As on 31.03.2023
Cash in Hand	10,000	10,000
Sundry Creditors	40,000	90,000
Cash at Bank	50,000(Cr.)	80,000(Dr.)
Sundry Debtors	1,00,000	3,50,000
Stock in Trade	2,80,000	?
Ram's Capital	3,00,000	

Analysis of his bank pass book reveals the following information:
(a) Payment to creditors ₹ 7,00,000
(b) Payment for business expenses ₹ 1,20,000
(c) Receipts from debtors ₹ 7,50,000
(d) Loan ₹ 1,00,000 taken on 1.10.2022 at 10% per annum
(e) Cash deposited in the bank ₹ 1,00,000

He informs you that he paid creditors for goods ₹ 20,000 in cash and salaries ₹ 40,000 in cash. He has drawn ₹ 80,000 in cash for personal expenses. During the year Ram had not introduced any additional capital. Surplus cash if any, to be taken as cash sales. All purchases are on credit basis.

Prepare: Trading and Profit & Loss A/c for the year ended 31.3.2023 and Balance Sheet as at 31st March, 2023.

Question 6 *(RTP May 2019) / (RTP Nov 2023) (Similar)* Pg no.______

From the following information in respect of Mr. X, prepare Trading and Profit and Loss Account for the year ended 31st March, 2023 and a Balance Sheet as at that date:

	Particulars	31-03-2022 (₹)	31-03-2023 (₹)
1.	**Liabilities and Assets:**		
	Stock in trade	1,60,000	1,40,000
	Debtors for sales	3,20,000	?
	Bills receivable	-	?
	Creditors for purchases	2,20,000	3,00,000
	Furniture at written down value	1,20,000	1,27,000
	Expenses outstanding	40,000	36,000

	Prepaid expenses Cash on hand Bank Balance	12,000 4,000 20,000	14,000 3,000 1,500
2.	Receipts and Payments during 2022-2023: Collections from Debtors (after allowing 2-1/2% discount) Payments to Creditors (after receiving 2% discount) Proceeds of Bills receivable discounted at 2% Proprietor's drawings Purchase of furniture on 30.09.2022 12% Government securities purchased on 1-10-22 Expenses Miscellaneous Income		 11,70,000 7,84,000 1,22,500 1,40,000 20,000 2,00,000 3,50,000 10,000
3.	Sales are effected so as to realize a gross profit of 50% on cost.		
4	Capital introduced during year by proprietor by cheques was omitted to be recorded in Cash Book, though bank balance of 1,500 on 31st Mar, 2023 (as shown above), is after taking same into account		
5	Purchases and Sales are made only on credit.		
6	During the year, Bills Receivable of ₹ 2,00,000 were drawn on debtors. Of these, Bills amounting to ₹ 40,000 were endorsed in favour of creditors. Out of this latter amount, a Bill for ₹ 8,000 was dishonoured by the debtor.		

Question 7 ***(CA Inter Jan 2021) (10 Marks)*** ***Pg no.______***

Mr. Prakash furnishes following information for his readymade garments business:
Receipts and Payments during 2022-23:

Receipts	Amount	Payments	Amount
Bank Balance as on 1-4-22	16,250	Payment to Sundry Creditors	3,43,000
Received from Sundry Debtors	4,81,000	Salaries	75,000
Cash sales	1,70,800	General Expenses	22,500
Capital brought in the business during the year	50,000	Rent and Taxes	11,800
Interest on Investment received	9,750	Drawings	96,000
		Cash Purchases	1,22,750
		Balance at Bank on 31-03-23	36,600
		Cash in hand on 31-03-23	20,150
	7,27,800		**7,27,800**

Particulars of other Assets and Liabilities are as follows:

	1st April, 2022	31st March, 2023
	(₹)	(₹)
Machinery	85,000	85,000
Furniture	24,500	24,500
Trade Debtors	1,55,000	?
Trade Creditors	60,200	?
Stock	38,600	55,700
12% Investment	85,000	85,000
Outstanding Salaries	12,000	14,000

Additional information:

a) 20% of Total sales and 20% of total purchases are in cash.
b) Of the Debtors, a sum of 7,200 should be written off as Bad debt and further a reserve for doubtful debts is to be provided @ 2%.
c) Provide depreciation @ 10% p.a. on Machinery and Furniture.
You are required to prepare Trading and Profit & Loss account for the year ended 31st March, 2023, and Balance Sheet as on that date.

Question 8 (CA Inter Nov 2019) (10 Marks) / (RTP Sep 2024) / (RTP May 2025) Pg no.______

Archana Enterprises maintain their books of accounts under single entry system. The Balance Sheet as on 31st March, 2022 was as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital A/c Trade creditors Outstanding exp.	6,75,000 7,57,500 67,500	Furniture & fixtures Stock Trade debtors Prepaid insurance Cash in hand & at bank	1,50,000 9,15,000 3,12,000 3,000 1,20,000
	15,00,000		**15,00,000**

The following was the summary of cash and bank book for year ended 31st March, 2023:

Receipts	Amount (₹)	Payments	Amount (₹)
Cash in hand & at Bank on 1st April, 2022 Cash sales Receipts from trade debtors	1,20,000 1,10,70,000 27,75,000	Payment to trade creditors Sundry expenses paid Drawings Cash in hand & at Bank on 31st March, 2023	1,24,83,000 9,31,050 3,60,000 1,90,950
	1,39,65,000		**1,39,65,000**

Additional Information:

a) Discount allowed to trade debtors and received from trade creditors amounted to ₹ 54,000 and ₹ 42,500 respectively. (for the year ended 31st March, 2023)
b) Annual fire insurance premium of ₹ 9,000 was paid every year on 1st August for the renewal of the policy.
c) Furniture & fixtures were subject to depreciation @ 15% p.a. on diminishing balance method.
d) The following are the balances as on 31st March, 2023:
   - Stock ₹ 9,75,000
   - Trade debtors ₹ 3,43,000
   - Outstanding expenses ₹ 55,200
e) Gross profit ratio of 10% on sales is maintained throughout the year.

You are required to prepare Trading and Profit & Loss account for the year ended 31st March, 2023, and Balance Sheet as on that date.

Question 9 (CA Foundation June 2024) (8 Marks) Pg no.______

Harshit Traders are carrying on the retail business of electrical goods. They keep their books of account under single entry system. The Balance Sheet as on 31stMarch, 2023 was as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital A/c	6,05,000	Motor Vehicle	1,10,000
Trade Creditors	75,200	Furniture	73,500
Salary payable	9,000	Stock in trade	1,70,800
		Trade Debtors	1,45,400
		6% Investments	60,000
		Cash in hand & at Bank	1,29,500
	6,89,200		6,89,200

The summary of Cash and Bank Book for the year ended 31st March, 2024 was given as below:

Receipts	Amount (₹)	Payments	Amount (₹)
Cash in hand & at Bank on 1st April,2023	1,29,500	Cash Purchases	9,48,400
Cash Sales	10,22,400	Payment to Trade Creditors	75,45,000
Receipts from Trade Debtors	85,52,000	Salaries	4,12,800
Interest on investments	3,600	Rent & taxes	2,51,600
		Sundry Expenses	1,38,400
		Drawings	2,40,000
		Cash in hand & at Bank on 31st March,2024	1,71,300
	97,07,500		97,07,500

Additional Information:

(i) Gross Profit ratio of 12.5% on Sales is maintained throughout the year.

(ii) During the year, discount allowed to Trade debtors was for ₹ 62,500 and discount received from Trade Creditors amounted to ₹ 35,000.

(iii) As on 31st Mrch,2024. The closing balances to Trade Debtors and Trade Creditors were ₹2,20,500 and ₹ 1,05,600 respectively.

(iv) On 31st March,2024 an amount of ₹ 14,800 was outstanding towards Salary.

(v) Depreciation @ 10% p.a. to be charged on Motor Vehicle and Furniture.

You are required to prepare Trading and Profit & Loss account for the year ended 31st March,2024 and Balance Sheet as on that date.

Question 10 *(CA Inter May 2019) (12 Marks)* **Pg no.______**

The following balances appeared in the books of M/s Sunshine Traders:

	As on 31-03-2022 (₹)	As on 31-03-2023 (₹)
Land and Building	2,50,000	2,50,000
Plant and Machinery	1,10,000	1,65,000
Office Equipment	52,500	42,500
Sundry Debtors	77,750	1,10,250
Creditors for Purchases	47,500	?
Provision for office expenses	10,000	7,500
Stock	?	32,500
Long Term loan from ABC Bank @ 10% p.a.	62,500	50,000
Bank	12,500	?
Capital	4,65,250	?

Other information was as follows:

Collection from Sundry Debtors	4,62,500
Payments to Creditors for Purchases	2,62,500
Payment of office Expenses	21,000
Salary paid	16,000
Selling Expenses paid	7,500
Total sales	6,25,000
Credit sales (80% of Total Sales)	
Credit Purchases	2,70,000
Cash Purchases (40% of Total Purchases)	
Gross Profit Margin was 25% on cost	
Discount Allowed	2,750
Discount Received	2,250
Bad debts	2,250
Depreciation to be provided as follows: Land and Building Plant and Machinery Office Equipment	 5% per annum 10% per annum 15% per annum

(a) On 01.10.2022 the firm sold machine having Book Value ₹ 20,000 (as on 31.03.2022) at a loss of ₹ 7,500. New machine was purchased on 01.01.2023.
(b) Office equipment was sold at its book value on 01.04.2022.
(c) Loan was partly repaid on 31.03.2023 together with interest for the year.

You are required to prepare:

(i) Trading and Profit & Loss account for the year ended 31st March, 2023.
(ii) Balance Sheet as on 31st March 2023.

Question 11 *(CA Inter May 2023) (10 Marks)* *Pg no.______*

Mr. Takewood keeps his books on single entry system. The following information of Mr. Takewood is given:

a) Balances as on 1st April, 2022:

Cash in Hand	₹ 4,000	Stock	₹ 35,000
Cash in Bank	₹ 28,000	Fixed Assets	₹ 20,000
Sundry Creditors	₹ 15,000	Sundry Debtors	₹ 23,000
Capital Account	₹ 95,000		

b) During the year 2022-2023 Sundry Creditors were paid ₹ 26,000 in cash and ₹ 1,55,000 by cheque and received ₹ 55,000 in cash & ₹ 1,90,000 by cheque from Sundry Debtors.
c) All Sales and Purchases were on credit.
d) Balances as on 31st March, 2023: Sundry Debtors ₹ 27,000 & Sundry Creditors ₹ 35,000
e) All expenses which are debited to profit and loss accounts were disbursed by cheques except petty expenses amounting to ₹ 7,500 paid in cash.
f) Outstanding expenses as on 31st March 2023 were ₹ 2,000,
g) Net Profit for the year was ₹ 41,000 after allowing 10% depreciation on fixed assets.
h) Closing Stock was valued at ₹ 75,000.
i) His Drawings during the year were ₹ 10,000 in cash and ₹ 14,000 by cheques.

You are required to prepare Profit and Loss Account for the year ended 31st March 2023 and Balance Sheet as at that date.

TOPIC 3: FINAL ACCOUNTS METHOD: TIME LAG / CREDIT PERIOD

Question 12 *(ICAI Study Material)* Pg no.______

A Firm sold 20% of the goods on cash basis and the balance on credit basis. Debtors are allowed 1½ month's credit and their balance as on 31.03.2023 is ₹ 1,25,000. Assume that the sale is uniform through out the year. Calculate credit sales and total sales of the company for the year ended 31.03.2023.

Question 13 *(CA Inter Dec 2021) (5 Marks)* Pg no.______

A company sold 20% of the goods on cash basis and balance on credit basis. Debtors allowed 1.5 month's credit and their balance as on 31st March, 2023 is ₹1,50,000. Assume that sale is evenly spread throughout the year. Purchase during the year ₹9,50,000. Closing stock is ₹10,000 less than the opening stock. Average stock maintained during year is ₹60,000. Direct expenses amounted to ₹35,000.
Calculate Credit sales, Total sales and Gross profit for the year ended 31st March, 2023.

Question 14 Pg no.______

The following is the Balance Sheet of retail business of Sri Srinivas as at 31st Dec, 2022:

Liabilities	₹	Assets	₹
Sri Srinivas's capital	1,00,000	Furniture	10,000
Liabilities for Goods	20,500	Stock	70,000
Rent	1,000	Debtors	25,000
		Cash in Hand	2,000
		Cash at Bank	14,500
	1,21,500		**1,21,500**

You are furnished with the following information:

a) Sri Srinivas sells his goods at a profit of 20% on sales.
b) Goods are sold for cash and credit. Credit customers pay by cheques only.
c) Payments for purchases are always made by cheques.
d) It is the practice of Sri Srinivas to send to bank every weekend the collections of the week after paying every week, salary of ₹ 300 to the clerk, Sundry expenses of ₹ 50 and personal expenses ₹ 100.

Analysis of the Bank Pass-Book for the 13 weeks period ending 31st March, 23 disclosed the following:

Particulars	Amount (In ₹)
Payments to creditors	75,000
Payments of rent upto 31.3.2023	4,000
Amounts deposited into the bank (include ₹ 30,000 received from debtors by cheques)	1,25,000

The following are the balances on 31st March, 2023:

Stock	40,000
Debtors	30,000
Creditors for goods	36,500

On the evening of 31st March, 2023 the Cashier absconded with the available cash in the cash box. There was no cash deposit in the week ended on that date.
You are required to prepare a statement showing the amount of cash defalcated by the Cashier and also a Profit and Loss Account for the period ended 31st March, 2023 and a Balance Sheet as on that date.

Question 15 (CA Inter Nov 2018) (15 Marks) / (RTP Nov 2022) Pg no.______

Aman, a readymade garment trader, keeps his books under single entry system. On the closing date, i.e. on 31st March, 2022 his statement of affairs stood as follows:

Liabilities	₹	Assets	₹
Aman's capital	4,80,000	Building	3,25,000
Loan	1,50,000	Furniture	50,000
Creditors	3,10,000	Motor car	90,000
		Stock	2,00,000
		Debtors	1,70,000
		Cash in hand	20,000
		Cash at bank	85,000
	9,40,000		**9,40,000**

Riots occurred and a fire broke out on the evening of 31st March, 2023, destroying the books of accounts. On that day, the cashier had absconded with the available cash. You are furnished with the following information:

1. Sales for the year ended 31st March, 2023 were 20% higher than the previous year's sales, out of which, 20% sales were for cash. He always sells his goods at cost plus 25%. There were no cash purchases.
2. Collection from debtors amounted to ₹ 14,00,000, out of which ₹ 3,50,000 was received in cash.
3. Business expenses amounted to ₹ 2,00,000, of which ₹ 50,000 were outstanding on 31st March, 2023 and ₹ 60,000 paid by cheques.
4. Gross profit as per last year's audited accounts was ₹ 3,00,000.
5. Provide depreciation on building and furniture at 5% each and motor car at 20%.
6. His private records and the Bank Pass Book disclosed the following transactions for the year 2022-23:

Payment to creditors (paid by cheques)	13,75,000
Personal drawings (paid by cheques)	75,000
Repairs (paid by cash)	10,000
Travelling expenses (paid by cash)	15,000
Cash deposited in bank	7,15,000
Cash withdrawn from bank	1,20,000

7. Stock level was maintained at ₹ 3,00,000 all throughout the year.
8. The amount defalcated by the cashier is to be written off to the Profit and Loss Account.

You are required to prepare Trading and Profit and Loss A/c for the year ended 31st March, 2023 and Balance Sheet as on that date of Aman. All the workings should form part of the answer.

Question 16 (CA Inter Nov 2020) (10 Marks) Pg no.______

M/s Rohan & Sons runs a business of Electrical goods on wholesale basis. The Balance Sheet as on 31st March, 2022 is as follows:

Liabilities	₹	Assets	₹
Capital	12,50,000	Fixed Assets	6,50,000
Trade Creditors	1,90,000	Closing stock	3,75,000
Profit & Loss A/c	1,45,000	Trade Debtors	3,65,000
		Cash & Bank	1,95,000
	15,85,000		**15,85,000**

Management estimates the purchase & sales for year ended 31st March, 2023 as under:

Particulars	Upto 31.01.2023 (₹)	February 2023 (₹)	March 2023 (₹)
Purchases	16,20,000	1,40,000	1,25,000
Sales	20,75,000	2,10,000	1,75,000

All Sales and Purchases are on credit basis. It was decided to invest ₹ 1,50,000 in purchase of Fixed assets, which are depreciated @ 10% on book value. A Fixed Asset of book value as on 01.04.2022; ₹ 60,000 was sold for ₹ 56,000 on 31st March, 2023.

The time lag for payment to Trade Creditors for purchases is one month and receipt, from Trade debtors for sales is two months. The business earns a gross profit of 25% on turnover. The expenses against gross profit amounts to 15% of the turnover. The amount of depreciation is not included in these expenses.

Prepare Trading & profit & Loss Account for the year ending 31st March, 2023 and draft a Balance Sheet as at 31st March, 2023 assuming that creditors are all Trade creditors for purchases and debtors are all Trade debtors for sales and there is no other current assets and liabilities apart from stock and cash and bank balances. Also, prepare Cash & Bank account and Fixed Assets account for the year ending 31st March, 2023.

Unit 1: INTRODUCTION TO PARTNERSHIP ACCOUNTS

CH 10A

"Your problem isn't the problem. Your reaction is the problem. You can do anything, but not everything."

DEFINITIONS

Partnership	Partnership is the relation between persons who have agreed to share the profits of a business carried on by all or any one of them acting for all.
Partners	Persons who have entered into Partnership with one another are individually called Partners.
Firm	Persons who have entered into Partnership with one another are collectively called firm
Firm Name	The name under which their business is carried on is called the Firm Name

FEATURES OF PARTNERSHIP

Persons	It requires at least two persons to form a Partnership.
Agreement	An agreement is entered by all the persons concerned, setting out the terms and conditions under which the Partnership is based. When this agreement is set out in writing, it is called the "Partnership Deed".
Business	A partnership can exist only in business. Thus, it is not the agreement alone which creates a partnership. A partnership comes into existence only when partners begin to carry on business in accordance with their agreement
Mutual Agency	The activities of the business will be carried on/managed by all or any one of them acting for all. This principle of **mutuality** is the essence of Partnership agreement
Sharing of Profit/loss	The Partners share the profits and losses of the business in the agreed ratio.
Minor as a Partner	A minor can be added in partnership firm. But the condition is that he can be admitted to share profit only. He cannot be made to share losses of the firm.

Number of Partners:

Minimum Partners: Two

Maximum Partners: As per Section 464 of Companies Act, 2013, no association or partnership consisting of more than such number of persons as may be prescribed shall be formed for the purpose of carrying on any business which shall not exceed 100. Prescribed limit is 50. Thus, maximum number of members in a partnership firm are 50.

PARTNERSHIP DEED & CONTENTS

Meaning	Partnership Deed is the written agreement containing the terms and conditions under which the Partnership will sustain or exist.

Contents of Partnership Deed	❖ Name of the firm and the nature of the Partnership Business. ❖ Commencement and Tenure of the Business (e.g. Partnership at Will, etc.) ❖ Amount of Capital to be contributed by each Partner. ❖ Ratio for sharing the Profit/Loss of Partnership business. ❖ Arrangement in respects of Drawings by Partners and limits thereon. ❖ Interest to be credited on the Capital Account of Partners. ❖ Interest to be charged on Drawings of Partners ❖ Remuneration to Partners & the basis of determining such remuneration e.g. Commission as a percentage of Firm's Turnover, other conditions etc. ❖ Process of setting disputes that may arises among the Partners. ❖ Procedure for maintenance of Books of Accounts ❖ Audit of Books of Accounts ❖ Manner of valuation of Goodwill in case of admission of new partners, retirement of existing partners and death of a Partner. ❖ Procedure for settlement of Partners' claims in case of retirement/death ❖ Procedure for dissolution of Partnership
Notes	❖ When partnership deed is not registered a partnership firm is allowed to carry on business subject to certain disabilities. ❖ It is not mandatory to have a written agreement in all cases. Further, even in cases where there is a written Partnership Deed, it is not compulsory to have it registered.

DISTINCTION BETWEEN PARTNERSHIP & LIMITED LIABILITY PARTNERSHIP

BASIS	PARTNERSHIP	LIMITED LIABILITY PARTNERSHIP
Applicable Law	Indian Partnership Act 1932	The Limited Liability Partnerships Act, 2008
Registration	Optional	Compulsory
Creation	Created by an Agreement	Created by Legal process
Separate Legal Entity	No	Yes
Body Corporate	No	Yes
Name	No guidelines. The partners can have any name as per their choice	Name of LLP to contain word limited liability partners (LLP) as suffix.
Perpetual Succession	Partnerships do not have perpetual succession	It has perpetual succession and individual partners may come and go
Number of Partners	Minimum 2 and Maximum 50	Minimum 2 but no maximum limit
Designated Partners	There is no provision for such partners under the Partnership Act, 1932.	At least two designated partners and atleast one of them shall be resident in India.
Legal compliances	All partners are responsible for all the compliances and penalties under the Act.	Only designated partners are responsible for all the compliances and penalties under this Act
Liability of Partners / Members	Liability of each partner is unlimited. It can be extended upto the personal assets of the partners.	Liability of each partner limited to the extent to agreed contribution except in case of willful fraud.

PARTNERS

- ❖ Buying and selling of goods;
- ❖ Receiving payments on behalf of the firm and giving valid receipt;
- ❖ Drawing cheques and drawing, accepting and endorsing bills of exchange and promissory notes in the name of the firm;
- ❖ Borrowing money on behalf of the firm with or without pledging the inventories-in-trade;
- ❖ Engaging servants for the business of the firm.

REMUNERATION, INTEREST ON CAPITAL, LOAN, DRAWINGS, PROFIT SHARING RATIO

1. **Governing Statute:** The law governing Partnership in India is the Partnership Act, 1932.
2. **Conditions not covered by Partnership Deed:** Where any situation or circumstance is not covered by the Partnership Deed or is not adequately provided for in the Partnership Deed, the Provision of the Partnership Act, 1932 will apply.

If the Deed is silent on-	Provisions of the Partnership Act
Partners' Remuneration/ Salary/Commission	**No** Remuneration will be allowed.
Interest on Partners' Capital	**No** IOC will be allowed to any Partner.
Interest on loan given by Partner to Firm	**Maximum 6% p.a.** can be allowed on loan.
Interest on Partners' Drawings	**No** interest will be charged.
Profit Sharing Ratio	Profits and Losses will be shared **equally.**

PARTNER'S CAPITAL ACCOUNTS

1. **Transactions:** The following transactions affect the Capital Accounts of Partners-
   (a) **Capital Contribution** in the form of Cash/ other Asset introduced into business. (Both Initial Capital Contribution & Additional Capital Contribution, to the extent not treated as Loan, will be considered.)
   (b) **Interest on Capital** at the rate agreed in the Partnership Deed,
   (c) **Amounts withdrawn** by Partners during the period.
   (d) **Interest**, if any, chargeable **on Drawings** of partners.
   (e) **Salary/ Remuneration** to Partners for managing the affairs of the business,
   (f) **Share of Profit / loss** of the business as per agreed Profit Sharing Ratio (PSR)

2. **Methods of Accounting:** The transactions affecting the Partners' Capital Accounts may be accounted under any of the following methods-

Aspects	Fluctuating Capital Method	Fixed Capital Method
Ledger A/cs prepared	Partner's Capital Account.	1. Partner's Capital Account, and 2. Partner's Current Account.
Initial Capital contribution	Amount brought in or contribution is **credited to Partner's Capital A/c**	Amount brought in or contributed is **credited to Partners' Capital A/c**
Subsequent transactions	Subsequent transactions are accounted in Partner's **Capital A/c**	Subsequent transactions are accounted in Partner's **Current A/c**

FORMAT OF PARTNER'S CAPITAL ACCOUNT

Particulars	A	B	C	Particulars	A	B	C
To **Cash/Bank** (Withdrawal of capital, if any) To **Balance c/d**				By **Balance b/d** By **Cash/ Bank/ Assets** (Capital Contribution)			
Total				**Total**			

FORMAT OF PARTNER'S CURRENT ACCOUNT

Particulars	A	B	C	Particulars	A	B	C
To **Balance b/d**				By **Balance b/d**			
To **Drawings A/c**				By **P&L Appropriation**			
To **P&L A/c**				-Remuneration/ Salary etc.			
- Share of Loss				-Interest on Capital			
To **P&L Appropriation**				-Share of Profit			
-Interest on Drawings							
To **Balance c/d**				By **Balance c/d**			
Total				**Total**			

Note: If Capital Accounts are maintained on Fluctuating basis, all the above entries will be made in one single Capital Account only. There will not be any Current Account.

PROFIT & LOSS APPROPRIATION ACCOUNT

1. **Purpose:** Profit & Loss A/c of firm will show the profit earned or loss suffered by the firm. To distribute the Profit properly to the Partners, the **Profit & Loss Appropriation A/c is used**

2. **Features:**
   (a) It is an **extension of P&L Account.**
   (b) It is applicable **only for Partnership Firm**, and not Sole Proprietary Concerns.
   (c) It provides details of how Net Profit for the period has been **distributed to the Partners.**
   (d) The entries in P&L Appropriation A/c are **governed by the Partnership Deed.**

Note: Interest on Partners' Loan, Rent for use of Partners' premises, if any, etc. are debited to P&L A/c itself. Net Profit after charging and debiting these items, is only transferred to P&L Appropriation A/c.

3. **Format:**

Dr. **Profit & Loss Appropriation A/c** **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To Interest on partner's capital	XX	By P&L A/c balance (Profit)	XX
A ---		By Interest on partner'sdrawings	XX
B ---		A ---	
To Partner's Salary	XX	B ---	
A ---			
B ---			
To Partner's Commission/Bonus	XX		
A ---			
B ---			
To Reserves (Amount transferred)	XX		
To Profits transferred in PSR:	XX		
A ---			
B ---			
Total	**XXXX**	**Total**	**XXXX**

CALCULATION OF REMUNERATION / SALARY / COMMISSION TO PARTNERS

Remuneration/ Salary/ Commission to Partners, can be provided to Partners, only if the Partnership Deed so provides. The calculations are as under:-

Type of Capital	Computation
1. Remuneration/ Salary	Remuneration / Salary p.a. = Monthly Amount x No. of months
2. Commission as x % of Turnover	Commission p.a. = Sales Turnover of the Firm x Rate of Commission
3. Commission as x % of Net Profit (a) Before Commission (b) After Commission	 Net Profit before Commission x Rate of Commission /100 Net Profit before Commission x $\frac{\text{Rate of Commission}}{(100+\text{Rate of Commission})}$

Example:

Net Profit for the year before Manager's Commission amounted to ₹ 1,10,000
Calculate Manager Commission if commission rate is

a) 10% of net profit before charging manager's commission
b) 10% of net profit after charging manager's commission

INTEREST ON PARTNERS' CAPITAL

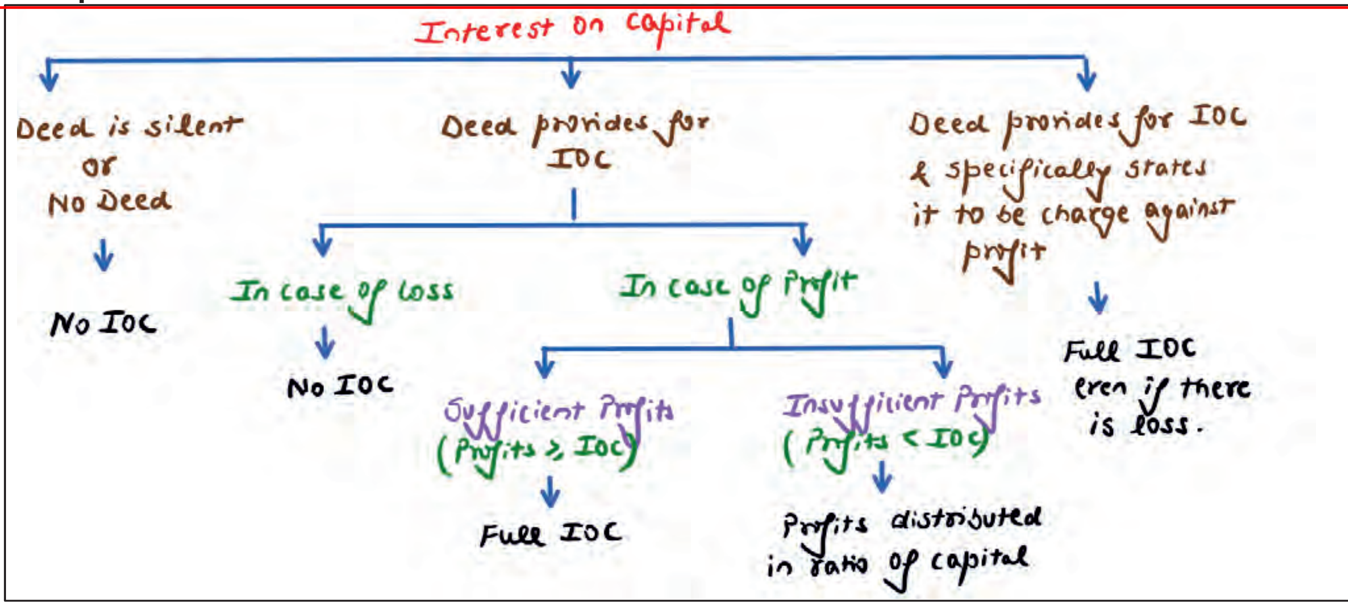
Type of Capital	Computation of Interest on Capital (IOC)
1. Opening Capital	IOC= Opening Capital x Rate of Interest
2. Additional Capital	IOC= Additional Capital x Rate of Interest x Period of use

Example:

Ramesh & Naresh are partners in a firm. Their Capitals as on 1st April of a financial year were ₹ 3,00,000 and ₹ 1,20,000 respectively. They share profits equally. On 1st July, they decided that their Capitals should be ₹ 2,00,000 each. The necessary adjustment in the capitals was made by introducing or withdrawing cash. Interest on Capital is allowed at 8% p.a.
Compute the interest on capital for both Partners for the year ending 31st March.

Interest on Capital in case of Insufficient Profits or Loss

It is an appropriation. It will be paid to the partners if provided for in the agreement but only **from profits**. The treatment in different situations is as under-



Example:

X and Y are Partners sharing profits and losses in the ratio of 2:3 with a capital of ₹ 2,00,000 and ₹ 1,00,000 respectively. Show the distribution of profits/losses for the year ended 31st March, in each of the following cases-

Case 1: If Partnership Deed is silent as to IOC and profits for the year is ₹ 20,000.
Case 2: If Partnership Deed provides for IOC at 6% p.a. and loss for the year is ₹ 15,000.
Case 3: If Partnership Deed provides for IOC at 6% p.a. and profits for year is ₹ 21,000.
Case 4: If Partnership Deed provides for IOC at 6% p.a. and profits for year is ₹ 15,000.

Effective Capital

Partners may agree to share profits and losses in the capital ratio. When capitals are fixed, profits will be shared in the ratio of given capitals. But if capitals are fluctuating and partners introduce or withdraw capitals during the year, the capitals for the purpose of ratio would be determined with reference to time on the basis of weighted average method.

Example:

A and B formed a partnership with a capital contribution of ₹ 1,00,000 & ₹ 80,000 respectively on 1st January 2023. The profits were to be shared in the Capital /Effective Capital ratio. Calculate effective capital, profit sharing ratio & Interest on capital @ 6% p.a.

Date	Capital Introduced		Capital Withdrawn	
	A	B	A	B
1st April	2,00,000			
1st July		40,000	1,00,000	

INTEREST ON PARTNERS' DRAWINGS

- ❖ Drawings refers to amount withdrawn by Partners, in cash or kind, for their personal use.
- ❖ Partners are supposed to pay interest on drawings only when provided by the agreement or agreed by the partners.
- ❖ Interest on drawings is gain for the business. It is recorded on credit side of P&L Appropriation A/c.
- ❖ Partner's Drawings A/c & interest on drawings is closed by transferring to debit side of Capital or Current A/c.

Interest on Drawings

- Dates of Drawings not given
  - P.a. → $IOD = Drawings \times \frac{Rate}{100} \times \frac{6}{12}$
  - ~~P.a.~~ → $IOD = Drawings \times \frac{Rate}{100}$
- Dates of Drawings given
  - Amount of each drawing same **and** Time interval b/w 2 drawings same
    - Direct Method
    - Product Method
    - Shortcut Method (Preferable)
  - Either amount not same **or** Time interval not same
    - Direct Method
    - Product Method (Preferable)
    - Shortcut Method (x)

Short Cut Method

$$IOD = Total\ Drawings \times \frac{Rate}{100} \times \frac{Average\ Time\ Period^{*}}{12}$$

TTP = Total Time Period

TI = Time Interval

* Average Time Period

	Beginning $\frac{TTP + TI}{2}$	Middle $\frac{TTP}{2}$	End $\frac{TTP - TI}{2}$
A) 12 Months Period			
a) Monthly	$\frac{12+1}{2} = 6.5$	$\frac{12}{2} = 6$	$\frac{12-1}{2} = 5.5$
b) Quarterly	$\frac{12+3}{2} = 7.5$	$\frac{12}{2} = 6$	$\frac{12-3}{2} = 4.5$
A) 6 Months Period			
a) Monthly	$\frac{6+1}{2} = 3.5$	$\frac{6}{2} = 3$	$\frac{6-1}{2} = 2.5$
b) Quarterly	$\frac{6+3}{2} = 4.5$	$\frac{6}{2} = 3$	$\frac{6-3}{2} = 1.5$

Example:

Compute interest on partners' Drawings in the following situations, if interest rate is 6% p.a. (Financial year of the firm ends on 31st December)

Date of withdrawal	Feb 1	May 1	June 30	Oct 31st
Amt. withdrawn (₹)	20,000	50,000	40,000	60,000

Example:

Compute interest on partners' Drawings in the following situations, if interest rate is 10% p.a.-

- ₹ 10,000 withdrawn per month, throughout the year, at – (a) beginning of each month, (b) middle of each month, and (c) end of each month.
- Drawings during the entire year ₹ 2,50,000 (details of withdrawal not available)
- Drawings during the entire year ₹ 2,50,000, & interest is to be calculated without reference to time factor (i.e., interest on drawing at 10% and not 10% p.a.)

PAST ADJUSTMENTS IN CAPITAL ACCOUNTS OF PARTNERS

Sometimes few errors & omissions in recording of transactions or the preparation of financial statements are found after final accounts have been prepared & profits distributed among partners. These omissions and errors may be in respect of:

- Interest on capitals,
- Interest on drawings,
- Partner's salary, partner's commission or
- There may also be some changes in the provisions of partnership deed or system of accounting having impact with retrospective effect.

All these acts of omission and commission need adjustments for correction.

Now instead of altering all the old accounts, necessary adjustments can be made either;

- ❖ Through Profit and Loss Adjustment Account, or
- ❖ Directly in the Capital Accounts of the concerned partners.

Journal entry for adjustment is:

Gaining partner capital/current A/c Dr.

To Sacrificing Partner capital/current A/c

TABLE

	A	B	Total
Items to be Recorded			
IOC	✓	✓	✓
Salary, Commission, etc.	✓	✓	✓
Share of Profit	✓	✓	✓
IOD	(✓)	(✓)	(✓)
CR.	✓	✓	✓
Items to be Reversed			
IOC	✓	✓	✓
Salary, Commission, etc.	✓	✓	✓
Share of Profit	✓	✓	✓
IOD	(✓)	(✓)	(✓)
DR.	✓	✓	✓
Difference	✓	✓	

Example:

A, B and C are partners in a firm sharing profits and losses in the ratio of 2:3:5. Their fixed capitals were ₹ 15,00,000, ₹ 30,00,000 and ₹ 60,00,000 respectively.

Case 1: For the year 2023 interest on capital @ 10% was not provided.

Case 2: For the year 2023 interest on capital was credited to them @ 12% instead of 10%.

Pass entry to rectify the error.

GUARANTEE OF MINIMUM PROFIT TO A PARTNER

1. **Meaning:** Sometimes, Partners may mutually agree that certain Partner (s) has the right to have **minimum amount** of profit. Such profit is called Guaranteed Profit or Guaranteed Minimum Profit.

Example: Guarantee given to a partner 'X' by the other partners 'Y & Z' means in case of loss or insufficient profits 'X' will withdraw the minimum guaranteed amount.

2. **Treatment:**

Situation	Steps in Computation/ Treatment
(a) If Profit Share > Guaranteed Profit	Distribute the Total Available Profit in the agreed profit sharing ratio, in the usual manner.
(b) If Profit Share < Guaranteed Profit	• Distribute the Total Available Profit in the agreed profit sharing ratio, in the usual manner. • Compute the **shortfall** in Guaranteed Profit, and add that to the share of the Partner entitled to the same. • Deduct the shortfall from the Profit shares of the Other Partners, as described below

Burden of Shortfall:

Guarantee given by	Shortfall to be reduced from
(a) One of the remaining partners	That Remaining Partner's Share of Profit
(b) Remaining 2 or all Partners in agreed ratio	Two or all Partners, in agreed ratio
(c) Remaining Partners in their mutual PSR	All remaining Partners in mutual PSR

Note: If the question is silent about nature of guarantee, situation (c) given above is assumed

Example

A, B & C partners with PSR 5:3:2. Guarantee given to Partner C of amount 50,000.
Guarantee given by:

1) A and Profits for the year 3,00,000
2) A and Profits for the year 2,00,000
3) A & B (Deficiency to be shared in mutual PSR) and Profits for the year 2,00,000
4) A & B (Deficiency to be shared in 3:2) and Profits for the year 2,00,000

LIMITED LIABILITY PARTNERSHIPS (LLP Act, 2008)

DEFINITIONS

LLP	a partnership formed and registered under this Act
LLP agreement	any written agreement between the partners of the LLP or between the LLP and its partners which determines the mutual rights & duties of the partners and their rights and duties in relation to that limited liability partnership.
Small LLP	Means a limited liability partnership— • the contribution of which, does not exceed 25 lakh rupees or such higher amount, not exceeding 5 crore rupees, as may be prescribed; and • the turnover of which, as per Statement of Accounts and Solvency for the immediately preceding financial year, does not exceed 40 lakh rupees or such higher amount, not exceeding 50 crore rupees, as may be prescribed

NATURE OF LIMITED LIABILITY PARTNERSHIP

1) A LLP is a body corporate formed and incorporated under this Act and is a legal entity separate from that of its partners.
2) A LLP shall have perpetual succession.
3) Any change in the partners of LLP shall not affect the existence, rights or liabilities of LLP

NON-APPLICABILITY OF THE INDIAN PARTNERSHIP ACT, 1932

Save as otherwise provided, the provisions of the Indian Partnership Act, 1932 shall not apply to a LLP.

MINIMUM NUMBER OF PARTNERS

Any **individual or body corporate** may be a partner in a LLP.
Provided that an individual shall not be capable of becoming a partner of a LLP, if
a) he has been found to be of unsound mind by a Court of competent jurisdiction and the finding is in force;
b) he is an undischarged insolvent; or
c) he has applied to be adjudicated as an insolvent and his application is pending

Every LLP shall have **at least two partners.**
If at any time the number of partners of a LLP is reduced below two and the LLP carries on business for more than six months while the number is so reduced, the person, who is the only partner of the LLP during the time that it so carries on business after those six months and has the knowledge of the fact that it is carrying on business with him alone, shall be liable personally for the obligations of the LLP incurred during that period

DESIGNATED PARTNERS

Section 7

Every LLP shall have **at least two designated partners** who are individuals and at least one of them shall be a resident in India.

Provided that in case of a LLP in which all the partners are bodies corporate or in which one or more partners are individuals and bodies corporate, at least two individuals who are partners of such LLP or nominees of such bodies corporate shall act as designated partners.

Explanation- For the purposes of this section, the term "*resident in India*" means a person who has stayed in India for a period of not less 120 days during the immediately preceding one year.

Subject to the provisions of sub-section (1),

1) if the incorporation document-
    a) specifies who are to be designated partners, such persons shall be designated partners on incorporation; or
    b) states that each of the partners from time to time of LLP is to be designated partner, every such partner shall be a designated partner;
2) any partner may become a designated partner by and in accordance with the LLP agreement and a partner may cease to be a designated partner in accordance with LLP agreement.
3) An individual shall not become a designated partner in any LLP unless he has given his prior consent to act as such to the LLP in such form and manner as may be prescribed.
4) Every LLP shall file with the registrar the particulars of every individual who has given his consent to act as designated partner in such form and manner as may be prescribed within thirty days of his appointment.
5) An individual eligible to be a designated partner shall satisfy such conditions and requirements as may be prescribed

LIABILITIES OF DESIGNATED PARTNERS

Unless expressly provided otherwise in this Act, a designated partner shall be-

a) responsible for the doing of all acts, matters and things as are required to be done by the limited liability partnership in respect of compliance of the provisions of this Act including filing of any document, return, statement and the like report pursuant to the provisions of this Act and as may be specified in the LLP agreement; and .
b) liable to all penalties imposed on the LLP for any contravention of those provisions.

LIMITATION OF LIABILITY OF AN LLP AND ITS PARTNERS

An obligation of an LLP arising out of a contract or otherwise, shall be solely the obligation of the LLP. The Liabilities of LLP shall be met out of the properties of the LLP
A partner is not personally liable, directly or indirectly, for an obligation referred to above, solely by reason of being a partner in the LLP
An LLP is not bound by anything done by a partner in dealing with a person, if: ❖ The partner does not have authority to act on behalf of LLP in doing a particular act & ❖ The other person knows that the partner has no authority or does not know or believe him to be a partner in the LLP
The liability of the LLP and the partners perpetrating fraudulent dealings shall be unlimited for all or any of the debts or other liabilities of the LLP
LLP is liable if a partner of LLP is liable to any person as a result of wrongful acts or omission on his part in the course of business of the LLP or with his authority

FINANCIAL DISCLOSURES AND RETURNS

Every LLP shall maintain such proper books of accounts as may be prescribed relating to its affairs for each year of its existence on cash basis or accrual basis and according to the double entry system of accounting and shall maintain the same at its registered office for such period as may be prescribed.
Every LLP shall within six months of the end of each financial year prepare a Statement of Account and Solvency for the said financial year as at the last day of the said financial year, in such form as may be prescribed, and such statement shall be signed by the designated partners of the LLP.
Every LLP shall file within the prescribed time, the Statement of Account and Solvency with the Registrar every year in such form and manner and accompanied by such fee as may be prescribed.
The accounts of an LLP must be audited in accordance with rules as prescribed. Provided that the Central Government may, by notification in the Official Gazette, exempt any class or classes of limited liability partnerships from the requirements of this sub-section

ASSIGNMENT QUESTIONS

Question 1 *(RTP May 2022) / (RTP Jan 2025)* **Pg no.______**

A and B are partners in a firm sharing profits and losses equally. On 1st April, 2020 the balance of their Capital Accounts were : A ₹ 50,000 and B ₹ 40,000. On that date the balances of their Current Accounts were: A ₹ 10,000 (credit) and B ₹ 3,000 (debit). Interest @ 5% p.a. is to be allowed on the balance of Capital Accounts as on 1.4.2020. B is to get annual salary of ₹ 3,000 which had not been withdrawn. Drawings of A and B during the year were ₹ 1,000 and ₹ 2,000 respectively.

The profit for year ended 31st March, 2021 before charging interest on capital but after charging B's salary was ₹ 70,000. It is decided to transfer 10% of divisible profit to a Reserve Account. Prepare Profit & Loss Appropriation Account for the year ended 31st March, 2021 and show Capital and Current Accounts of the Partners for the year.

Question 2 *(RTP May 2023)* **Pg no.______**

P, Q and R were partners in a firm sharing profits in the ratio of 1:2:2. After division of the profits for the year ended 31.03.2022 their capitals were: P ₹ 1,50,000. Q ₹ 1,80,000 and R ₹ 2,10,000. During the year they withdraw ₹ 20,000 each. The profit of the year was ₹ 60,000. The partnership deed provided that interest on capital will be allowed @ 10% p.a. While preparing the final accounts, interest on partners' capital was not allowed. You are required to pass the necessary adjustment entity for providing interest on capital.

Question 3 *(CA Foundation Dec 2021) (5 Marks) / (RTP May 2025)* **Pg no.______**

A, B and C are partners in a firm. On 1st April 2019 their fixed capital stood at ₹ 50,000, ₹ 25,000 and ₹ 25,000 respectively.

As per the provision of partnership deed:

(1) C was entitled for a salary of 5,000 p.a.

(2) All the partners were entitled to interest on capital at 5% p.a.

(3) Profits and losses were to be shared in the ratio of Capitals of the partners.

Net Profit for the year ended 31st March, 2020 of ₹ 33,000 and 31st March,2021 of ₹ 45,000 was divided equally without providing for the above adjustments.

You are required to pass an adjustment journal entry to rectify the above errors.

Question 4 **Pg no.______**

A and B formed a partnership with a capital contribution of ₹ 50,000 and ₹30,000 respectively on 1st January 2023. The profits were to be shared in the capital ratio. Calculate the capital ratio on the basis of following details:

	Capital Introduced		Capital Withdrawn	
	A	B	A	B
31 March	5,000	-	-	2,000
1 July	-	9,000	3,000	-
1 September	5,500	-	-	1,000
1 November	-	4,000	4,500	-

Question 5 *(ICAI Study Material)* **Pg no.______**

Weak, Able and Lazy are in partnership sharing profits and losses in the ratio of 2:1:1. It is agreed that interest on capital will be allowed @ 10% per annum and interest on drawings will be charged @ 8 % per annum. (No interest will be charged/allowed on Current Accounts). The following are the particulars of the Capital and Drawings Accounts of the partners:

	Weak	Able	Lazy
Capital (1.1.2023)	75,000	40,000	30,000
Current Account (1.1.2023)	10,000	5,000	5,000 (Dr.)
Drawings	15,000	10,000	10,000

The draft accounts for 2023 showed a net profit of ₹ 60,000 before taking into account interest on capitals and drawings and subject to following rectification of errors:

(a) Life Insurance premium of Weak amounting to ₹ 750 paid by the firm on 30th June, 2023 has been charged to Miscellaneous Expenditure A/c.

(b) Repairs of Machinery amounting to ₹ 10,000 has been debited to Plant Account and depreciation thereon charged @ 20%.

(c) Travelling expenses of ₹ 3,000 of Able for a pleasure trip to U.K. paid by the firm on 30th June, 2023 has been debited to Travelling Expenses Account.

You are required to prepare the Profit and Loss Appropriation Account, Current Accounts of partners Weak, Able and Lazy for the year ended 31st December, 2023.

Question 6 *(ICAI Study Material)* Pg no.______

Ram and Rahim are in partnership sharing profits and losses in the ratio of 3:2. As Ram, on account of his advancing years, feels he cannot work as hard as before, the chief clerk of the firm, Ratan, is admitted as a partner with effect from 1st January, 2023, and becomes entitled to 1/10th of the net profits and nothing else, the mutual ratio between Ram and Rahim remaining unaltered.

Before becoming a partner, Ratan was getting a salary of ₹ 500 p.m. together with a commission of 4% on the net profits after deducting his salary and commission.

It is provided in the partnership deed that the share of Ratan's profits as a partner in excess of the amount to which he would have been entitled if he had continued as the chief clerk, should be taken out of Ram's share of profits.

The net profit for the year ended December 31, 2023 is ₹ 1,10,000. Show the distribution of net profit amongst the partners

Question 7 *(RTP May 2021)* Pg no.______

Rose, Lilly and Lotus start business with capital of ₹ 2,00,000/-, ₹ 3,00,000/- and ₹4,00,000 on 1st April 2019. Lotus is entitled to a salary of ₹ 50,000 per annum. Interest is allowed on capitals at 12% p.a. and is charged on drawings at 12% per annum. Profits are to be distributed in the ratio 1:2:3 after the above-mentioned adjustments. Rose was given guarantee of minimum profit of ₹ 50,000 by Lotus. Partners drawings during the year were Rose ₹ 40,000/- Lilly ₹ 30,000/- Lotus ₹ 20,000/-.

Lotus had paid ₹ 10,000/- as tuition fees of his son on 31st March 2020, which was wrongly debited to salaries account. The profit for the year 2019-20 before allowing interest on capital and charging interest on drawings and salary paid to Lotus was ₹3,34,600/-.

Assuming the capitals to be fixed, prepare the Profit and Loss Appropriation Account and the Capital and Current Accounts relating to the partners.

PRACTICE QUESTIONS

MULTIPLE CHOICE QUESTIONS

1) If a firm prefers Partners' Capital Accounts to be shown at the amount introduced by the partners as capital in firm then entries for salary, interest, drawings, interest on capital and drawings and profits are made in
   (a) Trading Account
   (b) Profit and Loss Account
   (c) Partners' Current Account

2) In the absence of any agreement, partners are liable to receive interest on their Loans @
   (a) 12% p.a.
   (b) 10% p.a.
   (c) 6% p.a.

3) The relationship between persons who have agreed to share the profit of a business carried on by all or any of them acting for all is known as ....
   (a) Partnership.
   (b) Joint Venture.
   (c) Association of Persons.

4) In the absence of an agreement, partners are entitled to
   (a) Interest on Loan and Advances.
   (b) Commission.
   (c) Salary.

5) Partners are supposed to pay interest on drawings only when .... by the ....
   (a) Provided, Agreement.
   (b) Agreed, Partners
   (c) Both (a) & (b) above.

6) When a partner is given a guarantee by the other partner, loss on such guarantee will be borne by
   (a) Partner who gave the guarantee
   (b) All the other partners.
   (c) Partnership firm

7) A, B and C had capitals of ₹ 50,000; ₹ 40,000 and ₹ 30,000 respectively for carrying on business in partnership. The firm's reported profit for the year was ₹ 80,000. As per provisions of the Indian Partnership Act, 1932, find out the share of each partner in the above amount after taking into account that no interest has been provided on an advance by A of ₹ 20,000, in addition to his capital contribution.
   (a) ₹ 26,267 for Partner B and C & ₹ 27,466 for partner A.
   (b) ₹ 26,667 each partner.
   (c) ₹ 33,333 for A, ₹ 26,667 for B and ₹ 20,000 for C.

8) X, Y and Z are partners in a firm. At the time of division of profit for the year there was dispute between the partners. Profits before interest on partner's capital was ₹ 6,000 and X wanted interest on capital @ 20% as his capital contributions was ₹ 1,00,000 as compared to that of Y and Z which was ₹ 75,000 and ₹ 50,000 respectively.

(a) Profits of ₹ 6,000 will be distributed equally with no interest on either Capital.
(b) X will get the interest of ₹ 20,000 and the loss of ₹ 14,000 will be shared equally.
(c) All the partners will get interest on capital and the loss of ₹ 39,000 will be shared equally.

9) X, Y and Z are partners in a firm. At the time of division of profit for the year there was dispute between the partners. Profits before interest on partner's capital was ₹ 6,000 and Y determined interest @ 24% p.a. on his loan of ₹ 80,000. There was no agreement on this point. Calculate the amount payable to X, Y and Z respectively.
(a) ₹ 2,000 to each partner.
(b) Loss of ₹ 4,400 for X and Z & Y will take home ₹ 14,800.
(c) ₹ 400 for X, ₹ 5,200 for Y and ₹ 400 for Z.

10) X, Y and Z are partners in a firm. At the time of division of profit for the year there was dispute between the partners. Profits before interest on partner's capital was ₹ 6,000 and Z demanded minimum profit of ₹ 5,000 as his financial position was not good. However, there was no written agreement. Profits to be distributed to X, Y and Z will be
(a) Other partners will pay Z the minimum profit and will suffer loss equally.
(b) Other partners will pay Z the minimum profit and will suffer loss in capital ratio.
(c) ₹ 2,000 to each of the partners.

ANSWERS MCQs

1 (c) 2 (c) 3 (a) 4 (a) 5 (c) 6 (a) 7 (a) 8 (a) 9 (c) 10 (c)

TRUE / FALSE

State with reasons, whether the following statements are true or false:

1) In absence of any agreement partners share profits of the business in the ratio of their capital contribution.
2) Profit sharing ratio and capital contribution ratio need not be same.
3) Every partnership firm must register itself with Registrar of firms.
4) A partner can advance loan to the partnership firm in addition to capital contributed by him.
5) A partner can demand interest on capital even if it is not provided in the partnership deed.
6) If a partner does not take part in day to day business activities of the firm then he is not entitled to any share of profit.
7) Interest should be paid @ 6% p.a. on partners' loan even if it is not provided in the partnership deed.
8) Husband and wife can not be partners in the same firm.
9) One senior partner is Principal and other partners are his agents.
10) Partners are the agents of the firm and each other.
11) A partner who devotes more time to a business than other partners is entitled to get a salary.
12) Partners can share profits or losses in their capital ratio, when there is no agreement
13) The business of partnership firm must be carried on by all the partners.
14) When there is no partnership deed prevails, the interest on loan of a partner to be paid @ 6%. ***(May 2018)***
15) Limited Liability Partnership (LLP) is governed by Indian Partnership Act, 1932. ***(May 2019)***
16) A Partnership firm cannot own any Assets. ***(Nov 2019)***
17) A partnership firm can acquire fixed assets in the name of the firm.

Solution

1) **False**: In absence of any agreement partners share profits equally and not in capital contribution ratio.
2) **True**: Profit sharing can be different from the that of the capital introduced by each of the partner. Not necessary that partner contributing more capital should have a higher profit sharing ratio and vice versa.
3) **False**: Registration of firms is not compulsory under Indian Partnership Act 1932.
4) **True**: Yes loan can given to the firm by the partner in addition to the capital. Where the partnership deed is absent, then the interest shall be paid at a minimum of 6% per annum. So the interest on the loan to be paid to the partner.
5) **False**: Interest on capital can be paid only if it is provided in the partnership deed.
6) **False**: Every partner need not take part in the business. Even if a partner does not take part in the business he is entitled for his share of profit.
7) **True**: Yes as per the provisions of the law- it is necessary that the interest on loan at 6% per annum shall be paid to the concerned partner.
8) **False**: Husband and wife can be partners in the same firm.
9) **False**: There is no senior or junior partner. Every partner is agent/principal of other partners.
10) **True**: Concept of agency applies to every partner and the firm as well. So each partner is a principal to and agent of every other partner and to the firm.
11) **False**: Unless and until the partnership deed specifically provides for the entitlement of salary, no partner can receive it.
12) **False**: According to the Partnership Act, 1932, when there is no agreement the partners are to share the profit and loss equally among themselves.
13) **False**: According to the Partnership Act, 1932, partnership can be carried on by all or any of them acting for all.
14) **True**: When there is no partnership deed then the provisions of the Indian Partnership Act are to be applied for settling the dispute. Interest on loan is payable @ 6% p.a. as per Indian Partnership Act
15) **False:** The provisions of the Indian Partnership Act, 1932 shall not apply to a limited liability partnership. Limited Liability (LLPs) Act, 2008 is applicable for Limited Liability Partnerships.
16) **True:** A partnership firm is not a distinct legal entity and therefore can't own any assets. The partners own the assets of the firm
17) **False**: A partnership firm cannot acquire fixed assets in its name since it is not a separate legal entity. It acquires fixed assets in the name of its partners.

HOMEWORK QUESTIONS

Question 1 ***(ICAI Study Material)*** *Pg no.*______

Ram and Rahim started business with capital of ₹ 50,000 and ₹ 30,000 on 1st January, 2023. Rahim is entitled to a salary of ₹ 400 per month. Interest is allowed on capitals and is charged on drawings at 6% per annum. Profits are to be distributed equally after the above noted adjustments. During the year Ram withdrew ₹ 8,000 and Rahim withdrew ₹ 10,000. The profit for the year before allowing for the terms of the Partnership Deed came to ₹ 30,000. Assuming Fixed capitals, Prepare Profit & Loss Appropriation Account and Capital & Current Accounts of the partners

Question 2 ***(ICAI Study Material)*** *Pg no.*______

A and B started business on 1st January, 2023, with capitals of ₹ 30,000 and ₹ 20,000. According to the Partnership Deed, B is entitled to a salary of ₹ 500 per month and interest is to be allowed on capitals at 6% per annum. The remaining profits are to be distributed amongst partners in the ratio of 5:3. During 2023 firm earned profit, before charging salary to B & interest on capital amounting ₹ 25,000. During year A & B withdrew ₹ 8,000 & ₹ 10,000 for domestic purposes. Pass Journal entries relating to division of Profit and Prepare P&L Appropriation A/c & Capital Accounts.

Question 3 *Pg no.*______

On 1st April, 2020, X, Y and Z enter into partnership introducing capital of ₹80,000, ₹50,000 and ₹50,000 respectively. They agree to share Profits and Losses equally. At the end of the accounting year on 31st March, 2021, X claims that he be paid interest on his additional Capital of ₹30,000 @ 10% per annum, while Z demands salary of ₹600 per month for the extra hours devoted by him daily at the shop. The partnership deed is silent on these matters. Decide the matters with reasons.

Question 4 ***(ICAI Study Material)*** *Pg no.*______

Ram, Rahim and Karim are partners in a firm. They have no agreement in respect of profit-sharing ratio, interest on capital, interest on loan advanced by partners and remuneration payable to partners. In the matter of distribution of profits they have put forward the following claims:

a) Ram, who has contributed maximum capital demands interest on capital at 10% p.a. and share of profit in the capital ratio. But Rahim and Karim do not agree.
b) Rahim has devoted full time for running the business and demands salary at the rate of ₹ 500 p.m. But Ram and Karim do not agree.
c) Karim demands interest on loan of ₹ 2,000 advanced by him at market rate of interest which is 12% p.a.

How shall you settle the dispute and prepare Profit and Loss Appropriation Account after transferring 10% of the divisible profit to Reserve. Net profit before taking into account any of the above claims amounted to ₹ 45,000 at the end of the first year of their business.

Question 5 ***(ICAI Study Material)*** *Pg no.*______

X and Y are partners. As per terms of agreement interest is allowed on capital at 8% p.a. and charge on drawing at 10% p.a. X withdrew ₹40,000 pm at the end of each month and Y withdrew ₹ 120,000 at the end of each quarter. You are required to fill the missing figures in following accounts:

Profit and Loss Appropriation Account for the year ended March 31, 2023

Particulars	Amount	Particulars	Amount
To ...?	?	By Profit and Loss A/c (Net profit)	?
To Interest on Capital A/c X 160,000 Y ?	2,88,000	By Interest on Drawings A/c X ? Y ?	?
To Profit tfd to Capital A/c X (2/3) ? Y (1/3) 280,000	?		
	?		**?**

Partner's Capital Accounts

Particulars	X	Y	Particulars	X	Y
To ....?	?	?	By ....?	?	?
To ....?	?	?	By Salary A/c	3,60,000	Nil
To ....?	?	?	By ....?	?	?
			By ....?	?	?
	?	**?**		**?**	**?**

Question 6 *(RTP May 2018) / (May 2020) / (Nov 2021) / (Nov 2022) (Similar)* ***Pg no.______***

A, B and C entered into partnership on 1.1.2021 to share profits and losses in the ratio of 5 : 3 : 2. A personally guaranteed that C's share of profit after charging interest on capitals at 5% p.a. would not be less than ₹ 30,000 in any year. Capitals of A, B and C were ₹ 3,20,000, ₹ 2,00,000 and ₹ 1,60,000 respectively. Profits for the year ending 31.12.2021 before providing for interest on partners capital was ₹ 1,59,000. You are required to prepare the Profit and Loss Appropriation Account

Question 7 *(ICAI Study Material)* ***Pg no.______***

A and B were partners in a firm sharing profits and losses in the ratio of 3:2. They admit C for 1/6th share in profits and guaranteed that his share of profits will not be less than ₹ 250,00,000. Total profits of the firm for the year ended 31st March, 2023 were ₹ 900,00,000. Calculate share of profits for each partner when:

1. Guarantee is given by firm.
2. Guarantee is given by A
3. Guarantee is given by A and B equally.

Question 8 *(ICAI Study Material)* ***Pg no.______***

A and B are partners sharing profits and losses in the ratio of their effective capital.
They had ₹ 1,00,000 and ₹ 60,000 respectively in their Capital Accounts as on 1st January, 2023. A introduced a further capital of ₹ 10,000 on 1st April, 2023 and another ₹ 5,000 on 1st July, 2023. On 30th September, 2023 A withdrew ₹ 40,000.
On 1st July, 2023, B introduced further capital of ₹ 30,000.
The partners drew the following amounts in anticipation of profit.
A drew ₹ 1,000 per month at the end of each month beginning from January, 2023. B drew ₹ 1,000 on 30th June, and ₹ 5,000 on 30th September, 2023.
12% p.a. interest on capital is allowable and 10% p.a. interest on drawings is chargeable. Date of closing 31.12.2023.
Calculate: (a) Profit-sharing ratio; (b) Interest on capital; and (c) Interest on drawings.

Question 9 ***(CA Foundation Jan 2021) (5 Marks)*** ***Pg no._____***

Discuss the rules if there is no Partnership Agreement.

Question 10 ***(CA Foundation June 2023) (5 Marks)*** ***Pg no._____***

X and Y were partners in a firm, sharing profit and losses in the ratio of 3: 2. They admit Z for 1/6th share in profits and guaranteed that his share of profits will not be less than 50,00,000. Total profits of the firm for the year ended 31st March, 2022 were 1,80,00,000. Calculate share of profit for each partner when:

(i) Guarantee is given by firm

(ii) Guarantee is given by X and Y equally.

Question 11 ***(CA Foundation Dec 2023) (5 Marks)*** ***Pg no._____***

P. Q and R are the 3 partners in partnership firm. Partnership deed includes the following:

i.) R is entitled to get salary of ₹ 10,000 p.a.

ii.) P, Q and R are to get interest @ 6% on their respective capital of ₹ 2,50,000; ₹ 1,50,000 and ₹ 1,00,000.

iii.) R is to get extra benefit of 10% of profit in excess of ₹ 50,000 after providing for para (i) and (ii) mentioned above.

iv.) Q is entitled to 10% of profits after providing all the amounts in para (i), (ii) and (iii) mentioned above.

v.) The balance of profits will be shared by P, Q and R in the ratio of 5:3:2. The profits for the year before providing above items are ₹ 3,50,000.

You are required to prepare Profit and Loss Appropriation Account.

Question 12 ***(CA Foundation Jan 2025) (5 Marks)*** ***Pg no._____***

X and Y are partners sharing profits and losses in the ratio of their effective capital. As on 1st April, 2023, they had ₹ 2,80,000 and ₹ 1,60,000 respectively in their Capital Accounts.

X introduced a further capital of ₹ 20,000 on 1st June, 2023 and another ₹ 15,000 on 1st October 2023. On 31st January 2024, X withdrew ₹ 25,000.

On 1st August, 2023 Y introduced further capital of ₹ 30,000.

During the Financial year 2023-24, the partners drew the following amounts in anticipation of profit:

X drew ₹ 5,000 at the beginning of each quarter and Y drew ₹ 1,500 per month at the end of each month beginning from April, 2023

As per partnership agreement, the profits were to be shared in capital ratio. The interest on Capital @ 12% p.a. is allowable and interest on drawings @ 10% p.a. is chargeable.

You are required to calculate

(i) Profit-sharing ratio;

(ii) Interest on capital; and

(iii) Interest on drawings.

Unit 2: TREATMENT OF GOODWILL

CH 10B

Whenever you get pains in your life, just think about the full form of pains. Positive attitude in negative situation.? Follow it, life will change."

1. Goodwill is the value of **reputation** of a Firm in respect of profits expected in future over and above the normal rate of profits earned by similar Firms in the same locality.
2. Goodwill is the benefits & advantages of good name, reputation & connections of a business firm. It is that attractive force which brings in customers & enhances the revenues of firm.
3. Extra amount over and above the saleable values of the identifiable assets that could be fetches by selling an existing firm as a going concern.

TYPES OF GOODWILL

A. **Purchased Goodwill**	B. **Self-Generated Goodwill**
1. **Purchased Goodwill** arises when a business is purchased, & the consideration paid therefore is more than the value of assets taken over. 2. Purchased Goodwill= Purchase Consideration **Less** Net Assets taken over **3.** Purchased Goodwill is recorded in books of accounts & **is shown** in **balance sheet.** 4. The firm may **write off** purchased Goodwill over a period of time.	1. It refers to **internally generated goodwill,** that arises to the special advantages possessed by the Firm. 2. Internally Generated Goodwill is **not recorded** in the books of account, since Accounting Standard 26 issued by ICAI specifically provides so.

Situations which may involve valuation of Goodwill in case of Firms:

Following are the situations warranting Valuation of Goodwill in case of Partnership Firms-

- Change in Profit Sharing Ratio amongst the Partners,
- Admission of a new Partner,
- Retirement or Death of a Partner

METHODS OF VALUATION OF GOODWILL

METHOD 1: AVERAGE PROFITS METHOD

Average Profits Method

Simple Average

$$\text{Average Profits} = \frac{\text{Profits of 'n' years}}{\text{No. of years}}$$

Goodwill = Avg. Profits x No. of years of Purchase

Weighted Average

$$\text{Weighted Average Profits} = \frac{\text{Total weighted Profits}}{\text{Total of weights}}$$

Goodwill = Weighted Avg. Profits x No. of years of Purchase

Computation of Adjusted Profits

Profits	xx
+ Abnormal loss	xx
− Abnormal Gain	(xx)
− Omission of Expense	(xx)
+ Omission of Income	xx
± Rectification of Errors	xx/(xx)
	xx

METHOD 2: SUPER PROFITS METHOD

Super Profits Method

Goodwill = Super Profits (SP) × No. of Years of Purchase

SP = Average Profits (AP) − Normal Profits (NP)

NP = Capital Employed (CE) × Rate of Return (rr)

CE = Total Assets − Outsider Liabilities (excl. Fictitious assets & Non Trade Investments)

Example:

A firm earned Net Profits during the last three years as follows–

Year	I	II	III
Profit	₹ 24,000	₹ 20,000	₹ 22,000

The capital investment of the Firm is ₹ 60,000. A fair return on the capital having regard to the risk involved is 10%. Compute the value of Goodwill based on three years purchase of the Super Profits for the last three years.

METHOD 3: ANNUITY METHOD

Annuity Method

Goodwill = Super Profits × Annuity Factor (A.F.)

$$A.F. = \sum PVF\,(r\%, n)$$

PVF = Present value Factor

r% = Rate of Return / Discounted Rate

n = No. of years

Example:

Super Profits = 16,000

What will be the value of Goodwill if future cash flow of next 3 years are discounted at 8% rate?

METHOD 4: CAPITALISATION METHOD

Capitalisation Method

Capitalisation of Average Profits

Goodwill = Capitalised value of Business (CVB) − Capital Employed

$$CVB = \frac{\text{Average Profits}}{r\%}$$

Capitalisation of Super Profits

$$\text{Goodwill} = \frac{\text{Super Profits}}{r\%}$$

Sometimes Question specifies to apply Average Capital Employed

Average Capital Employed = $\dfrac{\text{Opening Capital Employed + Closing Capital Employed}}{2}$

TREATMENT OF GOODWILL IN CASE OF CHANGE IN PSR

Accounting Issue involved	Journal Entry
1. Writing off Goodwill existing in books	All Partner's Capital A/c (individually) Dr. (in **old ratio**) To Goodwill A/c
2. Adjusting Goodwill on change in PSR	Gaining Partner's Capital A/c Dr. (in **Gain ratio**) To Sacrificing Partners' Capital A/c (in **Sacrifice Ratio)**

Sacrifice	Gain
Partners whose shares in Profit have deceased as a result of change in PSR, are known as **Sacrificing Partners.**	Partners whose shares in profits have increased as a result of change in PSR, are known as **Gaining Partners**
The ratio in which Partners have agreed to reduce their profits in favour of the other Partner(s) is called **Sacrifice Ratio or Sacrificing Ratio.**	The ratio in which Partners have agreed to gain their profits from the other Partner (s) is called **Gain Ratio or Gaining Ratio**
Sacrifice Ratio = Old Ratio **less** New Ratio	**Gain Ratio** = New Ratio **less** Old Ratio

Example:

P, Q and R are partners sharing profits and losses in the ratio of 3:2:1. The goodwill of the firm is valued at ₹ 12,000. They have decided to change the profit-sharing ratio to 2:2:1. Pass Journal Entry for goodwill adjustment.

ASSIGNMENT QUESTIONS

Question 1 Pg no.______

The past profits of five years of a partnership firm are: ₹ 50,000; ₹ 40,000; ₹ 52,000; ₹ 48,000 and ₹ 56,000 respectively. Calculate the value of goodwill on the basis of 4 years' purchase of the average profits of the last five years.

Question 2 Pg no.______

A firm of A, B and C has a total capital investment of ₹ 4,50,000. The firm earned net profits during the last four years as: I-₹ 70,000; II-₹ 80,000; III-₹ 1,20,000 and IV- ₹ 1,00,000. The reasonable expected return is 15 per cent having regard to the risk involved. Calculate the value of goodwill based on 3 years' purchase of average super profits of the past four years.

Question 3 Pg no.______

Calculate the goodwill by annuity method of super profit from the following facts:
(a) Annual maintainable profit after tax is ₹ 65,000.
(b) Capital employed is ₹ 4,00,000.
(c) Normal rate of return is expected at 12% p.a.
(d) Present value of an annuity of ₹ 1 for five years @ 12% interest is 3.604776.

Question 4 Pg no.______

The net tangible assets of a firm are worth ₹ 4,10,000 and the average profit of last four years amounts to ₹ 60,000. Find out the value of goodwill under capitalization method if the reasonable return on capital invested is 12%.

Question 5 *(ICAI Study Material)* Pg no.______

Lee and Lawson are in equal partnership. They agreed to take Hicks as $1/4^{th}$ partner. For this it was decided to find out the value of goodwill. M/s Lee & Lawson earned profits during 2020-2023 as follows:

Year	Profit	Year	Profit
2020	1,20,000	2022	1,30,000
2021	1,25,000	2023	1,50,000

On 31.12.2023 capital employed by M/s Lee and Lawson was ₹ 5,00,000. Rate of normal profit is 20%. Find out the value of goodwill following various methods. (Consider 3 years purchase)

Question 6 *(RTP Nov 2018) / (Nov 2019) / (Nov 2021) / (Nov 2023) (Similar)* Pg no.______

Vasudevan, Sunderarajan and Agrawal are in partnership sharing profit and losses at the ratio of 2:5:3. The Balance Sheet of the partnership as on 31.12.2021 was as follows:

Balance Sheet of M/s Vasudevan, Sunderarajan & Agrawal

Liabilities	₹	Assets	₹
Capital A/cs		Sundry fixed assets	5,00,000
Vasudevan	85,000	Stock	1,00,000
Sunderarajan	3,15,000	Debtors	50,000
Agrawal	2,25,000	Bank	5,000
Sundry Creditors	30,000		
	6,55,000		**6,55,000**

The partnership earned profit ₹ 2,00,000 in 2021 & the partners withdrew ₹ 1,50,000 during the year. Normal rate of return 30%. Find out the value of goodwill on the basis of 5 years' purchase of super profit. Calculate super profit using average capital employed

Question 7 *(ICAI Study Material)* Pg no.______

The following particulars are available in respect of the business carried on by Rathore

1.	Capital Invested		1,50,000
2.	Trading Results:	2020	Profit 40,000
		2021	Profit 36,000
		2022	Loss 6,000
		2023	Profit 50,000
3.	Market Rate of interest on investment		10%
4.	Rate of risk return on capital invested in business		2%
5.	Remuneration from alternative employment of the proprietor (if not engaged in business).		₹ 6,000 per annum

You are required to compute the value of goodwill on the basis of 5 years' purchase of super profit of the business calculated on the average profits of the last four years.

Question 8 *(ICAI Study Material)* Pg no.______

A, B and C are in partnership sharing profits and losses in the ratio of 4:3:3. They decided to change the profit sharing ratio to 7:7:6. Goodwill of the firm is valued at ₹ 20,000. Calculate the sacrifice/gain by the partners and make the necessary journal entry.

Question 9 *(ICAI Study Material)* Pg no.______

A, B, C and D are in partnership sharing profits and losses equally. They mutually agreed to change the profit sharing ratio to 3:3:2:2. Goodwill of the firm is valued at ₹ 20,000. Pass necessary journal entry.

Question 10 *(ICAI Study Material)* Pg no.______

Wise, Clever and Dull were trading in partnership sharing profits and losses 4:3:3 respectively. The accounts of the firm are made up to 31st December every year.

The partnership provided, inter alia, that:

On the death of a partner the goodwill was to be valued at three years' purchase of average profits of the three years upto the date of the death after deducting interest @ 8 per cent on capital employed and a fair remuneration of each partner. The profits are assumed to be earned evenly throughout the year.

On 30th June, 2023, Wise died and it was agreed on his death to adjust goodwill in the capital accounts without showing any amount of goodwill in the Balance Sheet. It was agreed for the purpose of valuation of goodwill that the fair remuneration for work done by each partner would be ₹ 15,000 per annum and that the capital employed would be ₹ 1,56,000. Clever and Dull were to continue the partnership, sharing profits and losses equally after the death of Wise.

The following were the amounts of profits of earlier years before charging interest on capital employed.

Year	Profit
2020	67,200
2021	75,600
2022	72,000
2023	62,400

Compute the value of goodwill and show the adjustment thereof in the books of the firm.

PRACTICE QUESTIONS

MULTIPLE CHOICE QUESTIONS

1) Goodwill brought in by incoming partner in cash for joining in a partnership firm is taken away by the old partners in their.........ratio.
   (a) Capital.
   (b) New Profit Sharing.
   (c) Sacrificing.

2) A & B are partners sharing profits and losses in the ratio 5:3. On admission, C brings ₹70,000 cash and ₹48,000 against goodwill. New profit sharing ratio between A, B and C are 7:5:4. Find the sacrificing ratio of A:B.
   (a) 3:1.
   (b) 4:7.
   (c) 5:4.

3) Following are the factors affecting goodwill except:
   (a) Nature of business.
   (b) Efficiency of management.
   (c) Location of the customers.

4) Weighted average method of calculating goodwill should be followed when:
   (a) Profits has increasing trend.
   (b) Profits has decreasing trend.
   (c) Either 'a' or 'b'.

5) In the absence of any provision in the partnership agreement, profits and losses are shared
   (a) In the ratio of capitals.
   (b) Equally.
   (c) In the ratio of loans given by them to the partnership firm

6) The profits and losses for the last 4 years are 2018-19 Losses ₹ 10,000; 2019-20 Losses ₹ 2,500; 2020-21 Profits ₹ 98,000 & 2021-22 Profits ₹ 76,000. The average capital employed in the business is ₹ 2,00,000. The rate of interest expected from capital invested is 12%. The remuneration of partners is estimated to be ₹ 1,000 per month not charged in the above losses/ profits. Calculate the value of goodwill on the basis of two years purchase of super profits based on the average of four years.
   (a) ₹ 9,000.
   (b) ₹ 8,750.
   (c) ₹ 8,250.

7) A, B and C are partners sharing profits and losses in the ratio 3:2:1. They decide to change their profit sharing ratio to 2:2:1. To give effect to this new profit sharing ratio they decide to value the goodwill at ₹ 30,000. Pass the necessary journal entry if Goodwill not appearing in the old balance sheet and should not appear in the new balance sheet.
   (a) B's Capital Account Dr. ₹ 2,000
   C's Capital Account Dr. ₹ 1,000
   To A's Capital Account ₹ 3,000
   (b) Goodwill Account Dr. ₹ 30,000
   To A's Capital Account ₹ 15,000
   To B's Capital Account ₹ 10,000
   To C's Capital Account ₹ 5,000

(c) A's Capital Account Dr. ₹ 12,000
B's Capital Account Dr. ₹ 12,000
C's Capital Account Dr. ₹ 6,000
To Goodwill Account ₹ 30,000

8) Firm has earned exceptionally high profits from a contract which will not be renewed. In such a case the profit from this contract will not be included in ....
(a) Profit sharing of the partners.
(b) Calculation of the goodwill.
(c) Both.

ANSWERS MCQs

1 (c) 2 (a) 3 (c) 4 (c) 5 (b) 6 (b) 7 (a) 8 (b)

TRUE / FALSE

State with reasons, whether the following statements are true or false:

1) Goodwill is intangible asset therefore it cannot be valued.
2) Goodwill is valued whenever there is change in profit sharing ratio among the partners.
3) Goodwill is the value of reputation of a firm in respect of profits expected in future over and above the normal rate of profits
4) At the time of admission or retirement of a partner, goodwill can be raised in the books of accounts and shown as an asset.
5) Only simple average method can be used for valuation of goodwill.
6) Super profit means excess of actual average profit over normal profit.
7) Normal profit means profit earned by similar companies in the same industry.
8) Normal profit depends upon Normal Rate of Return and past profits.
9) At the time of admission/retirement of a partner, since goodwill cannot be raised in the books of accounts is recorded through capital accounts of the partners.
10) At the time of admission of a partner, goodwill brought in by the new partner is shared equally by old partners.

Solution

1) **False**: Even though Goodwill is intangible asset it can be valued in terms of money.
2) **True**: Goodwill has to be valued every time whenever there is a reconstitution.
3) **True**: Goodwill is the brand image the firm has in the market due to which it enjoys an advantageous position over the other players in the market.
4) **False**: At the time of admission or retirement of a partner, goodwill should not be raised in the books of account of partnership firm because no consideration in money or money worth has been paid for it.
5) **False**: Weighted average profit method, capitalisation method, super profits methods also can be used for valuation of Goodwill.
6) **True**: Super profit means excess profit that can be earned by the firm over and above the normal profit usually earned by similar firms under similar circumstances.
7) **True**: The rate of return is considered as an average for the industry, which is applied to the capital employed in the concerned firm.
8) **False**: Normal profit depends upon Normal rate of return only and not on past profits.
9) **True**: Generally, the goodwill at the time of admission is adjusted through the capital accounts and not shown in the books of the firm.
10) **False**: Goodwill brought in by new partner is shared by old partners in sacrificing ratio and not equally

HOMEWORK QUESTIONS

Question 1 — Pg no.______

Shiv and Mohan are partners in a firm sharing profits and losses equally. On 31st March, 2023, the balances of their capital accounts were ₹ 3,00,000 and ₹ 2,00,000 respectively. The average profits of the firm are ₹ 1,36,000 and the rate of normal profit is 20%. On 1st April, 2023 they agreed to admit Hari as a partner for one fourth share. Hari will bring ₹ 1,00,000 as capital. Compute value of the goodwill of firm on admission of Hari, if it is to be calculated on the basis of:

a) 5 years purchase of super profit
b) Capitalization method
c) 3 years purchase of average profit.

Question 2 *(RTP Nov 2019)/(May 2020)/(Nov 2020)/(May 2022)/(Nov 2022)/(Sep 2024)* — Pg no.______

A and B are partners in a firm. Their capital are A ₹ 6,00,000 and B ₹ 4,00,000. During the year ended 31st March, 2024 the firm earned a profit of ₹ 3,00,000. Assuming that the normal rate of return is 20%, calculate the value of goodwill of the firm:

(i) By Capitalization Method; and
(ii) By Super Profit Method if the goodwill is valued at 2 years' purchase of Super Profit.

Question 3 *(RTP May 2023) / (RTP May 2021)/ (RTP May 2019) (Similar)* — Pg no.______

The profits and losses for the previous years are: 2019 Profit ₹ 15,000, 2020 Loss ₹ 25,500, 2021 Profit ₹ 75,000, 2022 Profit ₹ 1,12,500. The average Capital employed in the business is ₹ 3,00,000. The rate of interest expected from capital invested is 10%. The remuneration from alternative employment of the proprietor is ₹ 9,000 p.a. Calculate the value of goodwill on the basis of 3 years' purchases of Super Profits based on the average of 4 years.

Question 4 *(ICAI Study Material)* — Pg no.______

A, B & C are equal partners. They wanted to change the profit sharing ratio into 4:3:2. Make the necessary journal entries. Goodwill of the firm is valued at ₹ 90,000.

Question 5 *(ICAI Study Material)* — Pg no.______

Antoo, Bantoo and Chintoo were in partnership sharing profits and losses 3:4:3 respectively. The accounts of the firm are made up to 31st March every year. The partnership provided, interalia, that: On the retirement of a partner the goodwill was to be valued at three years' purchase of average profits of the past four years up to the date of the retirement after deducting interest @12%p.a. on capital employed and remuneration of ₹ 2,000 p.m.to each partner. On 1st April 2023, Antoo retired and it was agreed on his retirement to adjust goodwill in the capital accounts without showing any amount of goodwill in the Balance Sheet. It was agreed that the capital employed would be ₹6,50,000. Bantoo and Chintoo were to continue the partnership, sharing profits and losses equally after the retirement of Antoo.

The following were the amounts of profits of earlier years before charging salary to partners and interest on capital employed.

Year	Profit
2019-20	2,60,000
2020-21	2,75,000
2021-22	2,65,000
2022-23	2,80,000

You are required to compute the value of goodwill & show the adjustment there of in the books of firm.

Question 6 **(CA Foundation June 2022) (5 Marks)** Pg no.______

Mr. X gives the following particulars in respect of business carried on by him:

Particulars	Amount (₹)
Capital Invested in business	9,00,000
Market rate of interest on investment	8%
Rate of risk return on capital invested in business	3%
Remuneration per annum from alternative employment of proprietor if he was not engaged in business	36,000

The business earned profits of ₹ 2,40,000, ₹ 2,16,000 and ₹ 3,00,000 in the years 2018, 2019 and 2021 respectively but made a loss of ₹ 36,000 in the year 2020.

Compute the value of Goodwill on the basis of 6 years' purchase of super profits of the business, calculated on the basis of average profit of last four years.

Question 7 **(CA Foundation Dec 2022) (5 Marks)** Pg no.______

R and S are partners in a firm with a capital of 14,00,000 and 12,00,000 respectively. During the year ended on 31st March, 2022 firm earned a profit of ₹ 6,50,000. Assuming that the normal rate of return is 20%. Calculate the amount of Goodwill of the firm by using

a. Capitalization method
b. Super Profit method, if the goodwill is valued at 6 years purchase of super profits.

Question 8 **(RTP Jan 2025)** Pg no.______

The following information given below:

(i) Total Assets ₹10,00,000
(ii) External Liabilities ₹1,80,000
(iii) Normal Rate of Return 10%
(iv) Average Net Profit of last five years ₹1,00,000

You are required to calculate goodwill by applying:

(i) Capitalization Method and
(ii) 3 year's purchase of super profits.

Unit 3: ADMISSION OF NEW PARTNER

CH 10C

"A working ant is better than a sleeping elephant. A small progress everyday lead us to big success."

CONCEPT

New partners are admitted for the benefit of the partnership firm. New partner is admitted either for increasing the partnership capital or for strengthening the management of the firm.

Points to Note:

1) Calculation of New Ratio & Sacrificing Ratio
2) Revaluation of Assets & Liabilities
3) Treatment of Reserves
4) Treatment of Goodwill
5) Adjustment of Partners capital Accounts

Example 1

X and Y share profits in the ratio 5:3. Z is admitted for 1/4th Share in Profits. Compute New PSR and Sacrifice Ratio

Example 2

X & Y share profits in the ratio 5:3. Z is admitted for 1/5th Share in Profits, which he takes as 1/10th each from X & Y. Compute New PSR and Sacrifice Ratio.

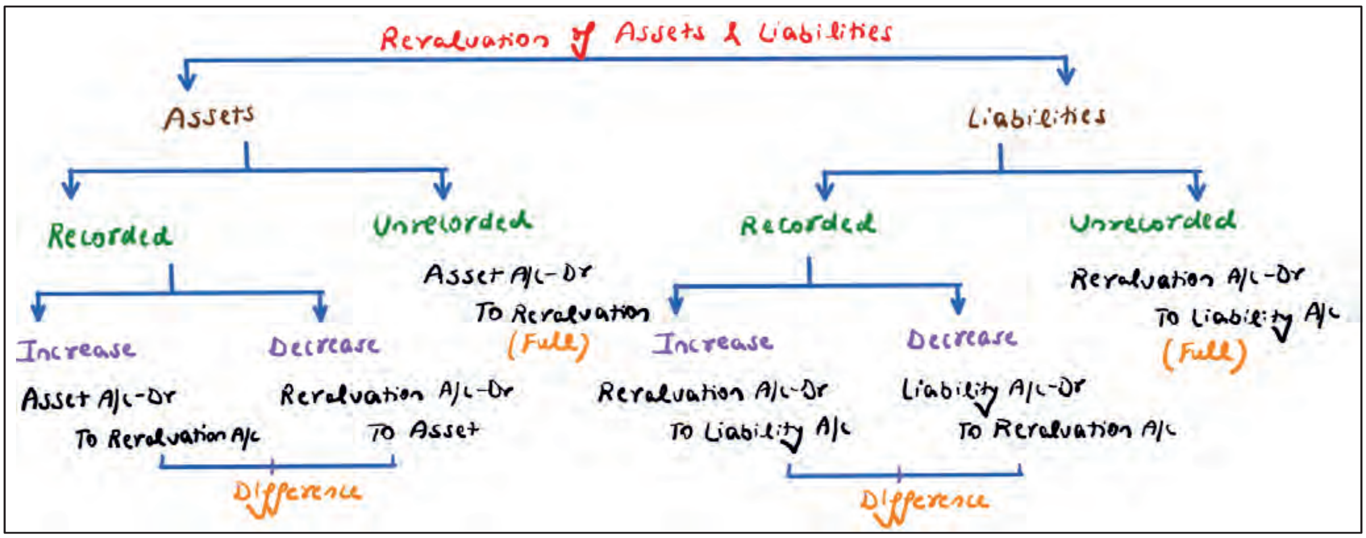
Example 3

X & Y share profits in the ratio 3:2. Z is admitted and for which X surrenders 1/5th of his share in favour of Z & Y surrenders 2/5th of his share in favour of Z. Compute New PSR and Sacrifice Ratio.

Example 4

A,B & C share profits in the ratio 3:2:5. D is admitted for 1/4th share which is contributed in the ratio of 1 : 1 : 3. Compute New PSR.

REVALUATION OF ASSETS & LIABILITIES



Revaluation A/c

Particulars	Amount	Particulars	Amount
To Asset (Decrease)		By Asset (Increase)	
To Liabilities (Increase)		By Assets unrecorded	
To Liabilities unrecorded		By Liabilities (Decrease)	
To Revaluation profit (old partners in old ratio)		By Revaluation Loss (old partners in old ratio)	

Passing the entry through Capital A/c of Partners (Preparing Memorandum Revaluation Account)

1. Find the net gain or loss on Revaluation as follows
2. Entry:

    Gaining partners capital A/c (in case of profits)
            To Sacrificing partners capital A/c
    Sacrificing partners capital A/c (in case of losses)
            To Gaining partners capital A/c

Note: When profit/loss on revaluation of assets and liabilities is adjusted through capital accounts only then the assets & liabilities appear in B/sheet of new firm at their old figures.

Difference Between Revaluation Account and Memorandum Revaluation Account

- Revaluation account is prepared to find out the profit or loss on revaluation of assets and liabilities which appear in the new balance sheet at the new or revalued figures. Memorandum revaluation account is also prepared to record the effect of revaluation of assets & liabilities which of course are recorded at their old figures in new balance sheet.
- Revaluation account is not divided into two parts. But the memorandum revaluation account has two parts: first part for old partners and second part for all partners including the new partner.

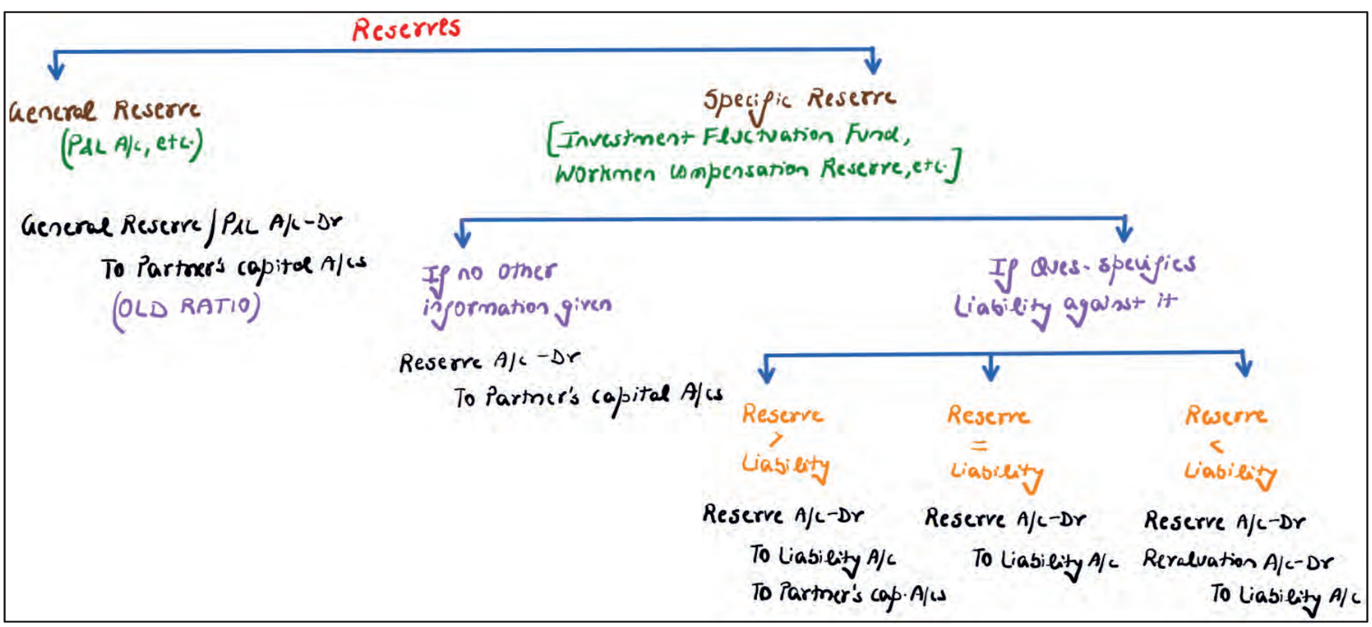
Example

X, Y & Z   Old PSR = 5 : 3 : 2   New PSR = 2 : 3 : 5

They decided to record effect of revaluation without affecting the book values of assets & liabilities by passing single adjustment entry.

	Book value	Revaluation figures
Land & Building	1,00,000	1,50,000
Plant & Machinery	1,50,000	1,40,000
Creditors	50,000	45,000
Outstanding Expenses	45,000	60,000

TREATMENT OF RESERVES



Note: Sometimes the partner may decide not to close the Reserves / P& L A/c but to record the adjustment entry.

Gaining Partners' capital A/c Dr.

To Sacrificing Partners capital A/c

Example

X, Y & Z

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

Workmen Compensation Reserve appearing in balance sheet ₹ 1,200.

a) If there is no other information

b) If the workmen compensation claim is ₹ 150/-

c) If the workmen compensation claim is ₹ 2,250/-

TREATMENT OF GOODWILL

Treatment of Goodwill

Old G/w (Appearing in B/S)

Old Partner's Capital A/c - Dr

To Goodwill A/c

G/w Valued

① Bring

Cash / Bank / Asset A/c - Dr

To New Partner's cap. A/c

To Premium for G/w

② G/w Adjustment

Premium for G/w A/c - Dr

New Partner's cap. A/c - Dr

To Sacrificing Partners cap. A/c

③ Withdrawal of G/w

Sacrificing Partner's cap. A/c - Dr

To Cash / Bank A/c

Example:

A & B are partners with PSR of 3:2.
C is admitted into the firm for $1/5^{th}$ share. His share of capital is 50,000. Goodwill of firm valued at 1,00,000. Pass entries in the following cases:

a) C brings his share of capital & goodwill
b) C brings his share of capital & 60% share of goodwill
c) C brings his share of capital only & nothing for goodwill

HIDDEN GOODWILL

Net worth (including goodwill) on the basis of capital brought by an incoming partner
(Incoming partners capital A/c x Reciprocal of his share)
Less: Net worth (excluding G/w of the firm)

Where, ***Net worth*** is Total Assets – Outsiders' Liabilities

OR

Capital of partners including new + Reserves + P & L (Cr. Bal.) – Miscellaneous expenditure

Example

A & B having PSR 3 : 2 are partners with capitals of ₹ 30,000 & ₹ 20,000 on date of C's admission for $1/5^{th}$ share who brings ₹ 40,000. Following are the balances:

P & L (Cr.) = 6,000 Reserves = 55,000 Deferred Revenue Expenditure = 1,000

Find Goodwill.

ADJUSTMENT OF CAPITAL

Example 1

A & B. Ratio = 3 : 2. C is admitted 1/4th share & brings ₹ 1,00,000 as capital. Capital of new firm is to be ₹ 4,00,000. Actual capital after all adjustments of A & B are ₹ 2,00,000 & ₹ 1,00,000. New capital will be shared in their new PSR.

Example 2

A & B = 3 : 2. Capital of A & B after adjustments are ₹ 80,000 & ₹ 60,000 respectively C is admitted who brings ₹35,000 as capital for 1/5th share of profit to be acquired equally from A & B. Capital of A & B are to be adjusted on the basis of C's capital.

Example 3

A & B = 3 : 2

Capitals of A & B after adjustments are ₹ 90,000 & ₹ 70,000. Calculate incoming partners proportionate capitals & surplus/shortage of existing capitals of old partners.

a) If C is to contribute proportionate capital for his 1/5th share

b) If C is to contribute 1/4th of the combined capitals of the existing partners.

c) If C is to contribute proportionate capital for his 1/5th share & capitals of all the partners are to be adjusted in new PSR 3:1:1

ASSIGNMENT QUESTIONS

Question 1 *(ICAI Study Material)* Pg no.______

The following is the Balance Sheet of Yellow and Green as at 31st December, 2023:

Liabilities	₹	Assets	₹
Capital A/cs		Cash at Bank	10,000
Yellow	25,000	Sundry assets	55,000
Green	20,000		
Trade Payables	20,000		
	65,000		**65,000**

The partners shared profits and losses in the ratio 3:2. On the above date, Black was admitted as partner on the condition that he would pay ₹ 20,000 as Capital.

Goodwill was to be valued at 3 years' purchase of average of four years' profits which were:

Year	Profit
2020	9,000
2021	14,000
2022	12,000
2023	13,000

The new profit sharing ratio is 6:5:5. Give journal entries & balance sheet

a) If goodwill is adjusted through partners' capital accounts

b) If goodwill is brought in cash

c) If goodwill is brought in cash but withdrawn

d) If goodwill is paid privately

Question 2 *(ICAI Study Material)* Pg no.______

Gopal and Govind are partners sharing profits and losses in the ratio 60:40. The firms' balance sheet as on 31.03.2023 was as follows:

Liabilities		₹	Assets	₹
Long term loan		2,00,000	Fixed assets	3,00,000
Current liabilities		2,50,000	Investments	50,000
Capital Accounts:			Current assets	2,00,000
Gopal	1,20,000		Loans and advances	1,00,000
Govind	80,000	2,00,000		
		6,50,000		**6,50,000**

Due to financial difficulties, they have decided to admit Guru as partner in the firm from 01.04.2023 on the following terms:

Guru will be paid 40% of the profits. Guru will bring in cash ₹ 1,00,000 as capital. It is agreed that goodwill of the firm will be valued at 2 years' purchase of 3 years' normal average profits of the firm & Guru will bring in cash his share of goodwill. It was also decided that the partners will not withdraw their share of goodwill nor will the goodwill appear in the books of account. The profits of the previous three years were as follows:

For the year ended 31.3.2021: profit ₹ 20,000 (includes insurance claim received of ₹ 40,000).

For the year ended 31.3.2022: loss ₹ 80,000 (includes voluntary retirement compensation paid ₹1,10,000).

For the year ended 31.3.2023: profit of ₹1,05,000 (includes a profit of ₹ 25,000 on the sale of assets).

It was decided to revalue the assets on 31.03.2023 as follows:

Fixed assets (net)	4,00,000
Investments	Nil
Current assets	1,80,000
Loans and advances	1,00,000

The new profit sharing ratio after the admission of Guru was 35:25:40.
Pass journal entries on admission, show goodwill calculation & prepare revaluation account, partners' capital accounts and balance sheet as on 01.04.2023 after the admission of Guru.

Question 3 *(ICAI Study Material)* Pg no.______

Alpha & Beeta were partners in LLP namely Meta-Chem LLP sharing profits & losses equally.

BALANCE SHEET of Meta-Chem as on 31st March 2023

Liabilities	₹	Assets	₹
Capital Accounts:		Factory Building	4,78,000
Alpha	3,00,000	Plant & Machinery	3,41,000
Beeta	2,00,000	Office Furniture	55,850
General Reserve	1,80,000	Inventory	77,740
Workmen Compensation Fund	60,000	Trade Receivables	1,43,210
Term Loan from IDFC Bank	2,78,000	Bank	44,200
Trade Payables	1,22,000		
	11,40,000		**11,40,000**

They agreed to admit Gyama as partner from 1st April 2023 on the following terms:
1. He shall have one-sixth share in future profits.
2. New profit sharing ratio would be 3:2:1
3. He shall bring ₹ 2,50,000 as his capital.
4. Goodwill of the firm is valued at ₹ 3,00,000
5. Factory Building is to be appreciated by 20% and inventory is revalued at ₹ 70,000.
6. Machinery to be appreciated by 20%.and Office furniture to be revalued at ₹ 50,000
7. Of the trade receivables ₹ 3,210 are bad and 5% be provided for bad & doubtful debts.
8. There is no actual liability towards workman.

You are required to prepare:
1. Revaluation account
2. Partners' capital accounts.
3. Bank Account
4. Balance Sheet after admission.

Question 4 *(ICAI Study Material)* Pg no.______

A and B are in the partnership sharing profits and losses in the proportion of three-fourth and one-fourth respectively. Their balance sheet as on 31st March, 2023 was as follows: Cash ₹1,000; trade receivables ₹25,000; Inventory ₹22,000; plant and machinery ₹4,000; trade payables ₹12,000; bank overdraft ₹15,000; A's capital ₹15,000; B's capital ₹10,000.
On 1st April, 2023, they admitted C into partnership on the following terms:
a) C to purchase one-third of the goodwill for ₹2,000 and provide ₹10,000 as capital. Goodwill not to appear in books.
b) Further profits and losses are to be shared by A, B and C equally.
c) Plant and machinery is to be reduced by 10% and ₹500 is to be provided for estimated bad debts. Inventory is to be taken at a valuation of ₹24,940.
d) By bringing in or withdrawing cash and capitals of A and B are to be made proportionate to that of C on their profit-sharing basis.

Set out entries to the above arrangement in firm's journal & give partners' capital accounts.

Question 5 *(ICAI Study Material)* Pg no.______

A and B are in partnership sharing profits and losses equally. The Balance Sheet of M/s A and B as on 31-12-23 was as follows :

Liabilities	₹	Assets	₹
Capital A/cs		Sundry Fixed assets	60,000
A	45,000	Inventories	30,000
B	45,000	Bank	20,000
Trade Payables	20,000		
	1,10,000		**1,10,000**

On 1-1-24 they agreed to take C as 1/3rd partner to increase the capital base to ₹ 1,35,000. C agrees to pay ₹ 60,000. Capital to be in their new profit sharing ratio. Show necessary journal entries and prepare partners' capital accounts.

Question 6 *(ICAI Study Material)* Pg no.______

Dalal, Banerji and Mallick is a firm sharing profits and losses in the ratio 2:2:1. Their Balance Sheet as on 31st March, 2023 is as below:

Liabilities		₹	Assets	₹
Trade Payables		12,850	Land and Buildings	25,000
Outstanding liabilities		1,500	Furniture	6,500
General reserve		6,500	Inventory of goods	11,750
Capital Account :			Trade Receivables	5,500
Mr. Dalal	12,000		Cash in hand	140
Mr. Banerji	12,000		Cash at bank	960
Mr. Malick	5,000	29,000		
		49,850		**49,850**

Partners have agreed to take Mr. Mistri as a partner with effect from 1st April, 2023 on the following terms:

(1) Mr. Mistri shall bring 5,000 towards his capital.
(2) The value of inventory should be increased by ₹ 2,500 and Furniture should be depreciated by 10%.
(3) Reserve for bad and doubtful debts should be provided at 10% of the trade receivables.
(4) The value of land and buildings should be enhanced by 20%
(5) The value of the goodwill be fixed at ₹ 15,000.
(6) General Reserve will be transferred to the partner's Capital Accounts.
(7) The new profit sharing ratio shall be : Mr. Dalal 5/15, Mr. Banerji 5/15,Mr. Mallick 3/15 and Mr. Mistri 2/15.

The outstanding liabilities include ₹ 1,000 due to Mr. Sen which has been paid by Mr. Dalal. Necessary entries were not made in the books. Prepare

(i) Revaluation Account, and
(ii) The Capital Accounts of the partners, and
(iii) Balance Sheet of the firm after admission of Mr. Mistri.

Question 7 Pg no.______

The following was the Balance Sheet of 'Kamal' and 'Rani', who were sharing profits and losses in the ratio of 2:1 on 31.12.2021:

Liabilities	₹	Assets	₹
Capital Account :		Plant and Machinery	24,00,000
Kamal	20,00,000	Building	18,00,000

Rani	10,00,000	Sundry debtors	6,00,000
Reserves	18,00,000	Stock	8,00,000
Sundry creditors	8,00,000	Cash	2,00,000
Bills payable	2,00,000		
	58,00,000		**58,00,000**

They agreed to admit 'Nisha' into the partnership on the following terms:

a) The goodwill of the firm was fixed at ₹ 2,10,000.
b) That the value of stock and plant and machinery were to be reduced by 10%.
c) That a provision of 5% was to be created for doubtful debts.
d) That the building account was to be appreciated by 20%.
e) There was an unrecorded liability of ₹ 20,000.
f) Investments worth ₹ 40,000 (Not mentioned in the Balance Sheet) were taken into account.
g) That the value of reserves, the values of liabilities and the values of assets other than cash are not to be altered.
h) 'Nisha' was to be given one-fourth share in the profit and was to bring capital equal to his share of profit after all adjustments.

Prepare Memorandum Revaluation Account, Capital account of the partners and the Balance Sheet of the newly reconstituted firm.

Question 8

Pg no.______

The Balance Sheet of Amit, Bhushan and Charan, who share profits and losses as 3 : 2 : 1 respectively, as on 01.04.2021 is as follows:

Liabilities	₹	Assets		₹
Capital Accounts :		Machinery		1,50,000
Amit	1,80,000	Furniture		1,50,000
Bhushan	1,60,000	Stock		2,10,000
Charan	1,40,000	Debtors	80,000	
Current Accounts: Bhushan	16,000	Less: Provision for Bad Debts	(4,000)	76,000
Creditors	1,20,000	Cash		20,000
		Current Account: Charan		10,000
	6,16,000			**6,16,000**

Dev is admitted as a partner on the above date for $1/5^{th}$ share in the profit and loss. Following are agreed upon:

1) The profit and loss sharing ratio among the old partners will be equal.
2) Dev brings in ₹ 1,50,000 as capital but is unable to bring required amount of premium for goodwill.
3) The goodwill of the firm is valued at ₹ 60,000.
4) Assets and liabilities are to be valued as follows: Machinery ₹ 2,06,000 : Furniture ₹ 1,28,000 : Provision for doubtful debts @ 10% on debtors.
5) Necessary adjustments regarding goodwill and Profit / loss on revaluation are to made through the Partner's Current Accounts.
6) It is decided that the revalued figures of assets and liabilities will not appear in the Balance Sheet of the new firm.
7) Capital Accounts of the old partners in the new firm should be proportionate to the new profit and loss sharing ratio, taking Dev's Capital as base. The existing partners will not bring cash for further capital. The necessary adjustments are to be made through the partner's Current Account.

Prepare Partner's Capital & Current Account, & Balance Sheet of the new firm after admission

Question 9 (CA Foundation Dec 2021) (10 Marks) / (RTP Sep 2024) Pg no.______

A and B are partners, sharing profits and losses in the proportion of 3/4th and 1/4th As at 31st March, 2021, following is the Balance Sheet of A and B.

Balance Sheet as at 31st March 2021

Liabilities	₹	Assets	₹
Capital Accounts:		Cash in Hand	1,15,000
A 2,85,000		Cash at Bank	1,10,000
B 1,55,000	4,40,000	Debtors	1,60,000
General Reserve	60,000	Stock	2,00,000
Creditors	3,75,000	Bills Receivable	30,000
		Land & Building	2,50,000
		Office Furniture	10,000
	8,75,000		**8,75,000**

They agreed to take C into Partnership on 1st April, 2021 on the following terms:

(a) Goodwill is to be valued at ₹ 2,00,000. C is unable to bring cash for his share of goodwill. So, it was decided that due credit for goodwill be given to A and B for their sacrifice in favour of C through C's current account.

(b) C pays ₹ 1,40,000 as his capital for 1/5th share in the future profits.

(c) Stock and Furniture to be reduced by 10%.

(d) A provision @ 5% for doubtful debts to be created on debtors.

(e) Land and building to be appreciated by 20%.

(f) Capital Accounts of the partners be readjusted on the basis of their profit sharing arrangement and any excess or deficiency is to be transferred to their Current Accounts.

Prepare Revaluation Account and Partners Capital Accounts.

PRACTICE QUESTIONS

MULTIPLE CHOICE QUESTIONS

1) A and B are partners sharing profits and losses in the ratio 5:3. They admitted C and agreed to give him 3/10th of the profit. What is the new ratio after C's admission?
   (a) 35:42:17.
   (b) 35:21:24.
   (c) 49:22:29.

2) A and B are partners sharing profits in the ratio 5:3, they admitted C giving him 3/10th share of profit. If C acquires 1/5 from A and 1/10 from B, new profit sharing ratio will be:
   (a) 5:6:3.
   (b) 2:4:6.
   (c) 17:11:12

3) C was admitted in a firm with 1/4th share of the profits of the firm. C contributes ₹15,000 as his capital, A and B are other partners with the profit sharing ratio as 3:2. Find the required capital of A & B, if capital should be in profit sharing ratio taking C's as base capital:
   (a) ₹27,000 and ₹16,000 for A and B respectively.
   (b) ₹27,000 and ₹18,000 for A and B respectively.
   (c) ₹32,000 and ₹21,000 for A and B respectively.

4) A, B and C are partners sharing profits and losses in the ratio 6:3:3, they agreed to take D into partnership for 1/8th share of profits. Find the new profit sharing ratio.
   (a) 12:27:36:42.
   (b) 14:7:7:4.
   (c) 1:2:3:4.

5) A and B are partners sharing profits and losses in the ratio of 3:2 (A's Capital is ₹30,000 and B's Capital is ₹15,000). They admitted C and agreed to give 1/5th share of profits to him. How much C should bring in towards his capital?
   (a) ₹9,000.
   (b) ₹12,000.
   (c) ₹11,250.

6) A and B are partners sharing the profit in the ratio of 3:2. They take C as the new partner, who brings in ₹25,000 against capital and ₹10,000 against goodwill. New profit sharing ratio is 1:1:1. In what ratio will this amount will be shared among the old partners A & B.
   (a) ₹8,000: ₹2,000.
   (b) ₹5,000: ₹5,000.
   (c) Old partners will not get any share in the goodwill brought in by C.

7) A and B are partners sharing the profit in the ratio of 3:2. They take C as the new partner, who is supposed to bring ₹25,000 against capital and ₹10,000 against goodwill. New profit sharing ratio is 1:1:1. C brought cash for his share of Capital and agreed to compensate to A and B outside the firm. How this will be treated in the books of the firm.
   (a) Cash brought in by C will only be credited to his capital account.
   (b) Goodwill will be raised to full value in old ratio.
   (c) Goodwill will be raised to full value in new ratio.

8) X and Y are partners sharing profits in the ratio of 3: 1. They admit Z as a partner who pays ₹4,000 as Goodwill the new profit sharing ratio being 2:1: 1 among X, Y and Z respectively. The amount of goodwill will be credited to:
 (a) X and Y as ₹3,000 and ₹1,000 respectively.
 (b) X only
 (c) Y only.

9) P and Q are partners sharing Profits in the ratio of 2:1. R is admitted to the partnership with effect from 1st April on the term that he will bring ₹ 20,000 as his capital for 1/4th share and pays ₹ 9,000 for goodwill, half of which is to be withdrawn by P and Q. If profit on revaluation is ₹ 6,000 and opening capital of P is ₹ 40,000 and of Q is ₹ 30,000, find the closing balance of each capital.
 (a) ₹ 47,000: ₹ 33,500: ₹ 20,000
 (b) ₹ 50,000: ₹ 35,000: ₹ 20,000.
 (c) ₹ 40,000: ₹ 30,000: ₹ 20,000

10) Adam, Brain and Chris were equal partners of a firm with goodwill ₹ 1,20,000 shown in the balance sheet and they agreed to take Daniel as an equal partner on the term that he should bring ₹ 1,60,000 as his capital and goodwill, his share of goodwill was evaluated at ₹ 60,000 and the goodwill account is to be written off before admission. What will be the treatment for goodwill?
 a) Write off the goodwill of ₹ 1,20,000 in old ratio.
 b) Cash brought in by Daniel for goodwill will be distributed among old partners in sacrificing ratio.
 c) Both (a) & (b)

ANSWERS MCQs

1 (b) 2 (c) 3 (b) 4 (b) 5 (c) 6 (a) 7 (a) 8 (b) 9 (a) 10 (c)

TRUE / FALSE

State with reasons, whether the following statements are true or false:

1) A newly admitted partner does not have same rights as old partners.
2) When a new partner is admitted, old partners have to forego certain share in profits of the firm, this is called as sacrifice ratio.
3) Revaluation account is also called as Profit and Loss Adjustment Account. ***(June 2024)***
4) Any appreciation in the value of an asset is credited to Revaluation account.
5) All the partners may decide not to change the values of assets and liabilities in the books of accounts.
6) New partner is entitled to have share in Reserves appearing in the balance sheet prior to his admission.
7) If revaluation account shows credit balance then it represents profit and therefore it is credited to all partners equally.
8) New partner brings in necessary amount as his capital.
9) New partner is entitled to share in revaluation profit.
10) Goodwill brought in by incoming partner in cash for joining in a partnership firm is taken away by the old partners in their new profit sharing ratio
11) Profit or loss on revaluation is shared among the partners in new profit sharing ratio.
12) The balance of memorandum revaluation account (second part) is transferred to the capital accounts of the partners in old profit sharing ratio.

13) When Memorandum Revaluation account is prepared, assets & liabilities in the balance sheet will appear at their old values.
14) At the time of admission or retirement of a partner, goodwill can be raised in the books of accounts and shown as an asset.
15) Any Reserve appearing in the Balance Sheet is credited to existing partners equally.
16) In case of admission of a new partner in a partnership firm, the profit/loss on revaluation account is transferred to all partners in their new profit sharing ratio. ***(Nov 2020)***

Solution

1) **False**: All the partners have same rights at all times, unless contrary is provided in the partnership deed or agreed by the partners.
2) **True**: With every new partner, remaining old partners have to foregone a proportion in their share which is called as sacrifice ratio
3) **True**: Revaluation Account is also called as Profit and Loss Adjustment account. It is used to record the gain/loss arising from the revaluation of assets and liabilities of a firm at the time of reconstitution.
4) **True**: Increase in Asset is an income hence credited to revaluation account.
5) **True**: This can be done by opening Memorandum Revaluation Account.
6) **False**: New partner is not entitled to have any share in the reserves of the firm prior to his admission. Such reserves are distributed to old partners in their old profit sharing ratio.
7) **False**: If revaluation account shows credit balance then it represents profit and therefore it is credited to all partners in their profit sharing ratio and not equally.
8) **True**: Every incoming partner shall bring in some amount of capital for the firm
9) **False**: New partner is not entitled to profit on revaluation, it belongs to old partners in their old profit sharing ratio.
10) **False**: The goodwill in cash, brought in by the new partner is taken away by the old partners in the sacrificing ratio and not in the new profit sharing ratio.
11) **False**: Profit or loss on revaluation is shared among the partners in old profit sharing ratio.
12) **False**: The balance of memorandum revaluation account (second part) is transferred to the capital accounts of the partners in new profit sharing ratio.
13) **True**: When Memorandum Revaluation account is prepared, assets & liabilities in the balance sheet will appear at their old values.
14) **False**: At the time of admission or retirement of a partner, goodwill can be raised in the books of accounts and it is immediately written off. It can not remain in the books of accounts as asset in balance sheet as per accounting standard.
15) **False**: Any Reserve appearing in the Balance Sheet is credited to existing partners in their old profit sharing ratio and not equally.
16) **False:** In case of admission of new partner in a partnership firm, profit/loss on revaluation account is transferred to old partners in their old profit-sharing ratio.

HOMEWORK QUESTIONS

Question 1 — Pg no.______

A , B and C are sharing profits and losses in the ratio of 5:3:2. Calculate the new profit sharing ratio and the sacrificing ratio in each of the following alternative cases:

Case (a) If C acquires 1/10th share from B

Case (b) If C acquired 1/10th share equally from A and B

Case (c) If C's share is increased by 1/10th share by acquiring from A.

Case (d) If C's share is increased to 3/10th by acquiring from B.

Case (e) If A, B and C decide to share future profits and losses in the ratio of 5:2:3.

Case (f) If A, B and C decide to share future profits and losses in the ratio of 2:3:5.

Case (g) If A, B and C decide to share future profits and losses in the ratio of 2:1:2.

Case (h) If A, B and C decide to share future profits and losses equally.

Case (i) If A, B and C decide that the future profit sharing ratio between B and C shall be the same as existing between A and B

Question 2 *(ICAI Study Material)* — Pg no.______

A and B are in partnership sharing profits and losses at the ratio 3:2. They take C as a new partner. Calculate the new profit sharing ratio if –

(i) C purchases 1/10 share from A

(ii) A and B agree to sacrifice 1/10th share to C in the ratio of 2: 3

(iii) Simply gets 1/10th share of profit.

Question 3 *(ICAI Study Material)* — Pg no.______

A and B are partners with capitals of ₹7,000 each. They admit C as a partner with 1/4th share in the profits of the firm. C brings ₹ 8,000 as his share of capital. Give the necessary journal entry to record goodwill.

Question 4 *(ICAI Study Material)* — Pg no.______

Leena and Meena were in partnership business sharing profits and losses in the ratio of 2:3 Their Balance Sheet as on 31st March, 2023 was as follows:

Liabilities	₹	Assets	₹
Capital Accounts:		Building	60,000
Leena	60,000	Plant	45,000
Meena	1,40,000	Furniture	23,500
General Reserve	40,000	Debtors	38,400
Creditors	42,600	Bill Receivable	12,500
Bills Payable	17,400	Stock	42,600
		Bank	78,000
	3,00,000		**3,00,000**

On 1st April, 2023, they decided to admit Neena into the partnership giving her a 1/5th share in future profits. She brings in ₹ 80,000 as his share of capital. Goodwill was valued at 1,00,000 at the time of admission of Neena. The partners decided to revalue the Assets as follows: Plant ₹ 40,000, Debtors ₹ 38,000, Stock ₹ 42,000, Building ₹ 90,000, Furniture ₹ 20,000, Bills Receivable ₹ 12,000. You are required to show the following accounts in the books of the firm

(a) Profit & Loss Adjustment Account

(b) Partners' Capital Accounts

(c) Balance Sheet of the new firm.

Question 5 *(ICAI Study Material)* Pg no.______

A and B are partners of X LLP sharing profits and losses in 3:2 ratio between themselves. On 31st March, 2023, the balance sheet of the firm was as follows:

Balance Sheet of X LLP as at 31.3.2023

Liabilities	₹	Assets	₹
Trade payables	5,000	Plant and machinery	20,000
Capital Accounts:		Furniture & Fittings	5,000
A 37,000		Inventories	15,000
B 28,000	65,000	Trade receivables	20,000
		Cash	10,000
	70,000		**70,000**

X agrees to join the business on the following conditions as and from 1.4.2023:

(a) He will introduce ₹25,000 as his capital and pay ₹15,000 to the partners as premium for goodwill for 1/3rd share of the future profits of the firm.

(b) A revaluation of assets of the firm will be made by reducing the value of plant and machinery to ₹15,000, Inventory by 10%, furniture and fitting by ₹1,000 and by making a provision of bad and doubtful debts at ₹750 on trade receivables.

Prepare profit and loss adjustment account, capital accounts of partners including the incoming partner X assuming that the relative ratios of the old partners will be in equal proportion after admission.

Question 6 *(ICAI Study Material)* Pg no.______

The following is the Balance Sheet of Ram and Mohan, who share profits in the ratio of 3:2 as on 1st January, 2023:

Liabilities	₹	Assets	₹
Trade payables	15,000	Buildings	18,000
Ram's Capital	20,000	Plant and Machinery	15,000
Mohan's Capital	25,000	Inventories	12,000
		Trade receivables	10,000
		Bank	5,000
	60,000		**60,000**

On this date Shyam was admitted on the following:

1. He is to pay ₹ 25,000 as his capital and ₹ 10,000 as his share of goodwill for one fifth share in profits.
2. The new profits sharing ratio will be 5:3:2.
3. The assets are to be revalued as under:

Building	25,000
Plant and Machinery	12,000
Inventories	12,000
Trade receivables (because of doubtful debts)	9,500

4. It was found that there was a liability for ₹1,500 for goods received but not recorded in books.

Give journal entries to record the above. Also, give the Balance Sheet of the partnership firm after Shyam's admission.

Question 7 *(CA Foundation Nov 2018)(15 Marks)/(RTP May 2020)/(May 2023)(Sim.)* Pg no.______

Dinesh, Ramesh and Naresh is a firm sharing profits and losses in the ratio 3:2:1. Their Balance Sheet as on 31st March, 2021 is as below:

Liabilities		₹	Assets	₹
Trade Payables		22,500	Land and Buildings	37,000
Outstanding liabilities		2,200	Furniture & Fixtures	7,200
General reserve		7,800	Stock	12,600
Capital Account :			Trade Receivables	10,700
Dinesh	15,000		Cash in hand	2,800
Ramesh	15,000		Cash at bank	2,200
Naresh	10,000	40,000		
		72,500		**72,500**

The partners have agreed to take Suresh as a partner with effect from 1st April, 2021 on the following terms:

(1) Suresh shall bring 8,000 towards his capital.

(2) The value of stock to be increased to ₹ 14,000 and Furniture & Fixtures to be depreciated by 10%.

(3) Reserve for bad and doubtful debts should be provided at 5% of the Trade Receivables.

(4) The value of land and buildings to be increased by 5,600 and the value of the goodwill be fixed at ₹ 18,000.

(5) The new profit sharing ratio shall be divided equally among the partners

The outstanding liabilities include ₹ 700 due to Ram which has been paid by Dinesh. Necessary entries were not made in the books. Prepare

(i) Revaluation Account, and

(ii) The Capital Accounts of the partners, and

(iii) Balance Sheet of the firm after admission of Suresh

Question 8 *(ICAI Study Material) / (RTP May 2019)* **Pg no.______**

A and B are partners in a firm, sharing profits and losses in the ratio of 3:2. The Balance Sheet of A and B as on 1.1.2023 was as follows:

Liabilities		₹	Assets		₹
Trade payables		17,000	Building		26,000
Bank overdraft		9,000	Furniture		5,800
Capital Accounts:			Inventories		21,400
A	44,000		Trade receivables	35,000	
B	36,000	80,000	Less: Provision	(200)	34,800
			Investment		2,500
			Cash		15,500
		1,06,000			**1,06,000**

'C' was admitted to the firm on the above date on the following terms:

a) C is admitted for 1/6 share in the future profits and to introduce a capital of ₹25,000.

b) The new profit sharing ratio of A, B and C will be 3:2:1 respectively.

c) 'C' is unable to bring in cash for his share of goodwill, they decide to calculate goodwill on the basis of C's share in the profits and the capital contribution made by him to the firm.

d) Furniture is to be written down by ₹870 and Inventory to be depreciated by 5%. A provision is required for trade receivables @ 5% for bad debts. A provision would also be made for outstanding wages for ₹1,560. The value of buildings having appreciated be brought upto ₹29,200. The value of investments is increased by ₹450.

e) It is found that the trade payables included a sum of ₹1,400, which is not to be paid off.

Prepare the following:

(i) Revaluation account. (ii) Partners' capital accounts.

Question 9 *(RTP May 2021)* Pg no.______

Ramu and Mamu were partners in a firm sharing profits and losses in the ratio 3:2 Their Balance Sheet as on 31st March, 2020 was as follows:

Liabilities	₹	Assets	₹
Capital		Land & Building	1,50,000
Ramu	2,10,000	Machinery	1,80,000
Mamu	1,90,000	Furniture	44,000
General Reserve	60,000	Trade Receivables	42,800
Loan from LFC bank	25,000	Inventory	65,200
Trade Payables	21,000	Bank	24,000
	5,06,000		**5,06,000**

Damu was admitted as partner from 1st April, 2020 on the following terms:

1. He shall bring ₹ 1,50,000 as capital and goodwill.
2. He shall get 1/5th share in future profits, to be acquired equally from Ramu and Mamu.
3. Goodwill of the firm to be valued at ₹ 2,50,000. It was agreed that goodwill shall not appear in the books of accounts.
4. Land & Building is to be appreciated by 50% and inventory is revalued at ₹ 60,000.
5. Machinery to be depreciated by 20%. Debtors of ₹ 2,800 are to be written off as bad debts and a Reserve for doubtful debts should be created @ 5% of debtors.
6. Furniture to be reduced to ₹40,000.
7. After admission of Damu, capitals of the partners' to be adjusted in their new profit sharing ratio, taking Damu's capital as base.

You are required to prepare:

1. Revaluation account
2. Partners' capital accounts.
3. Cash and bank account.
4. Balance Sheet after admission

Question 10 *(CA Foundation Dec 2022) (10 Marks)* Pg no.______

X and Y are in partnership business sharing profits and losses in the ratio of 2:3. Their Balance Sheet as at 31st March, 2022 is as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Accounts:		Building	60,000
X	60,000	Plant	45,000
Y	1,40,000	Furniture	23,500
General Reserve	40,000	Debtors	38,400
Creditors	42,600	Bills receivable	12,500
Bills payable	15,400	Stock	42,600
Salary payable	2,000	Bank	78,000
	3,00,000		**3,00,000**

On 1st April, 2022 they decided to admit Z into the partnership giving him 1/5th share in the future profits. He brings in ₹ 1,00,000 as his share of capital. Goodwill was valued at ₹ 1,20,000 at the time of admission of Z. The partners decided to revalue assets & liabilities as follows:

a. Plant ₹ 40,000, Stock ₹ 42,000, Furniture ₹ 20,000 and Bills Receivable ₹ 12,000.
b. Out of total Debtors, ₹ 2,400 is bad and 5% provision is to be provided for bad and doubtful debts.
c. Building is to be appreciated by 75%.
d. Actual liability towards salary payable is ₹ 1,200 only.

You are required to show the following accounts in the books of the firm:

1. Revaluation Account
2. Partner's Capital Accounts
3. Balance sheet of the Firm after Admission of Z.

Question 11 Pg no.______

The Balance Sheet of a Partnership Firm M/s AB & Co consisted of two partners A and B who were sharing Profits and Losses in the ratio of 5:3 respectively. The position as on 31-03-2021 was as follows:

Liabilities	Amount	Assets	Amount
A's Capital	4,10,000	Land & Building	3,80,000
B's Capital	3,30,000	Plant & Machinery	1,70,000
Profit & Loss A/c	1,12,000	Furniture	1,09,480
Trade Creditors	54,800	Stock	1,45,260
		Sundry Debtors	60,000
		Cash at Bank	42,060
	9,06,800		**9,06,800**

On the above date, C was admitted as a partner on the following terms:

a) C should get 1/5th of share of profits.
b) C brought ₹ 2,40,000 as his capital and ₹ 32,000 for his share of Goodwill.
c) Plant & Machinery would be depreciated by 15% and Land & Buildings would be appreciated by 40%.
d) A provision for doubtful debts to be created at 5% on sundry debtors.
e) An unrecorded liability of ₹ 6,000 for repairs to Buildings would be recorded in the books of accounts.
f) Immediately after C's admission, Goodwill brought by him would be adjusted among old partners. Thereafter, the capital accounts of old partners would be adjusted through the current accounts of partners in such a manner that the capital accounts of all the partners would be in their profit sharing ratio.

Prepare Revaluation A/c, Capital Accounts of the partners, New profit sharing ratio and Balance Sheet of the Firm after the admission of C.

Question 12 *(ICAI Study Material)* Pg no.______

The following was the balance sheet of A, B & C who were equal partners on January 1, 2023

Liabilities		₹	Assets	₹
Bills payables		3,000	Cash	1,000
Creditors		6,000	Debtors	10,000
Capital Accounts:			Stock	12,000
A	20,000		Furniture	5,000
B	15,000		Buildings	25,000
C	10,000	45,000	Bills Receivable	1,000
		54,000		**54,000**

They agree to take D into partnership & give him a 1/4 share in the profits on following terms:

(1) that D should bring in ₹ 6,000 for goodwill and ₹ 10,000 as capital.
(2) that one-half of the goodwill shall be withdrawn by old partners.
(3) that stock and furniture be depreciated by 10%.
(4) that a liability of ₹ 1,300 be created against bills discounted.
(5) that the building be valued at ₹ 40,000.
(6) that the values of liabilities and assets other than cash are not to be altered.

Give the necessary entries to give effect to the above arrangement; prepare revaluation account and opening balance sheet of the firm as newly constituted.

Question 13 *(ICAI Study Material)* Pg no.______

A and B are partners sharing profits and losses in the ratio of 3:2. Their Balance Sheet as on 31.3.2023 is given below:

Liabilities	₹	Assets	₹
Trade payables	50,000	Freehold premises	2,00,000
Capital Accounts:		Plant	40,000
A	2,00,000	Furniture	20,000
B	1,00,000	Office equipment	25,000
		Inventories	30,000
		Trade receivables	25,000
		Bank	10,000
	3,50,000		**3,50,000**

On 1.4.2023 they admit C on the following terms:

(1) C will bring ₹ 50,000 as a capital and ₹ 10,000 for goodwill for 1/5 share;
(2) Provision for doubtful debts is to be made on Trade receivables @ 2%
(3) Inventory to be written down by 10%.
(4) Freehold premises is to be revalued at ₹2,40,000, plant at ₹ 35,000, furniture ₹ 25,000 and office equipment ₹ 27,500.
(5) Partners agreed that the values of the assets and liabilities remain the same and, as such, there should not be any change in their book values as a result of the above mentioned adjustments.

You are required to make necessary adjustment in the Capital Accounts of the partners and show the Balance Sheet of the New Firm

Question 14 Pg no.______

A and B were partners of a firm sharing profits and losses in the ratio 2:1. The Balance Sheet of the firm as at 31st March, 2021 was as under:

Liabilities	Amount	Assets	Amount
Capital Accounts		Plant and Machinery	5,00,000
A	8,00,000	Building	9,00,000
B	4,00,000	Sundry Debtors	2,50,000
Reserves	5,25,000	Stock	3,00,000
Sundry Creditors	2,75,000	Cash	1,50,000
Bills Payable	1,00,000		
	21,00,000		**21,00,000**

They agreed to admit P and Q into the partnership on the following terms:

a) The firm's goodwill to be valued at 2 years' purchase of the weighted average of the profits of the last 3 years. The relevant figures are:
Year ended 31.3.2018 - Profit ₹ 37,000
Year ended 31.3.2019 - Profit ₹ 40,000
Year ended 31.3.2020 - Profit ₹ 45,000
b) The value of the stock and Plant & Machinery were to be reduced by 10%.
c) Building was to be valued at ₹ 10,11,000.
d) There was an unrecorded liability of ₹ 10,000.
e) A, B, P & Q agreed to share profits and losses in the ratio 3:2:1:1.

f) The value of reserve, the values of liabilities & values of assets other than cash were not to be altered.
g) P and Q were to bring Capitals equal to their shares of profit considering B' s Capital as base after all adjustments.

You are required to prepare:
1) Memorandum Revaluation Account,
2) Partner's Capital Accounts and
3) The Balance Sheet of the newly constructed firm

Question 15 *(ICAI Study Material)* Pg no.______

Cu and Au were in partnership sharing profits and losses in the ratio 5:3. On 1st April 2023, they decided to admit Ag in the partnership on the following terms:

1. Ag will bring ₹ 2,00,000/- as capital for ¼ share.
2. New profit sharing ratio shall be 2:1:1 among Cu, Au and Ag.
3. Cu was entitled to salary of ₹ 2,000/- p.m., it was revised to ₹ 3,000 p.m. from 1st October 2021.
4. Interest on capital was paid at 8% p.a.
5. Capitals as on 31st March 2023 were Cu ₹ 4,00,000 Au ₹ 3,00,000, which had remained unchanged since last four years.
6. Goodwill was to be valued on the basis of 3 years purchase of average adjusted weighted average profits of past 4 years. The profits of previous four years, before charging interest on capital and salary to Cu were as follows:

Year	Profit
2019-20	2,10,000
2020-21	2,60,000
2021-22	2,10,000
2022-23	3,05,000

These profits were subject to following rectification

(b) A machine costing ₹ 40,000 purchased on 1st October 2021 was wrongly charged to revenue. The machinery was depreciated at 20% p.a. on w.d.v. method
(c) Stock on 31st March 2021 was over valued by ₹ 20,000/-
(d) There was a loss by fire amounting to ₹ 10,000/- in the year 2019-20 which was not considered in trading account but correctly debited in the P&L Acc for that year.
(e) Debtors as on 31st March 2023 included bad debts of ₹ 5,800/-

7. Ag shall bring his share of goodwill in cash.

You are required to calculate amount of goodwill Ag is supposed to bring and journal entry for the same.

Question 16 *(CA Foundation June 2024) (12 Marks)* Pg no.______

Anu and Manu are carrying on business in partnership and sharing profits & losses in the ratio of 5:3. The firm's Balance Sheet as on 31st March, 2024 was as follows:

Balance Sheet as on 31st March,2024

Liabilities	Amount	Assets	Amount
Capital Accounts:		Building	3,80,000
Anu	2,80,000	Machinery	1,43,000
Manu	2,50,000	Furniture	85,000
Long Term Loan	2,00,000	Trade Receivables	1,64,000
Trade Payables	1,19,500	Inventories	48,400
Outstanding liabilities	16,200	Investments	15,200

		Cash & Bank	30,100
	8,65,700		**8,65,700**

They decided to admit Ranu as a partner with effect from 1st April, 2024 on the following terms:

(i) Ranu will be paid 1/5 share in the future profits and new profit sharing ratio would be 5:3:2.

(ii) Ranu will bring ₹ 1,00,000 as his capital.

(iii) Goodwill of firms is to be valued at 2 years' purchase of average profit of past 3 years and Ranu will bring his share of goodwill in cash. The profits of past 3 years ending on 31st March were as under:

31st March,2022	₹ 87,000
31st March,2023	₹ 1,06,000
31st March,2024	₹ 1,22,000

(iv) It was also agreed that the partners will not withdraw their share of goodwill nor will the goodwill appear in the books of account.

(v) It was also decided to value the assets:
Building is to be appreciated by ₹ 50,000 and Machinery is to be depreciated by 10%. Furniture is revalued at ₹ 80,000. Investments at ₹ 16,000 and Inventories at ₹ 47,500. Provision for doubtful debts is to be created on debtors @ 5%.

You are required to prepare Revaluation Account, Partners' Capital Accounts and Balance Sheet of the reconstituted firm as on 1stApril, 2024.

Question 17 *(CA Foundation Sep 2024) (10 Marks)* **Pg no.______**

The following is the Balance Sheet of Krish and Bala, sharing profit and loss in the ratio 3: 2

Liabilities	Amount	Assets	Amount
Capital Accounts:		Land & Buildings	28,000
Krish 25,000		Plant & Machinery	15,000
Bala 15,000	40,000	Stock	10,000
General Reserve	30,000	Debtors 25,000	
Workmen's Compensation Reserve	10,000	Less: Provision for Doubtful debts 4,000	21,000
Creditors	10,000	Bank	20,000
Employee's Provident Fund	8,000	Advertisement Expenditure	4,000
	98,000		**98,000**

On admission of Sobha for 1/6th share in the profits, it was decided that:

(1) Value of land and buildings to be increased by ₹ 5,000.

(2) Value of stock to be increased by ₹ 3,500.

(3) Provision of doubtful debts to be increased by ₹ 1,500.

(4) Liabilities of workmen's compensation reserve was determined to be ₹ 8,000.

(5) Sobha was to bring in cash of ₹ 25,000 as her capital.

(6) Sobha brought in her share of goodwill ₹ 12,000 in cash.

Prepare the Revaluation Account, the Capital Account and the Balance Sheet of the new firm.

Unit 4&5: RETIREMENT & DEATH OF PARTNER

CH 10D

"Everyone has two eyes. But no one has the same view. The most important quality of successful people is their willingness to change."

CONCEPT OF RETIREMENT

- Whenever a partner retires, the continuing partners gain. So they arrange for the amount to be paid to discharge the claims of the retiring partners.
- On retirement of a partner, it is required to revalue assets and liabilities just as in the case of admission of a partner. If there is revaluation profit/loss, then such profit/loss should be distributed amongst the existing partners including the retiring partner at the existing profit sharing ratio (i.e. Old PSR)
- On the retirement of a partner any undistributed profit or reserve standing at the Balance Sheet is to be credited to the Partners' Capital Accounts in the old profit sharing ratio.

Example 1

A, B & C having PSR 3 : 2 : 1 . B retires and his share is taken by A & C in 2 : 1. Find new ratio.

Example 2

P, Q & R having PSR 4 : 3 : 2 . Q retires & surrenders $1/9^{th}$ of his share in favour of P & remaining in favour of R.

Example 3

X, Y, Z having PSR 4 : 3: 2, Y retires & surrender 1/9 from his share in favour of X & remaining in favour of Z.

Example 4

A, B and C are partners sharing profits and losses in the ratio of 1/2, 3/10 & 1/5 respectively. B retires from the firm and A&C decide to share future profits and losses in the ratio of 3:2.

Example 5

A, B & C are partners sharing profits and losses in the ratio of 1/2 , 3/10 and 1/5 respectively. B retires and his share is taken by A and C in the ratio of 2:1.
Then immediately W is admitted for 1/4th share of profit, half of which was gifted by A and remaining share was taken by W equally from A and C.

GOODWILL

Old goodwill

Already appearing in B/sheet

Goodwill arising at the time of retirement

Example

X, Y & Z having PSR 2 : 3 : 5. Goodwill appearing in the books ₹ 50,000. X retires & Goodwill valued at ₹ 45,000. Y & Z decided to share equally.

FINAL PAYMENT TO RETIRING PARTNER

The following adjustments are necessary in the Capital A/c:

(i) Transfer of Profit/Loss on Revaluation.
(ii) Transfer of Reserve
(iii) Transfer of Goodwill

After adjustment of the above-mentioned items, the Capital Account balance standing to the credit of the retiring partner represents amount to be paid to him.

Claim of the retiring partner is payable in the following forms:

- Fully in cash
- Fully transferred to loan account to be paid later with some interest on it.
- Partly in cash and partly as loan repayable later with agreed interest.
- An annuity may be paid to the retired partner for life or for agreed no. of years for the life of some dependent.

CONCEPT OF DEATH OF PARTNER

- The problems arising on the death of a partner are similar to those arising on retirement. Assets and liabilities have to be revalued and the resultant profit or loss has to be transferred to the Capital Accounts of all partners including the deceased partner. Goodwill is dealt with exactly in the way already discussed in the case of retirement.
- The only additional point is that as death may occur on any day, the representatives of the deceased partner will be entitled to the partner's share of profit from the beginning of the year to the date of death. After ascertaining the amount due to the deceased partner, it should be credited to his Executor's Account.
- If the death takes place during the accounting period, the Executor of the deceased partner is entitled to have a share of profit upto the date of death based on the profit earned in the immediately preceding year or some other agreed basis.

The balance from Capital A/c of deceased partner is transferred to the **Deceased Partner's Executor A/c**.

Deceased Partner's Capital A/c

Particulars	Amount	Particulars	Amount
To Drawings A/c		By Balance b/d	
To Interest on Drawing A/c		By Interest on capital	
To Goodwill A/c (Existing G/w written off)		By P&L Suspense A/c (Share of profit)	
To Undistributed losses		By Reserve A/c	
To Revaluation (Loss)		By Revaluation A/c (profit)	
To Deceased Partner's Executor A/c **(Bal. Fig.)**		By Gaining partner's capital A/c (Share of G/w)	

HOW TO CALCULATE OUTGOING PARTNER'S SHARE IN PROFITS EARNED FROM THE DATE OF LAST BALANCE SHEET TO THE DATE OF DEATH / RETIREMENT

Step (1):

Calculate Profits of firm from the date of last Balance sheet to the date of death/retirement.

i. Time Basis

$$\frac{\text{Previous year's profits Or Avg. profits X No. of days/months from the date of last b/sheet}}{\text{365 days/12 months}}$$

ii. Sales basis

$$\frac{\text{Previous year's profits Or Avg. profits X Sales from the date of last b/sheet}}{\text{Previous years' Sales/Average Sales of past years}}$$

Step (2)

Calculate outgoing partners share in profits.

= Step (1) X Proportion of share of outgoing partner

Accounting Treatment

I) Through P & L suspense A/c

Profit : P & L Suspense A/c Dr.
 To Outgoing partner's capital A/c

Loss : Outgoing partner's capital A/c Dr.
 To P & L Suspense A/c

Balance of P&L suspense A/c is transferred to the P&L Appropriation A/c at the end of accounting period.

II) Through the Capital A/c of the gaining partner
Gaining partner's capital A/c Dr.
To Outgoing partner's capital A/c

Example
A, B & C are 3 partners having PSR 5:3:2. C died on 30/06/2023. His share of profit is to be calculated on the basis of the previous year profit which was 2,25,000 for FY 2022-23.
Find his share of profits till death.

Example
G, M & D. PSR 3:2:1 D died on 31/5/23. Sales of previous year i.e 2022-23 were ₹ 4,00,000 & profit was ₹ 60,000. Sales from 1st April, 2023 till 31st May, 2023 is 1,00,000. Find his share of profit.

RETIREMENT / DEATH & ADMISSION

Simultaneous retirement/death and admission do not introduce any new principles of accounting.
The principles studied under admission and retirement/death are combined-the combination of the two sets of transactions.
In case there is retirement/death & simultaneous admission we need to check whether the admission is on the same date or after a subsequent period of time.

Retirement/Death & Admission on the different dates:
1) Treatment of Accumulated Profits, Revaluation of Assets & Liabilities: Adjustment of these will be between old partners in old ratio.
2) Effect of Goodwill: Separate entries will be passed since both the events are on different dates.

Retirement/Death & Admission on the same date:
1) Treatment of Accumulated Profits, Revaluation of Assets & Liabilities: Adjustment of these will be between old partners in old ratio.
2) Effect of Goodwill: Single entry will be passed since both the events are on same date.

RIGHT OF OUTGOING PARTNER TO SHARE SUBSEQUENT PROFITS / CALCULATION OF RELIEF u/s 37

Relief is allowed to outgoing partner. The same can be due to Retirement/Death.
Relief is allowed only if:

a) Outgoing partner's balance has not been fully settled
b) Firm does not allow only interest/share of profits on unsettled balance. i.e., partnership deed is silent.

❖ Relief is higher of the following

Unsettled balance X 6% p.a. X Period upto relief date

OR

$$\frac{\text{Profits earned upto relief date X Unsettled balance of outgoing partner}}{\text{Total capital of partners \& unsettled balance.}}$$

Note: Capital of partners should be calculated on the date of death/retirement after all adjustments.

Example

A, B, C having PSR 1 : 1 : 1. C retires on 31.10.2022 Capital of partners after all adjustments stood at ₹ 50,000, ₹ 75,000 & ₹ 1,20,000 respectively. A & B continued to carry on business without settling C's account. Final payment to C is made on 1.02.2023. Profits made during 3 months period amounted to ₹ 28,000. Find Relief u/s 37

JOINT LIFE POLICY

Insurance

- It's a contract between the two parties that if first party suffers any loss, the second party will make such loss good. Thus, the risk of one is assumed by the other.
- Party which transfers such risk is called **insured** & party which assumes such risk is called **insurer**.
- Insured pays the amount of **premium** to insurer in consideration of risk being undertaken by the insurer & in the event of mishappening, insurer provides the lump sum amount to insured in the name of claim.

Types of Insurance

1.	Life Insurance	Life insurance is a contract that offers financial compensation in case of death or disability. In this amount is received generally at the time of death or maturity whichever is earlier.
2.	General Insurance	A general insurance is a contract that offers financial compensation on any loss other than death. It insures everything apart from life. In this amount is received at the time of happening of event

Joint Life Policy (JLP)

It is an insurance policy which is taken out by the partnership firm on the lives of all the partners. The amount of policy is payable by the Insurance Company either on the death or on maturity of policy, whichever is earlier. The firm pays annual premium to the insurer against the policy. The objective of taking such a policy is to minimize the financial hardships to the event of payment of a large sum to the legal representatives of a deceased partner or to the retiring partner.

Instead of life policy taken jointly on the name of all the partners, all the partners may take individual life policies for each of them by paying the premium from the firm

ACCOUNTING TREATMENT OF JOINT LIFE POLICY

METHOD 1: PREMIUM PAID IS TREATED AS EXPENSE (ORDINARY EXPENSE METHOD)

In this case premium is treated as an expense and it is closed every year by transferring to profit and loss account.

1.	Payment of Premium	Insurance Premium A/c Dr. To Bank A/c
2.	Transfer to P&L A/c	Profit & Loss A/c Dr. To Insurance Premium

METHOD 2: PREMIUM PAID IS TREATED AS ASSET (SURRENDER VALUE METHOD)

In this case insurance premium paid is first debited to life policy account and credited to bank account. At the end of the year the amount in excess of surrender value is treated as a loss and is transferred to Profit and Loss Account.

1.	Payment of Premium	JLP A/c Dr. To Bank A/c
2.	Transfer to P&L A/c	Profit & Loss A/c Dr. To JLP (JLP A/c Balance- its Surrender Value)

METHOD 3: PREMIUM PAID IS TREATED AS ASSET & RESERVE IS MAINTAINED (RESERVE METHOD)

Under this method, premium paid is debited to policy account and credited to bank account.
At the end of the year, amount equal to premium is transferred from Profit and Loss Appropriation Account to Policy Reserve Account.
After this, policy account is brought down to its surrender value by debiting the life policy reserve account with amount which exceeds the surrender value of the policy.

1.	Payment of Premium	JLP A/c Dr. To Bank A/c
2.	Creation of Reserve	Profit & Loss Appropriation A/c Dr. To JLP Reserve
3.	Amount in excess of Surrender Value	JLP Reserve A/c Dr. To JLP A/c

Note: In the balance sheet JLP will appear on the Asset side & JLP Reserve will appear on the liability side at surrender value.

Example:

A, B and C shared profits and losses in the ratio of 5:3:2. They took out a joint life Policy in 2021 for ₹1,00,000, a premium of ₹5,000 being paid annually on 1st January. The surrender value of the policy on 31st December of various years was as follows: 2021 Nil; 2022 ₹ 3,000; 2023 ₹ 6,500. Prepare ledger accounts

Case 1: Assuming Ordinary Expense Method.

Case 2: Assuming Surrender Value Method.

Case 3: Assuming Reserve Method.

DEATH OF PARTNER

JOINT LIFE POLICY (Policy Amount)

Ordinary Expense Method (JLP is not appearing in books)	Asset/Surrender value Method (JLP appearing in Books at surrender value)	JLP & JLP Reserve Method (Reserve Method)
* Premium charged to P&L A/c every year * Amount received (Policy Amount) is credited to Partner's capital A/c in PSR	* JLP shown as asset at S.V. * Amount received (net of S.V.) credited to Partner's capital A/c	* Both maintained at S.V. * Amount received is credited to Partner's Capital A/c in PSR

Example:

A, B and C shared profits and losses in the ratio of 3:2:1. C died on 31.03.2023
Policy Amount 1,20,000 & Surrender Value 30,000

Case 1: JLP is not appearing in the books/Ordinary Expense Method

Case 2: JLP is appearing in the books at Surrender Value

Case 3: JLP & JLP Reserve are maintained at Surrender Value

RETIREMENT OF PARTNER

JOINT LIFE POLICY (SURRENDER VALUE)

Ordinary Expense Method (JLP is not appearing in books)	Asset/Surrender value Method (JLP appearing in Books at surrender value)	JLP & JLP Reserve Method (Reserve Method)
Amount received (Surrender value) is credited to Partner's capital A/c in PSR	No Treatment	Distribute JLP Reserve in their PSR

Example:
A, B and C shared profits and losses in the ratio of 3:2:1. C retired on 31.03.2021
Policy Amount 1,20,000 & Surrender Value 30,000
Case 1: JLP is not appearing in the books/Ordinary Expense Method
Case 2: JLP is appearing in the books at Surrender Value
Case 3: JLP & JLP Reserve are maintained at Surrender Value

DEATH OF PARTNER

Separate / Individual Life Policy

Surrender value not appearing in Books

Share in Own Policy
+
Share in Surrender value of Remaining Partner's Policy

Surrender value appearing in Books

Share in Own Policy (Remaining Balance)
(ie. Policy Amount − S.V.)

Example:
A, B and C shared profits and losses in the ratio of 3:2:1. C died on 31.03.2021

	Policy Amount	Surrender Value
A	2,00,000	30,000
B	3,00,000	60,000
C	4,80,000	90,000

Case 1: Surrender Value not appearing in the books
Case 2: Surrender Value appearing in the books

RETIREMENT OF PARTNER

Separate / Individual Life Policy

Surrender value not appearing in Books
Share in surrender value of all Partner's Life Policies

Surrender value appearing in Books
No Treatment

Example:

A, B and C shared profits and losses in the ratio of 3:2:1. C retired on 31.03.2021

	Policy Amount	Surrender Value
A	2,00,000	30,000
B	3,00,000	60,000
C	4,80,000	90,000

Case 1: Surrender Value not appearing in the books

Case 2: Surrender Value appearing in the books

ASSIGNMENT QUESTIONS

Question 1 (RTP May 2018) / (Nov 2020) / (Nov 2022) / (June 2024) (Similar) Pg no.______

On 31st March, 2021, the Balance Sheet of P, Q and R sharing profits and losses in proportion to their Capital stood as below:

Liabilities	₹	Assets	₹
Capital Accounts :		Land and Building	30,000
P	20,000	Plant and Machinery	20,000
Q	30,000	Inventory of goods	12,000
R	20,000	Sundry debtors	11,000
Sundry Creditors	10,000	Cash and Bank Balances	7,000
	80,000		**80,000**

On 1st April, 2021, P desired to retire from firm & remaining partners decided to carry on the business. It was agreed to revalue the assets & liabilities on that date on the following basis:

(a) Land and Building be appreciated by 20%.
(b) Plant and Machinery be depreciated by 30%.
(c) Inventory of goods to be valued at ₹ 10,000.
(d) Old credit balances of Sundry creditors, ₹ 2,000 to be written back/off.
(e) Provisions for bad debts should be provided at 5%.
(f) Joint life policy of the partners surrendered and cash obtained ₹ 7,550.
(g) Goodwill of the entire firm is valued at ₹ 14,000 and P's share of the goodwill is adjusted in the A/cs of Q and R, who would share the future profits equally. No goodwill account being raised.
(h) The total capital of the firm is to be the same as before retirement. Individual capital is in their profit sharing ratio.
(i) Amount due to Mr. P is to be settled on the following basis: 50% on retirement and the balance 50% within one year.

Prepare
(a) Revaluation account,
(b) The Capital accounts of the partners,
(c) Cash account and
(d) Balance Sheet of the new firm M/s Q & R as on 1.04.2021.

Question 2 Pg no.______

A, B and C are partners sharing profits in the ratio of 4:3:1.

Balance sheet as on 31st March, 2023

Liabilities	₹	Assets	₹
Creditors	70,000	Cash in Hand	80,000
Bills Payable	30,000	Cash at bank	20,000
Workmen's Compensation Reserve	20,000	Stock	75,000
General Reserve	80,000	Debtors 1,30,000	
Capital A/cs:		Less: Provision for Doubtful Debts 5,000	1,25,000
A 2,00,000		Joint Life Policy	1,50,000
B 3,00,000		Investments	1,00,000
C 2,00,000	7,00,000	Plant and Machinery	1,20,000
		Building	2,30,000
	9,00,000		**9,00,000**

On the above date B retires from the firm selling his share of profit to A for ₹ 36,000 and to C for ₹ 45,000 in the ratio of 4:5. For the purpose of B's retirement it was agreed that:

a) Stock is to be appreciated by 20% and Building by 10%.
b) Joint Life Policy is surrendered to the insurance company for ₹ 70,000.
c) Provision for Doubtful Debts is increased to 10%.
d) Investments are sold for ₹ 2,30,000.
e) Claim on account of workmen's compensation is ₹ 12,000.
f) Amount due to B is to be settled on the following basis:
   50% on retirement and the balance 50% within one year.
g) The capital of the newly constituted firm is fixed at ₹ 6,00,000 to be divided among A and C in the profit sharing ratio.

Adjustment is to be made in cash, calculate the new profit sharing ratio and prepare the Revaluation Account and Partners Capital Accounts.

Question 3 *(ICAI Study Material)* Pg no.______

F, G and K were partners in LLP sharing profit and losses at the 2:2:1. K wants to retire on 31-12-2023. Given below the Balance Sheet of the partnership as well as other information:

Balance Sheet as on 31-12-2023

Liabilities	₹	Assets	₹
Capital A/cs		Sundry Fixed assets	1,50,000
F	1,20,000	Inventories	50,000
G	80,000	Bank	50,000
K	60,000	Trade Receivables (Including B/R of 20,000)	70,000
Reserve	10,000		
Trade Payables	50,000		
	3,20,000		**3,20,000**

F and G agree to share profits and losses at the ratio of 3:2 in future. Value of goodwill is taken to be ₹ 50,000. Sundry Fixed Assets are revalued upward by ₹ 30,000 and Inventories by ₹ 10,000. Bills Receivable dishonoured ₹ 5,000 on 31-12-2023 but not recorded in the books. Dishonour of bill was due to insolvency of the customer. F and G agree to bring sufficient cash to discharge claim of K and to make their capital proportionate. Also they wanted to maintain ₹ 75,000 bank balance for working capital.

Pass necessary journal entries, prepare capital accounts and draft the Balance Sheet of M/s F and G.

Question 4 *(ICAI Study Material)* Pg no.______

A, B & C were in partnership sharing profits in the proportions of 5:4:3. The balance sheet of the firm as on 31st March, 2023 was as under:

Liabilities		₹	Assets	₹
Capital Accounts:			Fixtures	8,200
A	1,35,930		Inventories	1,57,300
B	95,120		Trade receivables	93,500
C	61,170	2,92,220	Cash in hand	74,910
Trade payables		41,690		
		3,33,910		**3,33,910**

A had been suffering from ill-health and gave notice that he wished to retire. An agreement was, therefore, entered into as on 31st March, 2023, the terms of which were as follows:

a) The profit and loss account for the year ended 31st March, 2023 which showed a net profit of ₹48,000 was to be re-opened. B was to be credited with ₹4,000 as bonus, in consideration of the extra work which had devolved upon him during the year. The profit sharing was to be revised from 1st April, 2022, as 3:4:4.
b) Goodwill was to be valued at two years' purchase of the average profits of the preceding five years. The fixtures were to be valued by an independent valuer. The valuations arising out of the above agreement were goodwill ₹56,800 and fixtures ₹10,980. A provision of 2% was to be made for doubtful debts and the remaining assets were to be taken at their book values.

B and C agreed, as between themselves, to continue the business, sharing profits in the ratio of 3:2 and decided to retain the fixtures on the books at the revised value, & to increase the provision for doubtful debts to 6%.

Pass the journal entries necessary to give effect to the above arrangements and to draw up the capital account of the partners after carrying out all adjusting entries as stated above.

Question 5

Pg no.______

P, Q and R were carrying on a business in partnership, sharing profits and losses in the ratio of 5 : 3 : 2 respectively. The firm earned a profit of ₹ 3,60,000 for the accounting year ended 31st March, 2020 on which date the firm's Balance Sheet stood as follows:

Balance Sheet as at 31st March, 2020

Liabilities	₹	Assets	₹
Capital Accounts :		Freehold Land and Building	8,00,000
P	7,00,000	Machinery	3,50,000
Q	5,70,000	Furniture & Fixtures	1,02,000
R	4,30,000	Stock	2,98,800
Outstanding Expenses	4,900	Debtors	1,60,000
Creditors	79,400	Cash at Bank	73,500
	17,84,300		**17,84,300**

P died on 31st August, 2020. According to firm's partnership deed, in case of death of a partner:-

(a) Assets and Liabilities have to be revalued by an independent valuer.
(b) Goodwill is to be calculated at two years' purchase of average profits for the last three completed accounting years and the deceased partner's capital account is to be credited with his share of goodwill.
(c) The share of the deceased partner in the profits for the period between end of the previous accounting year and the date of death is to be calculated on the basis of the previous accounting year's profits. Post death of P, Q & R will share profit in the ratio of 3 : 2.

Profits for the accounting years 2017-2018 and 2018-2019 were as follows :-

For the year ended 31st March, 2018 2,90,000 .
For the year ended 31st March, 2019 3,40,000

Drawings by P from 1st April, 2020 to the date of his death totalled ₹ 46,000.

On revaluation, Freehold Land and Building was appreciated by ₹ 1,00,000; Machinery was depreciated by ₹ 10,000 and a Provision for Bad Debts was created @ 5% on Debtors as on 31st March, 2020. P's sole heir was given ₹ 5,00,000 immediately and the balance along with interest @ 12% per annum was paid to him on 31st March, 2021.

Prepare Revaluation Account, P's Capital Account and P's Heir Account, giving important working notes.

Question 6 *(ICAI Study Material)* Pg no.______

B and N were partners. The partnership deed provides inter alia:

(i) That the accounts be balanced on 31st December each year.

(ii) That the profits be divided as follows: B: One-half; N: One-third; and carried to Reserve Account: One-sixth

(iii) That in the event of death of a partner, his executor will be entitled to the following: (a) the capital to his credit at the date of death; (b) his proportion of profit to date of death based on the average profits of the last three completed years; (c) his share of goodwill based on three years' purchases of the average profits for the three preceding completed years.

Trial Balance on 31st December, 2022

Particulars	Dr.	Cr.
B's Capital		90,000
N's Capital		60,000
Reserve		30,000
Bills receivable	50,000	
Investments	40,000	
Cash	1,10,000	
Trade payables		20,000
Total	**2,00,000**	**2,00,000**

The profits for the three years were 2020: ₹ 42,000; 2021: ₹ 39,000 and 2022: ₹ 45,000. N died on 1st May, 2023.

Show the calculation of N (i) Share of Profits; (ii) Share of Goodwill; (iii) Draw up N's Executors Account as would appear in the firms' ledger transferring the amount to the Loan Account

Question 7 *(ICAI Study Material)* Pg no.______

M/s X and Co. is a partnership firm with the partners A, B and C sharing profits and losses in the ratio of 3:2:5. The balance sheet of the firm as on 30th June 2023, was as under:

Balance Sheet of X and Co. as on 30.06.2023

Liabilities		₹	Assets	₹
Capital Accounts:			Land	1,00,000
A	1,04,000		Building	2,00,000
B	76,000		Plant and Machinery	3,80,000
C	1,40,000	3,20,000	Investments	22,000
Long Term Loan		4,00,000	Inventories	1,16,000
Bank Overdraft		44,000	Trade receivables	1,39,000
Trade payables		1,93,000		
		9,57,000		**9,57,000**

It was mutually agreed that B will retire from partnership and in his place D will be admitted as a partner with effect from 1st July, 2023. For this purpose, the following adjustments are to be made:

(a) Goodwill of the firm is to be valued at ₹2 lakhs due to the firm's locational advantage but the same will not appear as an asset in the books of the reconstituted firm.

(b) Buildings and plant and machinery are to be valued at 90% and 85% of the respective balance sheet values. Investments are to be taken over by the retiring partner at ₹25,000. Trade receivables are considered good only upto 90% of balance sheet figure. Balance be considered bad.

(c) In the reconstituted firm, the total capital will be ₹3 lakhs, which will be contributed by A, C and D in their new profit sharing ratio, which is 3:4:3.
(d) The amount due to retiring partner shall be transferred to his loan account.
Prepare Revaluation Account and Partners' Capital Accounts.

Question 8 Pg no.______

P, Q and R were partners sharing profits and losses in the ratio of 2 : 2 : 1. R wants to retire from partnership on 31-3-2021 and S wants to join the partnership on the same date, to which both P & Q agreed. The Balance Sheet of the partnership firm as on 31-03-2021 and other information were as detailed below:

Balance Sheets as on 31-03-2021

Liabilities	₹	Assets	₹
Partner's Capital A/c		Fixed Assets	6,00,000
P	4,80,000	Stock in Hand	2,00,000
Q	3,20,000	Sundry Debtors	2,80,000
R	2,40,000	Cash at Bank	1,60,000
General Reserve	40,000	Cash in Hand	40,000
Sundry Creditors	2,00,000		
	12,80,000		**12,80,000**

P, Q and S agrees to share profits and losses in equal ratio in future. Value of goodwill is taken to be ₹ 1,80,000. Fixed Assets are revalued upwards by ₹ 1,20,000 and Stock by ₹ 40,000. A debtor from whom ₹ 20,000 was due, become insolvent. No amount will be received from him in future and same is not recorded in the books and balance sheet as above. Claim of R will be settled in full. P, Q and S agree to make their capital proportionate to their new profit sharing ratio. Balance amount receivable from / payable to partners will be paid to partners / brought in by partners immediately.
All these transactions viz., claim of R and amount receivable / payable to partners will be routed through bank only. New partners also want to maintain ₹ 3,20,000 bank balance for working capital requirement. However they don't want to show goodwill in the books of accounts
Prepare:
a) Revaluation Account
b) Capital Accounts of Partners and
c) Balance Sheet of the Firm as newly constituted.

Question 9 Pg no.______

E, F and G were partners sharing Profits and Losses in the ratio of 5:3:2 respectively. On 31st March, 2021 Balance Sheet of the firm stood as follows:

Liabilities	₹	Assets	₹
Capital A/cs		Buildings	55,000
E 50,000		Furniture	25,000
F 40,000		Stock	42,000
G 28,000	1,18,000	Debtors	20,000
Creditors	33,500	Cash at Bank	11,200
Outstanding Expenses	1,700		
	1,53,200		**1,53,200**

On 31st March, 2021, E decided to retire and F and G decided to continue as equal partners. Other terms of retirement were as follows:

a) Building be appreciated by 20%.
b) Furniture be depreciated by 10%
c) A provision of 5% be created for bad debts on debtors.
d) Goodwill be valued at two years' purchase of profit for the latest accounting year. The firm's Profit for the year ended 31st March, 2021 was ₹25,000. No goodwill account is to be raised in the books of accounts.
e) Fresh capital be introduced by F and G to the extent of ₹10,000 and ₹35,000 respectively.
f) Out of sum payable to retiring partner E, a sum of ₹45,000 be paid immediately and the balance be transferred to his loan account bearing interest @ 12% per annum. The loan is to be paid off by 31st March, 2023.

One month after E's retirement, F and G agreed to admit E's son H as a partner with one-forth share in Profits/Losses. E agreed that the balance in his loan account be converted into H's Capital. E also agreed to forgo one month's interest on his loan.
It was also agreed that H will bring in, his share of goodwill through book adjustment, valued at the price on the date of E's retirement. No goodwill account is to be raised in the books.
Prepare Revaluation Account & Partners' Capital Accounts.

Question 10

Pg no.______

The Balance Sheet of Amitabh, Abhishek and Amrish as at 31.12.2020 stood as follows:

Liabilities		₹	Assets		₹
Capital Accounts :			Land & Buildings		74,000
Amitabh	60,000		Investments		10,000
Abhishek	40,000		Goodwill		37,800
Amrish	40,000	1,40,000	Life Policy (at surrender value):		
Creditors		25,800	Amitabh		2,500
General Reserve		8,000	Abhishek		2,500
Investment Fluctuation Reserve		2,400	Amrish		1,000
			Stock		20,000
			Debtors	20,000	
			Less: Provision for doubtful debts	(1,600)	18,400
			Cash & bank balance		10,000
		1,76,200			**1,76,200**

Amrish died on 31 March, 2021, due to this reason,following adjustments were agreed upon:
(a) Land and Buildings be appreciated by 50%.
(b) Investment be valued at 6% less than the cost.
(c) All debtors (except 20% which are considered as doubtful) were good.
(d) Stock to be reduced to 94%.
(e) Goodwill to be valued at 1 year's purchase of the average profits of the past five years.
(f) Amrish's share of profit to the date of death be calculated on the basis of average profits of the three completed years immediately preceding the year of death.

The profits of the last five years are as follows:

Year	₹
2016	23,000
2017	28,000
2018	18,000
2019	16,000

2020	20,000
	1,05,000

The life policies have been shown at their surrender values representing 10% of the sum assured in each case. The annual premium of ₹1,000 is payable every year on 1st August. Prepare the Balance Sheet of the firm.

Question 11 *(ICAI Study Material)* Pg no.______

The following was the Balance Sheet of Om & Co. in which X, Y, Z were partners sharing profits and losses in the ratio of 1:2:2 as on 31.3.2023. Mr. Z died on 31st December, 2023. His account has to be settled under the following terms.

Balance Sheet of Om & Co. as on 31.3.2023

Liabilities		₹	Assets	₹
Capital Accounts:			Building	1,20,000
X	40,000		Computers	80,000
Y	80,000		Inventories	20,000
Z	80,000	2,00,000	Trade receivables	20,000
Trade payables		20,000	Cash at bank	50,000
Bank loan		50,000	Investments	10,000
General reserve		30,000		
		3,00,000		**3,00,000**

Goodwill is to be calculated at the rate of two years purchase on the basis of average of three years' profits and losses. The profits and losses for the three years were detailed as below:

Year Ending	Profit/Loss
31.3.2023	30,000
31.3.2022	20,000
31.3.2021	(10,000) Loss

Profit for the period from 1.4.2023 to 31.12.2023 shall be ascertained proportionately on the basis of average profits and losses of the preceding three years. During the year ending on 31.3.2023 a car costing ₹40,000 was purchased on 1.4.2022 and debited to traveling expenses account on which depreciation is to be calculated at 20% p.a. at written down value method. This asset is to be brought into account at the depreciated value.

Other values of assets were agreed as follows: Inventory at ₹16,000, building at ₹1,40,000, computers at ₹50,000; investments at ₹6,000. Trade receivables were considered good.

Required:

a) Calculate goodwill and Z's share in the profits of the firm for the period 1.4.2023 to 31.12.2023.

b) Prepare revaluation account assuming that other items of assets and liabilities remained the same.

c) Prepare partners' capital accounts and balance sheet of the firm Om & Co. as on 31.12.2023.

Question 12 Pg no.______

X, Y, Z were partners in a firm sharing Profit & Loss in ratio of 2 : 1 : 1.

The firm took a joint life policy on the lives of all the partners of assured value of ₹ 2,00,000.

The firm also took separate life policies of partners as follows:

	Assured values
X	1,50,000
Y	2,00,000
Z	3,00,000

The premium paid for separate life policies was debited to Profit & Loss A/c. Surrender value of all policies is 50%.
You are required to calculate the share of life policies which X's executors will get in even of X's death?

Question 13 *(ICAI Study Material)* Pg no.______

The partnership agreement of a firm consisting of three partners - A, B and C (who share profits in proportion of ½, ¼ and ¼ and whose fixed capitals are ₹10,000; ₹6,000 and ₹4,000 respectively) provides as follows:

(a) That partners be allowed interest at 10 per cent per annum on their fixed capitals, but no interest be allowed on undrawn profits or charged on drawings.
(b) That upon the death of a partner, the goodwill of the firm be valued at two years' purchase of the average net profits (after charging interest on capital) for the three years to 31st December preceding the death of a partner.
(c) That an insurance policy of ₹10,000 each to be taken in individual names of each partner, the premium is to be charged against the profit of the firm.
(d) Upon the death of a partner, he is to be credited with his share of the profits, interest on capitals etc. calculated upon 31st December following his death.
(e) That the share of the partnership policy and goodwill be credited to a deceased partner as on 31st December following his death.
(f) That the partnership books be closed annually on 31st December.

A died on 30th September 2023, the amount standing to the credit of his current account on 31st December, 2022 was ₹450 and from that date to the date of death he had withdrawn ₹3,000 from the business.
An unrecorded liability of ₹2,000 was discovered on 30th September, 2023. It was decided to record it and be immediately paid off.
The trading result of the firm (before charging interest on capital) had been as follows: 2020 Profit ₹9,640; 2021 Profit ₹6,720; 2022 Profit ₹7,640; 2023 Profit ₹3,670.
Assuming the surrender value of the policy to be 20 percent of the sum assured.
Prepare an account showing the amount due to A's legal representative as on 31st December, 2023.

Question 14 *(ICAI Study Material)* Pg no.______

a) Peter, Paul and Prince were partners sharing profits and losses in the ratio 2:1:1. It was provided in the partnership deed that in the event of retirement /death of a partner he/his legal representatives would be paid:
b) The balance in the capital Account
c) His share of goodwill of the firm valued at two years purchase of normal average profits (after charging interest on fixed capital) for the last three years to 31st December preceding the retirement or death.
d) His share of profits from the beginning of the accounting year to the date of retirement or death, which shall be taken on proportionate basis of profits of the previous year as increased by 25%
e) Interest on fixed capital at 10% p.a. though payable to the partners will not be payable in the year of death or retirement.
f) All the asset are to be revalued on the date of retirement or death and the profit and loss be debited/ credited to the Capital Accounts in the profit sharing ratio.

Peter died on 30th September, 2022. The books of Account are closed on calendar year basis from 1st January to 31st December.

The balance in the Fixed Capital Accounts as on 1st January, 2022 were Peter ₹ 10,000, Paul ₹ 5,000 and Prince ₹ 5,000. The balance in the Current Account as on 1st January, 2022 were Peter ₹ 20,000, Paul ₹ 10,000 and Prince ₹ 7,000. Drawings of Peter till 30th September, 2022 were ₹ 10,000. The profits of the firm before charging interest on capital for the calendar years 2019, 2020 and 2021 were ₹ 1,00,000, ₹ 1,20,000 and ₹ 1,50,000 respectively.
The profits include the following abnormal items of credit:

	2019	2020	2021
Profit on sale of assets	5,000	7,000	10,000
Insurance claim received	3,000	-	12,000

The firm has taken out a Joint Life Policy for ₹1,00,000. Besides the partners had severally insured their lives for ₹ 50,000 each, the premium in respect thereof being charged to the Profit and Loss account. The surrender value of the Policies were 30% of the face/policy value. On 30th June, 2022 the firm received notice from the insurance company that the insurance premium in respect of fire policy had been undercharged to the extent of ₹ 6,000 in the year 2021 and the firm has to pay immediately. The revaluation of the assets indicates an upward revision in value of assets to the extent of ₹ 20,000.
Prepare an account showing the amount due to Peter's Legal representatives as on 30th September, 2022 along with necessary workings.

Question 15 *(CA Foundation July 2021) (10 Marks)* *Pg no.______*

It was provided under the Partnership Agreement between Ram, Laxman and Bharat that in the event of death of a partner, the survivors would have to purchase his share in the firm on the following terms:

(a) Goodwill is to be valued at 3 year's purchase of simple average profits of last 4 completed years.

(b) Outstanding amount due to the representative of a deceased partner shall be paid in 4 equal half yearly installments commencing 6 months after the death plus interest @ 5% p.a. on the outstanding dues.

They shared profit and loss in the ratio 9:4:3.
Ram died on 30th September 2020 and Partner's Capital account balances on that date were: Ram - ₹ 21,600, Laxman - ₹ 12,800 and Bharat - ₹ 7,200. Ram's current account on 30th September, 2020 after crediting his share of profit to that date, however showed a debit balance of ₹ 1,920.
Firm profits were for the year ended

- 31st March, 2017 ₹ 70,400
- 31st March, 2018 ₹ 56,320
- 31st March, 2019 ₹ 48,160
- 31st March, 2020 ₹ 17,408

Show Ram's Capital Account and Executor's Account (of Ram) till full payment is made to Ram's Executor.

PRACTICE QUESTIONS

MULTIPLE CHOICE QUESTIONS

1) C, D and E are partners sharing profits and losses in the proportion of 1/2, 1/3 and 1/6. D retired and the new profit sharing ratio between C and E is 3:2 and the Reserve of ₹ 12,000 is divided among the partners in the ratio:
   (a) ₹ 2,000: ₹ 4,000: ₹ 6,000.
   (b) ₹ 5,000: ₹ 5,000: ₹ 2,000.
   (c) ₹ 6,000: ₹ 4,000: ₹ 2,000.

2) A, B and C takes a Joint Life Policy, after five years B retires from the firm. Old profit sharing ratio is 2:2:1. After retirement A and C decides to share profits equally. They had taken a Joint Life Policy of ₹2,50,000 with the surrender value ₹ 50,000. What will be the treatment in the partner's capital account on receiving the JLP amount if joint life policy premium is fully charged to revenue as and when paid?
   (a) ₹ 50,000 credited to all the partners in old ratio.
   (b) ₹2,50,000 credited to all the partners in old ratio.
   (c) ₹2,00,000 credited to all the partners in old ratio.

3) A, B and C takes a Joint Life Policy, after five years, B retires from the firm. Old profit sharing ratio is 2:2:1. After retirement A and C decides to share profits equally. They had taken a Joint Life Policy of ₹2,50,000 with the surrender value ₹ 50,000. What will be the treatment in the partner's capital account on receiving the JLP amount if joint life policy is maintained at the surrender value?
   (a) ₹ 50,000 credited to all the partners in old ratio.
   (b) ₹2,50,000 credited to all the partners in old ratio.
   (c) No treatment is required.

4) A, B and C are partners sharing profits in the ratio 2:2:1. On retirement of B, goodwill was valued as ₹ 30,000. Find the contribution of A and C to compensate B.
   (a) ₹ 20,000 and ₹ 10,000.
   (b) ₹ 8,000 and ₹ 4,000.
   (c) They will not contribute anything.

5) A, B and C were partners in a firm sharing profits and losses in the ratio of 2:2:1 respectively with the capital balance of ₹ 50,000 for A and B, for C ₹ 25,000. B declared to retire from the firm and balance in reserve on the date was ₹ 15,000. If goodwill of the firm was valued as ₹ 30,000 and profit on revaluation was ₹ 7,050 then what amount will be transferred to the loan account of B.
   (a) ₹ 70,820.
   (b) ₹ 50,820.
   (c) ₹ 25,820.

6) A, B and C are partners sharing profits and losses in the ratio of 3:2:1. C retires on a decided date and Goodwill of the firm is to be valued at ₹ 60,000. Find the amount payable to retiring partner on account of goodwill.
   (a) ₹ 30,000.
   (b) ₹ 20,000.
   (c) ₹ 10,000.

7) A, B and C were partners sharing profits and losses in the ratio of 3:2:1. A retired and Goodwill of the firm is to be valued at ₹ 24,000. What will be the treatment for goodwill?
   (a) Credited to Revaluation Account at ₹ 24,000.
   (b) Adjusted through partners' capital accounts in gaining/sacrificing ratio.
   (c) Only A's capital account credited with ₹ 12,000.

8) Balances of A, B and C sharing profits and losses in proportionate to their capitals, stood as A – ₹2,00,000; B – ₹3,00,000 and C – ₹2,00,000. A desired to retire from the firm, B and C share the future profits equally, Goodwill of the entire firm be valued at ₹1,40,000 and no Goodwill account being raised.
   (a) Credit Partner's Capital Account with old profit sharing ratio for ₹1,40,000.
   (b) Credit Partner's Capital Account with new profit sharing ratio for ₹1,40,000.
   (c) Credit A's Account with ₹ 40,000 and debit B's Capital Account with ₹ 10,000 and C's Capital Account with ₹ 30,000.

9) In the absence of proper agreement, representative of the deceased partner is entitled to the Dead partner's share in
   (a) Profits till date, goodwill, joint life policy, share in revalued assets and liabilities.
   (b) Capital, goodwill, joint life policy, interest on capital, share in revalued assets and liabilities.
   (c) Capital, profits till date, goodwill, joint life policy, share in revalued assets and liabilities.

10) A, B and C are the partners sharing profits and losses in the ratio 2:1:1. Firm has a joint life policy of ₹1,20,000 and in the balance sheet it is appearing at the surrender value i.e. ₹ 20,000. On the death of A, how this JLP will be shared among the partners.
   (a) ₹ 50,000: ₹ 25,000: ₹ 25,000.
   (b) ₹ 60,000: ₹ 30,000: ₹ 30,000.
   (c) ₹ 40,000: ₹ 35,000: ₹ 25,000.

11) R, J and D are the partners sharing profits in the ratio 7:5:4. D died on 30th June 2022. It was decided to value the goodwill on the basis of three year's purchase of last five years average profits. If the profits are ₹ 29,600; ₹ 28,700; ₹ 28,900; ₹ 24,000 and ₹ 26,800. What will be D's share of goodwill?
   (a) ₹ 20,700.
   (b) ₹ 27,600.
   (c) ₹ 82,800.

12) R, J and D are the partners sharing profits in the ratio 7:5:4. D died on 30th June 2022 and profits for the accounting year 2021-2022 were ₹ 24,000. How much share in profits for the period 1st April 2022 to 30th June 2022 will be credited to D's Account.
   (a) ₹ 6,000.
   (b) ₹ 1,500.
   (c) ₹ 2,000.

13) Revaluation account is prepared at the time of
   (a) Admission and Retirement of a partner
   (b) Death of a partner
   (c) All of the above

14) If three partners A, B & C are sharing profits as 5:3:2, then on the death of a partner A, how much B & C will pay to A's executer on account of goodwill. Goodwill is to be calculated on the basis of 2 years purchase of last 3 years average profits. Profits for last three years are: ₹ 3,29,000; ₹ 3,46,000 and ₹ 4,05,000.
   (a) ₹ 2,16,000 & ₹ 1,42,000.
   (b) ₹ 2,44,000 & ₹ 2,16,000.
   (c) ₹ 2,16,000 & ₹ 1,44,000.

ANSWERS MCQs

1 (c) 2 (a) 3 (c) 4 (b) 5 (a) 6 (c) 7 (b) 8 (c) 9 (c) 10 (a) 11 (a) 12 (b) 13 (c) 14 (c)

TRUE / FALSE

State with reasons, whether the following statements are true or false:

1) Business of a partnership has to be closed if any one partner retires.
2) At the time of retirement of a partner no special treatment is required for any reserves appearing in the Balance Sheet.
3) After retirement of a partner, profit sharing ratio of continuing partners remains the same.
4) If any partner wants to retire from the business, he must retire on 1st day of the accounting year.
5) Retiring partner has to forego his share of goodwill in the firm.
6) If a partner retires in between the accounting year then he is not entitled to any profit from the date of beginning of the year till his date of retirement.
7) If the firm has taken any joint life policy then it is to be surrendered at the time of retirement of a partner.
8) Any joint life policy reserve appearing in the Balance Sheet is credited to all the partners in their old profit sharing ratio.
9) Revaluation of assets & liabilities is not necessary on retirement of a partner.
10) Profit on revaluation is credited to continuing partners, retiring partner is not entitled to any profit on revaluation.
11) Business of partnership comes to an end on death of a partner. ***(July 2021)***
12) Legal heir of a deceased partner automatically becomes partner in the firm.
13) A revaluation account is opened in the books of accounts on death of a partner.
14) Any reserve appearing in the balance sheet on the date of death of a partner is transferred to all partners capital account in their profit sharing ratio.
15) Legal heirs of deceased partner are entitled to his capital account balance only ***(Sep 2024)***
16) It is not necessary to adjust goodwill on death of a partner.
17) On death of a partner continuing partners can agree to change their capital contribution and profit sharing ratio.
18) On death of a partner, the firm gets surrender value of the joint life policy.
19) Only legal heirs of deceased partner are entitled to amount received from joint life policy
20) If a partner retires then other partners have a gain in their profit sharing ratio.
21) The objective of taking a joint life policy by the partnership firm is to secure the lives of the existing partners of the firm.
22) At the time of retirement of a partner, firm gets policy amount from the insurance company against the Joint Life Policy taken jointly for all the partners.
23) Retiring or outgoing partner is liable for obligations incurred before and after his retirement

24) A joint venture is a partnership under the Partnership Act.
25) If individual life policies are taken in the name of partners and premium is paid from the firm, then retiring partner is entitled to surrender value of his policy only.
26) The firm will receive surrender value of the joint life policy on the death of the partner.

Solution

1) **False**: Business of a partnership is not closed if any one partner retires, remaining partners continue to carry on the business.
2) **False**: At the time of retirement of a partner all the reserves appearing in the balance sheet are transferred to all the partners in their old profit sharing ratio.
3) **False**: After retirement of a partner, profit sharing ratio of continuing partners does not remain the same.
4) **False**: A partner can retire on any day as per his wish.
5) **False**: Retiring partner is entitled to his share of goodwill in the firm.
6) **False**: If a partner retires in between the accounting year then he is certainly entitled to the profit from the date of beginning of the year till his date of retirement.
7) **True**: The firm is eligible for the surrender value on the JLP taken on the partners at the time of their retirement.
8) **True**: JLP reserve is distributed to the partners in their profit sharing ratio through capital account
9) **False**: Revaluation of assets & liabilities is necessary at the time of retirement of partner.
10) **False**: Profit on revaluation is credited to all the partners in their profit sharing ratio.
11) **False**: Surviving partners continue to carry on the business.
12) **False**: Legal heirs of deceased partners are entitled to dues of the deceased partner.
13) **True**: To find out the actual values of the assets and liabilities, revaluation account is prepared.
14) **True**: Reserves belong to the partners in the same manner the capital contributed by them. Hence it is distributed to them through the capital account.
15) **False**: Legal heirs of a deceased partner are entitled to all the dues of deceased partner.
16) **False**: It is very much necessary to adjust goodwill on death of a partner.
17) **True**- Yes, it can be continued in the earlier share or in new share- in either case it leads to computing a new profit sharing ratio
18) **False**: On death of a partner the firm gets full value of sum assured of the joint life policy.
19) **False**: All the partners are entitled to amount received from joint life policy
20) **True**: If a partner retires the share of his profit or loss will be shared by other partners in their profit sharing ratio.
21) **False**: The object of taking a joint life policy is to reduce the financial pressure for the payment of a large sum to the legal representative of a deceased partner at the time of death of a partner.
22) **False:** At the time of retirement of a partner, firm gets surrender value from the insurance company against the Joint Life Policy taken jointly for all the partners.
23) **False:** Retiring or outgoing partner is liable for obligations incurred before his retirement
24) **False**- Joint Venture is only a kind of temporary trading relationship between the co-venturers to carry out a commercial venture. Therefore, it is not a partnership
25) **False**: If individual life policies are taken in the name of partners and premium is paid from the firm, then retiring partner is entitled to surrender value of all the partners policies.
26) **False**: The firm will receive full value of sum assured of the joint life policy on the death of the partner.

HOMEWORK QUESTIONS

Question 1 *(ICAI Study Material)* Pg no.______

On 31st March, 2023, the balance sheet of M/s Ram, Rahul and Rohit sharing profits and losses in proportion to their capital, stood as follows:

Liabilities		₹	Assets	₹
Capital Accounts:			Land & building	2,00,000
Ram	3,00,000		Machinery	2,00,000
Rahul	2,00,000		Closing stock	1,00,000
Rohit	1,00,000	6,00,000	Sundry debtors	2,00,000
Sundry creditors		2,00,000	Cash and bank balances	1,00,000
		8,00,000		**8,00,000**

On 31st March, 2023, Ram desired to retire from the firm and the remaining partners decided to carry on. It was agreed to revalue the assets and liabilities on that date on the following basis:

1. Land and buildings be appreciated by 30%.
2. Machinery be depreciated by 20%.
3. Closing stock to be valued at ₹ 80,000.
4. Provision for bad debts be made at 5%.
5. Old credit balances of sundry creditors ₹ 10,000 be written off.
6. Joint life policy of the partners surrendered and cash obtained ₹ 60,000.
7. Goodwill of the entire firm be valued at ₹1,80,000 and Ram's share of the goodwill be adjusted in the accounts of Rahul and Rohit who share the future profits equally. No goodwill account being raised.
8. The total capital of the firm is to be the same as before retirement. Individual capital be in their profit sharing ratio.
9. Amount due to Ram is to be settled on the following basis:50% on retirement and the balance 50% within one year

Prepare revaluation account, capital account of partners: Rahul & Rohit, loan account of Ram, cash account and balance sheet as on 1.4.2023 of M/s Rahul and Rohit.

Question 2 *(ICAI Study Material)* Pg no.______

Aarav, Nirav and Purav are partners in LLP sharing profits and losses in the ratio of 3:2:1 Their Balance Sheet as on 31st March 2023 was as follows:

BALANCE SHEET as on 31st March 2023

Liabilities		₹	Assets	₹
Capital Accounts:			Building	50,000
Aarav	80,000		Machinery	67,500
Nirav	50,000		Debtors	65,000
Purav	35,000	1,65,000	Stock	80,000
General Reserve		60,000	Bank	12,500
Trade Creditors		50,000		
		2,75,000		**2,75,000**

Purav retired from the business on 1st April 2023 on the following terms:

1. Goodwill was to be valued at 2 years purchase of average profit of past 3 years.
   31st March 2021 ₹ 41,000 31st March 2022 ₹ 50,000 31st March 2023 ₹ 55,000
2. Goodwill was not to be raised in the books of accounts.
3. Provision for Doubtful Debts to be created on debtors at 5%.
4. Machinery is to be depreciated by 10% and stock is revalued at ₹ 71,000.

5. Building to be appreciated by 20%.
6. Aarav and Nirav to bring in additional capital of ₹ 35,000 and ₹25,000 respectively.
7. Balance payable to Purav must be paid immediately.

You are required to prepare:

1. Revaluation account
2. Partners capital accounts
3. Bank Account
4. Balance Sheet after retirement.

Question 3 *(ICAI Study Material)* Pg no.______

Satyam Shivam & Sundaram are partners of M/s. Great Stationers sharing profits and losses in the ratio of 1:1:2. On 31st March 2023 their Balance Sheet was as under:

Liabilities		₹	Assets	₹
Capital Accounts:			Building	2,50,000
Satyam	1,95,000		Plant	1,60,000
Shivam	1,48,000		Investments	85,000
Sundaram	1,12,000	4,55,000	Stock	45,280
General Reserve		80,000	Trade Receivables	68,000
Loan from Satyam		94,000	Bank	95,720
Trade Creditors		75,000		
		7,04,000		**7,04,000**

On 1st April 2023 Shivam retired on the following terms:

1. Goodwill is to be revalued at ₹ 1,20,000 but the same will not appear as an asset in the books of the reconstituted firm.
2. Buildings is to be appreciated by 20% and Plant is to be depreciated by 10 %
3. Investments are to be taken over by the Satyam in full settlement of his loan
4. Provision of 5% is to be made on Trade receivables to cover doubtful debts.
5. In the reconstituted firm, the total capital will be ₹ 3,00,000/- which will be contributed by Satyam and Sundaram in their new profit sharing ratio, which is 2:3.
6. The amount due to retiring partner shall be transferred to his loan account.

Pass Journal entries & prepare Balance Sheet.

Question 4 *(CA Foundation May 2018) (10 Marks) / (RTP Nov 2023)* Pg no.______

A, B & C are partners sharing profits in ratio of 3:2:1. Their Balance Sheet as at 31st March, 2021

Liabilities		Amount	Assets		Amount
Capital Accounts			Building		10,00,000
A	8,00,000		Furniture		2,40,000
B	4,20,000		Office equipments		2,80,000
C	4,00,000	16,20,000	Stock		2,50,000
Sundry Creditors		3,70,000	Sundry debtors	3,00,000	
General Reserves		3,60,000	Less: Provision for Doubtful debts	(30,000)	2,70,000
			Joint life policy		1,60,000
			Cash at Bank		1,50,000
		23,50,000			**23,50,000**

B retired on 1st April, 2021 subject to the following conditions:

(i) Office Equipments revalued at ₹ 3,27,000.

(ii) Building revalued at ₹ 15,00,000. Furniture is written down by ₹ 40,000 and Stock is reduced to ₹ 2,00,000 .

(iii) Provision for Doubtful Debts is to be created @ 5% on Debtors.
(iv) Joint Life Policy will appear in the Balance Sheet at surrender value after B's retirement. The surrender value is ₹ 1,50,000
(v) Goodwill was to be valued at 3 years purchase of average 4 years profit which were:
2017 90,000 **2018** 1,40,000 **2019** 1,20,000 **2020** 1,30,000
(vi) Amount due to B is to be transferred to his Loan Account.

Prepare the Revaluation Account, Partners' Capital Accounts and the Balance Sheet immediately after B's retirement.

Question 5 *(ICAI Study Material)* Pg no.______

A and B are partners in a business sharing profit and losses as A-3/5th and B-2/5th. Their balance sheet as on 1st January, 2023 is given below:

Liabilities		₹	Assets	₹
Capital Accounts:			Plant and Machinery	20,000
A	20,000		Inventories	16,000
B	15,000	35,000	Trade receivables	15,000
Reserve Account		15,000	Balance at Bank	6,000
Trade payables		7,500	Cash in hand	500
		57,500		**57,500**

B retires from the business owing to illness and A takes it over. The following revaluation was made:
(1) The goodwill of the firm is valued at ₹25,000.
(2) Depreciate Plant & Machinery by 7.5% and Inventories by 15%.
(3) Doubtful debts provision is raised against trade receivables at 5% and a discount reserve against trade payables at 2%.

Required: Journalize the above transactions in the books of the firm and close the Partners' Accounts as on 1st January 2023. Give also the opening Balance Sheet of A.

Question 6 *(CA Foundation June 2022) (10 Marks)* Pg no.______

X, Y and Z are partners sharing profits and losses in the ratio of 1:2:3. Their Balance Sheet as on 31st March,2021 was as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
Capitals:		Building	2,50,000
X	1,75,000	Machinery	3,37,500
Y	2,50,000	Debtors	3,25,000
Z	4,00,000	Stock	4,00,000
General Reserve	3,00,000	Bank	62,500
Trade Creditors	2,50,000		
Total	**13,75,000**	**Total**	**13,75,000**

Z retired from business on 1st April,2021 on the following terms:

a) Building to be appreciated by 25%.
b) X and Y to bring in additional capital of ₹ 5,00,000 each.
c) Machinery to be depreciated by 10%.
d) Stock is revalued at ₹ 3,72,250.
e) Provision for Doubtful Debts to be created at 4%.
f) Goodwill was to be valued at 3 years' purchase of average profits of past 3 years. The profits of past 3 years were ₹ 2,75,000, ₹ 2,50,000 and ₹ 1,95,000 respectively.
g) Goodwill was not to be raised in the Books of Accounts.
h) Balance payable to Z was to be paid immediately.

Prepare Revaluation Account, Bank Account and Partners' Capital Accounts after giving effect to Z's retirement, Also show the valuation of Goodwill and pass a Journal Entry for adjustment of Goodwill.

Question 7 - *(ICAI Study Material)* Pg no.______

A,B,C were in partnership sharing profits and losses in the ratio of 3:2:1. The balance sheet of the firm as on 31.3.2023 was as under:

Liabilities		₹	Assets	₹
Capital Accounts:			Fixtures	30,000
A	1,50,000		Stock	1,70,000
B	1,00,000		Sundry debtors	90,000
C	50,000	3,00,000	Cash	50,000
Sundry creditors		40,000		
		3,40,000		**3,40,000**

A, on account of ill-health, gave notice that he wished to retire from the firm. A retirement agreement was, therefore, entered as on 31.3.2023, the terms of which were as follows:

(a) The profit and loss account for the year ended 31.3.2023, which showed a net profit of ₹ 42,000 was to be re-opened. B was to be credited with ₹ 6,000 as bonus, in consideration of the extra work, which had devolved upon him during the year. The profit sharing basis was to be revised and the revised ratio is to be 2:3:1 as and from 1st April 2022.

(b) Goodwill was to be valued at two years' purchase of the simple average profits of five years. Profits for these five years ending on 31st March were as under:

31.3.2019	15,000
31.3.2020	23,000
31.3.2021	25,000
31.3.2022	35,000
31.3.2023	42,000

(c) Fixtures are to be valued at ₹ 39,800 and a provision of 2% was to be made for doubtful debts and the remaining assets were to be taken at their book value.

(d) That the amount payable to A shall be paid by B.

B and C agreed, as between themselves, to continue the business, sharing profits and losses in the ratio of 3:1 and decided to retain fixtures in the books at the revised value and increase the provision for doubtful debts to 6 %. Total capital of the firm will be ₹3 lakhs as before to be maintained in the new ratio as between B and C.

You are required to give the necessary entries to give effect to the above arrangements. Prepare capital accounts of partners, cash account and balance sheet of B and C.

Question 8 *(ICAI Study Material) / (RTP Nov 2019) / (RTP Nov 2021) (Similar)* Pg no.______

The following is the Balance Sheet of M/s. ABC LLP as at 31st December, 2022.

Balance Sheet as at 31st December, 2022

Liabilities		₹	Assets		₹
Capital Accounts:			Machinery		5,000
A	4,100		Furniture		2,800
B	4,100		Fixture		2,100
C	4,500	12,700	Inventories		950
General Reserve		1,500	Trade receivables	4,500	
Trade payables		2,350	Less: Provision	(300)	4,200
			Cash		1,500
		16,550			**16,550**

C died on 3rd January, 2023 and the following agreement was to be put into effect.
(a) Assets were to be revalued: Machinery to ₹ 5,850; Furniture to ₹ 2,300; Inventory to ₹ 750.
(b) Goodwill was valued at ₹ 3,000 and was to be credited with his share, without using a Goodwill Account
(c) ₹ 1,000 was to be paid away to the executors of the dead partner on 5th January, 2023.
Required to show:
(i) The Journal Entry for Goodwill adjustment.
(ii) The Revaluation Account and Capital Accounts of the partners.
(iii) Which account would be debited and which account credited if the provision for doubtful debts in the Balance Sheet was to be found unnecessary to maintain at the death of C.

Question 9 *(CA Foundation Nov 2019) (10 Marks)* Pg no.______

Arup and Swarup were partners. The partnership deed provides inter alia:
b) That the annual accounts be balanced on 31st December each year;
c) That the profits be allocated as follows:
Arup: One-half; Swarup: One-third and Carried to reserve account: One Sixth;
d) That in the event of death of a partner, his executor will be entitled to the following:
1) The capital to his credit at the date of death;
2) His proportionate share of profit to date of death based on the average profits of the last three completed years; and
3) His Share of goodwill based on three years' purchase of the average profits for the three preceding completed years

Trial Balance as on 31st December 2020

Particulars	Debit (₹)	Credit (₹)
Arup's Capital		90,000
Swarup's Capital		60,000
Reserve		45,000
Bills receivable	50,000	
Investment	55,000	
Cash	1,10,000	
Trade payables		20,000
Total	**2,15,000**	**2,15,000**

The profits for the three year were 2018: ₹ 51,000; 2019: ₹ 39,000 and 2020. ₹ 45,000. Swarup died on 1st May 2021.
Show the calculation of Swarup (A) Share of profits; (B) Share of Goodwill; (C) Draw up Swarup's Executors Account as would appear in the firms' ledger transferring the amount to the Loan account.

Question 10 *(ICAI Study Material)* Pg no.______

The Balance Sheet of Seed, Plant and Flower as at 31st December, 2021 was as under:

Liabilities		₹	Assets	₹
Capital Accounts:			Fixed Assets	40,000
Seed	25,000		Debtors	10,000
Plant	15,000		Bills Receivable	4,000
Flower	15,000	55,000	Inventories	16,000
General Reserve		5,000	Cash at Bank	10,000
Trade payables		20,000		
		80,000		**80,000**

The profit sharing ratio was: Seed 5/10, Plant 3/10 and Flower 2/10. On 1st May, 2022 Plant died. It was agreed that:

(a) Goodwill should be valued at 3 years purchase of the average profits for 4 years. The profits were:
2018 ₹ 10,000 2019 ₹ 13,000 2020 ₹ 12,000 2021 ₹ 15,000

(b) The deceased partner to be given share of profits upto the date of death on the basis of previous year.

(c) Fixed Assets were to be depreciated by 10%. A bill for ₹ 1,000 was found to be worthless. These are not to affect goodwill.

(d) A sum of ₹ 7,750 was to be paid immediately, the balance was to remain as a loan with the firm at 9% p.a. as interest.

Seed & Flower agreed to share profits & losses in future in the ratio of 3: 2. Give necessary journal entries.

Question 11 *(ICAI Study Material) / (RTP Nov 2018) / (May 2022) / (Jan 2025) (Sim.)* *Pg no.______*

Dowell LLP with partners Mr. A, Mr. B and Mr. C, sharing profits and losses in the ratio of 10:6:4. The balance sheet of the firm as at 31st March, 2023 is as under:

Liabilities	₹	Assets	₹
Capitals		Land	10,000
A 80,000		Buildings	2,00,000
B 20,000		Plant and machinery	1,30,000
C 30,000	1,30,000	Furniture	43,000
Reserves (un-appropriated profit)	20,000	Investments	12,000
Long Term Debt	3,00,000	Inventories	1,30,000
Bank Overdraft	44,000	Trade receivables	1,39,000
Trade payables	1,70,000		
	6,64,000		**6,64,000**

It was mutually agreed that Mr. B will retire from partnership and in his place Mr. D will be admitted as a partner with effect from 1st April, 2023. For this purpose, the following adjustments are to be made:

a) Goodwill is to be valued at ₹1 lakh but the same will not appear as an asset in the books of the reconstituted firm.

b) Buildings and plant and machinery are to be depreciated by 5% and 20% respectively. Investments are to be taken over by the retiring partner at ₹15,000. Provision of 20% is to be made on Trade receivables to cover doubtful debts.

c) In the reconstituted firm, the total capital will be ₹ 2 lakhs which will be contributed by Mr. A, Mr. C and Mr. D in their new profit sharing ratio, which is 2:2:1.
   (i) The surplus funds, if any, will be used for repaying bank overdraft.
   (ii) The amount due to retiring partner shall be transferred to his loan account.

Required:
Prepare
(a) Revaluation account;
(b) Partners' capital accounts;
(c) Bank account; and
(d) Balance sheet of the reconstituted firm as on 1st April, 2023

Question 12 *(CA Foundation Nov 2020) (10 Marks)* *Pg no.______*

M/s. TB is a partnership firm with the partners A, B and C sharing profits and losses in the ratio of 3:2:5. The balance sheet of the firm as on 30th June, 2020 was as under:

Balance Sheet of M/s. TB as on 30-6-2020

Liabilities		₹	Assets	₹
Capital Accounts:			Land	1,20,000
A	1,24,000		Building	2,20,000
B	96,000		Plant and Machinery	4,00,000
C	1,60,000	3,80,000	Investments	42,000
Long Term Loan		4,20,000	Inventories	1,36,000
Bank Overdraft		64,000	Trade receivables	1,59,000
Trade payables		2,13,000		
		10,77,000		**10,77,000**

It was mutually agreed that B will retire from partnership and in his place D will be admitted as a partner with effect from 1st July, 2020. For this purpose, following adjustments are to be made:

(a) Goodwill of the firm is to be valued at ₹ 3 lakhs due to the firm's location advantage but the same will not appear as an asset in the books of the reconstituted firm.

(b) Building and Plant & Machinery are to be valued at 95% and 80% of the respective balance sheet values. Investments are to be taken over by the retiring partner at ₹ 46,000. Trade receivables are considered good only upto 85% of the balance sheet figure. Balance to be considered bad.

(c) In the reconstituted firm, the total capital will be ₹ 4 lakhs, which will be contributed by A, C and D in their new profit sharing ratio, which is 3:4:3.

(d) The amount due to retiring partner shall be transferred to his loan account.

You are required to prepare Revaluation Account and Partners' Capital Accounts after reconstitution, along with working notes.

Question 13 *(ICAI Study Material)* Pg no.______

K, L & M are partners sharing profits and losses in the ratio 5:3:2. Due to illness, L wanted to retire from the firm on 31.3.2023 and admit his son N in his place.

Liabilities		₹	Assets	₹
Capital Accounts:			Furniture	20,000
K	40,000		Trade receivables	50,000
L	60,000		Inventories	50,000
M	30,000	1,30,000	Cash and Bank balances	80,000
Reserve		50,000		
Trade payables		20,000		
		2,00,000		**2,00,000**

On retirement of L assets were revalued: Furniture ₹10,000 and Inventory in trade ₹30,000. 50% of the amount due to L was paid off in cash and the balance was retained in the firm as capital of N. On admission of the new partner, goodwill was valued at ₹50,000. Partners are being paid off their extra balances to make capital proportionate by keeping N's capital as base.

You are required to give:

a) Necessary journal entries;

b) Balance sheet of M/s K, M and N as on 1.4.2023;

c) Capital accounts of partners.

Question 14 Pg no.______

X, Y & Z were in partnership sharing profits and losses equally and following financial year for accounting. Z died on 30th September, 2020. As per the accounts drawn upto 30th

September, 2020 the capital account balances were X: 30,000 (Cr.), Y:40,000 (Cr.), Z: 50,000 (Cr.) respectively. Z's legal representative would be paid their dues on 1st April, 2021. In the meanwhile, X & Y continued the business and earned a profit of ₹ 40,000 for the half year ended 31.03.2021. Partnership deed did not contain any clause for payment of Interest on deceased partner's dues. Suggest the amount that legal heirs of the deceased partner should settle for as per Section 37 of the Partnership Act, 1932.

Question 15 *(ICAI Study Material)* **Pg no._____**

Red, White and Black shared profits and losses in the ratio of 5:3:2. They took out a joint life Policy in 2018 for ₹50,000, a premium of ₹3,000 being paid annually on 10th June. The surrender value of the policy on 31st December of various years was as follows: 2018 nil; 2019 ₹ 900; 2020 ₹ 2,000; 2021 ₹ 3,600. Black retires on 15th April, 2022.
Prepare ledger accounts assuming no Joint Life Policy Account is maintained.

Question 16 *(ICAI Study Material)* **Pg no._____**

Red, White and Black shared profits and losses in the ratio of 5: 3: 2. They took out a Joint Life Policy in 2018 for ₹ 50,000, a premium of ₹ 3,000 being paid annually on 10th June. The surrender value of the policy on 31st December of various years was as follows: 2018 nil; 2019 ₹ 900: 2020 ₹ 2,000; 2021 ₹ 3,600. Black retires on 15th April, 2022.
Prepare ledger accounts assuming Joint Life Policy Account is maintained on surrender value basis.

Question 17 *(CA Foundation July 2021) (5 Marks)* **Pg no._____**

Rama, Krishna and Raghu shared profits and losses in the ratio of 5:3:2. They took out a Joint Life Policy in 2017 for ₹ 50,000, a premium of ₹ 3,000 being paid annually on 10th June. The surrender value of the policy on 31st December of various years was as follows:
2017 Nil **2018** ₹ 900 **2019** ₹ 2,000 **2020** ₹ 3,600
Rama retired on 15th April, 2021 and the policy was surrendered.
You are required to prepare Joint Life Policy Account from 2017 to 2021 (assuming the Policy Account is maintained at surrendered value basis)

Question 18 *(CA Foundation May 2019) (10 Marks) / (RTP May 2025)* **Pg no._____**

Monika, Yedhant and Zoya are in partnership, sharing profits and losses equally. Zoya died on 30th June 2021. The Balance Sheet of Firm as at 31st March 2021 stood as

Liabilities	Amount	Assets		Amount
Creditors	20,000	Land and Building		1,50,000
General Reserve	12,000	Investments		65,000
Capital Accounts:		Stock in trade		15,000
Monika	1,00,000	Trade receivables	35,000	
Yedhant	75,000	Less: Prov. for doubtful debt	(2,000)	33,000
Zoya	75,000	Cash in hand		7,000
		Cash at bank		12,000
	2,82,000			**2,82,000**

In order to arrive at the balance due to Zoya, it was mutually agreed that:
(i) Land and Building be valued at ₹ 1,75,000
(ii) Debtors were all good, no provision is required
(iii) Stock is valued at ₹ 13,500
(iv) Goodwill will be valued at one Year's purchase of the average profit of the past five years. Zoya's share of goodwill be adjusted in the account of Monika and Yedhant.

(v) Zoya's share of profit from 1st April 2021, to the date of death be calculated on the basis of average profit of preceding three years.

(vi) The profit of the preceding five years ended 31st March were:

2021	**2020**	**2019**	**2018**	**2017**
25,000	20,000	22,500	35,000	28,750

You are required to prepare:

(1) Revaluation account

(2) Capital accounts of the partners and

(3) Balance sheet of the Firm as at 1st July 2021.

Question 19 *(MTP Oct 2019)* Pg no.______

A, B and C are partners in a firm sharing profits and losses as 8:5:3. Their balance sheet as at 31st December, 2020 was as follows:

	Amount		Amount
Sundry creditors	1,50,000	Cash	40,000
General reserve	80,000	Bills receivable	50,000
Partners' loan accounts:		Sundry debtors	60,000
A	40,000	Stock	1,20,000
B	30,000	Fixed assets	2,80,000
Partners' capital accounts:			
A	1,00,000		
B	80,000		
C	70,000		
	5,50,000		**5,50,000**

From 1st January, 2021 they agreed to alter profit-sharing ratio as 5:6:5. It is also decided that:

(a) the fixed assets should be valued at ₹ 3,31,000;

(b) a provision of 5% on sundry debtors to be made for doubtful debts;

(c) the goodwill of the firm at this date be valued at three years' purchase of the average net profits of the last five years before charging insurance premium; and

(d) the stock be reduced to ₹ 1,12,000.

There is a joint life insurance policy for ₹ 2,00,000 for which an annual premium of ₹ 10,000 is paid, the premium being charged to profit and loss account. The surrender value of the policy on 31st December, 2020 was ₹ 78,000.

The net profits of the firm for the last five years were ₹ 14,000, ₹ 17,000, ₹ 20,000, ₹ 22,000 and ₹ 27,000. Goodwill and the surrender value of the joint life policy was not to appear in the books. Pass journal entries necessary to adjust the capital accounts of the partners and prepare the revised balance sheet.

Question 20 *(ICAI Study Material)* Pg no.______

A, B and C are in partnership sharing profits and losses at the ratio of 5:3:2. The balance sheet of the firm on 31.12.2022 was as follows:

Liabilities		₹	Assets	₹
Capital Accounts:			Sundry Fixed Assets	80,000
A	50,000		Inventories	50,000
B	40,000		Trade receivables	30,000
C	30,000	1,20,000	Joint Life Policy	20,000
Bank Loan		40,000	Bank	10,000
Trade payables		30,000		
		1,90,000		**1,90,000**

On 1.1.2023, A wants to retire, B and C agreed to continue at 2:1. Joint Life Policy was taken on 1.1.2018 for ₹ 1,00,000 and its surrender value as on 31.12.2022 was ₹ 25,000. For the purpose of A's retirement goodwill was raised for ₹ 1,00,000. Sundry Fixed Assets was revalued for ₹ 1,10,000. But B and C did not prefer to show such increase in assets in the Balance Sheet. Also they agreed to bring necessary cash to discharge 50% of the A's claim, to make the bank balance ₹25,000 and to make their capital proportionate.
Prepare necessary journal entries to give the effect in capital accounts of partners.

Question 21 *(ICAI Study Material)* Pg no.______

Diya Riya & Kiya are partners of M/s. DRK Fabrics sharing profits and losses in the ratio of 2:1:2. On 31st March 2023 their Balance Sheet was as under:

Liabilities		₹	Assets	₹
Capital Accounts:			Land & Building	1,65,000
Diya	1,50,000		Furniture	75,000
Riya	1,80,000		Joint Life Policy	60,000
Kiya	70,000	4,00,000	Inventory	88,740
General Reserve		1,40,000	Trade Receivables	96,750
Trade Payables		60,000	Bank	1,14,510
		6,00,000		**6,00,000**

Kiya died on 30th September, 2023. The partnership deed provides as follows:

(a) That partners be allowed interest at 12% p.a. on their capitals, but no interest be charged on drawings.

(b) That upon the death of a partner, the goodwill of the firm be valued at one years' purchase of the average net profits (after charging interest on capital) for the four years to 31st March preceding the death of a partner.

The profits of the firm before charging interest on capitals were

2019-20	1,62,000	2020-21	1,99,000
2021-22	1,87,000	2022-23	1,96,000

Average capital during preceding four years may be assumed as ₹ 3,00,000

(c) Profits till the date of death to be ascertained on the basis of average profit of previous four years

(d) Upon the death of a partner, she is to be credited with her share of the profits, interest on capitals etc. calculated till the date of death

After the death of Kiya

1. ₹ 2,00,000 was received from insurance company against Joint life Policy.
2. Land & Building was appreciated by 20%, Furniture to be depreciated by 10%, inventory to be revalued at ₹ 80,000. Bad debts amounted ₹ 1760.
3. Amount payable to Kiya was paid in cash.

You are required to prepare

1. Revaluation A/c
2. Partners' Capital A/c
3. Balance Sheet as on 30th September 2023, assuming other Assets and liabilities remaining the same.

Question 22 *(CA Foundation Jan 2021) (10 Marks)* Pg no.______

The partnership deed of a firm consisting of 3 partners - P, Q and R (profit sharing ratio being 2:1:1) and whose fixed capitals are ₹ 30,000, ₹ 12,000 and ₹ 8,000 respectively provides as follows:

(i) The partners be allowed interest @ 8% p.a. on their fixed capitals, but no interest to be allowed on undrawn profits or charged on drawings.
(ii) That upon the death of a partner, the goodwill of the firm be valued at 2 years purchase of the average net profit (after charging interest on capital) for the 3 years to 31st December preceding the death of a partner.
(iii) That an insurance policy of ₹ 25,000 each was taken in individual names of each partner. The premium was charged against the profits of the firm. The surrender value of the policy was 20% of the sum assured.
(iv) Upon the death of a partner, he is to be credited with his share of the profits, interest on capitals, etc. calculated upto 31st December following his death.
(v) That the share of the partnership policy and goodwill be credited to a deceased partner as on 31st December following his death.
(vi) That the partnership books to be closed annually on 31st December.

P died on 30th September, 2020. The amount standing to the credit of his current account as on 31st December, 2019 was ₹ 5,000 and from that date to the date of death he had withdrawn₹ 30,000 from the business.

An unrecorded liability of ₹ 6,000 was discovered on 30th September, 2020 and it was decided to record it and immediately pay it off.

The trading results of the firm (before charging interest on capital) had been as follows:

2017 Profit ₹ 29,340
2018 Profit ₹ 26,470
2019 Loss ₹ 8,320
2020 Profit ₹ 13,470

You are required to prepare an account showing amount due to P's legal heir as on 31st December, 2020.

Note: Impact for unrecorded liability not to be given in earlier years.

Question 23 *(CA Foundation June 2023) (20 Marks)* *Pg no.______*

A, B and C were trading in partnership sharing profits and losses in the proportion of 4:3:3. The balances in the books of the firm as on 31st December, 2022 subject to final adjustment were as under:

	Debit	Credit
	Amount ₹	Amount ₹
Capital Accounts		
- A		2,25,000
- B		1,12,500
- C		1,35,000
Current Account		
- A	36,000	
- B	54,000	
- C	54,000	
Land and Building	1,80,000	
Furniture and Fixtures	33,750	
Stock	2,81,250	
Debtors	45,000	
Bank Account	90,000	
Profit for the year before charging interest		2,34,000
Creditors		67,500
Total	7,74,000	7,74,000

Goodwill may be recorded separately, instead of through Revaluation Account. C died on 30th June, 2022. The Partnership deed provided that:

a) Interest was credited on Capital Account of Partners as @ 12% per annum on the balance at the beginning of the year.
b) On the death of partner
   (i) Goodwill was to be valued at three years purchase of average annual profits of three years up to the death, after deducting interest on capital employed at 10%p.a. and a fair remuneration for each of the partners.
   (ii) Fixed assets were to be valued by an independent valuer and all other assets and liabilities to be taken at book value, and
c) Whenever necessary, profit or loss should be apportioned on a time basis. You ascertain that:
   (i) Profit for three years, before charging partners' interest were:

2019	₹ 2,52,000
2020	₹ 2,83,500
2021	₹ 2,70,000

   (ii) The independent valuation on the date of death revealed:

Land and Building	₹ 2,25,000
Furniture and Fixtures	₹ 22,500

   (iii) For valuation of goodwill a fair remuneration for each of the partners would be ₹ 56,250 per annum and that the capital employed in the business to be taken as ₹ 5,85,000 throughout.

It was agreed between the partners that:

a. Goodwill was not be shown as an asset of the firm as on 31st December, 2022. Therefore, adjustment for goodwill was to be made in Capital Accounts.
b. The amount due to C's Estate was to remain as loan with the firm carrying interest at 12% p.a.
c. A and B would share profits equally from the date of death of C.
d. Depreciation on revised value of assets would be ignored.

You are required to prepare:

1. Partners' Capital Account and Current Account; and
2. Balance Sheet of the firm as on 31st December, 2022.

Working should be done correct to the nearest rupee.

Question 24 *(CA Foundation Dec 2023) (10 Marks)* Pg no.______

X, Y and Z were partners sharing profit and losses in the ratio of 5: 3: 2. Their Balance Sheet as on 31st March 2023 is as follows:

Balance Sheet as on 31 March, 2023

Liabilities	Amount	Assets	Amount
Capital Accounts		Building	2,00,000
X	4,25,000	Machinery	3,50,000
Y	2,55,000	Debtors	1,95,000
Z	1,40,000	Stock	1,05,000
General Reserve	25,000	Bank	25,000
Trade Creditors	30,000		
	8,75,000		8,75,000

Y retired from the business on 1 April, 2023 on the following terms:

(i) To appreciate building by 20% and to depreciate machinery by 5%
(ii) Provision for debts is to be created at 10%.

(iii) Goodwill of the firm is valued at 1,60,000 and Goodwill is not to be raised in the books of accounts. New profit sharing ratio will be 5:3

(iv) Entire sum payable to Y should be brought by X and Z in such a way to make their capital according to new profit ratio. Balance of Y to be paid immediately.

You are required to prepare Revaluation Account, Partners Capital Accounts and Balance Sheet after retirement.

Question 25 *(CA Foundation Sep 2024) (10 Marks)* Pg no.______

X, Y and Z were in a firm sharing profit and loss as 3: 2: 1. Their Balance Sheet on 31st March, 2024 was as follows:

Liabilities	Amount	Assets	Amount
X's Capital	78,000	Goodwill	12,000
X's Capital	42,000	Patents	30,000
Z's Capital	31,000	Machinery	60,000
Investment Fluctuation Fund	6,000	Investment (Market value ₹ 27,600)	25,000
Workmen's Compensation	12,000	Stock	30,650
Trade Creditors	31,000	Debtors 50,000	
Employee's Provident Fund	12,000	Less: Provision for doubtful debts 4,000	46,000
		Cash at Bank	8,350
TOTAL	**2,12,000**	**TOTAL**	**2,12,000**

Z retired on the above date on the following terms:

(1) Goodwill of the firm was valued at ₹ 60,000.

(2) Value of patents was to be reduced by 20% and that of machinery to 90%.

(3) Provision for doubtful debts was to be raised to 10%.

(4) Liability on account of Provident fund was only ₹ 6,000.

(5) Liability for workmen compensation to the extent of ₹ 6,000 is to be created.

(6) Z took over the investment at market value.

(7) Amount due to Z is to be settled on the following basis- 50% on retirement, 50% of the balance within one year and the balance by a bill of exchange (without interest) at 3 months.

You are required the following:

(i) Show entries for the treatment of goodwill,

(ii) Prepare Revaluation Account,

(iii) Partner Capital Account, &

(iv) Balance Sheet.

Question 26 *(CA Foundation Jan 2025) (15 Marks)* Pg no.______

A, B and C are partners sharing profits & losses in the ratio of 3:2:1. The following is the Balance Sheet of their firm M/s ABC Trading Corporation as on 31st March, 2024:

Balance Sheet as on 31st March, 2024

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Accounts:		Land & Building	2,40,000
A	2,80,000	Machinery	1,50,000
B	1,90,000	Furniture & Fixtures	1,05,000
C	1,50,000	Trade Receivables 1,55,200	
General Reserve	1,35,000	Less: Provision for Doubtful debts 5,700	1,49,500

Trade Payables	97,400	Stock	85,600
		Joint Life Policy	90,000
		Cash & Bank	32,300
	8,52,400		**8,52,400**

C died on 30th June, 2024. As per Partnership deed the following arrangement was to be put into effect:

(i) Goodwill of firm was to be valued at 2 years' purchase of average profit of four years to 31st March preceding the death of partner. The profits were as under:
31st March, 2021 ₹ 1,14,000
31st March, 2022 ₹ 1,22,000
31st March, 2023 ₹ 1,19,000
31st March, 2024 ₹ 1,25,000
Goodwill Account will not be opened in the books of accounts and C was to be credited with his share. The new profit-sharing ratio of A and B will be 5:3.

(ii) Profit till the date of death to be ascertained on the basis of average profit of previous four years and share of C was to be credited to his capital account.

(iii) Assets were to be revalued: Land & Building was appreciated by 15%, Machinery to be depreciated by 5%, Furniture & Fixtures to be revalued at ₹ 1,00,000 and the value of Stock to be taken at ₹ 90,000.

(iv) Provision for doubtful debts to be increased by ₹ 1,800.

(v) A sum of ₹ 2,40,000 was received from insurance company against Joint Life Policy.

(vi) Amount due to C was paid to the executors.

You are required to prepare Revaluation Account, Partners Capital Accounts and Balance Sheet as on 30th June, 2024, along with necessary workings.

Unit 6: DISSOLUTION OF FIRM AND LLP

CH 10E

"Don't be pushed around by the Fears in your Mind. Be led by the Dreams in your Heart."

TOPIC 1A: DISSOLUTION

DISSOLUTION

A partnership is dissolved or comes to an end on:

- expiry of the term for which it was formed or completion of the venture for which it was entered into
- death of a partner
- insolvency of a partner.

However, the partners or remaining partners (in case of death or insolvency) may continue to do the business. In such case there will be a new partnership but the firm will continue. When the business comes to an end then only it will be said that the firm has been dissolved

A firm stands dissolved in the following cases:

- The partners agree that the firm should be dissolved
- All partners except one become insolvent
- The business becomes illegal
- In case of partnership at will, a partner gives notice of dissolution and
- The court orders dissolution

The court has the option to order dissolution of a firm in the following circumstances:

(a) Where a partner has become of unsound mind;
(b) Where a partner suffers from permanent incapacity;
(c) Where a partner is guilty of misconduct of the business;
(d) Where a partner persistently disregards the partnership agreement;
(e) Where a partner transfers his interest or share to a third party;
(f) Where the business cannot be carried on except at a loss; and
(g) Where it appears to be just and equitable.

SETTLEMENT OF ACCOUNTS (Section 48 of the Partnership Act)

A. **Treatment of Losses**: Losses including deficiencies of capital are paid,
   - → first out of profits,
   - → next out of capital and,
   - → lastly, if necessary, by the partners individually in their PSR.

B. **Application of Assets**: The assets of firm, including any sums contributed by the partners to make up deficiencies of capital have to be applied in the following manner and order:
   - → paying the debts of the firm to third parties;
   - → pay off loans from partners.
   - → pay off capitals of partners.
   - → Any surplus to be divided among the partners in their PSR.

Dissolution before expiry of a fixed term

A partner who, on admission, pays a premium to the other partners with a stipulation that the firm will not be dissolved before the expiry of a certain term, will be entitled to a suitable refund of premium or of such part as may be reasonable, if the firm is dissolved before the term has expired.

No claim in this respect will arise if:

(1) the firm is dissolved due to the death of a partner;
(2) the dissolution is mainly due to the partner's (claiming refund) own misconduct; and
(3) the dissolution is in pursuance of an agreement containing no provision for the return of the premium or any part of it.

The amount to be repaid will be such as is reasonable having regard to the terms upon which the admission was made and to the length of period agreed upon and that already expired. Any amount that becomes due will be borne by other partners in their profit- sharing ratio.

Distinction Between Dissolution of Partnership & Dissolution of Firm

S. No.	Dissolution of Partnership	Dissolution of Partnership Firm
1	Refers to the discontinuance of the relation between the partners of firm.	Implies that entire firm ceases to exist, including the relation among all partners
2	There can be change in PSR or admission/death/retirement of a partner	Dissolution of partnership firm occurs
3	In event of dissolution of the partnership, the business continues as usual, but the partnership is reconstituted.	In event of the dissolution of the firm, the business ceases to end.
4	There is no intervention by the court.	Court has inherent power to intervene. By its order, a firm can be dissolved.
5	Economic relationships among partners may remain same or change.	Economic relationship among partners comes to an end.
6	Assets and liabilities are revalued. New balance sheet is prepared	Assets are sold and realized. Liabilities are paid off.
7	Revaluation account is prepared	Realization account is prepared.
8	Assets and liabilities are revalued after winding up of the existing partnership.	Assets and liabilities are settled on winding up of a firm.
9	Books of accounts are not closed.	Books of accounts are closed.

WINDING UP OF A LIMITED LIABILITY PARTNERSHIP (LLP)

The winding up of a LLP may be either voluntary or by the Tribunal and LLP, so wound up may be dissolved.

Winding up of a LLP may be initiated by Tribunal if:

- The LLP wishes to wind up;
- The LLP has less than 2 partners for more than 6 months;
- The LLP is unable to pay its debts;
- The LLP has not acted in the interest of the sovereignty and the integrity of India;
- The LLP has failed to submit with the statements of accounts and solvency or the LLP annual returns for more than five consecutive financial years with the Registrar;
- The Tribunal thinks that it is Just and Equitable that the LLP should be wound up.

The Central Government may make rules for the provisions in relation to winding up and dissolution of LLP.

ACCOUNTING ENTRIES: BOOKS OF FIRM

1. **Transfer of Assets to Realisation Account**

Realisation A/c Dr. To Sundry Assets A/c

- By Name of Individual Assets
- To be transferred at ***BOOK VALUE***
- Do not transfer the following.
  - Fictitious Assets
  - P & L debit balance
  - Cash & Bank balance
  - Current & Capital Account debit balance
- If any asset is having corresponding provision, then gross value to be transferred.

2. **Transfer of Outsider's Liabilities to Realisation Account**

Liabilities A/c Dr. To Realisation A/c

- By Name of Individual Liabilities
- To be transferred at ***BOOK VALUE***
- Do not transfer the following
  - Partner's capital & current account balances
  - Reserves and surplus
  - Partner's Loan
- Any provision appearing on asset side is to be debited in this entry

3. **Realisation of All Assets (whether recorded or unrecorded)**

When assets are sold for cash	Cash/Bank A/c Dr. To Realisation Account
When assets are taken away by the partners	Partner's Capital A/c Dr. To Realisation Account
When assets are given away to any of the creditors towards his dues	No Entry

4. **Discharge of Outsider's Liabilities (whether recorded or unrecorded)**

When the liabilities are discharged in cash	Realisation Account Dr. To Cash/Bank A/c
When any of the partners agree to discharge the liability	Realisation Account Dr. To Partner's Capital A/c

5. **Realisation Expenses:**

When expenses are paid by the firm on its own behalf	Realisation Account Dr. To Cash/Bank A/c
When expenses are paid by a partner on firm's behalf	Realisation Account Dr. To Partner's Capital A/c
When any of the partners agree to do dissolution work for an agreed remuneration	Realisation Account Dr. To Partner's Capital A/c
When expenses are paid by a partner who has to bear such expenses	No Entry
When expenses are paid by firm on behalf of a partner who has to bear such expenses	Partner's Capital A/c Dr. To Cash/Bank A/c

6. Payment of Partner's Loan /Advance

Partner's Loan A/c Dr. To Capital A/c (Only to the extent of Dr. Balance in Capital A/c) To Cash/Bank A/c

7. Ascertainment of Profit/Loss on Realisation A/c & Transfer in Profit Sharing Ratio (PSR)

A: If Profit	B: If Loss
Realisation A/c Dr. To All Partner's Capital A/c	All Partner's Capital A/c Dr. To Realisation A/c

8. Transferring Accumulated Profits/Reserves & Losses to Partner's Capital Account in PSR

For Transfer of Accumulated Profits & Reserves
General Reserves A/c Dr. P&L A/c Dr. To All Partner's Capital A/c ***Reverse entry to be passed in case of Accumulated Losses***

Realisation Account

To Sundry Assets (Individually at Book value) Cash & Bank / Losses / Adv. to partner, Current/Capital (Dr. Bal.)		By Sundry Liabilities (outsider) (Individually at Book value) Capital/Current A/c / Reserves & Profits / Partner's Loan A/c	
To Cash & Bank / Partner's Capital A/c (Paid value) (Taken over value) [Including unrecorded Liabilities/ Dissolution Expenses]		By Cash & Bank / Partner's Capital A/c (Realised value) (Taken over value) [Including unrecorded Assets]	
To Profit tfd. to Partner's cap. A/c (b.f.) (PSR)		By Loss tfd. to Partner's cap. A/c (b.f.) (PSR)	

NOTES:

1) Debtors & Provision for Doubtful Debts

Balance Sheet

Liabilities		Assets	
		Debtors 50000 - Provision for Doubtful debt (3000)	47000

Realisation A/c

To Debtors	50000	By Provision for Doubtful Debt	3000

2) Treat Goodwill just like any other normal asset.

Transfer Goodwill to Realisation A/c by passing entry:

Realisation A/c – Dr.

To Goodwill A/c

3) If any asset is assigned for settlement of liability

Only transfer to Realisation A/c with no further effect.

Balance Sheet

Liabilities		Assets	
Creditors	100000	Stock	80000

Realisation A/c

To Stock	80000	By Creditors	100000

4) Question is silent on payment of liabilities & realisation of assets.

For Liabilities : Full payment is made.

For Assets: Depends on nature & value of asset.

Option 1: Assume full value realised.

Option 2: Assume Nil value realised

[Eg. Goodwill, Prepaid Expenses, etc.]

TOPIC 1B: INSOLVENCY OF PARTNER

CONSEQUENCES OF INSOLVENCY OF A PARTNER

1. The partner adjudicated as insolvent ceases to be a partner on the date on which the order of adjudication is made.
2. The firm is dissolved on the date of the order of adjudication unless there is a contract to the contrary.
3. The estate of insolvent partner is not liable for any act of firm after the date of order of adjudication
4. The firm cannot be held liable for any acts of insolvent partner after the date of order of adjudication.

LOSS ARISING FROM INSOLVENCY OF A PARTNER

When a partner is unable to pay his debt due to the firm he is said to be insolvent & share of loss is to be borne by other solvent partners as per decision: **English case of Garner vs Murray**

According to this decision, solvent partners have to bear the loss due to insolvency of a partner and have to categorically put that the normal loss on realisation of assets to be borne by all partners (including insolvent partner) in the profit sharing ratio but a loss due to insolvency of a partner has to be borne by the solvent partners in the capital ratio.

The provisions of the Indian Partnership Act are not contrary to Garner vs. Murray rule. However, if the partnership deed provides for a specific method to be followed in case of insolvency of a partner, the provisions as per deed should be applied.

Insolvency of Partner

[GARNER vs MURRAY]

1) Deficiency / Shortage on account of insolvency of partner to be borne by remaining (other) solvent partners (having credit balance) in their last agreed capital ratio

2) Realisation loss to be brought in cash by all the solvent partners (including Dr. Balance)

Last Agreed Capital Ratio

(upto the date of dissolution of firm)

Fixed Capital → Ratio of fixed capital

Fluctuating Capital →

Capital Balances in B/s	xx
± Effect of Reserves, Profits & Losses	xx
	xx

Capital Ratio on Insolvency

- If they are maintaining **capitals at fixed amounts** then all adjustments regarding their share of profits, interest on capitals, drawings, interest on drawings, salary etc. are done through Current Accounts, which may have debit or credit balances and insolvency loss is distributed in the ratio of fixed capitals.
- But if **capitals are not fixed** and all transactions relating to drawings, profits, interest, etc., are passed through Capital Accounts then Balance Sheet of the business should not exhibit Current Accounts of partners & capital ratio will be determined after adjusting all reserves

& accumulated profits, all drawings, all interest on capitals & on drawings to the date of dissolution but before adjusting profit or loss on Realisation Account.

- If some partner is having a debit balance in his Capital Account and is not insolvent then he cannot be called upon to bear loss on account of the insolvency of other partner.

Non Applicability of Garner vs Murray

1. When the solvent partner has a debit balance in the capital account. Only solvent partners will bear the loss of capital deficiency of insolvent partner in their capital ratio. If incidentally a solvent partner has a debit balance in his capital account, he will escape the liability to bear the loss due to insolvency of another partner.
2. When the firm has only two partners.
3. When there is an agreement between the partners to share the deficiency in capital account of insolvent partner.
4. When all the partners of the firm are insolvent.

Insolvency of all Partners

- When the liabilities of the firm cannot be paid in full out of the firm's assets as well as personal assets of the partners, then all the partners of the firm are said to be insolvent. Under such circumstances don't transfer creditors (Outsider Liabilities) to Realisation A/c.
- Creditors (Outsider Liabilities) may be paid the amount available including the amount contributed by the partners in the ratio of their outstanding amount.

TOPIC 2: PIECEMEAL DISTRIBUTION

Generally, the assets sold upon dissolution of partnership are realised only in small instalments over a period of time. In such circumstances, the choice is either to distribute whatever is collected or to wait till the whole amount is collected. Usually, the first course is adopted. In order to ensure that the distribution of cash among the partners is in proportion to their interest in the partnership concern either of the two methods described below may be followed for determining the order in which the payment should be made.

PIECEMEAL DISTRIBUTION
(Instalments)

Sequence of Distribution:

1) Provide for Dissolution/Realisation Expenses (Estimated)
(Actual Amount decided in last instalment)
2) Outsider Liabilities [If >1, distribute in o/s Amount ratio until they are fully paid]
3) Partner's Loan
4) Partner's capital* → Highest Relative capital Method / Maximum loss Method

* Capital Balances	xx
+ Reserves & Surplus	xx
- P&L A/c (Dr.)	(xx)
- Loan to Partner	(xx)
	xx

ASSIGNMENT QUESTIONS

TOPIC 1A: NORMAL DISSOLUTION

Question 1 (ICAI Study Material) Pg no.______

P, Q and R are partners sharing profits and losses as to 2:2:1. Their Balance Sheet as on 31st March, 2023 is as follows:

Liabilities	₹	Assets	₹
Partners' Capitals:		Plant and Machinery	1,08,000
P	1,20,000	Fixtures	24,000
Q	48,000	Stock in trade	60,000
R	24,000	Sundry debtors	48,000
Reserve Fund	60,000	Cash in hand	60,000
Creditors	48,000		
	3,00,000		**3,00,000**

They decided to dissolve the business. The following are the amounts realized:

	₹
Plant and Machinery	1,02,000
Fixtures	18,000
Stock	84,000
Sundry debtors	44,400

Creditors allowed a discount of 5% and realization expenses amounted to ₹ 1,500. There was an unrecorded asset of ₹ 6,000 which was taken over by Q at ₹ 4,800. A bill for ₹ 4,200 due for GST was received during the course of realization and this was also paid. Prepare:

(i) Realisation account.
(ii) Partners' capital accounts.
(iii) Cash account.

Question 2 (ICAI Study Material) / (RTP Nov 2021) Pg no.______

P and Q were partners sharing profits equally in LLP. Their Balance Sheet as on March 31, 2023 was as follows:

Liabilities		Amount	Assets	Amount
Capitals:			Bank	30,000
P	1,00,000		Debtors	25,000
Q	50,000	1,50,000	Stock	35,000
Creditors		20,000	Furniture	40,000
Q's current account		10,000	Machinery	60,000
Reserves		15,000	P's current account	10,000
Bank overdraft		5,000		
		2,00,000		**2,00,000**

The firm was dissolved on the above date:
P took over 50% of the stock at 10% less on its book value, and the remaining stock was sold at a gain of 15%. Furniture and Machinery realized for ₹ 30,000 and ₹ 50,000 respectively; There was an unrecorded investment which was sold for ₹ 25,000; Debtors realized 90% only and ₹ 1,245 were recovered for bad debts written off last year; There was an outstanding bill for repairs which had to be paid for ₹ 2,000.
You are required to prepare Realization Account, Partners' capital accounts (including transfer of current account balances) and Bank Account in the books of the firm.

Question 3 *(ICAI Study Material) / (RTP Nov 2020) (Similar)* **Pg no.______**

Amit, Sumit and Kumar are partners sharing profit and losses in the ratio 2:2:1. The partners decided to dissolve partnership on 31st March, 2023 when their Balance Sheet was as under:

Liabilities	Amount	Assets	Amount
Capital Accounts:		Land & Building	1,35,000
Amit	55,200	Plant & Machinery	45,000
Sumit	55,200	Furniture-	25,500
General Reserve	61,500	Investments	15,000
Kumar's Loan A/c	15,000	Book Debts 60,000	
Loan from D	1,20,000	Less: Prov. for bad debts (6,000)	54,000
Trade Creditors	30,000	Stock	36,000
Bills Payable	12,000	Bank	13,500
Outstanding Salary	7,500	Capital withdrawn: Kumar	32,400
	3,56,400		**3,56,400**

The following information is given to you:

(i) Realisation expenses amounted to ₹ 18,000 out of which ₹ 3,000 was borne by Amit.

(ii) A creditor agreed to takeover furniture of book value ₹ 12,000 at ₹ 10,800. The rest of the creditors were paid off at a discount of 6.25%.

(iii) The other assets realized as follows:

Furniture - Remaining taken over by Kumar at 90% of book value

Stock - Realised 120% of book value

Book Debts - ₹ 12,000 of debts proved bad, remaining were fully realized

Land & Building - Realised ₹ 1,65,000

Investments - Taken over by Amit at 15% discount

(iv) For half of his loan, D accepted Plant & Machinery and ₹ 7,500 cash. The remaining amount was paid at a discount of 10%.

(v) Bills payable were due on an average basis of one month after 31st March, 2023, but they were paid immediately on 31st March @ 6% discount "per annum".

Prepare the Realisation Account, Bank Account and Partners Capital Accounts in the books of partnership firm.

TOPIC 1B: INSOLVENCY OF PARTNER

Question 4 *(ICAI Study Material)* **Pg no.______**

A, B, C and D sharing profits in the ratio of 4:3:2:1 decided to dissolve their partnership on 31st March 2023 when their balance sheet was as under:

Liabilities		₹	Assets	₹
Creditors		15,700	Bank	535
Employees Provident Fund		6,300	Debtors	15,850
Capital Accounts:			Stock	25,200
A	40,000		Prepaid Expenses	800
B	20,000	60,000	Plant & Machinery	20,000
			Patents	8,000
			C's Capital A/c	3,200
			D's Capital A/c	8,415
		82,000		**82,000**

Following information is given to you :-

1. One of the creditors took some of the patents whose book value was ₹ 5,000 at a valuation of ₹ 3,200. Balance of the creditors were paid at a discount of ₹ 400.

2. There was a joint life policy of ₹ 20,000 (not mentioned in the balance sheet) and this was surrendered for ₹ 4,500.
3. The remaining assets were realised at the following values:- Debtors ₹ 10,800; Stock ₹ 15,600; Plant and Machinery ₹ 12,000; and Patents at 60% of their book-values. Expenses of realisation amounted ₹ 1,500.

D became insolvent and a dividend of 25 paise in a rupee was received in respect of the firms claim against his estate. Prepare necessary ledger accounts.

Question 5 *(ICAI Study Material)*

Pg no.______

P, Q and R were partners sharing profits and losses in the ratio of 3 : 2 : 1, no partnership salary or interest on capital being allowed. Balance sheet on 30th June, 2023 is as follows:

Liabilities	₹	Assets	₹
Fixed Capital		Fixed Assets:	
P- 20,000		Trademark	40,000
Q- 20,000		Freehold Property	8,000
R- 10,000	50,000	Plant and Equipment	12,800
Current Accounts:		Motor Vehicle	700
P- 500		Current Assets:	
Q- 9,000	9,500	Stock	3,900
Loan from P	8,000	Trade Debtors 2,000	
Trade Creditors	12,400	Less: Provision (100)	1,900
		Cash at Bank	200
		R's Current Account	400
		Profit and Loss Account	12,000
	79,900		**79,900**

On 1st July, 2023 the partnership was dissolved. Motor Vehicle was taken over by Q at a value of ₹ 500 but no cash passed specifically in respect of this transaction. Sale of other assets realised the following:

	₹
Trademark	Nil
Freehold Property	7,000
Plant and Equipment	5,000
Stock	3,000
Trade Debtors	1,600

Trade Creditors were paid ₹ 11,700 in full settlement of their debts. The costs of dissolution amounted to ₹ 1,500. The loan from P was repaid, P and Q were both fully solvent and able to bring in any cash required but R was forced into bankruptcy and was only able to bring 1/3 of the amount due. You are required to show:

(a) Cash and Bank Account,
(b) Realisation Account, and
(c) Partners Fixed Capital Accounts (after transferring Current Accounts' balances).

Question 6 *(RTP May 2023)*

Pg no.______

P, Q and R are sharing profits and losses in the ratio 5:3:2. Due to finding of frauds committed by R during the year, it was decided to dissolve the partnership on 31st March, 2022. As on 31st March, 2022 their Balance Sheet was as under:

Equity & Liabilities	Amount (₹)	Assets	Amount (₹)
Partner's Capital A/c		Plant & Machinery	6,00,000
P	4,50,000	Stock	4,27,500
Q	4,50,000	Investments	1,45,000

R	-	Debtors	2,10,000
General reserve	1,20,000	Cash	72,500
Trade creditors	2,35,000	R's Capital	75,000
Bills payable	1,00,000		
Mrs. Q's loan	1,75,000		
Total	**15,30,000**	**Total**	**15,30,000**

Additional information are given as under:

a) During the year R sold Investments costing of ₹ 45,000 at ₹ 56,000 and the said funds were transferred to his personal account. This transaction was not recorded in the firm's books.

b) A cheque for ₹ 30,000 was received from debtor, not recorded in the books and was misappropriated by R.

c) A Trade creditor agreed to takeover stock of the book value of ₹ 25,000 at ₹ 26,500. The rest of the Trade creditors were paid off at a discount of 2%.

d) The bills payable were settled at a discount of 2%.

e) The expenses of dissolution amounted to ₹ 15,900.

f) The other assets realized were as follows:

Plant & Machinery	5% above the book value
Stock	Rest of the stock realized at a loss of ₹ 15,000
Investments	Rest of investments were sold at a profit of ₹ 5,600
Debtors	Rest of the debtors were realized at a discount of 12%.

g) Q agreed to takeover loan of Mrs. Q of ₹ 1,75,000.

h) The realizable value of R's private assets would only be ₹ 20,000.

Applying the principles laid down in Gamer vis. Murray, prepare Realization Account, Cash Account and Partner's Capital Accounts.

Question 7 (RTP Jan 2025)

Pg no.______

Neptune, Jupiter, Venus and Pluto had been carrying on business in partnership sharing profits and losses in the ratio of 3 : 2 : 1 : 1. They decide to dissolve the partnership on the basis of the following Balance Sheet as on 30th April, 2020:

Liabilities		₹	Assets		₹
Capital Accounts			Capital Accounts		
Neptune	1,00,000		Venus	10,000	
Jupiter	60,000	1,60,000	Pluto	12,000	22,000
General Reserve		56,000	Premises		1,20,000
Capital Reserve		14,000	Furniture		40,000
Sundry Creditors		20,000	Stock		1,00,000
Mortgage Loan		80,000	Debtors		40,000
			Cash		8,000
		3,30,000			**3,30,000**

(i) The other assets realized as follows:

Debtors	24,000
Stock	60,000
Furniture	16,000
Premises	90,000

(ii) Expenses of dissolution amounted to ₹ 4,000.

(iii) Further creditors of ₹ 12,000 had to be met.

(iv) General Reserve unlike Capital Reserve was built up by appropriation of profits.

You are required to draw up the Realisation Account, Partners' Capital Accounts and the Cash Account assuming that Venus became insolvent and nothing was realised from his private estate. Apply the principles laid down in Garner vs Murray.

Question 8 *(ICAI Study Material)* Pg no.______

M/s X, Y and Z who were in partnership sharing profits and losses in the ratio of 2:2:1 respectively, had the following Balance Sheet as at December 31, 2023:

Liabilities	₹	Assets	₹
Capital: X 29,200		Fixed Assets	40,000
Y 10,800		Stock	25,000
Z 10,000	50,000	Book Debts 25,000	
Z's Loan	5,000	Less: Provision (5,000)	20,000
Loan from Mrs. X	10,000	Cash	1,000
Sundry Trade Creditors	25,000	Advance to Y	4,000
	90,000		**90,000**

The firm was dissolved on the date mentioned above due to continued losses. After drawing up the balance sheet given above, it was discovered that goods amounting to ₹ 4,000 have been purchased in November, 2023 and had been received but the purchase was not recorded in books.

Fixed assets realised ₹ 20,000; Stock ₹ 21,000 and Book Debt ₹ 20,500. Similarly, the creditors allowed a discount of 2% on the average. The expenses of realisation come to ₹ 1,080. X agreed to take over the loan of Mrs. X. Y is insolvent, and his estate is unable to contribute anything. Give accounts to close the books; work according to the decision in Garner vs. Murray.

Question 9 *(ICAI Study Material)* Pg no.______

Amal and Bimal are in equal partnership. Their Balance Sheet stood as under on 31st March, 2023 when the firm was dissolved:

Liabilities	₹	Assets	₹
Creditors A/c	4,800	Plant & Machinery	2,500
Amal's Capital A/c	750	Furniture	500
		Debtors	1,000
		Stock	800
		Cash	200
		Bimal's drawings	550
	5,550		**5,550**

The assets realised as under:

Plant & Machinery	1,250
Furniture	150
Debtors	400
Stock	500

The expenses of realisation amounted to ₹ 175. Amal's private estate is not sufficient even to pay his private debts, whereas Bimal's private estate has a surplus of ₹ 200 only.
Show necessary ledger accounts to close the books of the firm.

TOPIC 2: PIECEMEAL DISTRIBUTION

Question 10 *(ICAI Study Material) / (RTP May 2019) (Similar)* Pg no.______

A partnership firm was dissolved on 30th June, 2023. Its Balance Sheet on the date of dissolution was as follows:

Liabilities		₹	Assets	₹
Capital Accounts			Cash	10,800
A	76,000		Sundry Assets	1,89,200
B	48,000			
C	36,000	1,60,000		
Loan A/c – B		10,000		
Sundry Creditors		30,000		
		2,00,000		**2,00,000**

The assets were realized in instalments and the payments were made on the proportionate capital basis. Creditors were paid ₹ 29,000 in full settlement of their account. Expenses of realization were estimated to be ₹ 5,400 but actual amount spent was ₹ 4,000. This amount was paid on 15th September.

Draw up a statement showing distribution of cash, which was realized as follows:

	₹
On 5th July, 2023	25,200
On 30th August, 2023	60,000
On 15th September, 2023	80,000

The partners shared profits and losses in the ratio of 2 : 2 : 1. Prepare a statement showing distribution of cash amongst the partners by 'Highest Relative Capital' method.

Question 11

Pg no.______

Amar, Akbar and Antony are in partnership. The following is their Balance Sheet as at March 31, 2020 on which date they dissolved their partnership. They shared profit in the ratio of 5:3:2.

Liabilities	₹	Assets	₹
Creditors	80,000	Plant and machinery	60,000
Loan A/c – Amar	20,000	Premises	80,000
Capital A/cs -		Stock	60,000
Amar	1,00,000	Debtors	1,20,000
Akbar	30,000		
Antony	90,000		
	3,20,000		**3,20,000**

It was agreed to repay the amounts due to the partners as & when the assets were realised.

	₹
April 15, 2020	60,000
May 1, 2020	1,46,000
May 31, 2020	94,000

Prepare statement showing how distribution should be made under maximum loss method.

Question 12 *(ICAI Study Material)*

Pg no.______

A, B & C are partners sharing profits & losses in ratio 5:3:2. Their capitals were 9,600, 6,000 and 8,400 respectively. After paying creditors, the liabilities and assets of the firm were:

	₹		₹
Liability for interest on loans from:		Investments	1,000
Spouses of partners	2,000	Furniture	2,000
Partners	1,000	Machinery	1,200
		Stock	4,000

The assets realised in full in the order in which they are listed above. B is insolvent. Prepare statement showing distribution of cash as & when available, applying maximum possible loss procedure.

PRACTICE QUESTIONS

MULTIPLE CHOICE QUESTIONS

1) Partnership could be dissolved because of
(a) Death of a partner.
(b) Insolvency of a partner.
(c) Either (a) or (b).

2) On the dissolution of partnership, profit or loss on realization of assets and liabilities should be divided among partners
(a) In the ratio of their capitals.
(b) In the same ratio in which they share profits.
(c) Equally.

3) An unrecorded asset realized at the time of dissolution is credited to
(a) Realization account.
(b) Revaluation account.
(c) Capital accounts.

4) A liability taken over by a partner at the time of dissolution is credited to
(a) Profit and loss account.
(b) Partners' capital accounts.
(c) Realization account

5) Realization account is a
(a) Nominal account.
(b) Real account.
(c) Personal account.

6) Which of the following method/methods is adopted to ensure that distribution of cash among partners is in proportion to their interest in partnership?
(a) Maximum loss method.
(b) Highest relative capital method.
(c) Either (a) or (b).

ANSWERS MCQs

1 (c) 2 (b) 3 (a) 4 (b) 5 (a) 6 (c)

TRUE / FALSE

State with reasons, whether the following statements are true or false:

1) Books of accounts are closed in dissolution of partnership.
2) On the dissolution of a partnership, firstly, the assets of the firm are realized. Then the amount realized, is applied first towards repayment of liabilities to outsiders.
3) In event of the dissolution of the firm, the business ceases to end. In event of dissolution of the partnership, the partnership is reconstituted and the business continues.
4) Expenses of dissolution on realization of assets are credited to the Realization Account.
5) Revaluation Account is prepared at the time of dissolution of partnership but Realization Account is prepared at the time of dissolution of partnership firm.

Solution

1) **False**: Books of accounts are not closed in dissolution of partnership but are closed in case of dissolution of partnership firm.
2) **True:** On the dissolution of a partnership, firstly, the assets of the firm, are realized. Then the amount realized, is applied first towards repayment of liabilities to outsiders and loans taken from partners; afterwards, the capital contributed by partners is repaid.
3) **True:** In event of the dissolution of the firm, the business ceases to end. However, in event of dissolution of the partnership, the business continues as usual, but the partnership is reconstituted.
4) **False:** Expenses of dissolution on realization of assets are debited to the Realization Account.
5) **True:** Revaluation Account is prepared at the time of dissolution of partnership but Realization Account is prepared at the time of dissolution of partnership firm.

HOMEWORK QUESTIONS

TOPIC 1A: NORMAL DISSOLUTION

Question 1 (ICAI Study Material) Pg no.______

X, Y, and Z are partners of the firm XYZ and Co., sharing Profits & Losses in the ratio of 4: 3: 2. Following is the Balance Sheet of the firm as on 31st March, 2023.

Liabilities	₹	Assets	₹
Partner's Capital:		Fixed Assets	5,00,000
X	4,00,000	Stock	3,00,000
Y	3,00,000	Debtors	5,00,000
Z	2,00,000	Cash in Hand	10,000
General Reserve	90,000		
Sundry Creditors	3,20,000		
	13,10,000		**13,10,000**

Partners of the firm decided to dissolve the firm on the above-said date.
Fixed assets realized ₹ 5,20,000 & book debts ₹ 4,40,000. Stocks were valued at ₹ 2,50,000 and it was taken over by partner Y. Creditors allowed discount of 5% and the expenses of realization amounted to ₹ 6,000. You are required to prepare:
(i) Realization account; (ii) Partners capital account; and (iii) Cash account.

Question 2 (RTP May 2025) Pg no.______

Aman, Yaman and Zaman who were sharing profits in the ratio of 3: 2:1 decided to dissolve the firm on 31st March,2024 when their Balance Shet was as follows:

Liabilities		₹	Assets	₹
Capital A/cs:			Building	1,50,000
Aman	1,80,000		Machinery	90,000
Yaman	1,35,000		Tools	12,000
Zaman	90,000	4,05,000	Car	18,000
Creditors		51,000	Debtors	93,000
			Stock	55,500
			Bank	37,500
		4,56,000		4,56,000

Following transactions took place at the time of dissolution:

Assets realized are :	₹
Tools	7,500
Machinery	1,23,000
Building	1,26,000
Car	37,500
Goodwill	90,000
Debtors	88,500

(a) Creditors accepted stock in settlement of their dues.
(b) There was an unrecorded asset valued at ₹ 4,500 which was taken by Aman for ₹3,000.
(c) There was an old furniture which had been written off from the books. Yaman agreed to take it at ₹ 12,000.
(d) Firm had to pay ₹ 12,000 for outstanding salary which not provided earlier.
Prepare Realisation Account, Partners' Capital Accounts and Bank Account.

Question 3 **(CA Foundation June 2024) (8 Marks)** Pg no.______

P, Q and R were partners sharing profit & losses in the ratio of 3:2:1. They decided to dissolve the business as on 31st March,2024 when their Balance Sheet was as follows:

Liabilities	Amount	Assets	Amount
Capital A/c:		Land & Building	4,85,000
P 3,55,000		Machinery	1,88,000
Q 2,20,000		Furniture	1,05,000
R 1,25,000	7,00,000	Stock	55,800
General Reserve	1,50,000	Trade Debtors	1,56,000
Employees Provident Fund	60,000	Cash & Bank	44,200
Trade Creditors	1,24,000		
	10,34,000		**10,34,000**

The following information is given to you:

(i) There was an unrecorded investment which was sold for ₹ 30,000.

(ii) One of the creditors agreed to take over some items of furniture of Book value ₹ 25,000 at ₹ 24,000. The rest of the creditors were paid at a discount of 5%.

(iii) Out of the trade debtors ₹ 9,000 proved bad, remaining were fully realized.

(iv) The other assets were realised as under:

Land & Building	₹ 5,25,000
Machinery	₹ 1,70,000
Furniture	Remaining taken over by P at ₹ 75,000
Stock	₹ 60,000

(v) Expenses of dissolution amounted to ₹ 18,700.

(vi) There was an outstanding bill for repairs which had to be paid for ₹ 3,500.

You are required to prepare:

(1) Realisation A/c

(2) Cash & Bank A/c

(3) Partner's Capital A/c in the books of partnership firm.

TOPIC 1B: INSOLVENCY OF PARTNER

Question 4 Pg no.______

Kamal, Kishor, Mohan, and Sohan, were partners sharing profits and losses in the ratio of 3:3:2:2. Following was balance sheet as on 31st March, 2020 on which date firm was dissolved

Liabilities		₹	Assets		₹
Capital Accounts			Capital Accounts		
Kamal	30,000		Mohan	24,000	
Kishor	22,500	52,500	Sohan	9,000	33,000
Trade creditors		23,250	Trade debtors	24,000	
Kamal's loan		15,000	Less: Provision	(750)	23,250
			Inventories		15,000
			Cash at bank		3,000
			Furniture and fixture		6,000
			Trademarks		10,500
		90,750			**90,750**

The assets realised were as follows: trade debtors ₹ 16,500; inventories ₹ 12,000; furniture and fixture ₹ 1,500; trade mark ₹ 6,000; trade creditors were settled at ₹ 23,000. Also there was a joint life insurance policy for ₹ 45,000. This was surrendered for ₹ 4,500. Expenses of realisation amounted to ₹ 750. 'Mohan' was insolvent, but ₹ 5,550 were recovered from his estate.

You are required to show the following accounts in the book of partnership firm:
(a) Realisation account;
(b) Cash account;
(c) Partners' capital accounts.

Question 5 Pg no.______

A, V, R and S are partners in a firm sharing profits and losses in the ratio of 4 : 1 : 2 : 3. The following is their Balance Sheet as at 31st March, 2020:

Liabilities	₹	Assets	₹
Sundry Creditors	6,00,000	Sundry Debtors 7,00,000	
Capital Accounts:		Less: Doubtful Debts(1,00,000)	6,00,000
A 14,00,000		Cash in hand	2,80,000
S 6,00,000	20,00,000	Stocks	4,00,000
		Other Assets	6,20,000
		Capital Accounts:	
		V 4,00,000	
		R 3,00,000	7,00,000
	26,00,000		**26,00,000**

On 31st March, 2020, the firm is dissolved and the following points are agreed upon:
(a) A is to takeover sundry debtors at 80% of book value.
(b) S is to takeover the stocks at 95% of the value.
(c) R is to discharge sundry creditors.
(d) Other assets realise ₹ 6,00,000 and the expenses of realisation come to ₹ 60,000.
(e) V is found insolvent and ₹ 43,800 is realised from his estate.
Prepare Realisation Account , Partner's Capital Accounts & Cash A/c. The loss arising out of capital deficiency may be distributed following the decision in Garner vs Murray.

Question 6 *(ICAI Study Material)* Pg no.______

'Thin', 'Short' and 'Fat' were in partnership sharing profits and losses in the ratio of 2:2:1. On 30th September, 2023 their Balance Sheet was as follows :

Liabilities	₹	Assets	₹
Capital Accounts:		Premises	50,000
Thin 80,000		Fixtures	1,25,000
Short 50,000		Plant	32,500
Fat 20,000	1,50,000	Stock	43,200
Current Accounts:		Debtors	54,780
Thin 29,700			
Short 11,300			
Fat (Dr.) (14,500)	26,500		
Sundry Creditors	84,650		
Bank Overdraft	44,330		
	3,05,480		**3,05,480**

'Thin' decides to retire on 30th September, 2023 and as 'Fat' appears to be short of private assets, 'Short' decides that he does not wish to take over Thin's share of partnership, so all three partners decide to dissolve the partnership with effect from 30th September, 2023. It then transpires that 'Fat' has no private assets whatsoever.
The premises are sold for ₹ 60,000 and the plant for ₹ 1,07,500. The fixtures realize ₹ 20,000 and the stock is acquired by another firm at book value less 5%. Debtors realise ₹ 45,900.

Realisation expenses amount to ₹ 4,500. The bank overdraft is discharged and the creditors are also paid in full. You are required to write up the following ledger accounts following the rules in Garner vs. Murray:

(i) Realisation Account;
(ii) Partners' Current Accounts;
(iii) Partners' Capital Accounts showing the closing of the firm's books

Question 7 *(CA Inter Nov 2019) (15 Marks)* Pg no.______

G, S & J were partners sharing profits and losses in the ratio of 4:3:2, no partnership salary or interest on capital being allowed. Their Balance Sheet as on 31.3.2019 is as follows:

Liabilities	Amount	Assets		Amount
Partners' Fixed capital accounts		Fixed assets:		
G	24,000	Goodwill		48,000
S	24,000	Land		9,600
J	12,000	Plant & Machinery		15,360
Partners' current accounts:		Motor Car		840
G	600	Current assets:		
S	10,800	Stock		4,680
J	(480)	Trade debtors	2,400	
Loan from G	9,600	Less: Provision	(120)	2,280
Trade creditors	14,880	Cash at bank		240
		Miscellaneous losses:		
		Profit & loss		14,400
	95,400			**95,400**

On 1st April, 2019, the partnership was dissolved. Motor car was taken over by G at a value of ₹ 600, but no cash was given specifically in respect of this transaction. Sale of other assets realized the following amounts:

Particulars	Amount
Goodwill	Nil
Land	8,400
Plant & Machinery	6,000
Stock	3,600
Trade Debtors	1,920

Trade creditors were paid ₹ 14,040 in full settlement of their debts. The cost of dissolution amounted to ₹ 1,800. The loan from G was repaid; G and S both were fully solvent and able to bring in any cash required but J was forced into bankruptcy and was only able to bring 1/2 of the amount due. You are required to prepare: (Applying Garner Vs. Murray rule.)

(i) Cash & Bank account
(ii) Realization account, and
(iii) Partners' Fixed Capital Accounts (after transferring current accounts balances)

Question 8 *(RTP Nov 2019) / (RTP Nov 2023) (Similar)* Pg no.______

P, Q, R and S are sharing profits and losses in the ratio 3 : 3 : 2 : 1. Frauds committed by R during the year were found out and it was decided to dissolve the partnership on 31st March, 2020 when their Balance Sheet was as under:

Liabilities	₹	Assets	₹
Capital Accounts:		Building	1,90,000
P	1,50,000	Stock	1,30,000
Q	1,50,000	Investments	50,000
R	-	Debtors	70,000

S	60,000	Cash	30,000
General reserve	40,000	R	40,000
Trade creditors	80,000		
Bills payable	30,000		
	5,10,000		**5,10,000**

Following information is given to you:

(i) A cheque for ₹ 7,000 received from debtor was not recorded in books and & misappropriated by R

(ii) Investments costing ₹ 8,000 were sold by R at ₹ 11,000 and the funds transferred to his personal account. This sale was omitted from the firm's books.

(iii) A creditor agreed to take over investments of the book value of ₹ 9,000 at ₹ 13,000. The rest of the creditors were paid off at a discount of 5%.

(iv) The other assets realized as follows:

	₹
Building	110% of book value
Stock	1,20,000
Investments	The rest of investments were sold at a profit of ₹ 7,000
Debtors	The rest of the debtors were realized at a discount of 10%

(v) The bills payable were settled at a discount of ₹ 500.

(vi) The expenses of dissolution amounted to ₹ 8,000.

(vii) It was found out that realization from R's private assets would only be ₹ 7,000.

Prepare Realisation Accounts, Cash Account and Partner's Capital Account.

Question 9 *(CA Inter May 2022) (15 Marks)* **Pg no.______**

Ajay, Vijay and Sanjay have been in partnership for a number of years, sharing profits and losses in the ratio 7:7:4 as a wholesale stationer running business under the name "AVS Traders". On 31st March,2021, it was found that some frauds were committed by Sanjay during the year 2020-2021. So, it was decided to dissolve the partnership business on 31st March,2021 when their Balance sheet stood as under:

Balance Sheet as at 31st March,2021

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital accounts:		Building	1,90,000
Ajay 1,80,000		Inventory	1,30,000
Vijay 1,80,000	3,60,000	Investments	50,000
General Reserve	36,000	Trade Debtors	70,000
Trade Creditors	80,000	Cash & Bank	26,000
Bills payables	30,000	Sanjay's Capital (overdrawn)	40,000
	5,06,000		**5,06,000**

Additional Information:

(i) Following frauds were committed by Sanjay:

1) Investments costing ₹8,000 were sold by Sanjay at ₹ 11,000 and the funds were transferred to his personal account. This sale was omitted from firm's books.
2) A cheque for ₹ 7,000 received from trade debtors was not recorded in the books and was misappropriated by Sanjay.

(ii) A trade creditor agreed to take over investments of the book value of ₹ 9,000 at ₹ 13,000. The rest of the trade creditors were paid off at a discount of 10%.

(iii) Other assets were realized as follows:

Inventory	₹ 1,20,000
Building	110% of book value

Investments	The rest of the investments were sold at a profit of ₹ 7,000
Trade Debtors	The rest of the trade debtors were realised at a discount of 10%

(iv) The Bills payables were settled at a discount of, ₹500.
(v) The expenses of dissolution amounted to ₹8,060.
(vi) It was found out, that realisation from Sanjay's private assets would be ₹ 7,000.

You are required to prepare

1. Realisation Account
2. Cash & Bank Account
3. Partners' Capital Accounts.

Question 10

Pg no.______

P, Q, R and S had been carrying on business in partnership sharing profits & losses in the ratio of 4:3:2:1. They decided to dissolve the partnership on the basis of following Balance Sheet as on 30th April, 2020:

Liabilities	₹	Assets	₹
Capital Accounts		Capital Accounts	
P 1,68,000		R 25,000	
Q 1,08,000	2,76,000	S 18,000	43,000
General reserve	95,000	Land & building	2,46,000
Capital reserve	25,000	Furniture & fixtures	65,000
Sundry creditors	36,000	Stock	1,00,000
Mortgage loan	1,10,000	Debtors	72,500
		Cash in hand	15,500
	5,42,000		**5,42,000**

(i) The other assets realized as follows:

Land & building	2,30,000
Furniture & fixtures	42,000
Stock	72,000
Debtors	65,000

(ii) Expenses of dissolution amounted to ₹ 7,800.
(iii) Further creditors of ₹ 18,000 had to be met.
(iv) R became insolvent and nothing was realized from his private estate.

Applying the principles laid down in Garner Vs. Murray, prepare the Realisation Account, Partners' Capital Accounts and Cash Account.

Question 11 *(RTP May 2022)*

Pg no.______

The firm of M/s OM has 4 partners A, B, C & D and as on 31st March, 2021, its Balance Sheet stood as follows:

Liabilities	₹	Assets	₹
Capital Accounts:		Land	50,000
A	2,00,000	Building	2,50,000
B	2,00,000	Office Equipment	1,25,000
C	1,00,000	Computers	70,000
Current Accounts:		Debtors	4,00,000
A	50,000	Stock	3,00,000
B	1,50,000	Cash at Bank	75,000
C	1,10,000	Other Current Assets	22,600
Loan from NBFC	5,00,000	Current A/c:	
Current Liabilities	70,000	D	87,400
	13,80,000		**13,80,000**

The partners have been sharing profits & losses in the ratio of 4:4:1:1. It has been agreed to dissolve the firm on 01.04.2021 on the basis of the following understanding:

a) The following assets are to be adjusted to the extent indicated with respect to the book values: Land 200%, Building 120%, Computers 70%, Debtors 95%, Stocks 90%.
b) In case of loan the lenders are to be paid at their insistence a prepayment premium of 1%.
c) D is insolvent & no amount is recoverable from him. His father C, however agrees to bear 50% of his deficiency. The balance of the deficiency is agreed to be apportioned according to law.
d) The assets are realized at the agreed (adjusted) values.

Assuming that the realization of the assets and discharge of liabilities is carried out immediately, show the Bank Account, Realization Account & the Partner's Capital Accounts (including Current Accounts).

Question 12 *(CA Inter May 2019)/ (CA Inter Dec 2021)/ (CA Inter May 2023) (5 Marks)* **Pg no.______**

State the circumstances when Garner V/s Murray rule is not applicable.

TOPIC 2: PIECEMEAL DISTRIBUTION

Question 13 **Pg no.______**

The firm of Omega was dissolved on 31.3.2020, at which date its Balance Sheet stood as:

Liabilities	₹	Assets	₹
Creditors	2,00,000	Fixed Assets	45,00,000
Bank Loan	5,00,000	Cash and Bank	2,00,000
L's Loan	10,00,000		
Capital			
L	15,00,000		
M	10,00,000		
S	5,00,000		
	47,00,000		**47,00,000**

Partners share profits equally. A firm of Chartered Accountants is retained to realise the assets and distribute the cash after discharge of liabilities. Their fees which include all expenses is fixed at ₹ 1,00,000. No loss is expected on realisation since fixed assets include valuable land and building. Realisations are:

	₹
I (including Cash & Bank)	5,00,000
II	15,00,000
III	15,00,000
IV	30,00,000
V	30,00,000

The Chartered Accountant firm decided to pay off the partners in 'Higher Relative Capital Method'. Prepare a statement showing distribution of cash with necessary workings.

Question 14 *(ICAI Study Material)* **Pg no.______**

Following is Balance Sheet of A,B,C on 31st Dec, 2022 when they decided to dissolve partnership

Liabilities	₹	Assets	₹
Creditors	2,000	Sundry Assets	48,500
A's Loan	5,000	Cash	500
Capital Accounts:			
A	15,000		

B	18,000		
C	9,000		
	49,000		**49,000**

The assets realised the following sums in instalments:

	₹
I	1,000
II	3,000
III	3,900
IV	6,000
V (includes saving in expenses 100)	20,100
	34,000

The expenses of realisation were expected to be ₹ 500 but ultimately amounted to ₹ 400 only. Show how at each stage the cash received should be distributed between partners. They share profits in the ratio of 2:2:1. Show by Maximum Loss Method.

Question 15 *(CA Inter Nov 2019) (5 Marks) / (RTP June 2024)*

Pg no.______

AD, BD & SD are partners sharing profits and losses in the ratio of 5:3:2. There capitals were ₹13,440, ₹8,400, ₹11,760 respectively. Liabilities and assets of the firm are as under:

Liabilities:	Amount
Trade creditors	2,800
Loan from partners	1,400
Assets of the firm:	
Patent	1,400
Furniture	2,800
Machinery	1,680
Stock	5,600

The assets realized in full in the order in which they are listed above. BD is insolvent. You are required to prepare a statement showing the distribution of cash as and when available, applying maximum possible loss procedure.

Question 16

Pg no.______

W paid ₹ 70,000 as premium to other partners of the firm at the time of his admission to the firm, with a condition that it will not be dissolved before expiry of five years. The firm is dissolved afters three years. W claims refund of premium. Explain –

(1) List the criteria for the calculation of the amount of the refund.

(2) Also explain any two conditions when no claim in this respect will arise.

Unit 1: INTRODUCTION TO COMPANY ACCOUNTS

CH 11A

"Failure is simply the opportunity to begin again, this time more intelligently, There are those who dream and wish and there are those who dream and work."

COMPANY - BASICS

DEFINITION : COMPANY

Companies Act, 2013	A Company mean company which is formed and incorporated under the Companies Act, 2013 or an existing company formed and registered under any of the previous company laws.
Hanay	A Company is an Artificial Person created by law, having a Separate Entity, with a Perpetual Succession and a Common Seal.

CHARACTERISTICS / FEATURES OF A COMPANY

Feature	Explanation
Artificial Person (Incorporated Association)	• A Company comes into existence by the operation of law. • By sanction of law, a Company is granted certain rights and obligations as that of a person. Thus, company is an artificial person, incorporated under law.
Separate Legal Entity	• A Company is a separate legal entity & artificial person known by its own name • A Company is distinct and separate from the members who constitute it. • A Company can contract, sue & be sued in its incorporated name & capacity.
Person, not Citizen	• A Company is not a citizen either under — (a) the Constitution of India or (b) the Citizenship Act • The Constitution provides certain fundamental rights to its citizens. A Company cannot enjoy the citizenship rights and duties as are enjoyed by natural citizens
Perpetual Succession	• A Company is an artificial person and has a separate legal entity. • Hence, death, insolvency or change of its Members does not affect the Company. • The shares of Company being transferable, members may change during the lifetime of the company. However, that does not change the status of the Company. • The Company goes on forever and continues to exist, till it is wound up and dissolved.
Common Seal	• Common Seal is the official signature of a Company. The Company's name is engraved on the Seal. • The Articles of Association may provide for the documents that require the signature of the Company, i.e. the Common Seal. Where any

	document is affixed with the Common Seal, it amounts to being signed by the Company. • Now, use of common seal has been made optional. All such documents which required affixing the common seal may now instead be signed by two directors or one director and a company secretary of the company.
Ownership Vs Management	• The Board of Directors is the elected representative body of the Shareholders of the Company, and manages the affairs of the Company. • Generally, every Shareholder / Member does not participate in the day-to-day affairs of working and administration of the Company. Hence, Ownership of Company is different from that of its Management.
Right of Access	The right of the shareholders of a company to inspect its books of account, with the exception of books open for inspection under the Statute, is governed by the Articles of Association. The shareholders have a right to seek information from the directors by participating in the meetings of the company and through the periodic reports.
Limited Liability	The liability of every shareholder of a company is limited to the amount he has agreed to pay to the company on the shares allotted to him. If such shares are fully paid-up, he is subject to no further liability.
Transferability of Shares	The capital is contributed by the shareholders through the subscription of shares. Such shares are transferable by its members except in case of a private limited company, which may have certain restrictions on such transferability.
Maintenance of Books	A limited company is required by law to keep a prescribed set of account books and any failure in this regard attracts penalties.
Periodic Audit	A company has to get its accounts periodically audited through the chartered accountants appointed for the purpose by the shareholders on the recommendation of board of directors

TYPES OF COMPANIES

TYPE	EXPLANATION
Government Company	Any company in which not less than 51% of Paid-up Capital of a Company is held by the Central Government, or State Government(s), or partly by 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	Any company or body corporate incorporated outside India which – a) has a place of business in India whether by itself or through an agent physically or through electronic mode; and b) conducts any business activity in India in any other manner.
Private company	A company which by its articles,— a) restricts the right to transfer its shares; b) except in case of One Person Company, limits the number of its members to 200. This number does not include present and former employees who are also members. Moreover, ≥ 2 persons who own shares jointly are treated as single member. c) 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	A company which is not a private company and has minimum paid capital as may be prescribed; 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.
One Person Company	A company which has only one person as a member
Small Company	A company, other than a public company, - a) paid-up share capital of which does not exceed 4 crore rupees or such higher amount as may be prescribed which shall not be more than 10 crore rupees; or b) turnover of which as per its last profit and loss account does not exceed 40 crore rupees or such higher amount as may be prescribed which shall not be more than 100 crore rupees Provided that nothing in this clause should apply to: (A) a holding company or a subsidiary company (B) a company registered under section 8 (C) a company or body corporate governed by any special Act
Listed Company	A company which has any of its securities listed on any recognised stock exchange.
Unlisted Company	The company, whose shares are not listed on any recognised stock exchange An unlisted company can be a public company or a private company.
Unlimited Company	A company not having any limit on the liability of its members
Company limited by Shares	Company having the liability of its members limited by the memorandum to the amount, if any, unpaid on the shares respectively held by them.
Company limited by Guarantee	A company having the liability of its members limited by the memorandum to such amount as the members may respectively undertake to contribute to the assets of the company in the event of its being wound up.
Holding Company	In relation to one or more other companies, means a company of which such companies are subsidiary companies.
Subsidiary company	A company in which the holding company: a) controls the composition of the Board of Directors; or b) 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 holding company even if there is indirect control through the subsidiary company (ies). 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.

MAINTENANCE OF BOOKS OF ACCOUNTS (Sec 128 of Companies Act, 2013)

Every company shall prepare and keep at its registered office books of account and other relevant books and papers and financial statement for every financial year which give a true and fair view of the state of the affairs of the company, including that of its branch office or offices, if any, and explain the transactions effected both at the registered office and its branches and such books shall be kept on accrual basis and according to the double entry system of accounting.
Provided further that the company may keep such books of account or other relevant papers in electronic mode in such manner as may be prescribed.

PREPARATION OF FINANCIAL STATEMENTS

Under Section 129 of the Companies Act, 2013, the financial statements shall give a true and fair view of the state of affairs of the company or companies, comply with the notified accounting standards and shall be in the form or forms as may be provided for different class or classes of companies, as prescribed in Schedule III.
The Board of Directors of the company shall lay financial statements at every annual general meeting of a company which include:-

a) **Balance Sheet** as at the end of the period, and
b) **Profit and Loss Account** for that period.
[Note: For a Company not carrying on business for profit, an Income and Expenditure Account shall be laid at that AGM, instead of the P & L Account.]
c) **Cash flow statement** for the financial year
d) **Statement of changes in equity**, if applicable; and
e) **Any explanatory note annexed** to, or forming part of, any document referred above

Provided that the financial statement, with respect to One Person Company, small company and dormant company, may not include the cash flow statement.

Requisites of Financial Statements It shall give a true and fair view of the state of affairs of the company as at the end of the financial year.

Provisions Applicable

(1) Specific Act is Applicable
For instance any
a) Insurance company
b) Banking company or
c) Any company engaged in generation or supply of electricity or
d) Any other class of company for which a Form of balance sheet or Profit and loss account has been prescribed under the Act governing such class of company

(2) In case of all other companies
Balance Sheet as per Form set out in Part I of Schedule III and Statement of Profit and Loss as per Part II of Schedule III

Compliance with Accounting Standards

As per Section 129 of the Companies Act, it is mandatory to comply with accounting standards notified by the Central Government from time to time.

Schedule III of the Companies Act, 2013

As per Section 129 of the Companies Act, 2013, Financial statements shall give a true and fair view of the state of affairs of the company or companies and comply with the accounting standards notified under Section133 and shall be in the form or forms as may be provided for different class or classes of companies in Division I of Schedule III under the Act.

PART I – BALANCE SHEET

Name of the Company…………………….
Balance Sheet as at ………………………

	PARTICULARS	Note No.	Figures as at the end of current Reporting period	Figures as at the end of previous reporting period
A.	**EQUITY AND LIABILITIES**			
1.	**Shareholder's 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			
B.	**ASSETS**			
1.	**Non-Current Assets**			
a	PPE & Intangible Assets			
i.	Property, Plant & Equipment (PPE)			
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			

PART II – STATEMENT OF PROFIT AND LOSS

Name of the Company……………………..

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

	PARTICULARS	Note No.	Figures for the current Reporting period	Figures for the previous reporting period
I.	Revenue from operations			
II.	Other income			
III.	**Total Revenue (I + II)**			
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 expense			
	Finance costs			
	Depreciation and amortization expense			
	Other expenses			
	Total Expenses			
V.	Profit before exceptional and extraordinary items and tax (III-IV)			
VI.	Exceptional items			
VII.	Profit before extraordinary items and tax (V - VI)			
VIII.	Extraordinary Items			
IX.	Profit before tax (VII- VIII)			
X	Tax expense:			
	(1) Current tax			
	(2) Deferred tax			
XI.	Profit (Loss) for the period from continuing operations (VII-VIII)			
XII.	Profit/(loss) from discontinuing operations			
XIII.	Tax expense of discontinuing operations			
XIV.	Profit/(loss) from Discontinuing operations (after tax) (XII-XIII)			
XV	Profit (Loss) for the period (XI + XIV)			
XVI.	Earnings per equity share:			
	(1) Basic			
	(2) Diluted			

PRACTICE QUESTIONS

MULTIPLE CHOICE QUESTIONS

1) Which of the following statement is not a feature of a Company?
   (a) Separate legal entity
   (b) Perpetual Existence
   (c) Members have unlimited liability

2) In a Government Company, the holding of the Central Government in paid-up capital should not be less than
   (a) 25%
   (b) 50 %
   (c) 51%

3) Which of the following statement is true in case of a Foreign Company?
   (a) A Company incorporated in India and has place of business outside India.
   (b) A Company incorporated outside India and has a place of business in India.
   (c) A Company incorporated in India and has a place of business in India.

4) Which of the following statements is not a feature of a private company?
   (a) Restricts the rights of members to transfer its shares.
   (b) Does not restrict on the number of its members to any limit.
   (c) Does not involve participation of public in general.

5) Under Schedule III of the Companies Act, assets and liabilities are to be disclosed based on:
   (a) Current/ non-current.
   (b) Financial /non-financial.
   (c) Owned /not-owned.

6) Schedule III of the Companies Act prescribes the format and content of
   (a) Balance sheet and statement of profit and loss
   (b) Auditors' report.
   (c) Directors' report.

7) A company is required to maintain its books of accounts at
   (a) its registered office.
   (b) its largest branch office.
   (c) Managing Director's residence.

8) Cash flow statements are not required for
   (a) Private company.
   (b) One person company.
   (c) Public company.

9) The presentation and disclosure requirements of a company are prescribed by
   (a) Schedule III.
   (b) Schedule II.
   (c) Schedule I

10) Following is an example of current assets
    (a) Inventories.
    (b) Property, Plant & Equipment.
    (c) Intangible Assets.

11) Earnings per share (EPS) is to be disclosed in which of the following section of the financial statements
    (a) Balance Sheet.
    (b) Statement of Profit and Loss.
    (c) Cash Flow Statements.

12) Following is NOT an example of a company under Companies Act, 2013
    (a) Small company.
    (b) Private company.
    (c) Large company.

ANSWERS MCQs

1. (c)	**2. (c)**	**3. (b)**	**4. (b)**	**5. (a)**	**6. (a)**	**7. (a)**
8. (b)	**9.(a)**	**10.(a)**	**11.(b)**	**12. (c)**		

TRUE / FALSE

State with reasons whether the following statement is true or false:

1) Every public company is a listed company.
2) Shares of a private company are not listed on stock exchange.
3) It is not mandatory to incorporate a company under the companies act.
4) Company is an artificial, legal person created by law.
5) Death, insolvency or change of members affects the existence of a company.
6) If the shares are fully paid-up by the shareholder, he is subject to no further liability.
7) Public limited company has restrictions on transferability of shares.
8) Financial statements of company show the financial position of the business.
9) Schedule I gives proforma of Balance Sheet.
10) Schedule III prescribes the format of Directors' Report
11) Financial statements need to be true and correct as per Companies Act.
12) According to the Companies Act, 2013, Statement of Profit & Loss of a company is prepared as per Part II of Schedule III
13) According to the Companies Act, 2013, Balance Sheet of a company is prepared as per Part II of Schedule III
14) Schedule I gives proforma of Balance Sheet.
15) "Listed company" means a company which has its securities only listed with National stock exchange.

Solution

1) **False**: Listed companies are those which are listed on the stock exchange. Shares of listed companies are open to general public. Every listed company is a public company but every public company is not a listed company.
2) **True**: Only the shares of public company are listed on stock exchange. Every listed company is a public company.

3) **False**: It is mandatory to incorporate a company under the Companies Act. Without such incorporation, a company cannot come into existence.
4) **True**: Company comes into existence through the operation of law. It is a separate entity distinct from it's members.
5) **False**: Company is a separate legal entity created by law. Death, insolvency or change of member does not affect it's existence.
6) **True**: Liability of shareholders is limited to the extent of the unpaid share capital. So, if shares are fully paid-up, he is subject to no further liability.
7) **False**: Shares of public company are freely transferable. Transferability of shares is restricted in a private limited company.
8) **True**: Financial statements give a true & fair view of the state of affairs of the company. Financial statements include profit and loss account, balance sheet, etc.
9) **False**: Schedule III Part I explains proforma of Balance Sheet.
10) **False**: Schedule III Part I explains proforma of Balance Sheet and Profit and Loss.
11) **False**: As per Section 128, every company shall prepare financial statement for every financial year which give a true and fair view of the state of the affairs of the company.
12) **True**: According to the Companies Act, 2013, Statement of Profit & Loss of a company is prepared as per Part II of Schedule III
13) **False**: According to the Companies Act, 2013, Balance Sheet of a company is prepared as per Part I of Schedule III
14) **False**: Schedule III Part I explains form of Balance Sheet.
15) **False**: As per Companies Act, 2013,"listed company" means a company which has any of its securities listed on any recognised stock exchange.

Unit 2: ISSUE, FORFEITURE & REISSUE OF SHARES

CH 11B

"Stop being afraid of what could go wrong and focus on what could go right"

SHARE

Meaning	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. "Share" is the basic unit which the Capital of a Company is divided. **Example**: A company with a total Capital of ₹ 1 crore is divided into 1 Lakh units of ₹ 100 each. Each unit of ₹ 100 is called a Share of the Company.

KINDS OF SHARES RECOGNISED IN THE COMPANIES ACT, 2013

The Share Capital of a Company limited by Shares can only be of two kinds-

1. **Equity Share Capital** – (a) with Voting rights, or (b) with differential rights as to dividend, voting or otherwise in accordance with the prescribed Rules
2. **Preference Share Capital**, i.e. Priority for Dividend at Fixed Rate + Priority for repayment of Capital.

DIFFERENT TYPES OF PREFERENCE SHARE CAPITAL

1. Cumulative and Non-Cumulative Preference Shares

	Cumulative Preference Shares	Non-Cumulative Preference shares
a)	Dividend is at fixed rate/fixed amount, but keeps on accumulating until it is fully paid	Dividend is at a fixed rate/fixed amount, but does not accumulate for future years.
b)	Dividend is payable even out of future profits, if current year's profits are insufficient for that purpose.	If no dividend is declared in a year due to any reason, the right to receive such dividend for that year expires
c)	Arrears of fixed Cumulative dividend are shown in the Balance sheet as a Contingent Liability.	There is no contingent liability

Note: Cumulative Preference shareholders will get voting rights if dividend remains in arrear for not less than 2 years.

2. Redeemable and Irredeemable Preference Shares

	Redeemable Preference Shares	Irredeemable Preference Shares
a)	These are issued on the condition that the company will repay the same after a fixed period or even at company's discretion. This repayment is called Redemption.	These are Preference shares, which are redeemable only at the time of winding up of the company.
b)	Companies can issue only this category of preference shares. Also, the redemption period shall be a maximum of 20 years. ***Exception:*** Infrastructure Projects	No Company limited by shares shall issue • Irredeemable Preference Shares, or • Preference Shares redeemable after the expiry of 20 years from the date of issue

3. Participating and Non-Participating Preference Shares

	Participating Preference Shares	Non-Participating Preference Shares
a)	In addition to a fixed dividend, the holders of these Shares have the right to participate in the surplus profits, if any, after the Equity Shareholders have been dividend at a stipulated rate.	Here, only a fixed rate of dividend is paid every year, without any additional rights in surplus profits.
b)	In the event of winding-up of the Company, the holders have the right to receive a pre-determined proportion of surplus, after the Equity Shareholders have been paid off towards their Capital.	In case of winding-up of the Company, the holders of these Shares are not entitled to any additional rights in the surplus on winding-up.

4. Convertible and Non-Convertible Preference Shares

	Convertible Preference Shares	Non-Convertible Preference Shares
a)	These Shares give the right to the holder to get them converted into Equity Shares at their option, and according to the terms and conditions of their issue.	There is no right to the holder, to get his holding converted into Equity Shares.
Unless otherwise stated, Preference Share are – (a) Cumulative, (b) Redeemable, (c) Non-Participating, and (d) Non-Convertible.		

PREFERENCE SHARES AND EQUITY SHARES

BASIS	PREFERENCE SHARES	EQUITY SHARES
Definition	Shares that carry a Preferential Right as to payment of (a) Dividend, and (b) Repayment of Capital.	Shares that are not Preference Shares are called Equity Shares.
Return	Fixed Rate	Based on profits available for distribution.
Dividend	Priority over Equity Dividend, i.e. paid first.	After Payment of Preference Dividend.
Repayment of Capital	Paid before repayment of Equity Capital.	Paid after entire Preference Capital is repaid.
Arrears of Dividend	Generally accumulates unless specifically said to be non-cumulative.	No accumulation of Unpaid Dividend. No Profits means no Dividend.
Redemption	Redeemable as per terms of issue and provisions of Act.	Not Redeemable till winding-up. Even in winding-up, will be repaid after Preference Shares.
Voting Rights	Generally restricted. Carries right to vote on all matters if dividend remains unpaid for the prescribed period.	Unrestricted, i.e. Holders can vote at any matters at any Meeting, or the Shares may be issued with varying voting rights.
Control/ Management	No right to take part in Management.	Equity Shareholders are the real owners, hence have a right to control the Management of Company.

DIFFERENT TYPES OF SHARE CAPITAL

ITEM	EXPLANATION
Authorised Share Capital	• It is the amount of Share Capital which can be raised by the Company. • The Authorised Share Capital is also known as the "Registered Capital" or "Nominal Capital" and is given in the Memorandum of Association. • Authorised Capital is shown in the Balance Sheet at Nominal Value (Face Value). • ***Example:*** Authorised Capital=10,000 Shares of ₹ 100 each, Total=₹ 10,00,000
Issued Share Capital	• It represents that part of Authorised Share Capital which has been given or issued or offered to Shareholders. • Issued Capital includes Shares issued for- (i) Cash, and (ii) Consideration other than cash, to Promoters and Others. • Issued Share Capital is shown in the Balance Sheet at Nominal Value (Face Value). • ***Example:*** Issued Capital= 9,000 Shares of ₹ 100, each, Total= ₹ 9,00,000 . Note: The remaining portion of Authorised Capital, which is not issued for cash or other consideration is called as Unissued Capital. It is not shown in the Balance Sheet.
Subscribed Share Capital	• Subscribed Capital is the part of Issued Capital which has been subscribed (i.e. applied for) by the public/ Shareholders, and allotted by the Company. • ***Example:*** Out of 9,000 Shares issued; 8,500 Shares are subscribed by public. Note: The remaining portion of Issued Capital, which is not subscribed, is not shown in the Balance Sheet.
Called up Share capital	• Companies generally receive the Issue Price of Shares in installments, e.g. Application stage, Allotment stage, First Call, Second Call, etc. • The portion of the Face Value of Shares which a Company has demanded or called from Shareholders is known as "Called-Up Capital". • The Balance portion which the Company has decided to call / demand in future is called as Uncalled Capital. • ***Example:*** Out of ₹ 100 per Share, the Company has called up ₹ 70 per Share. In such case, the Uncalled Capital is ₹ 30 per Share.
Paid-Up Capital	• It is that portion of called up capital which has been actually paid by shareholders. • The unpaid portion is called "Unpaid Calls" or "Calls in Arrears". • So, Paid Up Capital = Called Up Capital Less Call in Arrears. • ***Example:*** If out of ₹ 70 per Share Called up, only ₹ 60 has been paid by some shareholders, remaining ₹ 10 per Share constitutes Calls in Arrears.
Reserve Capital	• Company may decide by passing a resolution, that a certain portion of its Subscribed Uncalled Capital shall be called up only in the event of winding-up / liquidation of the Company. • That portion is called Reserve Capital. It is not shown in the Balance Sheet. • Reserve Capital is different from Capital reserve, Capital reserves (created out of capital profits) are part of 'Reserves and Surplus' and refer to those reserves which are not available for declaration of dividend.

DISCLOSURE REQUIREMENTS – SHARE CAPITAL OF A COMPANY

Share Capital should be disclosed in a Company's Balance Sheet as under:

Particulars	Amount
Authorised: .... Shares of ₹ ... each	
Issued:... ... Shares of ₹ ... each	
Subscribed: .... Shares of ₹ .. each (Various classes of capital should be distinguished while stating the above particulars)	
Called up & Paid Up: ... ... Shares of ₹ ... each [of the above Shares .... Shares are allotted as fully paid up for consideration other than cash, Shares are allotted as fully paid up by way of Bonus Shares] **Less:** Call unpaid: **Add:** Forfeited Shares (amount originally paid up)	

PROCEDURE FOR ISSUE OF ISSUE OF SHARES FOR CASH

(a) Public Company shall issue a Prospectus, i.e. invitation to general public, to subscribe for Shares.
(b) Prospectus shall comply with the provisions of Companies Act, and SEBI Guidelines.
(c) Private Companies do not issue Prospectus. They depend upon "Private Placement" of Shares.

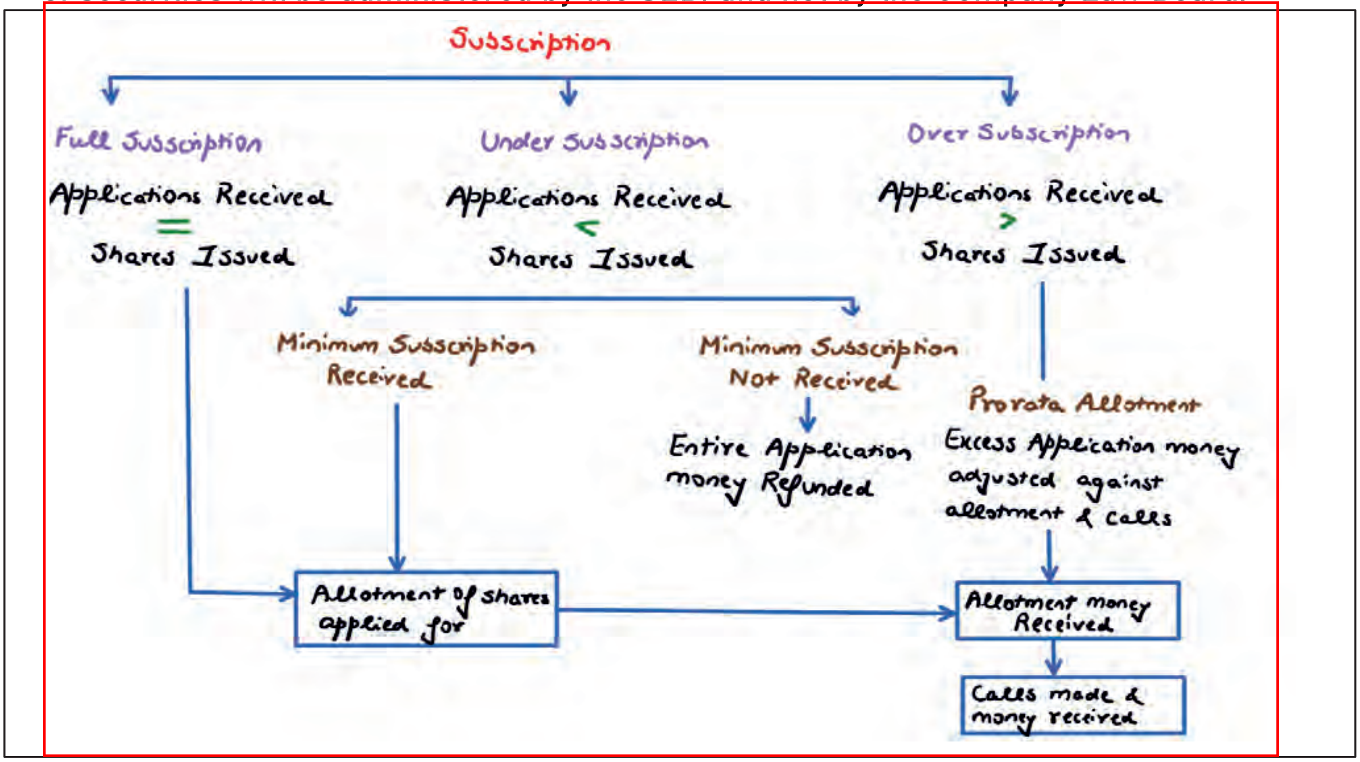
(a) On the basis of Prospectus, Applications are deposited in a Scheduled Bank by the interested parties along with the amount payable at the time of application.
(b) Minimum Application Money is as specified in the Companies Act and as per SEBI Guidelines. [Note: Companies Act is applicable for all Companies, while SEBI Guidelines is applicable only for Listed Companies.]

(a) After the last date for filing applications (i.e. Closing Date), the Company decides about Allotment of Shares in consultation with SEBI and Stock Exchange concerned.
(b) Allotment is the acceptance of a Company to give Shares to the Investor in response to an offer for purchase of Shares made by him for a consideration. Allotment can be done only when Minimum Subscription has been received by the Company.
(c) Successful Applicants become Shareholders of the Company and are required to pay the next installment which is known as "Allotment Money". Unsuccessful Applicants get back their money.

(a) In case of delay in refunding the excess money, the Company is liable to pay interest on the amount of refund. The Company calls up the balance amount from the Shareholders, called "Calls".
(b) Call refers to the demand for Share Money other than those by way of application and allotment.
(c) The issue price of shares is generally received by the company in instalments and these are known as:
First instalment: - Application Money   Second Instalment: - Allotment Money
Third Instalment: - First Call Money   Fourth Instalment: - Second Call Money and so on.
Last Instalment: - Final Call Money

PROVISIONS RELATING TO MINIMUM SUBSCRIPTION

1. **Meaning:** Minimum Subscription is the minimum amount stated in the Prospectus, which must be raised by the issue of Share Capital to start with.
2. If the Company does not receive the Minimum Subscription of 90% of the issue, the entire subscription shall be refunded to the applicants within prescribed time period (15 days of closure of issue in case of non-underwritten issue & 70 days in case of underwritten issue)
3. As per Section 39 of the Companies Act 2013, application money must be atleast ***5% of the face value*** of shares. However, as per SEBI Regulations, minimum application money shall not be less than ***25% of the issue price.***
4. According to Section 24 of the Companies Act, 2013 matters related to issue and transfer of securities will be administered by the SEBI and not by the Company Law Board.



ISSUE OF SHARES AT PREMIUM (SEC. 52)

1. **Meaning:** Premium refers to the excess of the Share Issue Price over its Face Value / Par Value. A Company can issue Shares at a premium, i.e. at a price above its Face Value.
   Example: If Share of Face Value ₹ 100 is issued at price of ₹ 120, there is premium of ₹ 20
2. **Cash or Kind:** Shares can be issued at a premium which may be received in Cash or in Kind. Sec.52 of the Act uses the words "at a premium, whether for cash or otherwise".
3. **Securities Premium Account:** The aggregate amount / value of the premiums received should be transferred to Securities Premium Account.
4. **Application of Securities Premium**: Securities Premium Account can be used only for —
   (a) Issuing Fully Paid Bonus Shares to Members.
   (b) Writing—off the Preliminary Expenses of the Company.
   (c) Writing off the — (i) Expenses Incurred, or (ii) Commission Paid, or (iii) Discount Allowed, on the Issue of Securities or Debentures of the Company.
   (d) Providing for the premium payable on redemption of Redeemable Preference Shares or Debentures of the Company.
   (e) For the purchase of own shares or other securities.

Note: Certain class of Companies as prescribed u/s 133 of Companies Act, 2013, whose financial statements comply with Accounting Standards prescribed for them, can't apply for (b) and (d) above.

5. Accounting Treatment:

(a) The amount of Premium is generally called with the amount due on allotment, sometimes with the Application Money and rarely with the Call Money.

(b) The Premium Amount is credited to the "Securities Premium Account". This Account is shown on the Liabilities Side of the Company's Balance Sheet under the heading "Reserves and Surplus".

PROVISIONS REGARDING THE ISSUE OF SHARES AT DISCOUNT (SEC. 53)

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

JOURNAL ENTRIES RELATING TO ISSUE OF SHARES

	TRANSACTION	JOURNAL ENTRY
1.	Receipt of Application Money	Bank A/c (Amount actually received) Dr. To Share Application A/c (Amount actually received)
2a.	Full/Under Subscription	Share Application A/c Dr. To Share Capital A/c [Shares allotted x Application Money] To Securities Premium A/c* (Share allotted x Premium / share) *(If Premium Amount is collected at the time of Application itself)
2b.	Over subscription	Share Application A/c Dr. (Amount received) To Share Capital A/c [Shares allotted x Application Money] To Securities Premium A/c* (Share allotted x Premium /share) To Share Allotment A/c (Adjusted with Allotment) To Share Calls -in -Advance A/c (Adjusted with Calls) To Bank A/c (Refund) *(If Premium Amount is collected at the time of Application itself)
3.	Allotment money due	Share Allotment A/c Dr. To Share Capital A/c [Shares allotted x Allotment money due] To Securities Premium A/c* (Share allotted x Premium / share) *(If the Premium Amount is at the time of Allotment)
4.	Receipt of Allotment	Bank A/c (Amount received) Dr. To Share Allotment A/c
5.	Call Money due	Share ... (First or Second or Final)... Call A/c Dr. To Share Capital A/c [Shares allotted x Call Money due]
6.	Receipt of Call	Bank A/c (Amount received) Dr. To Share ...... Call A/c

Note: If question specifically asks preparation of Cash Book, then all the entries relating to Cash/Bank Account are not passed in journal and to be shown in Cash Book only.

ARREARS

1. **Meaning:** Calls in Arrears is the money remaining unpaid by the shareholder on the calls raised by the Company in respect of the shares held by him.
2. **Disclosure:** Calls in Arrears always have a Debit Balance and are shown as a deduction from called up capital to arrive at paid up value of the Share Capital on Liabilities Side of the Balance Sheet.
3. **Interest:** The Company can recover interest on the amount of calls in arrears from the date it became due till the when the call is received at the rate of 10% p.a. (Table F).
4. **Waiver of Interest:** The Directors may also be empowered to waive the Interest on Calls in Arrears, subject to certain conditions laid down in the Articles.

CALLS IN ADVANCE

1. **Meaning:** Calls in Advance is the surplus money received by Company from the allottees, i.e. its Shareholders.
2. **Calls in Advance:** A Company, if permitted by its Articles, may accept from members either whole or part of amount remaining unpaid on any shares held by him as Calls in Advance.
3. **No Voting Rights:** The Member shall not be entitled to any voting rights on Calls in Advance, until the same becomes presently payable and duly appropriated. Shareholders are not entitled for any dividend on calls in advance.
4. **Disclosure:** Calls in Advance will always have Credit Balance and will be shown under the Liabilities Side (Other Current Liabilities). It is not added to the amount of Paid -Up Capital.
5. **Interest:** The Company is liable to pay interest on the amount of Calls in Advance from the date of receipt till the when the Call is due for payment, at the rate of 12% p.a. (Table F)

JOURNAL ENTRIES

	CALLS IN ARREARS	
1.	**Transfer of non - receipt of Share Allotment/ Call Money**	Calls in Arrears A/c Dr. To Share Allotment / Share …… Call A/c (This Journal Entry is optional. The amount may also be left in the Share Allotment/Share …..Calls A/c)
2.	**Receipt of Calls in Arrears**	Bank A/c Dr. To Calls in Arrears A/c (If this account was opened)
3.	**Interest on Calls in Arrears**	Shareholders' A/c Dr. To Interest on Calls in Arrears A/c
4.	**Receipt of Interest on Calls in Arrears**	Bank A/c Dr. To Shareholders' A/c
	CALLS IN ADVANCE	
1.	**Receipt of Calls in Advance**	Bank A/c Dr. To Calls in Advance A/c
2.	**Adjusting Calls in Advance**	Calls in Advance A/c Dr. To Particular Call A/c
3.	**Interest on Calls in Advance**	Interest on Calls in Advance A/c Dr. To Shareholders' A/c
4.	**Payment of Interest on Calls in Advance**	Shareholders' A/c Dr. To Bank A/c

OVER SUBSCRIPTION & PRO RATA ALLOTMENT

Over subscription is the application money received for more than the number of shares offered to the public by a company. It usually occurs in the case of good issues and depends on many other factors like investors' confidence in the company, general economic conditions, pricing of the issue etc.
Under pro-rata allotment, the excess application money received is adjusted against the amount due on allotment or calls. Surplus money after making adjustment against future calls is returned to the applicants.

For example:

A company offers to the public 1,00,000 shares for subscription. The company receives applications for 1,20,000 shares. If the shares are to be allotted on pro-rata basis, applicants for 1,20,000 shares are to be allotted 1,00,000 shares, i.e., on the 1,20,000:1,00,000 or 6:5 ratio. Any applicant who has applied for 6 shares will be allotted 5 shares.

JOURNAL ENTRIES

	TRANSACTION	JOURNAL ENTRY
1.	Receipt of Application Money	Bank A/c (Amount actually received) Dr. To Share Application A/c (Amount actually received)
2	Oversubscription	Share Application A/c Dr. (Amount received) To Share Capital A/c [Shares allotted x Application Money] To Securities Premium A/c* (Share allotted x Premium /share) To Share Allotment A/c (Adjusted with Allotment) To Share Calls in Advance A/c (Adjusted with Calls) To Bank A/c (Refund) *(If Premium Amount is collected at time of Application itself)

FORFEITURE OF SHARES

1. **Meaning:** Forfeit = Taking away of property, on breach (non fulfilment) of a condition. Forfeiture of Shares refers to the action taken by the Company, to cancel the Shares.
2. **Situation**: When Shareholders fail to pay Allotment or Call Money due, the Directors may forfeit the Shares in the bonafide interests of Company & in accordance with the Articles of Association. Proper Notice should be sent to defaulting Shareholder before forfeiture.
3. **Effect**: When Shares are forfeited, the title of such Shareholder is extinguished, but amount paid by him till such forfeiture, is not refunded to him. The Shareholder has no further claim on the Company. The amount received is transferred to "Shares Forfeited A/c".
4. **Treatment**: Till Forfeited Shares are re -issued, the amount is shown as an addition to Share Capital, on the Liabilities Side of the Balance Sheet.

Note: - Forfeiture for non-payment of calls, premium, or the unpaid portion of the face value of the shares is one of the many causes for which a share may be forfeited. But fully paid-up shares may be forfeited for realization of debts of the shareholder if the Articles specially provide it.

RE-ISSUE OF FORFEITED SHARES

Shares forfeited is reissued by the Company, subject to the following considerations -

1. **Sale, not Allotment:** Reissue of Forfeited Shares is not an allotment, it is only a Sale. So, the Company need not file a Return of Allotment with the Registrar of Companies.

2. **Auction Sale:** After forfeiture, the Forfeited Shares vest in the Company in the Company, for the purpose of sale. The Company is under an obligation to dispose it off, generally by auction.
3. **Price:** Forfeited Shares can be reissued at any price, such that the total amount received (from Original Allottee and Subsequent Purchaser) for these Shares is not less than the amount in arrears on those Shares.
4. **Loss on Reissue:** Loss on Reissue shall be debited to "Forfeited Shares" A/c. Condition for Reissue: Loss on Reissue of Forfeited Shares should not exceed the Forfeited Amount, i.e. amount paid by Original Allottee, excluding premium, if any.)
5. **Surplus:** Surplus arising on Reissue of Forfeited Shares (i.e. Forfeited Amount > Loss on Reissue), should be transferred to Capital Reserve A/c. In case only portion of Shares are reissue, amount of profit attributable to such Re-issued Shares should only be transferred to Capital Reserve A/c.
6. **Reissue at Premium:** When Forfeited Shares are reissued at a price higher than its Face Value, the excess amount should be credited to Securities Premium A/c.

JOURNAL ENTRIES

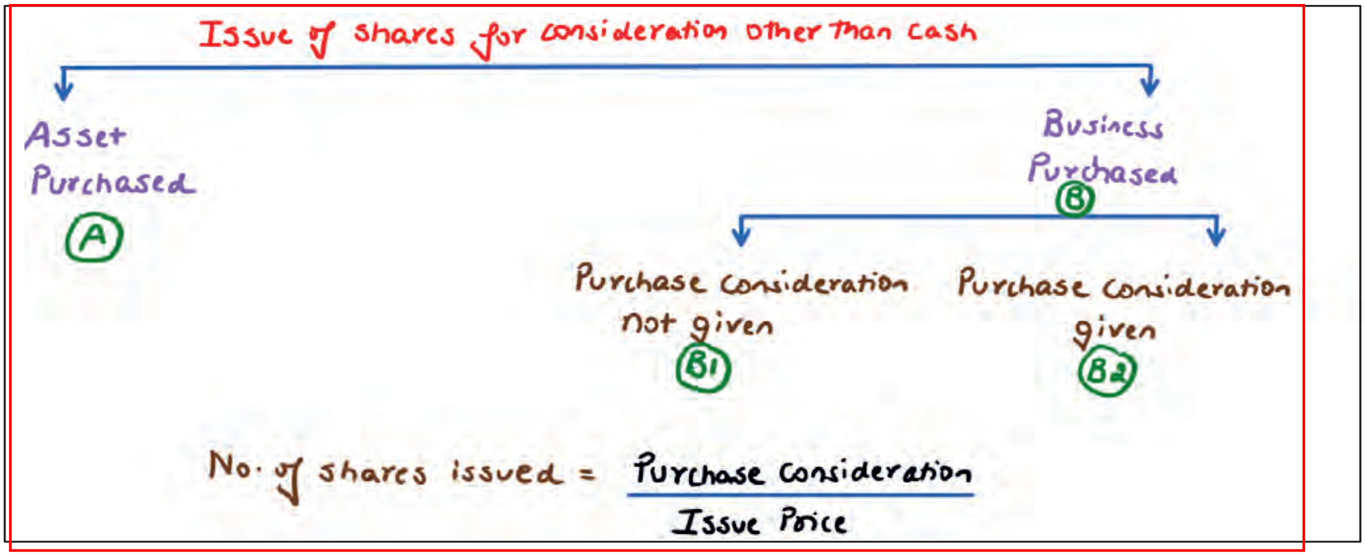
	TRANSACTION	JOURNAL ENTRY
	FORFEITURE OF SHARES	
1.	**Forfeiture of Shares Issued at Par**	Share Capital A/c (to the extent called) Dr. To Shares Forfeited A/c (to the extent amount received) To Calls in Arrears (to the extent amount called up & unpaid) (or alternatively Share Allotment A/c or Share ...... Call A/c)
2.	**Forfeiture of Shares Issued at Premium - premium fully collected**	Share Capital A/c (to the extent called - excluding Premium) Dr. To Shares Forfeited A/c (to the extent amount received) To Calls in Arrears (to the extent amount called up & unpaid) (or alternatively Share Allotment A/c or Share ...... Call A/c)
3.	**Forfeiture of Shares Issued at Premium - premium not fully collected**	Share Capital A/c (to the extent called excluding Premium) Dr. Securities Premium A/c (Premium amount on Shares forfeited) Dr. To Shares Forfeited A/c (to the extent amount received) To Calls in Arrears (to the extent amount called up and unpaid (or alternatively Share Allotment A/c or Share ...... Call A/c)
	Note: When Shares are originally issued at a Premium, and the Premium has been collected in full, the Securities Premium A/c should not be reversed.	
	RE -ISSUE OF SHARES FORFEITED	
1.	**Re -issue of Forfeited Shares**	Bank A/c (Shares Reissued x Reissue Price) Dr. Shares Forfeited A/c (to the extent discount given) Dr. To Share Capital A/c (Shares Reissued x Paid up Value)
2.	**Transfer of Share Forfeited A/c Balance on Reissued Shares**	Shares Forfeited A/c Dr. To Capital Reserve A/c

SHARES ISSUED FOR CONSIDERATION OTHER THAN CASH

1. **Meaning**: A Company can issue shares for valuable Consideration other than Cash. Shares may be issued to (a) Vendors towards payment of Purchase Consideration, (b) Promoters towards reimbursement of Preliminary Expenses incurred by them for incorporation, (c) Underwriters towards payment of Underwriting Commission, etc.
2. **Disclosure**: Shares issued for Consideration other than Cash shall be separately disclosed in the Balance Sheet of Company, as required by Part I of Schedule III.
   Within specified time of allotment, the company must produce before the Registrar a written contract of sale of service in respect of which shares have been allotted.

JOURNAL ENTRIES

1.	**Recording Purchase of Machinery, Assets etc.**	Machinery / Assets A/c (in case of assets purchased) Dr. To Liabilities A/c To Vendor's A/c (Difference if any to be tfd. to Goodwill/Capital Reserve A/c)
2.	**Allotment of Shares to the Vendor**	Vendor's A/c Dr. To Share Capital (Nominal Value of Shares issued) To Securities Premium (if issued at Premium)



A.

Example:

X Ltd. purchased Machinery from Y Ltd. ₹ 2,20,000. Shares Issued (Face Value ₹10 each)

a) At Par
b) At 10% Premium

B1.

Example:

X Ltd. purchased business of Y Ltd. which includes Assets ₹ 5,00,000 & Liabilities ₹ 1,40,000.
Shares Issued (Face Value ₹10 each)

a) At Par
b) At 20% Premium

B2.

Example:

X Ltd. purchased business of Y Ltd. for ₹ 3,90,000 which includes Assets ₹ 5,00,000 & Liabilities ₹ 1,40,000.
Shares Issued (Face Value ₹10 each)

a) At Par
b) At 30% Premium

ASSIGNMENT QUESTIONS

Question 1 — Pg no.______

A company invited applications for 20,000 equity shares of ₹50 each at 10 premium payable on application ₹20, on Allotment ₹ 30 (including 10 premium), on first and final call ₹ 10. Applications are received for 20,000 shares and all the applicants are allotted the number of shares they have applied for and installment money was duly received by the company.

Case 1: Show Journal entries in the books of the company.

Case 2: Prepare cash book & journalise remaining transactions in the books of the company.

Question 2 *(RTP Nov 2018) / (RTP Nov 2019) / (RTP Nov 2021) (Similar)* — Pg no.______

On 1st April, 2020, Pehal Ltd. issued 64,500 shares of ₹ 100 each payable as follows:

₹ 30 on application, ₹ 30 on allotment, ₹ 20 on 1st October, 2020; & ₹ 20 on 1st February, 2021. By 20th May, 60,000 shares were applied for and all applications were accepted. Allotment was made on 1st June. All sums due on allotment were received on 15th July; those on 1st call were received on 20th October.

You are required to prepare the Journal entries to record the transactions when accounts were closed on 31st March, 2021.

Question 3 *(ICAI Study Material) / (RTP May 2018) / (RTP May 2021) (Similar)* — Pg no.______

Rashmi Limited issued at par 1,00,000 Equity shares of ₹ 10 each payable ₹ 2.50 on application; ₹ 3 on allotment; ₹ 2 on first call and balance on the final call. All the shares were fully subscribed. Mr. Nair who held 10,000 shares paid full remaining amount on first call itself. The final call which was made after 3 months from first call was fully paid except a shareholder having 1,000 shares who paid his due amount after 2 months along with interest on calls in arrears. Company also paid interest on calls in advance to Mr. Nair. Give journal entries to record these transactions.

Question 4 *(RTP May 2019) / (Nov 2020) / (Nov 2023) / (Sep 2024) (Similar)* — Pg no.______

Konica Limited registered with an authorised equity capital of ₹ 2,00,000 divided into 2,000 shares of ₹ 100 each, issued for subscription of 1,000 shares payable at ₹ 25 per share on application, ₹ 30 per share on allotment, ₹ 20 per share on first call and the balance as and when required. Application money on 1,000 shares was duly received and allotment was made to them. The allotment amount was received in full, but when the first call was made, one shareholder failed to pay the amount on 100 shares held by him and another shareholder with 50 shares, paid the entire amount on his shares. The company did not make any other call.

Give the necessary journal entries in the books of the company to record these transactions.

Question 5 *(ICAI Study Material)* — Pg no.______

Pant Ltd. invited applications for 50,000 equity shares at ₹50 each, which are payable as on application ₹20, on allotment ₹10 and on first and final call ₹20. The company received applications for 60,000 shares. The directors accepted application for 50,000 shares and rejected the rest. Show Journal entries if company refunded the application money to rejected applicants and allotment money was received for 45,000 shares.

Question 6 *(ICAI Study Material)* — Pg no.______

A company had an authorised capital of ₹10,00,000 divided into 1,00,000 equity shares of ₹10 each. It decided to issue 60,000 shares for subscription and received applications for 70,000 shares. It allotted 60,000 shares and rejected remaining applications. Upto 31-3-2023, it has demanded or called ₹9 per share. All shareholders have duly paid the amount called, except one shareholder, holding 5,000 shares who has paid only ₹7 per share. Prepare a balance sheet assuming there are no other details.

Question 7 *(ICAI Study Material)* Pg no.______

JHP Limited is a company with an authorised share capital of 10,00,000 equity shares of ₹10 each, of which 6,00,000 shares had been issued and fully paid on 30th June, 2022. The company proposed to make a further issue of 1,00,000 of these ₹10 shares at a price of ₹14 each, the arrangements for payment being:

a) ₹ 2 per share payable on application, to be received by 1st July, 2022;
b) Allotment to be made on 10th July, 2022 and a further ₹ 5 per share (including the premium) to be payable;
c) The final call for the balance to be made, and the money received by 30th April, 2023.

Applications were received for 3,55,000 shares and were dealt with as follows:

(i) Applicants for 5,000 shares received allotment in full;
(ii) Applicants for 30,000 shares received an allotment of one share for every two applied for; no money was returned to these applicants, the surplus on application being used to reduce the amount due on allotment;
(iii) Applicants for 3,20,000 shares received an allotment of one share for every four applied for; the money due on allotment was retained by the company, the excess being returned to applicants; and
(iv) the money due on final call was received on the due date.

You are required to record these transactions (including cash items) in the Journal of JHP Limited.

Question 8 Pg no.______

Pass Journal Entries in the following situations (each situation is independent of the other) –

1. 300 Equity Shares of ₹ 10 each, originally issued at par, fully called -up, forfeited for non-payment of Final Call of ₹ 4 each. These were re -issued as fully paid at ₹ 5 per Share.
2. 200 Equity Shares of ₹ 10 each, originally issued at par, ₹ 8 called up, forfeited for non-payment of First Call of ₹ 2 each. 150 shares were reissued at ₹ 5 per Share, ₹ 8 called up.
3. 300 Equity Shares of ₹ 10 each, originally issued at 30% premium. ₹ 8 called -up, forfeited for non-payment of First Call of ₹ 2 each. The Shareholder had already paid application and allotment money incl. premium. Subsequently 100 Shares out of these Forfeited Shares were re -issued at ₹ 6 per Share, as fully paid up.
4. 300 Equity Shares of ₹ 10 each, originally issued at 30% premium. ₹ 8 called up, forfeited for non-payment of 1st Call of ₹ 3 each and ₹ 5 on allotment (including premium).
   The Shareholder had paid application money ₹ 3 per Share. Later, 200 Shares out of these Forfeited Shares were re -issued at ₹ 12 per share, fully paid -up.

Question 9 *(RTP May 2022)* Pg no.______

Delta Ltd. forfeited 600 shares of ₹ 10 each issued at a premium of 10% to W for nonpayment of first and final call money of ₹ 3 (including ₹ 1 premium). At different intervals of time out of these 400 shares were re-issued to Z, credited as fully paid for ₹ 9 per share and 100 shares were re-issued to X as ₹ 10 paid up for ₹ 11 per share.
Record the journal entries for forfeiture and reissue of shares.

Question 10 *(ICAI Study Material)* Pg no.______

Beautiful Co. Ltd issued 30,000 equity shares of ₹10 each payable as ₹3 per share on Application, ₹5 per share (including ₹2 as premium) on Allotment and ₹4 per share on Call.

All the shares were subscribed. Money due on all shares was fully received except from Ram, holding 500 shares, who failed to pay the Allotment and Call money and Shyam, holding 1,000 shares, who failed to pay the Call Money. All those 1,500 shares were forfeited. Of the shares forfeited, 1,250 shares (including whole of Ram's shares) were subsequently re-issued to Jadu as fully paid up at a discount of ₹ 2 per share.
Pass the necessary entries in the Journal of the company. Also prepare the Balance Sheet of the company.

Question 11 *(RTP June 2024)* Pg no.______

Y. Ltd issued 20,000 shares of ₹ 10 each at premium of 20% per share payable as following:

On Application	₹ 2 Per share
On Allotment	₹ 5 per share (including premium)
On First Call	₹ 3 per share
On Final Call	₹ 2 per share

Applications were received for 30,000 shares and pro-rata allotment was made to the application for 24,000 shares. Any excess money paid on application was employed on account of sum due on allotment.
Kamal, to whom 400 shares were allotted, failed to pay the allotment money and on his subsequent failure to pay the first call his shares were forfeited.
Tamal, the holder of 600 shares, failed to pay the two calls, and his shares were forfeited after the final call. Out of the shares forfeited, 800 shares were issued to Ramesh Credited as fully paid for ₹ 9 per share, the whole of Kamal's shares being included.
Pass the necessary journal entries to record the above transactions.

Question 12 *(ICAI Study Material)/(Foundation July 2021)(15 Marks)/(RTP May 2025)* Pg no.______

X Limited invited applications for issuing 75,000 equity shares of ₹ 10 each at a premium of ₹ 5 per share. The total amount was payable as follows: -
₹ 9 per share (including premium) on application and allotment
- Balance on the First and Final Call
Applications for 3,00,000 equity shares were received. Applications for 2,00,000 equity shares were rejected and money refunded. Shares were allotted on pro-rata basis to the remaining applicants. The first and final call was made. The amount was duly received except on 1,500 shares applied by Mr. Raj. His shares were forfeited. The forfeited shares were re-issued at a discount of ₹ 4/- per share.
Pass necessary journal entries· for the above transactions in the books of X Limited.

Question 13 *(ICAI Study Material)* Pg no.______

Mr. Shami has applied for 1,000 shares of Company XYZ Ltd. paying application money @ ₹ 2 per share but has been allotted only 600 shares. The shares have a face value of ₹10 and a premium of ₹ 2 per share, which are payable as: on Allotment- ₹ 5 (including premium) and on final call ₹ 5.
Pass journal entry if Mr. Shami doesn't pay allotment money and final call and his shares are forfeited.

Question 14 *(ICAI Study Material)* Pg no.______

X Co. Ltd. was incorporated with an authorized share capital of 90,000 equity shares of ₹ 10 each. The company purchased land and buildings from Y Co. Ltd for ₹ 4,00,000 payable in fully paid-up shares of the company. The balance of the shares were issued to the public, which were fully subscribed and paid for.
You are required to pass Journal Entries and to prepare the Balance Sheet.

PRACTICE QUESTIONS

MULTIPLE CHOICE QUESTIONS

1) The excess price received over the par value of shares, should be credited to __________.
   (a) Calls-in-advance account
   (b) Share capital account
   (c) Securities premium account

2) The Securities Premium amount may be utilized by a company for __________.
   (a) Writing off any loss on sale of fixed asset
   (b) Writing off any loss of revenue nature
   (c) Writing off the expenses/discount on the issue of debentures

3) When shares are forfeited, the share capital account is debited with _______ and the share forfeiture account is credited with __________.
   (a) Paid-up capital of shares forfeited; Called up capital of shares forfeited
   (b) Called up capital of shares forfeited; Calls in arrear of shares forfeited
   (c) Called up capital of shares forfeited; Amount received on shares forfeited

4) T Ltd. proposed to issue 6,000 equity shares of ₹100 each at a premium of 40%. The minimum amount of application money to be collected per share as per the Companies Act, 2013
   (a) ₹5.00
   (b) ₹6.00
   (c) ₹7.00

5) Dividends are usually paid as a percentage of ______.
   (a) Authorized share capital
   (b) Net profit
   (c) Paid-up capital

6) As per the SEBI guidelines, on issue of shares, the application money should not be less than
   (a) 2.5% of the nominal value of shares
   (b) 2.5% of the issue price of shares
   (c) 25.0% of the issue price of shares

7) G Ltd. acquired assets worth ₹7,50,000 from H Ltd. by issue of shares of ₹100 at a premium of 25%. The number of shares to be issued by G Ltd. to settle purchase consideration = ?
   (a) 6,000 shares
   (b) 7,500 shares
   (c) 9,375 shares

8) Securities Premium is presented as a part of
   (a) Reserves & Surplus
   (b) Share Capital
   (c) Liabilities

9) Schedule III of Companies Act 2013 prescribes the format for
   (a) Financial statements
   (b) Directors' Report
   (c) Auditors' Report

10) Dividend on ____________ shares have to be paid before dividend on __________shares.
   (a) Equity, Preference
   (b) Preference, Equity
   (c) Convertible, Non-Cumulative

11) Preference shares are _____________ unless expressly stated otherwise.
   (a) Non-participating
   (b) Convertible
   (c) Interest-bearing

ANSWERS MCQs

1. (c)	**2. (c)**	**3. (c)**	**4. (a)**	**5. (c)**	**6. (c)**	**7. (a)**
8. (a)	**9.(a)**	**10.(b)**	**11.(a)**			

TRUE / FALSE

State with reasons whether the following statement is true or false:

1) Liability of a holder of shares is limited to the face value of shares acquired by them.
2) Authorised capital appears in the balance sheet at face value.
3) The rate of dividend on preference shares may vary from year to year.
4) A company may issue shares at a discount to the public in general.
5) Sweat equity shares are those which are issued to employees & directors at a discount.
6) As per Table F, rate of interest on calls in arrears is 12%.
7) As per Table F, rate of interest on calls in advance is 10%.
8) Non-participating preference shareholders enjoy voting rights. *(Dec 2021)*
9) Forfeited shares are available to the company for the purpose of resale.
10) Loss on reissue should exceed the forfeited amount.
11) When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with calls in arrear of shares forfeited.
12) The amount of calls in arrear is deducted from paid up capital to arrive at Called up capital.
13) Dividends are usually paid as a percentage of Authorized share capital.
14) A company cannot issue redeemable preference shares for a period exceeding 10 years
15) Re-issue of forfeited shares is allotment of shares but not a sale. *(May 2018)/(Jan 2021)*
16) Since company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members. *(Nov 2019)*
17) In the balance sheet of X Limited, preliminary expenses amounting to ₹ 5 lakhs and securities premium account of ₹ 35 lakhs are appearing; The accountant can use the balance in securities premium account to write off preliminary expenses. *(Nov 2020)*
18) A Company is not allowed to issue shares at a discount to the public in general. *(July 2021)*
19) A person holding preference shares of a company cannot hold equity shares of the same company. *(July 2021)*
20) Interest on calls in arrears is payable by company to shareholders.

Solution

1) **False**: Liability of the holder of shares is limited to the issue price of shares acquired by them.
2) **True**: Authorised capital is the amount of capital mentioned in 'capital clause' of the 'Memorandum of Association'. Authorised capital is considered only as presentation and not considered in total of balance sheet.
3) **False**: Rate of preference dividend is always fixed.
4) **False**: 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.
5) **True**: 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).
6) **False**: As per table F, rate of interest on calls in arrears is 10%.
7) **False**: As per Table F, rate of interest on calls in advance is 12%.
8) **False**: A share on which only a fixed rate of dividend is paid every year, without any accompanying additional rights in profits and in the surplus on winding-up, is called 'Non-participating Preference Shares. Non-participating preference shareholders do not enjoy voting rights.
9) **True**: Reissue of forfeited shares is not allotment of shares but only a sale.
10) **False**: Loss on re-issue should not exceed the forfeited amount.
11) **False:** When shares are forfeited, the share capital account is debited with called up capital of shares forfeited, and the share forfeiture account is credited with amount received towards nominal value on shares forfeited.
12) **False**: The amount of calls in arrear is deducted from Called up capital to arrive at Paid up capital.
13) **False**: Dividends are usually paid as a percentage of Paid up share capital
14) **False**: A company cannot issue redeemable preference shares for a period exceeding 20 years
15) **False**: 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 as they have already been allotted earlier.
16) **True**: Company has existence independent of its members. The Company goes on forever and continues to exist, till it is wound up and dissolved. As per Perpetual Existence company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members.
17) **True**: According to Section 52 of the Companies Act, 2013, Securities Premium Account may be used by the company to write off preliminary expenses of the company. Thus, the accountant can use the balance in securities premium account to write off the preliminary expenses amounting ₹ 5 lakhs.
18) **True**: 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).
19) **False**: Preference share holder can hold both Equity shares and Preference shares of the company. Any person can hold both kinds of shares.
20) **False**: Interest on calls in arrears is payable by shareholders to company

HOMEWORK QUESTIONS

Question 1 *(ICAI Study Material)* Pg no.______

A company invited applications for 10,000 equity shares of ₹50 each payable on application ₹15, on Allotment ₹ 20, on first and final call ₹15. Applications are received for 10,000 shares and all the applicants are allotted the number of shares they have applied for and installment money was duly received by the company. Show Journal entries in the books of the company.

Question 2 *(ICAI Study Material) / (RTP May 2022) (Similar)* Pg no.______

On 1st April, 2022, A Ltd. issued 43,000 shares of ₹ 100 each payable as follows:

₹ 20 on application; ₹ 30 on allotment;
₹ 25 on 1st October, 2022; and ₹ 25 on 1st February, 2023.

By 20th May, 40,000 shares were applied for & all applications were accepted. Allotment was made on 1st June. All sums due on allotment were received on 15th July; those on 1st call were received on 20th October. Journalize transactions when accounts were closed on 31st Mar,2023

Question 3 *(ICAI Study Material)* Pg no.______

On 1st October, 2023 Pioneer Equipment Limited received applications for 2,50,000 Equity Shares of ₹ 100 each to be issued at a premium of 25 per cent payable as:
On Application ₹ 25 On Allotment ₹75 (including premium)
Balance Amount on Shares as and when required.
The shares were allotted by the Company on October 20, 2023 and the allotment money was duly received on October 31, 2023. Record journal entries in the books of the company to record the transactions in connection with the issue of shares.

Question 4 *(ICAI Study Material)* Pg no.______

The Delhi Artware Ltd. issued 50,000 equity shares of ₹ 100 each and 1,00,000 preference shares of ₹ 100 each. The Share Capital was to be collected as under:

	Equity Shares	Preference Shares
On Application	25	20
On Allotment	20	30
First Call	30	20
Final Call	25	30

All these shares were subscribed. Final call was received on 42,000 equity shares and 88,000 preference shares. Prepare the cash book and journalise the remaining transactions in the books of the company.

Question 5 *(ICAI Study Material)* Pg no.______

Shreyas Ltd. did not receive the first call on 10,000 equity shares @ ₹ 3 per share which was due on 1.7.2022. This amount was received on 1.4.2023. Open Calls in arrears account and journalise the entries in the books of the company on 1.7.2022 and 1.4.2023.

Question 6 *(ICAI Study Material)* Pg no.______

X Ltd. invited applications for 10 lakhs shares of ₹ 100 each payable as follows:

	₹
On Application	20
On Allotment (on 1st May, 2022)	30
On First Call (on 1st Oct., 2022)	30
On Final Call (on 1st Feb., 2023)	20

All the shares were applied for and allotted. A shareholder holding 20,000 shares paid the whole of the amount due along with allotment. Journalise the transactions, assuming all sums due were received. Interest was paid to the shareholder concerned on 1st February, 2023

Question 7 (ICAI Study Material) Pg no.______

A limited Company, with an authorized capital of ₹ 20,00,000 divided into shares of ₹ 100 each, issued for subscription 10,000 shares payable at ₹ 25 per share on application, ₹ 30 per share on allotment, ₹20 per share on first call three months after allotment and the balance as and when required.

The subscription list closed on January 31, 2023 when application money on 10,000 shares was duly received and allotment was made on March 1, 2023. All amounts due were received within one month of the date they were called.

The allotment amount was received in full but, when the first call was made, one shareholder failed to pay the amount on 1,000 shares held by him and another shareholder with 500 shares paid the entire amount on his shares.

Give journal entries in the books of the Company to record these share capital transactions.

Question 8 (CA Foundation June 2022) (15 Marks) Pg no.______

A Limited issued 20,000 Equity shares of, 10 each at a premium of 10%, payable ₹ 2 on application; ₹ 4 on allotment (including premium); ₹ 2 on first call and balance on the final call. All the shares were fully subscribed. Mr. M who held 2000 shares paid full remaining amount on first call itself. The final call which was made after 4 months from the first call was fully paid except a shareholder having 200 shares and one another shareholder having 100 shares. They paid their due amount after 3 months and 4 months respectively along with interest on calls in arrears, Company also paid interest on calls in advance to Mr. M. The Company maintains Calls in Arrear and Calls in Advance A/c. Give journal entries to record these transactions. Show workings of Interest calculation. (Ignore dates).

Question 9 (CA Foundation May 2018) (10 Marks)/(RTP May 2020)/(May 2023)(Sim.) Pg no.______

Piyush Limited is a company with an authorized share capital of ₹ 2,00,00,000 in equity shares of ₹ 10 each, of which 15,00,000 shares had been issued and fully paid on 30th June, 2020. The company proposed to make a further issue of 1,30,000 shares of ₹ 10 each at a price of ₹ 12 each, the arrangements for payment being:

(i) ₹ 2 per share payable on application, to be received by 1st July, 2020;
(ii) Allotment to be made on 10th July, 2020 and a further ₹ 5 per share (including the premium) to be payable;
(iii) The final call for the balance to be made, and the money received by 30th April, 2021.

Applications were received for 4,20,000 shares and were dealt with as follows:

(1) Applicants for 20,000 shares received allotment in full;
(2) Applicants for 1,00,000 shares received an allotment of one share for every two applied for; no money was returned to these applicants, the surplus on application being used to reduce the amount due on allotment;
(3) Applicants for 3,00,000 shares received an allotment of one share for every five shares applied for; the money due on allotment was retained by the company, the excess being returned to applicants; and
(4) The money due on final call was received on the due date.

You are required to record these transactions (including cash items) in the journal of Piyush limited.

Question 10 *(CA Foundation Jan 2021) (15 Marks)* Pg no.______

A Limited is a company with' an authorised share capital of ₹ 1,00,00,000 in equity shares of ₹ 10 each, of which 6,00,000 shares had been issued and fully paid up on 31st March, 2020. The company proposes to make a further issue of 1,35,000 of these ₹ 10 shares at a price of ₹ 14 each, the arrangement of payment being:

(i) ₹ 2 per share payable on application, to be received by 31st May, 2020;

(ii) Allotment to be made on 10th June, 2020 and a further ₹ 5 per share (including the premium to be payable);

(iii) The final call for the balance to be made, and the money received by 31st December, 2020.

Applications were received for 5,60,000 shares and dealt with as follows:

(1) Applicants for 10,000 shares received allotment in full;

(2) Applicants for 50,000 shares received allotment of 1 share for every 2 applied for; no money was returned to these applicants, the surplus on application being used to reduce the amount due on allotment;

(3) Applicants for 5,00,000 shares 'received an allotment of 1 share for every 5 shares applied for; the money due on allotment was retained by the company, the excess being returned to the applicants; and

(4) The money due on final call was received on the due date.

You are required to record these transactions (including bank transactions) in the Journal Book of A Limited.

Question 11 *(ICAI Study Material)* Pg no.______

A Ltd forfeited 30,000 equity shares of ₹10 fully called-up, held by Mr. X for non-payment of final call @ ₹4 each. However, he paid application money @ ₹2 per share & allotment money @ ₹4 per share. These shares were originally issued at par. Give Journal Entry for forfeiture.

Question 12 *(ICAI Study Material)* Pg no.______

X Ltd forfeited 20,000 equity shares of ₹ 10 each, ₹ 8 called-up, for non-payment of first call money @ ₹ 2 each. Application money @ ₹ 2 per share and allotment money @ ₹ 4 per share have already been received by the company. Give Journal Entry for the forfeiture (assume that all money due is transferred to Calls-in-Arrears A/c.

Question 13 *(ICAI Study Material)* Pg no.______

X Ltd. forfeited 5,000 equity shares of ₹100 each fully called-up which were issued at a premium of 20%. Amount payable on shares were: on application ₹20; on allotment ₹50 (including premium) on First and Final call ₹50. Only application money was paid by the shareholders in respect of these shares. Pass Journal Entries for the forfeiture.

Question 14 *(ICAI Study Material)* Pg no.______

A Ltd forfeited 100 equity shares of ₹10 fully called upon. The shareholder failed to pay the first call money of ₹4 per share and the second and final Call Money of ₹4 per share. Give journal entry to show the effect of this transaction.

Question 15 *(ICAI Study Mat.)/ (RTP May 2018)/(May 2019)/(Nov 2019)/(May 2021) (Sim.)* Pg no.______

Mr. Long who was the holder of 2,000 preference shares of ₹ 100 each, on which ₹ 75 per share has been called up could not pay his dues on Allotment and First call each at ₹ 25 per share. The Directors forfeited the above shares and reissued 1,500 of such shares to Mr. Short at ₹ 65 per share paid-up as ₹75 per share. Give journal entries to record the above forfeiture and re-issue in the books of the company.

Question 16 (RTP Nov 2018) Pg no.______

Mr. P who was the holder of 2,500 preference shares of ₹ 100 each, on which ₹ 70 per share has been called up could not pay his dues on Allotment and First call each at ₹ 20 per share. The Directors forfeited the above shares and reissued 2,000 of such shares to Mr. Q at ₹ 60 per share paid-up as ₹ 70 per share.

You are required to prepare the Journal Entries to record the above forfeiture and re-issue in the books of the company.

Question 17 (CA Foundation Nov 2018) (10 Marks) / (RTP May 2023) Pg no.______

Give necessary journal entries for the forfeiture & reissue of shares:

(i) X Ltd. forfeited 300 shares of ₹ 10 each fully called up, held by Ramesh for non payment of allotment money of ₹ 3 per share & final call of ₹ 4 per share. He paid the application money of ₹ 3 per share. These shares were issued to Suresh for ₹ 8 per share.

(ii) X Ltd. forfeited 200 shares of ₹ 10 each (₹ 7 called up) on which Naresh had paid application and allotment money of ₹ 5 per share. Out of these 150 shares were reissued to Mahesh as fully paid for ₹ 6 per share.

Question 18 (RTP Nov 2021) Pg no.______

Mr. Samphat who was the holder of 12,000 preference shares of ₹ 100 each, on which ₹ 60 per share has been called up could not pay his dues on Allotment and First call each at ₹ 20 per share. The Directors forfeited the above shares and reissued 10,000 of such shares to Mr. Sushil at ₹ 50 per share paid-up as ₹60 per share.

You are required to prepare journal entries to record the above forfeiture and re-issue in the books of the company.

Question 19 (ICAI Study Material) Pg no.______

A holds 2,000 shares of ₹10 each on which he has paid ₹2 as application money. B holds 4,000 shares of ₹10 each on which he has paid ₹ 2 per share as application money and ₹ 3 per share as allotment money. C holds 3,000 shares of ₹10 each and has paid ₹2 on application, ₹ 3 on allotment and ₹3 for the first call. They all fail to pay their arrears on the second and final call and the directors, therefore, forfeited their shares. The shares are re-issued subsequently for ₹12 per share fully paid-up. Journalise the transactions relating to the forfeiture and re-issue.

Question 20 (ICAI Study Material) Pg no.______

B Ltd. issued 20,000 equity shares of ₹100 each at a premium of ₹20 per share payable as follows: on application ₹50; on allotment ₹50 (including premium); on final call ₹20. Applications were received for 24,000 shares. Letters of regret were issued to applicants for 4,000 shares and shares were allotted to all the other applicants. Mr. A, the holder of 150 shares, failed to pay the allotment and call money, the shares were forfeited. Show the Journal Entries and Cash Book in the books of B Ltd.

Question 21 (CA Foundation Nov 2019) (15 Marks) Pg no.______

B Limited issued 50,000 equity shares of ₹ 10 each payable as ₹ 3 per share on applications, ₹ 5 per share (including ₹ 2 as premium) on allotment and ₹ 4 per share on call. All these shares were subscribed.

Money due on all shares was fully received except from X, holding 1000 shares who failed to pay the allotment and call money and Y, holding 2000 shares, failed to pay the call money. All these 3,000 shares were forfeited. Out of forfeited shares, 2,500 shares (including whole of X's shares) were subsequently re-issued to Z as fully paid up at a discount of ₹ 2 per share. Pass necessary journal entries in the books of B limited. Also prepare Balance Sheet and notes to accounts of the company.

Question 22 *(CA Foundation Dec 2021) (15 Marks) / (RTP Jan 2025) (Similar)* Pg no.______

Fashion Garments Ltd invited applications for issuing 10,000 Equity Shares of ₹ 10 each. The amount was payable as follows:

(i) On Application ₹ 1 per share
(ii) On Allotment ₹ 2 per share
(iii) On First call ₹ 3 per share
(iv) On Second and final Call ₹ 4 per share

The issue was fully subscribed. Ram to whom 100 shares were allotted, failed to pay the allotment money and his shares were forfeited immediately after the allotment. Shyam to whom 150 shares were allotted, failed to pay the first call. His shares were also forfeited after the first call. Afterwards the second and final call was made. Mohan to whom 50 shares were allotted failed to pay the second and final call. His shares were also forfeited. Al the forfeited shares were re-issued at ₹ 9 per share fully paid-up.
Pass necessary Journal entries in the books of Fashion Garments Ltd.

Question 23 *(CA Foundation Dec 2022) (15 Marks)* Pg no.______

PQR Limited issued 2,00,000 equity shares of, 10 each payable as ₹ 3 per share on application & ₹ 5 per share (including ₹ 2 as premium) on allotment and ₹ 4 per share on call. All these shares were subscribed. Money due on all shares was fully received except from Mr. J, holding 5,000 shares who failed to pay ·the allotment and call money and Mr. K, holding 10,000 shares, who failed to pay the call money. All these 15,000 shares were forfeited. Out of the forfeited shares, 10,000 shares (including whole of J's shares) were subsequently re-issued to Mr. L as fully paid up at a discount of ₹ 1 per share.
Pass necessary journal entries in the books of PQR Limited. Also prepare Balance Sheet and notes to accounts of the company.

Question 24 *(CA Foundation Nov 2020) (10 Marks)* Pg no.______

ABC Limited issued 20,000 equity shares of ₹ 10 each payable as:
₹ 2 per share on application
₹ 3 per share on allotment
₹ 4 per share on first call
₹ 1 per share on final call
All the shares were subscribed. Money due on all shares was fully received except for Mr. Bird, holding 300 shares, who failed to pay first call and final call money. All these 300 shares were forfeited. The forfeited shares of Mr. Bird were subsequently re-issued to Mr. John.as fully paid up at a discount of ₹ 2 per share.
Pass the necessary Journal Entries to record the above transactions in the books of ABC Limited.

Question 25 *(CA Foundation May 2019) (10 Marks)/(RTP May 2020)/(RTP Nov 2022)* Pg no.______

Bhagwati Ltd. invited applications for issuing 2,00,000 equity shares of ₹ 10 each. The amounts were payable as follows:

On application - ₹ 3 per share
On allotment - ₹ 5 per share
On first and final call - ₹ 2 per share

Applications were received for 3,00,000 shares and pro-rata allotment was made to all the applicants. Money overpaid on application was adjusted towards allotment money. B, who was allotted 3,000 shares, failed to pay the first and final call money. His shares were forfeited. Out of the forfeited shares, 2,500 shares were reissued as fully paid-up @ ₹ 6 per share. Pass necessary Journal entries to record the above transactions in the books of Bhagwati Ltd.

Question 26 *(MTP November 2021)/(June 2023)* Pg no.______

Hemant applies for 2,000 shares of ₹ 10 each at a premium of ₹ 2.50 per share. He was allotted 1,000 shares. After having paid ₹ 3 per share on application, he did not pay the allotment money of ₹ 4.50 per share (including premium) and on his subsequent failure to pay the first call of ₹ 2 per share, his shares were forfeited. These shares were reissued at ₹ 8 per share, his shares were forfeited.
At the time of re-issue of forfeited shares of Mr. Hament, final call money amount all other shareholders were duly called up.
You are required to pass journal entries to record forfeiture and reissue of shares.

Question 27 *(CA Foundation June 2023) (15 Marks)* Pg no.______

BP Limited issued a prospectus inviting applications for 1,20,000 equity shares of ₹ 10 each at a premium of ₹ 2 per share payable as follows:

On Application - ₹ 3 per share
On Allotment - ₹ 5 per share (including premium)
On First and Final Call - ₹ 4 per share

Applications were received for 3,60,000 equity shares. Applications for 80,000 shares were rejected and the money refunded. Shares allotted to remaining applications as follows:

Category	No. of shares Applied	No. of shares Allotted
I	1,60,000	80,000
II	1,20,000	40,000

Excess money received with applications was adjusted towards sums due on Allotment and the balance amount returned to the applicants.
All calls were made duly received except the final call by a shareholder belonging to Category I who has applied for 680 shares. His shares were forfeited. The forfeited shares were reissued at ₹ 13 per share fully paid-up.
Pass necessary journal entries for the above transactions in the books of BP Ltd, Open call in arrears account whenever required.

Question 28 *(CA Foundation Dec 2023) (15 Marks)* Pg no.______

A Ltd. issued 25,000 equity shares of ₹ 100 each at a premium of ₹ 25 per share payable as follows:

On Application ₹ 50
On Application ₹ 50 including premium and
On Final Call ₹ 25

Applications were received for 29,000 shares. Letter of regret were issued to applications for 4,000 shares and shares were allotted to all other applicants.
Mr. A the holder of 150 shares, failed to pay the allotment and call money, the shares were forfeited.
Show the journal entries and cash book in the books of A Limited.

Question 29 (CA Foundation Sep 2024) (15 Marks) Pg no.______

P Limited issued 6,00,000 equity shares of ₹ 10 each at a premium of ₹ 2 per share, payable as ₹ 3 on application, ₹ 5 on allotment (including premium) and the balance in two calls of equal amount. Applications were received for 8,00,000 shares and pro-rata allotment was made to all the applicants. The excess application money was adjusted towards allotment. Harish to whom 1600 shares were allotted failed to pay both calls and his shares were subsequently forfeited after second call.

You are required to pass journal entries in the books of P Limited and prepare bank account.

Question 30 (CA Foundation Jan 2025) (15 Marks) Pg no.______

Arpit Ltd., with an authorized capital of ₹ 20,00,000 divided into Equity shares of ₹ 10 each, on 1st June, 2023, invited applications for issuing 3,00,000 Equity shares at a premium of ₹ 5 per share. The amount was payable as follows:

On Application	₹ 2 per share
On Allotment (1st July, 2023)	₹ 7 (including premium) per share
On First call (1st Nov., 2023)	₹ 3 per share
On Final call (1st Jan., 2024)	₹ 3 per share

All the shares were applied for and allotted. Mr. Naresh who held 20,000 shares paid the whole of the amount due on calls along with allotment money. The final call was fully paid except a shareholder having 5,000 shares who paid his due amount on 1st March, 2024 i.e. after 2 months along with interest on calls in arrears @ 10% p.a. Company also paid interest @ 12% p.a. on calls in advance to Mr. Naresh on 1st Jan., 2024.

Give journal entries with narrations to record all these transactions in the books of Arpit Ltd.

Unit 3: ISSUE OF DEBENTURES

CH 11C

"Efforts are never wasted even when they lead to disappointing results. Because they always make us more experienced.

DEBENTURES – DEFINITION AND FEATURES

DEFINITION

(a) Debenture includes Debentures Stock, Bonds and any other instrument of a Company evidencing a debt, whether constituting a charge on the assets of the Company or not.
(b) It is a document issued by a Company indicating its indebtedness.
(c) 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 company is to issue debentures which may either be secured or unsecured. ***(Purpose for raising of debenture by the company)***

FEATURES

(a) **Debt:** Debenture is a document which evidences a loan made to a Company. A debenture is a bond issued by a company under its seal, acknowledging a debt and containing provisions as regards repayment of the principal and interest.
(b) **Interest:** The Company pays a fixed rate of interest on Debentures, due on specific dates. Such interest is payable, irrespective of whether the Company has earned profit or not.
(c) **Maturity/Redemption:** Generally, Debentures are issued for specified period of time, after which they mature & have to be redeemed by the Company by paying the money. Sometimes, they may be converted into Equity Shares, after the maturity period.
(d) **Creation of Charge:** Most Debentures are secured by way of a charge on the assets / part of the assets of the Company. However, they may also be unsecured Debentures.
(e) **Trading:** Debentures may be bought or sold through the Stock Exchange, at a price above or below the Face Value. Hence, Debentures may be traded, in the same manner as Shares.
(f) **No Voting Rights:** Debenture Holders are mere lenders to the Company, who are generally secured for payment. Hence they do not have any right as to voting in meetings. The Company shall not issue any Debentures carrying voting rights at any Company Meeting, whether generally or in respect of particular class of business.

DISTINGUISH – SHARES AND DEBENTURES

BASIS	SHARES	DEBENTURES
Holders	Shareholders are the Owners of the Company	Debentureholders are the Creditors of the Company.
Kinds	There are two basic kinds of Shares (a) Equity & (b) Preference Shares.	Debentures can be classified in different ways.

Voting	Shareholders generally enjoy voting rights.	Debentureholders do not have any voting rights.
Return	Dividend is paid only out of the profits of the Company.	Interest on Debentures is paid even if there are no profits.
Variation in return	Dividend on Equity Shares may vary from year to year. [But, Dividend on Pref. Shares is paid at fixed rates.]	Rate of Interest on Debentures is Fixed.
Nature of Payment	Dividend is an appropriation of Profits of the Company. Hence, it is not deductible as an "expense" for tax purposes.	Interest on debentures is a "charge" on the profits of the Company. Interest payment gives tax savings to the Company.
Disclosure	Shares are shown under "Share Capital" (under Shareholder Funds) on the Liabilities Side of the Balance Sheet.	Debentures are shown under "Long term Borrowings" (under Non-Current Liabilities) on the Liabilities Side of the Balance Sheet.
Conversion	Shares cannot be converted into debentures under any circumstances.	Debentures may be converted into Shares (partly or fully) as per the terms of issue.
Forfeiture	Shares can be Forfeited for non-payment of Allotment or Call Money	Debentures cannot be forfeited for non-payment of Call Money.
Charge on Assets	Shares do not carry any charge on Assets.	Debentures generally have a charge on the Assets of the Company.
Priority of repayment	Upon winding-up, they are paid after Debentureholders are settled.	They are paid before Shareholders, since they are the Creditors of the company.
Risk	Higher Risk than Debentureholders.	Lower Risk than Equity Shareholders.
Control	Higher degree of control over Company	Minimum / No control.

DIFFERENT KINDS / TYPES OF DEBENTURES

BASED ON PRIORITY

	First Mortgage Debentures	Second Mortgage Debentures
(a)	They are ranked first and are to be paid first in priority to other Debentures which may be issued later or subsequently by the Company.	They are issued subsequent to first Debentures and rank next in matters of repayment, i.e. they can be redeemed only after First Debentures are repaid.
(b)	These constitute first priority in repayment.	These constitute second priority in repayment.

BASED ON NEGOTIABILITY

	Bearer or Unregistered Debentures	Registered Debentures
(a)	These are payable to Bearer. Interest is paid through coupons attached to Certificate. On maturity, principal is paid to the Bearer.	These are payable to Registered Holders, i.e. whose names appear on the Certificate and are entered as a Holder in Register of Debenture Holders of the Company.

(b)	These are similar to Negotiable Instruments, and are freely transferable, by mere delivery. No transfer deed is required for transfer of such debentures	They are not easily transferable. They are transferable only as per condition endorsed in it, i.e. by way of execution of transfer deed and registration with the Company.

BASED ON PERMANENCE / REDEEMABILITY

	Redeemable Debentures	Irredeemable / Perpetual Debentures
(a)	They are issued for a specified period of time upon whose expiry, company has the right to pay back the Holders and have its properties released from charge.	It is a Debenture which contains no clause to payment, or which contains a clause that it shall not be paid back.
(b)	Payment / Redemption is made at the end of the specified period.	Payment / Redemption is only upon winding-up/liquidation of company.

BASED ON CONVERTIBILITY

	Convertible Debentures	Non Convertible Debentures
(a)	They are issued with an option that they can be converted into Shares (at par or premium), after a certain period.	They do not have any option as to convertibility.
(b)	They can be fully convertible or partly convertible. In Partly Convertible debentures, the non-convertible portion is redeemed at the expiry of certain period.	They become fully payable on maturity, as specified in the terms of issue.

BASED ON SECURITY

	Secured Debentures	Unsecured / Naked Debentures
(a)	These are secured by a charge on the assets / part of the assets of the Company.	These are issued without any security. They do not create any charge on the Company's Assets.
(b)	The Charge may either be Fixed or Floating. (See Note below.)	Holders are like ordinary Unsecured Creditors and may sue the Company for recovery.
(c)	Holders of such Debentures have lower risk.	These types of debentures are very risky from the viewpoint of Investors.

Note:
A Fixed Charge is a mortgage on specific assets, e.g. Machinery, Land and Building, etc. These assets cannot be sold without the consent of Debentureholders. The sale proceeds of these assets are utilized first for repaying Debentureholders.
A Floating Charge generally covers all assets of the Company, including future assets, e.g. Stock, Receivables, Debtors, etc.

JOURNAL ENTRIES IN RESPECT OF ISSUE OF DEBENTURES (For Cash)

Issue At	Redemption At	Journal Entry
1) PAR	PAR	Bank A/c - Dr To _% Debentures A/c
2) Premium	PAR	Bank A/c - Dr To _% Debentures A/c To Securities Premium A/c
3) Discount	PAR	Bank A/c - Dr Discount on Issue A/c - Dr To _% Debentures A/c
4) PAR	Premium	Bank A/c - Dr Loss on Issue A/c - Dr To _% Debentures A/c To Premium on Redemption A/c
5) Premium	Premium	Bank A/c - Dr Loss on Issue A/c - Dr To _% Debentures A/c To Securities Premium A/c To Premium on Redemption A/c
6) Discount	Premium	Bank A/c - Dr Loss on Issue A/c - Dr (Disc. + Loss) To _% Debentures A/c To Premium on Redemption A/c

	Transaction	Journal Entries
1.	Receipt of Application Money	Bank A/c Dr. To Debenture Application A/c
2.	Transfer of Application Money	
(a)	Issued at par, and redeemable (i) at par, or (ii) at discount	Debenture Application A/c Dr. To...% Debentures A/c
(b)	Issued at Premium, and redeemable- (i) at par, or (ii) at discount	Debenture Application A/c Dr. To...% Debentures A/c To Securities Premium A/c
(c)	Issued at Discount, and redeemable- (i) at par, or (ii) at discount	Debenture Application A/c Dr. Discount on Issue of Deb A/c Dr. To...% Debentures A/c

(d)	Issued at par, and redeemable at premium. [Note: Here, Loss on Issue of Debentures= Premium payable on Redemption only.]	Debenture Application A/c Dr. Loss on Issue of Deb. A/c Dr. To…% Debentures A/c To Premium on Redemption of deb.
(e)	Issued at Premium, redeemable at premium. [Note: Here, Loss on issue of Debentures= Premium payable on Redemption only.]	Debenture Application A/c Dr. Loss on Issue of Deb. A/c Dr. To…% Debentures A/c To Securities Premium A/c To Premium on Redemption of deb.
(f)	Issued at Discount, and redeemable at premium [Note: Here, Loss on Issue of Debentures= Discount on Issue + Premium payable on Redemption only]	Debenture Application A/c Dr. Disc./Loss on Issue of Deb. A/c Dr. To…% Debentures A/c To Premium on Redemption of deb.

Note: In the above scheme, it is assumed that entire money is collected at the time of application itself. If the moneys are collected in installments, e.g. Application, Allotment, Calls, etc. the Journal Entries are similar to that of Issue of Shares.

- *In fact, the discount on issue of debentures is considered as incremental interest expense. The true expense (net borrowing cost) for a particular accounting period is, therefore, the total interest payment plus the discount amortised.*
- *Debenture Redemption Premium Account is a personal account which represents a liability of the company in respect of premium payable on redemption.*

ISSUE OF DEBENTURES FOR CONSIDERATION OTHER THAN CASH

Just like shares, debentures can also be issued for consideration other than for cash, such as for purchase of land, machinery, etc. In this case, the following entries are passed:

(a)	**Assets purchased from Vendor / business taken over, etc.**	Sundry Assets A/c Dr. To Sundry Liabilities A/c, (if any) To Vendor A/c
(b)	**Assets purchased from Vendor, at par / premium / discount**	Vendor A/c Dr. Discount on Issue of Deb. A/c (if any) To…% Debentures A/c To Securities Premium A/c (if any)
	No. of Debentures = Purchase Consideration/Issue Price	

1) When debentures are issued at par

$$\text{No. of Debentures} = \frac{\text{Purchase Consideration}}{\text{Par Value}}$$

2) When debentures are issued at premium

$$\text{No. of Debentures} = \frac{\text{Purchase Consideration}}{\text{Par Value + Premium}}$$

3) When debentures are issued at discount

$$\text{No. of Debentures} = \frac{\text{Purchase Consideration}}{\text{Par Value – Discount}}$$

ACCOUNTING TREATMENT OF ISSUE OF DEBENTURES AS COLLATERAL SECURITY

1. **Meaning**
   (a) Collateral Security means secondary or supporting security for a loan, which can be realized by the Lender, when the original loan is not paid on due date.
   (b) Companies may Issue their Own Debentures as Collateral Security for Loan or Overdraft facility taken from Bank / other Lenders.
   (c) The holder of such debentures is entitled to interest only on the amount of loan but not on the debentures.

2. **Effect:**
   (a) If the Company repays the loan on the due date, the Debentures will be released, along with the main security.
   (b) If the Company is not able to repay the loan or the interest thereon, the Lender will become the Debentureholders who can exercise all the rights of a debenture holder.

2. **Accounting Treatment:** There are two method of showing Debentures issued as Collateral Security –

Situation	Method I	Method II
Journal Entry for Issue of Debentures as Collateral Security	No Entry. It is only a Memorandum Method	Debenture Suspense A/c Dr. To...% Debentures A/c
Disclosure in the Balance Sheet till Loan is settled	The Issue of debentures and Loan Outstanding is shown as a Note under "Long Term Borrowings"	Debenture Suspense A/c will appear on the Assets Side under 'Non Current Assets' and Debentures A/c will appear on the Liabilities Side under 'Long Term Borrowings'.
Treatment after settlement of Loan	The Note given as above will be discontinued.	The Journal Entry given above will be reversed

Note: Method 1 is much more logical from the accounting point of view. Therefore, it is advised to follow Method 1.

TREATMENT OF DISCOUNT / LOSS ON ISSUE OF DEBENTURES

1. **Treatment:** Discount / Loss on Issue of Debentures is capital loss and to be written-off /amortized over the period between the date of issue and date of redemption.

2. **Determination of write-off amount:**

Situation	Amount written off is computed as under-
Debentures redeemed at lumpsum at the end of a given period	Total Amount of Discount / Loss should be written off equally over the life of Debentures, i.e. Straight Line Method is used.
Debentures redeemed in different / unequal instalments	Total Amount of Discount / Loss should be written off in the ratio of benefit derived from Debenture Loan in any particular year, i.e. Sum of Year's Digits Method is used in the case.
Debentures are irredeemable	Total Amount of Discount / Loss should be written off gradually over a long period.

3. **Journal Entry:**
Profit and Loss Account Dr.
To Discount / Loss on Issue of debentures A/C

Note: The unamortized amount is shown on the Assets Side of the Balance Sheet as Non-Current /Current Asset depending upon the period for which it has to be written off.

Example:
12%, 5,000 debentures of ₹100 each issued on 01.01.2023 at 3% discount.
1) *Redemption after 5 years in lumpsum*
2) *Redemption of ₹ 1,00,000 at the end of each year*

ACCOUNTING TREATMENT FOR PAYMENT OF INTEREST ON DEBENTURES

1. **Interest:** Interest on debentures is a charge against the profits of the Company. Interest is paid at specified dates, (e.g. on half-yearly or annual basis) on the Nominal Value of Debentures.
2. **Tax Deducted at Source:** The Company will pay Interest to the Debentureholders after deducting the amount of tax, as specified in the Income Tax Rules. The Company is under an Obligation to deduct tax at source and deposit the deducted tax amount with the Income Tax Authorities.
3. **Journal Entries:**

	Transaction	Journal Entry
(a)	Interest due on Debentures after considering tax at source (TDS)	Interest on Debentures A/c Dr. To Debentureholders A/c To TDS Payable A/c
(b)	Payment of interest to Debentureholders	Debentureholders A/c Dr. To Bank A/c
(c)	Remittance Tax Deducted at Source with Government	TDS Payable A/c Dr. To Bank A/c
(d)	Transfer of Interest on Debentures to P&L A/c	Profit & Loss A/c Dr. To Interest on Debentures A/c

ASSIGNMENT QUESTIONS

Question 1 Pg no.______

C Ltd. is interested in issuing 10,000, 12% debentures of ₹100 each. You are required to pass necessary journal entries in each of the following situations:

Application Money ₹ 40 & balance on Allotment.

a) Issued at par and redeemable at par
b) Issued at par and redeemable at premium of 5%
c) Issued at 10% discount and redeemable at par
d) Issued at discount of 5% and redeemable at premium of 10%
e) Issued at 5% premium and redeemable at par
f) Issued at premium of 10% and redeemable at premium of 20%.

Question 2 – *(RTP May 2025)* Pg no.______

Strawberry farms Ltd. issued 20,000 11% debentures of ₹ 100 each at a discount of 5%, payable ₹ 50 on application and ₹ 45 on allotment redeemable after 3 years.

(i) at a premium of 2%
(ii) at a discount of 2%

Pass necessary journal entries for issue of debentures.

Question 3 *(ICAI Study Material)* Pg no.______

Simmons Ltd. issued 1,00,000, 12% Debentures of ₹100 each at par payable in full on application by 1st April, Application were received for 1,10,000 Debentures. Debentures were allotted on 7th April. Excess money refunded on the same date. You are required to pass necessary Journal Entries (including cash transactions) in the books of the company.

Question 4 Pg no.______

Sam Ltd. issued ₹ 70,000, 12% debentures of ₹ 100 each at a premium of 5% redeemable at 110% Show by means of journal entries how you would record the above issue.

Question 5 *(RTP May 2019)* Pg no.______

Suvidha Ltd. purchased machinery worth ₹ 1,98,000 from Hemant Ltd. The payment was made by issue of 12% debentures of ₹100 each. Pass the necessary journal entries for the purchase of machinery and issue of debentures when:

(i) Debentures are issued at par;
(ii) Debentures are issued at 10% discount; and
(iii) Debentures are issued at 10% premium

Question 6 Pg no.______

Mahesh Ltd. obtained loan from ICICI Bank of ₹ 5,00,000 on 31st March, 2023 by issuing and securing 6,000, 12% debentures of ₹ 100 each as collateral security.

Pass journal entries & show balance sheet extract as per both approaches.

Question 7 *(ICAI Study Material) / (RTP May 2018) / (RTP May 2023) (Similar)* Pg no.______

X Company Limited issued 10,000 14% Debentures of nominal value of ₹50,00,000 as follows:

i. To sundry persons for cash at 90% of nominal value of ₹ 25,00,000.
ii. To a vendor for purchase of fixed assets worth ₹ 10,00,000 – ₹ 12,50,000 nominal value.
iii. To the banker as collateral security for a loan of ₹ 10,00,000 – ₹ 12,50,000 nominal value.

You are required to pass necessary journal entries.

Question 8 *(ICAI Study Material)* Pg no.______

A Limited issued 14% Debentures of the nominal value of ₹10 each as follows:
(a) To sundry persons 1,00,000 Debentures for cash at 10% discount.
(b) To a vendor for purchase of Inventory worth ₹1,00,000, 8,000 debentures at 25% premium.
(c) To the banker as collateral security for a loan of ₹1,00,000 – ₹1,50,000 nominal value.
Pass necessary Journal Entries.

Question 9 *(ICAI Study Material)* Pg no.______

HDC Ltd. issues 2,00,000, 12% Debentures of ₹10 each at ₹9.40 on 1st January,2022. Under the terms of issue, 1/5th of the debentures are annually redeemable by drawings, the first redemption occurring on 31st December, 2022. Calculate the amount of discount to be written-off from 2022 to 2026.

Question 10 *(RTP May 2022) / (RTP June 2024) / (RTP Jan 2025)* Pg no.______

On 1st April 2020, XY Ltd. took over assets of ₹4,50,000 and liabilities of 60,000 of Himalayan Ltd. for the purchase consideration of ₹ 4,40,000. It paid the purchase consideration by issuing 8% debenture of ₹ 100 each at 10% premium on same date.
XY Ltd. issued another 3000, 8% debenture of ₹ 100 at discount of 10% redeemable at premium of 5 % after 5 years. According to the terms of the issue ₹ 30 is payable on application and the balance on the allotment on debentures. It has been decided to write off the entire loss on issue of discount in the current year itself.
You are required to pass journal entries in the books of XY Ltd. for the financial year 2020-21.

Question 11 *(ICAI Study Material)* Pg no.______

A company issued 12% debentures of the face value of ₹10,00,000 at 10% discount on 1-1-2023. Debenture interest after deducting tax at source @ 10% was payable on 30th June and 31st of December every year. All the debentures were to be redeemed after the expiry of five year period at 5% premium. Pass journal entries for the accounting year 2023.

Question 12 *(ICAI Study Material)* Pg no.______

On 1st April 2022 Sheru Ltd. issued 1,00,000 12% debentures of ₹100 each at a discount of 5%, redeemable on 31 March 2027. Issue was oversubscribed by 20,000 debentures, who were refunded their money. Interest is paid annually on 31 March. You are required to prepare:
i) Journal Entries at the time of issue of debentures.
ii) Discount on issue of Debenture Account
iii) Interest account and Debenture holder Account assuming TDS is deducted @ 10%.

PRACTICE QUESTIONS

MULTIPLE CHOICE QUESTIONS

1) Premium on redemption of debentures account appearing in the balance sheet is _______.
   (a) A nominal account – expenditure
   (b) A nominal account – income
   (c) A personal account ______.

2) Debenture interest
   (a) Is payable before the payment of any dividend on shares
   (b) Accumulates in case of losses or inadequate profits
   (c) Is payable after the payment of preference dividend but before the payment of equity dividend

3) F Ltd. purchased Machinery from G Company for book value of ₹4,00,000. The consideration was paid by issue of 10% debentures of ₹ 100 each at a premium of 25%. The debenture account was credited with ______.
   (a) ₹ 4,00,000
   (b) ₹ 5,00,000
   (c) ₹ 3,20,000

4) Which of the following is not a characteristic of Bearer Debentures?
   (a) They are treated as negotiable instruments
   (b) Their transfer requires a deed of transfer
   (c) They are transferable by mere delivery

5) When debentures are issued as collateral security, the final entry for recording the collateral debentures in the books is __________.
   (a) Credit Debentures A/c and debit Cash A/c.
   (b) Debit Debenture suspense A/c and credit Cash A/c.
   (c) Debit Debenture suspense A/c and credit Debentures A/c.

6) When debentures are redeemable at different dates, the total amount of discount on issue of debentures should be written off
   (a) Every year by applying the sum of the year's digit method
   (b) Every year by applying the straight line method
   (c) To profit and loss account in full in the year of final or last redemption

7) Debentures are issued at discount when
   (a) Market interest rate is higher than debenture interest rate
   (b) Market interest rate is lower than debenture interest rate
   (c) Market interest rate is equal to debenture interest rate

8) Interest payable on Debentures attract
   (a) Tax deducted at source
   (b) Goods and Service tax
   (c) Fringe benefit tax

ANSWERS MCQs

1. (c) 2. (a) 3. (c) 4. (b) 5. (c) 6. (a) 7. (a) 8. (a)

TRUE / FALSE

State with reasons whether the following statement is true or false:

1) Debenture holder are the owners of the company.
2) Perpetual debentures are payable at the time of liquidation of the company. *(June 2023)*
3) Registered debentures are transferable by delivery.
4) When companies issue their own debentures as collateral security for a loan, the holder of such debenture is entitled to interest only on the amount of loan & not on the debentures
5) Debentures suspense account appears on the liability side of balance sheet. *(June 2022)*
6) If a company incurs loss, then it does not pay interest to the debenture holders.
7) At the time of liquidation, debenture holders are paid off after the shareholders.
8) Convertible debentures can be converted into equity shares.
9) Redeemable debentures are not payable during the lifetime of the company.
10) Debentures can be issued for a consideration other than for cash, such as for purchasing land, machinery etc.
11) Debenture interest is payable after the payment of preference dividend but before the payment of equity dividend.
12) Interest on debentures is calculated on Issue Price of Debentures
13) When debentures are issued as collateral security against any loan then holder of such debentures is entitled to Interest both on the amount of the loan and on the debentures
14) Debenture holders enjoy the voting rights in the company.
15) A fixed charge generally covers all the assets of company including future one. *(Dec 2022)*

Solution

1) **False**: Debenture holder are the creditors of the company.
2) **True**: Perpetual debentures, also known as irredeemable debentures are not repayable during the life time of the company & are repayable at the time of liquidation of company
3) **False**: Registered debentures are not easily transferable by delivery. Bearer debentures are transferrable by delivery.
4) **True**: In case the company cannot repay its loan & the interest thereon on the due date, the lender becomes debenture holder & then only he is entitled to interest on debentures.
5) **False**: Deb. Suspense A/c appears on asset side of balance sheet under non-current asset
6) **False**: Even if the company incurs loss or earns profit, it has to pay interest on debentures. Debentures being debts on company & debenture holders are not concerned with profit/loss of company, interest is to be paid at the rate fixed on it at the time of issue of debenture.
7) **False**: At the time of liquidation, debenture holders are paid off before shareholders on priority basis.
8) **True**: Convertible debentures can be converted into equity shares after a certain period of time from the date of its issue.
9) **False**: These debentures are repayable as per the terms of issue, for example, after 8 years from the date of issue.
10) **True**: Debentures can be issued for a consideration other than for cash, such as for purchasing land, machinery etc.
11) **False:** Debenture interest is payable before the payment of any dividend on shares.
12) **False:** Interest on debentures is calculated on Face Value of Debentures
13) **False**: When debentures are issued as collateral security against any loan then holder of such debentures is entitled to Interest only on the amount of the loan.
14) **False**: Debenture holders does not enjoy voting rights in company. He is only a creditor of the company.
15) **False**: A fixed charge is a mortgage on specific assets. A floating charge generally covers all the assets of the company including future one.

HOMEWORK QUESTIONS

Question 1 (ICAI Study Material) Pg no.______

Amol Ltd. issued 40,00,000, 9% debentures of ₹ 50 each, payable on application as per term mentioned in the prospectus and redeemable at par any time after 3 years from the date of issue. Record necessary entries for issue of debentures in the books of Amol Ltd.

Question 2 (ICAI Study Material) Pg no.______

Atul Ltd. issued 1,00,00,000, 8% debenture of ₹100 each at a discount of 10% redeemable at par at the end of 10th year. Money was payable as follows:

₹ 30 on application

₹ 60 on allotment

Record necessary journal entries regarding issue of debenture.

Question 3 (ICAI Study Material) Pg no.______

Koinal Chemicals Ltd. issued 15,00,000, 10% debenture of ₹50 each at premium of 10%, payable as ₹20 on application and balance on allotment. Debentures are redeemable at par after 6 years. All the money due on allotment was called up and received. Record necessary entries when premium money is included in application money.

Question 4 (ICAI Study Material) Pg no.______

Modern Equipments Ltd. issued 4,00,000, 12% debentures of ₹ 100 payable as follows :

On application	₹ 30
On allotment	₹ 70

The debenture were fully subscribed and all the money was duly received. As per the terms of issue, debentures are redeemable at ₹110 per debenture. Record necessary entries regarding issue of debentures.

Question 5 (ICAI Study Material) Pg no.______

Agrotech Ltd. issued 150 lakh 9% debentures of ₹100 each at a discount of 6%, redeemable at a premium of 5% after 3 years payable as: ₹50 on application and ₹ 44 on allotment.
Record necessary journal entries for issue of debentures.

Question 6 (ICAI Study Material) Pg no.______

Country Crafts Ltd. issued 1,00,000, 8% debentures of ₹ 100 each at premium of 5% payable fully on application and redeemable at premium of ₹ 10.
Pass necessary journal entries at the time of issue.

Question 7 (ICAI Study Material) Pg no.______

Koinal Chemicals Ltd. issued 20,00,000, 10% debentures of ₹50 each at premium of 10%, payable as ₹ 20 on application and balance on allotment. Debentures are redeemable at par after 6 years. All the money due on allotment was called up and received. Record necessary entries when premium money is included in allotment money.

Question 8 (ICAI Study Material) Pg no.______

Kapil Ltd. issued 50,000, 12% Debentures of ₹100 each at a premium of 10% payable in full on application by 1st March, 2023. The issue was fully subscribed and debentures were allotted on 9th March, 2023. Pass necessary Journal Entries (including cash transactions).

Question 9 (RTP Nov 2019) / (RTP May 2021) (Similar) Pg no.______

Pihu Ltd. issued 50,00,000, 9% debentures of ₹ 100 each at a discount of 10% redeemable at par at the end of 10th year. Money was payable as follows:
₹ 40 on application & ₹ 50 on allotment
You are required to give necessary journal entries regarding issue of debenture

Question 10 (RTP Nov 2018) / (RTP Nov 2020) / (RTP Sep 2024) Pg no.______

A Ltd. issued 3,50,000, 12% Debentures of ₹100 each at par payable in full on application by 1st April, Application were received for 3,85,000 Debentures. Debentures were allotted on 7th April. Excess money refunded on the same date.
You are required to prepare necessary Journal Entries (including cash transactions) in the books of the company.

Question 11 (ICAI Study Material) Pg no.______

X Ltd. issued 1,00,000 12% Debentures of ₹100 each at a discount of 10% payable in full on application by 31st May, 2023. Applications were received for 1,20,000 debentures. Debentures were allotted on 9th June, 2023. Excess money was refunded on the same date.
Pass necessary Journal Entries. Also show necessary ledger accounts.

Question 12 (ICAI Study Material) Pg no.______

X Ltd. obtains a loan from IDBI of ₹ 1,00,00,000, giving as collateral security of ₹ 1,50,00,000 (of ₹10 each), 14%, First Mortgage Debentures. Pass journal entries & show balance sheet extract as per both approaches.

Question 13 - (ICAI Study Material) Pg no.______

HDC Ltd issues 1,00,000, 12% Debentures of ₹100 each at ₹94 on 1st January,2022. Under the terms of issue, the debentures are redeemable at the end of 5 years from the date of the issue. Calculate the amount of discount to be written-off in each of the 5 years.

Question 14 (CA Foundation Nov 2018) (5 Marks)/(RTP May 2020)/(Nov 2022)(Similar) 'g no.______

Pure Ltd. issues 1,00,000 12% debentures of ₹ 10 each at ₹ 9.40 on 1st January,2021. Under the terms of issue the debentures are redeemable at the end of 5 years from the date of issue. Calculate the amount of discount to be written off in each of the 5 years.

Question 15 Pg no.______

X Ltd. issued 10,000 12% debentures of ₹ 100 each at a discount of 5%. These debentures are redeemable at a premium of 10 % after 5 years.
You are required to show:
a) Journal entry on issue of the debentures; and
b) The loss on issue of debentures account over the period.

Question 16 Pg no.______

A company issued 12% debentures of the face value of ₹ 2,00,000 at 10% discount on 1st January, 2020. Debenture Interest after deducting tax at source @ 10% was payable on 30th June and 31st December every year. All the debentures were to be redeemed after the expiry of 5 years period at 5% premium. Pass the necessary journal entries for the year 2020.

Question 17 (CA Foundation May 2019) (5 Marks) / (RTP Nov 2023) Pg no.______

On 1st January 2020·Ankit Ltd. issued 10% debentures of the face value of ₹ 20,00,000 at 10% discount. Debenture interest after deducting tax at source @10% was payable on 30th June and 31st December every year. All the debentures were to be redeemed after the expiry of five year period at 5% premium.

Pass necessary journal entries for the accounting year 2020.

Question 18 (CA Foundation Nov 2020) (5 Marks) Pg no.______

Y Company Limited issue 10,000 12% Debentures of the nominal value of ₹ 60,00,000 as follows:

(i) To a vendor for purchase of fixed assets worth ₹ 13,00,000 – ₹ 15,00,000 nominal value.

(ii) To sundry persons for cash at 90% of nominal value of ₹ 30,00,000.

(iii) To the banker as collateral security for a loan of ₹ 14,00,000 – ₹ 15,00,000 nominal value

You are required to pass necessary Journal Entries.

Question 19 (RTP Nov 2021) Pg no.______

Avantika Ltd. purchased machinery worth ₹9,90,000 from Avneet Ltd. The payment was made by issue of 10% debentures of ₹100 each. Pass the necessary journal entries for the purchase of machinery and issue of debentures when:

(i) Debentures are issued at par

(ii) Debentures are issued at 20 % discount and

(iii) Debentures are issued at 20% premium

Unit 4: ACCOUNTING FOR BONUS ISSUE & RIGHT ISSUE

CH 11D

"Everything is easy when you are busy...!! Nothing is easy when you are lazy...!! You are born to success..."

BONUS ISSUE

Means issue of additional shares to existing shareholders free of cost in proportion to their existing holding.

Section 63(1) A company may issue fully paid-up bonus shares to its shareholders out of—

- its free reserves;
- the securities premium account; or
- the capital redemption reserve account:

Bonus shares should not be issued out of revaluation reserves (i.e., reserves created by the revaluation of assets).

Section 63(2) provides that no company shall capitalize its profits or reserves for the purpose of issuing fully paid-up bonus shares under sub-section (1), unless—

(a) it is authorised by its articles;
(b) it has on the recommendation of Board been authorised in the general meeting of company
(c) it has not defaulted in payment of interest or principal in respect of fixed deposits or debt securities issued by it;
(d) it has not defaulted in respect of the payment of statutory dues of the employees, such as, contribution to provident fund, gratuity and bonus;
(e) the partly paidup shares, if any outstanding on the date of allotment, are made fully paidup.

The company which has once announced the decision of its Board recommending a bonus issue, shall not subsequently withdraw the same.

Section 63(3) provides that the bonus shares shall not be issued in lieu of dividend.

As per Para 39 (i) of Table F under Schedule I to the Companies Act, 2013, a company can utilize free reserves which are available for distribution of dividend, for the purpose of converting partly paid shares into fully paid up.

A Securities Premium A/c and a Capital Redemption Reserve A/c may only be applied in the paying up of unissued shares to be issued to members of the company as fully paid bonus shares. In other words, Securities premium A/c and capital redemption reserve cannot be applied towards payment of unpaid amount on any shares held by existing shareholders.

SEBI Regulations (Issue of Capital & Disclosure Requirements), 2018 Regulation 294- Restrictions on bonus issue
➢ An issuer shall make a bonus issue of equity shares only if it has made reservation of equity shares of the same class in favour of the holders of outstanding compulsorily convertible debt instruments if any, in proportion to the convertible part thereof. ➢ They shall be issued at the time of conversion of such instruments on the same terms or proportion at which the bonus shares were issued. ➢ A bonus issue shall be made only out of free reserves, securities premium account or capital redemption reserve account and built out of the genuine profits or securities premium collected in cash and reserves created by revaluation of fixed assets shall not be capitalised for this purpose. ➢ The bonus share shall not be issued in lieu of dividend

Bonus issue has following major effects:

- Share capital gets increased according to the bonus issue ratio.
- Effective Earnings per share, Book Value and other per share values stand reduced.
- Markets take the action usually as a favourable act.
- Market price gets adjusted on issue of bonus shares.
- Accumulated profits get reduced.

RIGHT ISSUE

It is an issue of rights to company's existing shareholders that entitles them to buy additional shares directly from the company in proportion to their existing holdings, within a fixed time period. In a rights offering, the subscription price at which each share may be purchased is generally at a discount to the current market price.

❖ *Rights are often transferable, allowing the holder to sell them in the open market.*

❖ *The difference between cum-right and ex-right value of the share is the value of the right.*

In a situation where existing shareholder does not intend to subscribe to the rights issue of a company, he may give up his right in favour of another person for a consideration. Such giving up of rights is called renunciation of rights.

Advantages of Right Issue
➢ Right issue <u>enables the existing shareholders to maintain their proportional holding</u> in the company and retain their financial and governance rights. ➢ It works as a <u>deterrent to the management</u>, which may like to issue shares to known persons with a view to have a better control over the company's affairs. ➢ Right issue is a natural <u>hedge against the issue expenses</u> normally incurred by the company in relation to public issue. ➢ Right issue has an <u>image enhancement</u> effect, as public & shareholders view it positively ➢ The <u>chance of success</u> of a right issue is better than that of a general public issue and is logistically much easier to handle.
Disadvantages of Right Issue
➢ The right issue invariably leads to <u>dilution in market value</u> of the share of the company. ➢ The <u>attractive price</u> of the right issue should be <u>objectively assessed against its true worth</u> to ensure that you get a bargained deal.

Right issue has following major effects:

- Maintenance of existing shareholders' proportional holding in company and retain their financial and governance rights.
- Dilution in the value of share.
- Image enhancement
- Convenience in handling issue

Exceptions to the rights of existing equity shareholders

Section 62 recognises four situations under which the further shares are to be issued by a company, but they need not be offered to the existing shareholders provided the company has passed a special resolution and shares are offered accordingly.

<u>**Situation 1**</u> To employees under a scheme of employees' stock option subject to certain specified conditions

Situation 2 To any person either for cash or for consideration other than cash, if price of such shares is determined by valuation report of registered valuer subject to certain conditions.

Situation 3 Sometimes companies borrow money through debentures / loans and give their creditor an option to buy equity shares of a company.

Situation 4 It is a special situation where the loan has been obtained from government, and government in public interest, directs the debentures/loan to be converted into equity shares.

ASSIGNMENT QUESTIONS

TOPIC 1: BONUS ISSUE

Question 1 *(ICAI Study Material)* Pg no.______

Following items appear in trial balance of Bharat Ltd (listed company) as on 31st March, 2023

40,000 Equity shares of ₹ 10 each	4,00,000
Capital Redemption Reserve	55,000
Securities Premium (collected in cash)	30,000
General Reserve	1,05,000
Surplus i.e. credit balance of Profit and Loss Account	50,000

The company decided to issue to equity shareholders bonus shares at the rate of 1 share for every 4 shares held and for this purpose, it decided that there should be the minimum reduction in free reserves. Pass necessary journal entries.

Question 2 *(CA Inter July 2021) (5 Marks)* Pg no.______

Following is the extract of the Balance Sheet of K Ltd (listed company) as at 31st March, 2023

Authorized capital:	**₹**
3,00,000 Equity shares of ₹ 10 each	30,00,000
	30,00,000
Issued and Subscribed capital:	
2,00,000 Equity shares of ₹ 10 each, ₹ 8 paid up	16,00,000
Reserves and surplus:	
General Reserve	3,60,000
Capital Redemption Reserve	1,20,000
Securities premium (not realised in cash)	75,000
Profit and Loss Account	6,00,000

On 1st April, 2023, the Company has made final call @ ₹ 2 each on 2,00,000 equity shares. The call money was received by 25th April, 2023. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held.

Show necessary entries in the books of the company and prepare the extract of the Balance Sheet immediately after bonus issue.

Question 3 *(MTP Jan 2025)* Pg no.______

Following is the extract of the Balance Sheet of Substance Ltd. as at 31st March, 2024

Authorised capital :	
45,000 12% Preference shares of ₹ 10 each	4,50,000
4,50,000 Equity shares of ₹ 10 each	45,00,000
	49,50,000
Issued and Subscribed capital:	
36,000 12% Preference shares of ₹ 10 each fully paid	3,60,000
4,05,000 Equity shares of ₹ 10 each, ₹ 8 paid up	32,40,000
Reserves and Surplus :	
General reserve	5,40,000
Capital reserve (profit realised on sale of plant)	1,80,000
Securities premium (collected in cash)	1,12,500
Profit and Loss Account	9,00,000

On 1st April, 2024, the Company has made final call @ ₹ 2 each on 4,05,000 equity shares. The call money was received by 20th April, 2024. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held. Company decides to use Capital Reserve for bonus issue as it has been realised in cash.
Show necessary journal entries in the books of the company and prepare the extract of the balance sheet as on 30th April, 2024 after bonus issue.

Question 4 *(ICAI Study Material)*

Pg no.______

The following notes pertain to Brite Ltd.'s Balance Sheet as on 31st March, 2023:

Note	Particulars	Amount (In Lacs)
Note 1	Share Capital: Authorised:	
	20 crore shares of ₹ 10 each	20,000
	Issued and Subscribed:	
	10 crore Equity Shares of ₹ 10 each	10,000
	2 crore 11% Cumulative Preference Shares of ₹ 10 each	2,000
	Total	**12,000**
	Called and paid up:	
	10 crore Equity Shares of ₹ 10 each, ₹ 8 per share called and paid up	8,000
	2 crore 11% Cum. Preference Shares of ₹ 10 each, fully called & paid up	2,000
		10,000
Note 2	Reserves and Surplus:	
	Capital Redemption Reserve	1,485
	Securities Premium (collected in cash)	2,000
	General Reserve	1,040
	Surplus i.e. credit balance of Profit & Loss Account	273
		4,798

On 2nd April 2023, the company made the final call on equity shares @ ₹ 2 per share. The entire money was received in the month of April, 2023.
On 1st June 2023, the company decided to issue to equity shareholders bonus shares at the rate of 2 shares for every 5 shares held. Pass journal entries for all the above mentioned transactions. Also prepare the notes on Share Capital and Reserves and Surplus relevant to the Balance Sheet of the company immediately after the issue of bonus shares

Question 5 *(ICAI Study Material)*

Pg no.______

Following is the extract of the Balance Sheet of Solid Ltd. as at 31st March, 2023:

Authorized capital :	
10,000 12% Preference shares of ₹ 10 each	1,00,000
1,00,000 Equity shares of ₹ 10 each	10,00,000
	11,00,000
Issued and Subscribed capital:	
8,000 12% Preference shares of ₹ 10 each fully paid	80,000
90,000 Equity shares of ₹ 10 each, ₹ 8 paid up	7,20,000
Reserves and Surplus :	
General reserve	1,60,000
Revaluation reserve	35,000
Securities premium (collected in cash)	20,000
Profit and Loss Account	2,05,000
Secured Loan:	
12% Debentures @ ₹ 100 each	5,00,000

On 1st April, 2023 the Company has made final call @ ₹ 2 each on 90,000 equity shares. The call money was received by 20th April, 2023. Thereafter the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held.
Show necessary entries in the books of the company and prepare the extract of the Balance Sheet immediately after bonus issue assuming that the company has passed necessary resolution at its general body meeting for increasing the authorised capital.

Question 6 — Pg no.______

Following items appear in the Trial Balance of X Ltd. as at 31st March 2023:

	₹
Authorised capital: 3,00,000 equity shares of ₹ 10 each	30,00,000
Issued and subscribed capital: 80,000 Equity Shares of ₹ 10 each, ₹ 7.50 paid up 1,20,000 Equity Shares of ₹ 10 each	 6,00,000 12,00,000
Capital Redemption Reserve	2,60,000
Revaluation Reserve	20,000
Securities Premium Account	1,20,000
General Reserve	2,00,000
Profit & Loss Account	1,00,000
Capital Reserve (including ₹ 50,000 being profit on sale of machinery)	1,50,000

The company decided to convert the partly paid equity shares into fully paid shares by way of bonus and to issue fully paid-up bonus shares to the holders of fully paid up shares in the same ratio.
You are required to pass journal entries assuming that there should be minimum reduction in free reserves.

TOPIC 2: RIGHT ISSUE

Question 7 *(RTP May 2019) / (ICAI Study Material)* — Pg no.______

A company offers new shares of ₹ 100 each at 25% premium to existing shareholders on one for four bases. The cum-right market price of a share is ₹ 150.
Calculate the value of a right. What should be the ex-right market price of a share?

Question 8 — Pg no.______

A Company having 70,000 shares of ₹ 10 each as its issued share capital and having market value of ₹ 21 issues rights shares in the ratio of 1:10 at an issue price of ₹ 10.
Pass journal entry for issue of right shares

Question 9 *(RTP May 2021)* — Pg no.______

Beta Ltd. having share capital of 20,000 equity shares of 10 each decides to issue rights share at the ratio of 1 for every 8 shares held at par value.
Assuming all the share holders accepted the rights issue and all money was duly received, pass journal entry in the books of the company.

Question 10 *(ICAI Study Material)* — Pg no.______

Following notes pertain to the Balance Sheet of Mars Company Limited as at 31st March 2023:

	₹
Authorised capital:	
50,000 12% Preference shares of ₹ 10 each	5,00,000
5,00,000 equity shares of ₹ 10 each	50,00,000
	55,00,000
Issued and subscribed capital:	
50,000 12% Preference shares of ₹ 10 each	5,00,000
4,00,000 Equity Shares of ₹ 10 each, ₹ 8 paid up	32,00,000
Reserves & Surplus	
General Reserve	1,60,000
Capital Redemption Reserve	2,40,000
Securities Premium Account (collected in cash)	2,75,000
Revaluation Reserve	1,00,000
Profit & Loss Account	16,00,000

On 1st April, 2023, the Company has made final call @ ₹ 2 each on 4,00,000 equity shares. The call money was received by 25th April, 2023. Thereafter, on 1st May 2023 the company decided to capitalise its reserves by way of bonus at the rate of one share for every four shares held, it decided that there should be minimum reduction in free reserves.

On 1st June 2023, the Company issued Rights shares at the rate of two shares for every five shares held on that date at issue price of ₹ 12 per share. All the rights shares were accepted by the existing shareholders and the money was duly received by 20th June 2023.

Show necessary journal entries in the books of the company for bonus issue and rights issue.

PRACTICE QUESTIONS

MULTIPLE CHOICE QUESTIONS

1) Which of the following cannot be used for issue of bonus shares as per the Companies Act?
   (a) Securities premium account
   (b) Revaluation reserve
   (c) Capital redemption reserve

2) Which of the following statements is true with regard to declaring and issuing of Bonus Shares?
   (a) Assets are transferred from the company to the shareholders.
   (b) A Bonus issue results in decrease in reserves and surplus.
   (c) A Bonus issue is same as declaration of dividends.

3) Which of the following statement is true in case of bonus issue?
   (a) Convertible debenture holders will get bonus shares in same proportion as to the existing shareholders.
   (b) Bonus shares may be issued to convertible debenture holders at the time of conversion of such debentures into shares.
   (c) Both (a) and (b).

4) Bonus issue is also known as
   (a) Scrip issue.
   (b) Capitalisation issue.
   (c) Both (a) and (b).

5) The bonus issue is not made unless
   (a) Partly paid shares are made fully paid up.
   (b) It is provided in its articles of association
   (c) Both (a) and (b).

6) Bonus issue has the following effect
   (a) Market price gets adjusted on issue of bonus shares.
   (b) Effective Earnings per share, Book Value and other per share values stand increased.
   (c) Markets generally take the action as an unfavourable act.

7) ABC Co. Ltd resolved to issue bonus shares. Which of the following is not a pre-requisite for issuance of bonus shares?
   (a) Authorization in Articles of Association.
   (b) Timely Payment of statutory dues of employees such as PF, Gratuity etc.
   (c) Sufficient balance in bank account of company.

8) In case of further issue of shares, the right to renounce the shares in favour of a third party
   (a) Must include a right exercisable by the person concerned to renounce the shares;
   (b) Should include a right exercisable by the person concerned to renounce the shares;
   (c) Is deemed to include a right exercisable by the person concerned to renounce the shares (subject to the provisions under the articles of the company).

9) A company's share's face value is ₹10, book value is ₹20, Right issue price is ₹30 and Market price is ₹40, while recording the issue of right share, the securities premium will be credited with
   (a) ₹10
   (b) ₹20
   (c) ₹30

10) A. Right shares enable existing shareholders to maintain their proportional holding in the company.
   B. Right share issue does not cause dilution in the market value of the share.
   Which of the option is correct?
   (a) A-Correct; B Correct
   (b) A – Incorrect; B Correct
   (c) A - Correct; B – Incorrect

11) Ex-Rights price can be calculated by which of these formulas?
   (a) (Cum rights value of the existing shares + Rights share issue proceeds)/ (existing number of shares + No. of right shares).
   (b) (Cum rights value of the existing shares + Rights share issue proceeds) X (existing number of shares + No. of right shares).
   (c) (Cum rights value of the existing shares - Rights share issue proceeds)/ (existing number of shares – No. of right shares).

ANSWERS MCQs

1. (b) 2. (b) 3. (c) 4. (c) 5. (c) 6. (a) 7. (c) 8. (c) 9. (b) 10. (c) 11. (a)

TRUE / FALSE

State with reasons whether the following statement is true or false:

1) Earning per share gets increased after bonus issue.
2) Issued share capital including issue of rights shares and bonus shares may be more than the Authorised capital.
3) Rights issue of shares results in decrease of market value of per share in comparison to market price before rights issue.
4) Right shares are normally offered at a price more than the cum-right value of the share, causing dilution in its value post-right issue.

Solution

1) **False**: Earnings per share gets decreased after bonus issue.
2) **False**: Issued share capital including issue of rights shares and bonus shares is always less than or equal to Authorised capital.
3) **True**: Rights issue of shares results in decrease of market value of per share in comparison to market price before rights issue.
4) **False**: Right shares are normally offered at a price less than the cum-right value of the share, causing dilution in its value post-right issue.

HOMEWORK QUESTIONS

TOPIC 1: BONUS ISSUE

Question 1 *(ICAI Study Material)* Pg no.______

Following items appear in the trial balance of Saral Ltd. as on 31st March, 2023:

4,500 Equity shares of ₹ 100 each	4,50,000
Securities Premium (collected in cash)	40,000
Capital Redemption Reserve	70,000
General Reserve	1,05,000
Profit and Loss Account (Cr. Balance)	65,000

The company decided to issue to equity shareholders bonus shares at the rate of 1 share for every 3 shares held. Company decided that there should be the minimum reduction in free reserves. Pass necessary Journal Entries in the books of Saral Ltd.

Question 2 *(RTP May 2023)* Pg no.______

Following items appear in the Trial Balance of Satish Limited as on 31st March, 2023:

9,000 Equity shares of ₹ 100 each	9,00,000
Capital Reserves (including ₹ 80,000 being profit on sale of plant)	1,80,000
Securities Premium	80,000
Capital Redemption Reserve	60,000
General Reserve	2,10,000
Profit and Loss Account (Cr. Balance)	1,30,000

The company decided to issue bonus shares to equity shareholders at the rate of 1 share for every 3 shares held. Company decided that there should be the minimum reduction in free reserves. Pass necessary Journal Entries in the books of Satish Ltd.

Question 3 *(CA Inter Nov 2019) (5 Marks) / (RTP Sep 2024)* Pg no.______

Following is the extract of Balance Sheet of Prem Ltd. as at 31st March, 2023:

	₹
Authorized capital:	
3,00,000 equity shares of ₹ 10 each	30,00,000
25,000,10% preference shares of ₹ 10 each	2,50,000
	32,50,000
Issued and subscribed capital:	
2,70,000 equity shares of ₹ 10 each fully paid up	27,00,000
24,000, 10% preference shares of ₹10 each fully paid up	2,40,000
	29,40,000
Reserves and surplus:	
General reserve	3,60,000
Capital redemption reserve	1,20,000
Securities premium (collected in cash)	75,000
Profit and loss account	6,00,000
	11,55,000

On 1st April, 2023, the company decided to capitalize its reserves by way of bonus at the rate of two shares for every five shares held.

Show necessary journal entries in the books of the company and prepare the extract of the balance sheet after bonus issue.

Question 4 *(ICAI Study Material)* — Pg no.______

Following is the extract of the Balance Sheet of Preet Ltd. as at 31st March, 2023

Authorised capital : 15,000 12% Preference shares of ₹ 10 each 1,50,000 Equity shares of ₹ 10 each	 1,50,000 15,00,000 16,50,000
Issued and Subscribed capital: 12,000 12% Preference shares of ₹ 10 each fully paid 1,35,000 Equity shares of ₹ 10 each, ₹ 8 paid up	 1,20,000 10,80,000
Reserves and Surplus : General reserve Capital Redemption reserve Securities premium (collected in cash) Profit and Loss Account	 1,80,000 60,000 37,500 3,00,000

On 1st April, 2023, the Company has made final call @ ₹ 2 each on 1,35,000 equity shares. The call money was received by 20th April, 2023. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held.

Show necessary journal entries in the books of the company and prepare the extract of the balance sheet as on 30th April, 2023 after bonus issue.

Question 5 *(ICAI Study Material) / (RTP M18/N19/N20/M21/N21/N23) (Similar)* — Pg no.______

Following notes pertain to the Balance Sheet of Manoj Ltd. as at 31st March, 2023

Authorized capital: 30,000 12% Preference shares of ₹ 10 each 3,00,000 Equity shares of ₹ 10 each	 3,00,000 30,00,000 33,00,000
Issued and Subscribed capital: 24,000 12% Preference shares of ₹ 10 each fully paid 2,70,000 Equity shares of ₹ 10 each, ₹ 8 paid up	 2,40,000 21,60,000
Reserves and Surplus : General reserve Capital Redemption reserve Securities premium (collected in cash) Profit and Loss Account	 3,60,000 1,20,000 75,000 6,00,000

On 1st April, 2023, the Company has made final call @ ₹ 2 each on 2,70,000 equity shares. The call money was received by 20th April, 2023. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held.

Show necessary journal entries in the books of company and prepare the extract of the balance sheet as on 30th April, 2023 after bonus issue.

Question 6 *(RTP Nov 2018) / (RTP May 2019)* — Pg no.______

Following is the extract of the Balance Sheet of Xeta Ltd. as at 31st March, 2023

Authorized capital : 50,000 12% Preference shares of ₹ 10 each 4,00,000 Equity shares of ₹ 10 each	 5,00,000 40,00,000 45,00,000
Issued and Subscribed capital: 24,000 12% Preference shares of ₹ 10 each fully paid 2,70,000 Equity shares of ₹ 10 each, ₹ 8 paid up	 2,40,000 21,60,000

Reserves and Surplus :	
General reserve	3,60,000
Securities premium	1,00,000
Profit and Loss Account	6,00,000

On 1st April, 2023, the Company has made final call @ ₹ 2 each on 2,70,000 equity shares. The call money was received by 20th April, 2023. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held. Show necessary journal entries in the books of the company and prepare the extract of the balance sheet as on 30th April, 2023 after bonus issue

Question 7 *(CA Inter May 2018) (5 Marks) / (RTP June 2024)* Pg no.______

Following are the balances appear in the trial balance of Arya Ltd. as at 31st March, 2023.

	Amount
Issued and Subscribed Capital:	
10,000; 10% Preference Shares of ₹ 10 each fully paid	1,00,000
1,00,000 Equity Shares of ₹ 10 each ₹ 8 paid up	8,00,000
Reserves and Surplus:	
General Reserve	2,40,000
Securities Premium (collected in cash)	25,000
Profit and Loss Account	1,20,000

On 1st April, 2023 the company has made final call @ ₹ 2 each on 1,00,000 Equity Shares. The call money was received by 15th April, 2023. Thereafter the company decided to issue bonus shares to equity shareholders at the rate of 1 share for every 5 shares held and for this purpose, it decided that there should be minimum reduction in free reserves.
Pass Journal entries.

Question 8 *(CA Inter Jan 2021) (5 Marks)* Pg no.______

Following items appear in the Trail Balance of Star Ltd. as on 31st March, 2023:

	₹
80,000 equity shares of ₹ 10 each, ₹ 8 paid-up	6,40,000
Capital Reserve (including ₹ 45,000 being profit on sale of Machinery)	1,10,000
Revaluation Reserve	80,000
Capital redemption reserve	75,000
Securities premium	60,000
General reserve	2,10,000
Profit and loss account (Cr. Balance)	1,00,000

On 1st April, 2023, the Company has made final call on Equity shares @ ₹ 2 per share. The entire money was received in the month of April, 2021. On 1st June, 2023, the Company decided to issue to Equity shareholders bonus shares at the rate of 2 shares for every 5 shares held and for this purpose, it was decided that there should be minimum reduction in free reserves. Pass necessary journal entries in the Books of Star Ltd.

Question 9 *(ICAI Study Material) / (RTP Nov 2022) (Similar)* Pg no.______

Pass Journal Entries in the following circumstances:

(i) A Limited company with subscribed capital of ₹ 5,00,000 consisting of 50,000 Equity shares of ₹ 10 each; called up capital ₹ 7.50 per share. A bonus of ₹ 1,25,000 declared out of General Reserve to be applied in making the existing shares fully paid up.

(ii) A Limited company having fully paid up capital of ₹ 50,00,000 consisting of Equity shares of ₹ 10 each, had General Reserve of ₹ 9,00,000. It was resolved to capitalize ₹ 5,00,000 out of General Reserve by issuing 50,000 fully paid bonus shares of ₹ 10 each, each shareholder to get one such share for every ten shares held by him in the company.

Question 10 ***(CA Inter May 2023) (5 Marks)*** ***Pg no.______***

Storek Limited has a subscribed capital of ₹ 21,00,000 in Equity Share Capital consisting of 1,50,000 shares of ₹ 10 each fully paid and 1,00,000 shares of ₹ 10 each, called up capital ₹ 6 per share. On 01.04.2023 the company decides to convert the partly paid-up shares into fully paid-up shares by way of bonus issue and holders of fully paid-up shares are also allotted fully paid-up bonus share in the same ratio.

The following figures appear in trial balance of Storek Limited as on 31.03.2023:

	(₹)
Capital Redemption Reserve	80,000
Capital Reserve	1,00,000
Securities Premium	2,20,000
General Reserve	12,50,000
Surplus (credit balance in Profit & Loss Account)	2,40,000

Securities Premium Account includes a premium of ₹ 75,000 for shares issued to vendors pursuant to a scheme of absorption. It was decided that there should be minimum reduction in free reserves. You are required to pass necessary Journal Entries.

Question 11 ***(RTP May 2022)*** ***Pg no.______***

Mobile Limited has authorized share capital of 1,00,000 equity shares @ ₹ 10 each. The company has already issued 60% of its capital for cash. Now the company wishes to issue bonus shares in the ratio 1:5 to its existing shareholders. The following is the status of Reserve and Surplus of the company:

	₹
General Reserve	₹ 1,60,000
Plant Revaluation Reserve	₹ 25,000
Securities Premium Account (Realised in cash)	₹ 60,000
Capital Redemption Reserve	₹ 80,000

Answer the following questions:

a) What is the number of Bonus shares to be issued?
b) Can company issue Bonus out of General Reserve only?
c) Give Journal Entries & also give the extracts of balance sheet after such Bonus issue.

Is it possible for the company to issue partly paid-up bonus shares?

TOPIC 2: RIGHT ISSUE

Question 12 ***(RTP Nov 18/22/23) (Similar) / (RTP May 2020) / (ICAI Study Material)*** ***Pg no.______***

A company has decided to increase its existing share capital by making rights issue to its existing shareholders. The company is offering one new share for every two shares held by the shareholder. The market value of the share is ₹ 240 and the company is offering one share of ₹ 120 each. Calculate the value of right. What should be the ex-right market price of share?

Question 13 ***(RTP May 2018) / (RTP Nov 2020) / (RTP May 2021)*** ***Pg no.______***

Omega company offers new shares of ₹ 100 each at 25% premium to existing shareholders on the basis one for five shares. The cum-right market price of a share is ₹ 200.
You are required to calculate the (i) Ex-right value of a share; (ii) Value of a right share?

Question 14 ***(RTP Nov 2019) / (RTP Nov 2021)*** ***Pg no.______***

Omega company offers new shares of ₹ 100 each at 20% premium to existing shareholders on the basis of one for four shares. The cum-right market price of a share is ₹ 190.
You are required to calculate the Value of a right share.

Question 15 *(RTP May 2023)* **Pg no._____**

A company having 100,000 shares of ₹ 10 each as its issued share capital, and having a market value of ₹ 46, issues rights shares in the ratio of 1:10 at an issue price of ₹ 31.
Calculate value of right & pass necessary journal entry in the books of company.

Question 16 *(ICAI Study Material)* **Pg no._____**

A Ltd company having share capital of 25,000 equity shares of ₹ 10 each decides to issue rights share at the ratio of 1 for every 4 shares held at par value.
Assuming all the shareholders accepted the rights issue and all money was duly received, pass journal entries in the books of the company.

Question 17 *(RTP May 2022)* **Pg no._____**

a) A company offers new right shares of ₹ 100 each at 20% premium to existing shareholders on one for four shares. The cum-right market price of a share is ₹ 140. You are required to calculate (i) Ex-right value of a share; (ii) Value of a right.
b) A company having 1,00,000 shares of ₹ 10 each as its issued share capital, and having a market value of ₹ 45 issues rights shares in the ratio of 1:5 at an issue price of ₹ 25. Pass journal entry for issue of right shares.

Question 18 *(CA Inter May 2022) (5 Marks)* **Pg no._____**

Following is the extract of the Balance Sheet of Sujata Foods Limited as at 31st March,2023:

Particulars	₹
Authorised Capital	
1,00,000 12% Preference shares of ₹ 10 each	10,00,000
5,00,000 Equity shares of ₹ 10 each	50,00,000
	60,00,000
Issued and Subscribed capital	
8,000 12% Preference shares of ₹ 10 each fully paid	80,000
90,000 Equity shares of ₹ 10 each, ₹ 8 paid up	7,20,000
Reserves and Surplus	
General Reserve	1,20,000
Capital Redemption Reserve	75,000
Securities Premium (Collected in cash)	25,000
Profit and Loss Account	2,00,000
Revaluation Reserve	80,000

On 1st April 2023, the company has made final call @ ₹ 2 each on 90,000 equity shares. The call money was received by 15th April,2023. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held, it also decided that there should be minimum reduction in free reserves.
On 1st June 2023, the Company issued right shares at the rate of two shares for every five shares held on that date at issue price of ₹ 12 per share. All the right shares were accepted by the existing shareholders and the money was duly received by 20th June,2023.
You are required to pass necessary journal entries in the books of the Sujata Foods Limited for bonus issue and rights issue.

Question 19 **(CA Foundation June 2024) (10 Marks)** Pg no.______

The following is the abstract of Balance Sheet Happy Ltd. as on 31st March,2024:

		₹
Issued and paid up capital		
90,000 Equity shares of ₹ 10 each fully paid up	9,00,000	
Less: Calls–in–arrear (10,000 Equity shares of ₹ 2 each)	(20,000)	8,80,000
40,000 Equity shares of ₹ 10 each, ₹ 4 paid up		1,60,000
Reserves and Surplus:		
Capital Reserve (realized in cash)		60,000
Capital Redemption Reserve		1,60,000
Securities Premium		1,00,000
General Reserve		1,20,000
Profit and Loss Account		7,00,000

On 1st April, 2024. The company makes final call @ 6 each on 40000 equity shares. The call money is duly received by 30th April,2024.

On 1st May, 2024 the Board of Directors of the company decided:

(i) To forfeit the share on which final call of ₹ 2 each is due:

(ii) To re- issue the forfeited share @₹ 11 each as fully paid up:

(iii) To issue fully paid bonus shares in the ratio of one fully paid bonus share for every two fully paid shares held; and

(iv) To use minimum balance of Profit and Loss Account.

Pass necessary journal entries in the books of the company on the basis of the above decisions.

Unit 5: REDEMPTION OF PREFERENCE SHARES

CH 11E

"Make schedule, Don't just stick it on your study table but work on it…"

1. **Redemption** of Preference Shares means repaying the Capital back to the Preference Shareholders, at an agreed amount at an agreed date.
2. The process of discharging the liability / obligation towards Preference Share Capital is called **redemption.** So, Redemption = Repayment of Capital during the lifetime of the Company.
3. Date of redemption is called **"Maturity Date"** and is usually printed on the Preference Share Certificate itself.

CONDITIONS TO BE FULFILLED FOR REDEMPTION OF PREFERENCE SHARES (SECTION 55 OF COMPANIES ACT, 2013)

<table>
<tr><td>Authorized by Articles</td><td colspan="2">The Articles of Association should contain a provision authorizing the Company to issue Redeemable Preference Shares (not exceeding 20 years from the date of issue)</td></tr>
<tr><td>Fully Paid</td><td colspan="2">Preference share Capital cannot be redeemed unless they are fully paid. If the Company has partly paid-up Preference Shares which are to be redeemed, they should be made fully paid before redeeming them.</td></tr>
<tr><td>Sourcing Redemption</td><td colspan="2">The Preference Shares can be redeemed only out of –
a) Fresh Issue: Proceeds of Fresh Issue of shares for purpose of redemption, & / or
b) Divisible Profits: Profits otherwise available for distribution as Dividend.</td></tr>
<tr><td>Capital Redemption Reserve</td><td colspan="2">If the Redemption is not sourced by Fresh Issue of Share Capital, then an amount equal to the Nominal Value of shares redeemed, to the extent not financed by fresh issue, should be transferred to Reserve called Capital Redemption Reserve (CRR).
<u>Amount to be transferred to CRR</u>
Face Value of Preference Shares to be redeemed
Less Face Value of Fresh Issue of Share Capital</td></tr>
<tr><td>Utilization of CRR</td><td colspan="2">The balance in CRR can be utilized only for the purpose of issuing Fully Paid Bonus Shares. It shall not be used for any other Purpose, e.g. distribution of dividend, etc.</td></tr>
<tr><td rowspan="2">Sourcing Premium on Redemption</td><td>Prescribed Companies & whose financial statements comply with AS (u/s 133)</td><td>Provided for out of the profits of the company before the shares are redeemed</td></tr>
<tr><td>Other Companies</td><td>Provided for out of the profits of the company or out of the company's securities premium account, before such shares are redeemed.</td></tr>
</table>

(i) **Out of Undistributed Profits, and (b) Out of Fresh Issue of Capital.**

Redemption of Preference Shares

Out of Capital (i.e. Out of Fresh Issue of Shares)	Out of Profit (i.e. Capitalization of Undistributed Profits)
(a) To raise finance for repaying the Preference Shareholders, Company can issue Equity Shares or Pref. Shares. (b) Such fresh issue can be made either at par, or at premium.	A company having surplus profits, can use these surplus funds for redemption of Preference Shares. In such a case, transfer to CRR is necessary.

Note:

1. A company may redeem its Preference Share Capital out of Capital and Profits, i.e. combination of above.
2. Redemption out of Capital means that the Company can issue either Equity Shares or Preference Shares. So, Preference Shares **cannot** be redeemed by fresh issue of **Debentures**

PURPOSE OF TRANSFER TO CRR

Retention of Capital	When Preference Shares are redeemed out of Profits, **replacement /** retention of Capital is ensured in an indirect manner, by transfer of profit to CRR. The amount, which would otherwise have been distributed as dividend, is now **retained** in the business, in the form of CRR, and this is subsequently converted into Equity Share Capital, by issuing Bonus Shares. Transfer to CRR creates non-distributed profits, and maintains the Capital Base of the Company
Protection of Outsiders Interest	The purpose of transfer to CRR is to ensure Capital Maintenance, and to protect the interests of Outsiders / Creditors of the Company. Transfer to CRR ensures that there is **no reduction in "Shareholders' Funds"** or Capital Base due to the redemption, and hence the interest of outsiders is not affected.

ACCOUNTING ENTRIES FOR REDEMPTION OF PREFERENCE SHARES

	Transaction	Journal Entries
1.	Calling unpaid portion of Preference Share Capital, if any	Redeemable Preference Share Final Call A/c Dr. To Redeemable Preference Share Capital A/c
2.	Receipt of Final Call Amount **[Also see Note below]**	Bank A/c Dr. To Redeemable Preference share final call A/c
3.	Fresh issue of Share Capital for the purpose of redemption	Bank A/c Dr. To Share Capital A/c (at Face value) To Securities Premium A/c (if at premium)
4.	Sale of Investments or Current Assets for raising funds for redemption	Bank A/c Dr. Profit and loss A/c (if sold at a loss) Dr. To Investment/ Current Assets A/c To Profit and loss A/c (if sold at profit)
5.	Transfer of preference share capital & premium on redemption (if any) to preference shareholders A/c	Redeemable Preference Share Capital A/c Dr. Premium on Redemption of Pref. Share Dr. To Preference shareholders A/c

6.	Transferring divisible profit to capital redemption reserve account	General Reserve A/c Dr. Profit and Loss A/c Dr. Other divisible profits A/c Dr. To Capital Redemption Reserve A/c (Nominal Value of PSC to be redeemed **Less** Nominal value of any fresh issue of share capital)
7.	Sourcing Premium payable on Redemption of Preference share	Profit and loss A/c Dr. General Reserve A/c Dr. To Premium on Redemption of Preference shares A/c
8.	Making Payment to Preference shareholders	Preference shareholders A/c Dr. To Bank A/c

Note: Non-Payment of Final Call:

1. If final Call is made on partly paid-up Preference Shares (as per Entry 1 above), but some Preference shareholders fail to pay the call amount due, those Preference Shares can be forfeited.
2. Such Forfeited Shares are **generally not re-issued,** since redemption of these Shares is due immediately or in the near future.

Conditions when company should issue new equity shares for redemption of pref. shares:

A company may prefer issue of new equity shares in the following situations:

(a) When the company realizes that the capital is needed permanently, and it makes more sense to issue Equity Shares in place of Redeemable Preference Shares which carry a fixed rate of dividend.

(b) When the balance of profit, which would otherwise be available for dividend, is insufficient.

(c) When the liquidity position of the company is not good enough.

Redemption of Preference shares by issue of fresh equity shares

Advantages:

(1) No cash outflow of money is required – now or later.

(2) New equity shares may be valued at a premium.

(3) Shareholders retain their equity interest.

Disadvantages:

(1) There will be dilution of future earnings;

(2) Share-holding in the company is changed.

Redemption of Preference shares by capitalization of undistributed divisible profits

Advantages:

(1) No change in the percentage of equity share-holding of the company;

(2) Surplus funds can be used.

Disadvantages:

(1) There may be a reduction in liquidity or assets may need to be sold such as investments.

Example 1: Preference Share Capital ₹ 2,00,000. New Issue 15,000 shares of 10 each.

Example 2: Preference Share Capital ₹ 2,00,000. New Issue 15,000 shares of 10 each @ 10% premium.

Example 3: Preference Share Capital ₹ 2,00,000. New Issue 30,000 shares of 10 each.

Example 4: Preference Share Capital ₹ 2,00,000. Premium on Redemption 10%.
New Issue 15,000 shares of 10 each @ 10 % premium.

Example 5: Preference Share Capital 2,500 shares of 100 each 80 paid up
New Issue 15,000 shares of 10 each.

Example 6: Preference Share Capital ₹ 4,00,000 Premium on Redemption 10%.
Free Reserves 2,60,000. Find equity shares to be issued FV= 10 each

Example 7: Preference Share Capital ₹ 65,000 Premium on Redemption 10%.
Free Reserves 48,000. P&L balance to be maintained 15,000.
Find equity shares to be issued FV= 50 each issued at a premium of 13 each.

Example 8: Preference Share Capital ₹ 2,00,000 Premium on Redemption 10%.
Existing bank balance 20,000. Investment sold for 27,500.
Minimum Bank Balance to be maintained 15,000.
Find equity shares to be issued FV= 10 each issued at 25% premium.

ASSIGNMENT QUESTIONS

Question 1 (ICAI Study Material) Pg no.______

C Ltd. had 10,000, 10% Redeemable Preference Shares of ₹ 100 each, fully paid up. The company decided to redeem these preference shares at par, by issue of sufficient number of equity shares of ₹ 10 each at a premium of ₹ 2 per share as fully paid up.
You are required to pass necessary Journal Entries including cash transactions in the books of the company.

Question 2 (ICAI Study Material) / (RTP May 2023) (Similar) Pg no.______

The Board of Directors of a Company decide to issue minimum number of equity shares of ₹ 9 to redeem ₹ 5,00,000 preference shares. The maximum amount of divisible profits available for redemption is ₹ 3,00,000.
Calculate the number of shares to be issued by the company to ensure that provisions of Section 55 are not violated. Also determine number of shares if company decides to issue shares in multiples of 50 only.

Question 3 (RTP Nov 2019) Pg no.______

The following are the extracts from the Balance Sheet of ABC Ltd. as on 31st December, 2021: Share capital: 50,000 Equity shares of ₹10 each fully paid – ₹5,00,000; 2,000 10% Redeemable preference shares of ₹100 each fully paid – ₹ 2,00,000. Reserve & Surplus: Capital reserve – ₹2,00,000; General reserve –₹ 2,00,000; Profit and Loss Account – ₹75,000.
On 1st January 2022, Board of Directors decided to redeem the preference shares at premium of 5% by utilization of reserves.
Pass Journal Entries including cash transactions in the books of company.

Question 4 (RTP May 2019)/(May 2020)/(Nov 2023) (Similar) / (ICAI Study Material) Pg no.______

The capital structure of a company consists of 20,000 Equity Shares of ₹ 10 each fully paid up and 1,000 8% Redeemable Preference Shares of ₹ 100 each fully paid up (issued on 1.4.2021). Undistributed reserve and surplus stood as: General Reserve ₹ 80,000; Profit and Loss Account ₹ 20,000; Investment Allowance Reserve out of which ₹ 5,000, (not free for distribution as dividend) ₹ 10,000; Securities Premium ₹ 2,000, Cash at bank amounted to ₹ 98,000.
Preference shares are to be redeemed at a Premium of 10% and for the purpose of redemption, the directors are empowered to make fresh issue of Equity Shares at par after utilizing the undistributed reserve and surplus, subject to the conditions that a sum of ₹ 20,000 shall be retained in general reserve and which should not be utilized.
Pass Journal Entries to give effect to the above arrangements.

Question 5 (ICAI Study Material) / (RTP May 2023) (Similar) Pg no.______

C Limited had 3,000, 12% Redeemable Preference Shares of ₹ 100 each, fully paid up. The company had to redeem these shares at a premium of 10%. It was decided by the company to issue the following:

a) 25,000 Equity Shares of ₹ 10 each at par,
b) 1,000 14% Debentures of ₹ 100 each.

The issue was fully subscribed and all amounts were received in full. The payment was duly made. The company had sufficient profits. Show Journal Entries in the books of the company.

Question 6 Pg no.______

The balance sheet of A Ltd. as on 31.12.2021 is given below:

EQUITIES & LIABILITIES	₹
Shareholder's Funds	
5,000 Equity Shares (₹ 100 each fully paid-up)	5,00,000
9% Redeemable Preference Shares (₹ 10 each fully paid-up)	2,00,000
Profit & Loss Account	1,60,000
Current Liabilities	1,20,000
	9,80,000
ASSETS	**₹**
Non-Current Assets	
Property, Plant & Equipment	4,00,000
Investments	2,00,000
Current Assets	
Bank balance	10,000
Other Current Assets	3,70,000
	9,80,000

On 1.1.2022 the company:

(a) Redeemed preference shares at a premium of ₹ 2 per share.
(b) Realized investments at a value of ₹ 1,60,000.
(c) Issued at a premium of ₹ 40 per share, such number of equity shares of ₹ 100 each for the purpose of redemption as to ensure that after the compliance with requirements of the Companies Act, 2013, the credit balance in Profit & Loss A/c would be ₹ 25,000.
(d) Issued of bonus equity share at par at the rate of 1 share for every 20 shares held on 31st December, 2021.

You are required to show journal entries to record the above transactions.

Question 7 *(ICAI Study Material)* Pg no.______

X Ltd. gives you the following information as at 31st March, 2023:

Particulars	₹
EQUITY AND LIABILITIES	
1. Shareholders' funds	
Share capital	2,90,000
Reserves and Surplus	48,000
2. Current liabilities	
Trade Payables	56,500
TOTAL	3,94,500
ASSETS	
Non Current Assets	
Property, Plant & Equipment & Intangible Assets	
Property, Plant & Equipment	3,45,000
Non Current Investments	18,500
2. Current Assets	
Cash and cash equivalents (bank)	31,000
TOTAL	**3,94,500**

The share capital of the company consists of ₹ 50 each equity shares of ₹ 2,25,000 and ₹ 100 each Preference shares of ₹ 65,000 (issued on 1.4.2021). Reserves and Surplus comprises Profit and Loss Account only.
In order to facilitate the redemption of preference shares at a premium of 10%, the Company decided:
a) to sell all the investments for ₹ 15,000.
b) to finance part of redemption from company funds, subject to, leaving a bank balance of ₹ 12,000.
c) to issue minimum equity share of ₹ 50 each to raise the balance of funds required.
You are required to pass the necessary Journal Entries to record the above transactions.

Question 8 *(ICAI Study Material)* Pg no.______

The books of B Ltd. showed the following balance on 31st December, 2023:
30,000 Equity Shares of ₹ 10 each fully paid; 18,000 12% Redeemable Preference Shares of ₹ 10 each fully paid; 4,000 10% Redeemable Preference Shares of ₹ 10 each, ₹ 8 paid up (all shares issued on 1st April, 2022).
Undistributed Reserve and Surplus stood as: Profit and Loss Account ₹ 80,000; General Reserve ₹ 1,20,000; Securities Premium Account ₹ 15,000 and Capital Reserve ₹ 21,000.
Preference shares are redeemed on 1st January, 2024 at a premium of ₹ 2 per share. The whereabouts of the holders of 100 shares of ₹ 10 each fully paid are not known.
For redemption, 3,000 equity shares of ₹ 10 each are issued at 10% premium. At the same time, a bonus issue of equity share was made at par, two shares being issued for every five held on that date out of the Capital Redemption Reserve Account. However, equity shares, issued for redemption are not eligible for bonus.
Show the necessary Journal Entries to record the transactions. (Ignore date column)

Question 9 Pg no.______

The following is the summarized balance sheet of XYZ Ltd.

EQUITIES & LIABILITIES		₹
50,000 Equity Shares (₹ 10 each)		5,00,000
1,000 Preference Shares (₹ 100 each)	1,00,000	
Less: Calls-in-Arrear (50 X 20)	(1,000)	99,000
Securities Premium Account		20,000
Profit & Loss Account		60,000
General Reserve		70,000
Non-Current Liabilities		-
Current Liabilities		1,51,000
		9,00,000
ASSETS		**₹**
Non-Current Assets		90,000
Current Assets		8,10,000
		9,00,000

The redeemable preference shares were redeemed on the following basis:
(1) Further 4,500 equity shares were issued at a premium of 10%.
(2) Of the 50 preference shares, holders of 40 shares paid the call money before the date of redemption. Balance 10 shares were forfeited for non-payment of calls before redemption. The forfeited shares were re-issued as fully paid on receipt of ₹ 500 before redemption.
(3) Preference shares were redeemed at a premium of 10%. All payments were made except to holders of 150 shares who cannot be traced. Show journal entries.

Question 10 *(ICAI Study Material)* **Pg no._____**

The Balance Sheet of XYZ Ltd. as at 31st December, 2021 *inter alia* includes the following:

50,000, 8% Preference Shares of ₹ 100 each, ₹ 70 paid up	35,00,000
1,00,000 Equity Shares of ₹ 100 each fully paid up	1,00,00,000
Securities Premium	5,00,000
Capital Redemption Reserve	20,00,000
General Reserve	50,00,000
Bank	15,00,000

Under the terms of their issue, the preference shares are redeemable on 31st March, 2022 at 5% premium. In order to finance the redemption, the company makes a rights issue of 50,000 equity shares of ₹ 100 each at ₹ 110 per share, ₹ 20 being payable on application, ₹ 35 (including premium) on allotment & the balance on 1st January, 2023. The issue was fully subscribed & allotment made on 1st March, 2022. The money due on allotment were received by 31st March, 2022.

The preference shares were redeemed after fulfilling the necessary conditions of Section 55 of the Companies Act, 2013.

You are asked to pass necessary Journal Entries (Ignore date column).

Question 11 *(ICAI Study Material)* **Pg no._____**

With the help of details in Question 10 above and further assuming that the Preference Shareholders holding 2,000 shares fail to make the payment for the final call made under Sec 55, you are asked to pass the necessary Journal Entries assuming that the shares in default are forfeited after giving proper notice. (Ignore date column).

Question 12 *(CA Inter Nov 2022) (5 Marks)* **Pg no._____**

Given below are extracts of Balance Sheet of Sea Chemicals Limited as on 31st March, 2022:

Particulars	Amount in ₹
9% Redeemable Preference Share Capital	10,00,000
Calls in arears (Redeemable Preference Shares)	20,000
General Reserve	7,00,000
Securities Premium	80,000

It is provided that:

a. Preference Shares are of 100 each fully-called, due for immediate redemption at a premium of 5%.
b. Calls-in-arrears are on account of final call on 1000 shares held by four members whose whereabouts are not known.
c. Balance of General Reserve and Securities Premium to be fully utilized for the purposes of redemption and the shortfall to be made good by issue of equity shares of ₹ 10 each at par.
d. The redemption of preference shares was duly carried out.

You are required to pass the necessary journal entries (narration not required) to give effect to the above redemption.

PRACTICE QUESTIONS

MULTIPLE CHOICE QUESTIONS

1) Securities premium cannot be used to _______.
(a) Issue bonus shares
(b) Redeem preference shares
(c) Write-off preliminary expenses

2) S Ltd. issued 2,000, 10% Preference shares of ₹ 100 each at par on 1.4.2021, which are redeemable at a premium of 10%. For the purpose of redemption, the company issued 1,500 Equity Shares of ₹ 100 each at a premium of 20% per share. At the time of redemption of Preference Shares, the amount to be transferred by the company to the Capital Redemption Reserve Account = ?
(a) ₹ 50,000
(b) ₹ 40,000
(c) ₹ 2,00,000

3) Which of the following cannot be used for the purpose of creation of capital redemption reserve account?
(a) Profit and loss account (credit balance)
(b) General reserve account
(c) Unclaimed dividend account

4) According to Section 52 of the Companies Act, 2013, the amount in the Securities Premium A/c cannot be used for the purpose of
(a) Issue of fully paid bonus shares
(b) Writing off losses of the company
(c) For purchase of own securities

5) Which of the following can be utilized for redemption of preference shares?
(a) The proceeds of fresh issue of equity shares
(b) The proceeds of issue of debentures
(c) The proceeds of issue of fixed deposit

6) Preference shares amounting to ₹ 2,00,000 (already issued on 1.4.2021) are redeemed at a premium of 5%, by issue of shares amounting to ₹ 1,00,000 at a premium of 10%. The amount to be transferred to capital redemption reserve = ?
(a) ₹ 1,05,000
(b) ₹ 1,00,000
(c) ₹ 2,00,000

ANSWERS MCQs

1. (b) 2. (a) 3. (c) 4. (b) 5. (a) 6. (b)

TRUE / FALSE

State with reasons whether the following statement is true or false:

1) When shares are redeemed by utilising distributable profit, an amount equal to the face value of shares redeemed is transferred to Capital Reserve account by debiting the distributable profit.
2) A company who prepares financial statements in compliance with Accounting Standards under Section 133 of the Companies Act, 2013, it cannot utilize securities premium for the purpose of providing for premium on the redemption of Redeemable Preference shares of the Company.
3) The balance in forfeited shares account can be used for transfer to capital redemption reserve account.
4) Capital redemption reserve cannot be used for writing off miscellaneous expenses and losses
5) For redemption of preference shares, proceeds from fresh issue of equity shares and debentures can be utilized. ***(Jan 2025)***

Solution

1) **False**: When shares are redeemed by utilising distributable profit, an amount equal to the face value of shares redeemed is transferred to Capital Redemption Reserve account by debiting the distributable profit.
2) **True**: A company who prepares financial statements in compliance with Accounting Standards under Section 133 of the Companies Act, 2013, it cannot utilize securities premium for the purpose of providing the premium on the redemption of redeemable preference shares.
3) **False**: The balance in Forfeited shares account cannot be used for transfer to capital redemption reserve account.
4) **True**: Capital redemption reserve cannot be used for writing off miscellaneous expenses and losses.
5) **False**: The redemption of preference shares can be done either from the proceeds of fresh issue of shares or by capitalisation of undistributed profit or combination of both. But the proceeds from issue of debentures cannot be utilised for the purpose of redemption of preference shares.

HOMEWORK QUESTIONS

Question 1 *(ICAI Study Material)* Pg no.______

Hinduja Company Ltd. had 5,000, 8% Redeemable Preference Shares of ₹ 100 each, fully paid up. The company decided to redeem these preference shares at par by the issue of sufficient number of equity shares of ₹ 10 each fully paid up at par. You are required to pass necessary Journal Entries including cash transactions in the books of the company.

Question 2 *(ICAI Study Material)* Pg no.______

G India Ltd. had 9,000 10% redeemable Preference Shares of ₹ 10 each, fully paid up. The company decided to redeem these preference shares at par by the issue of sufficient number of equity shares of ₹ 9 each fully paid up. You are required to pass necessary Journal Entries including cash transactions in the books of the company.

Question 3 *(ICAI Study Material)* Pg no.______

The following are the extracts from the Balance Sheet of ABC Ltd. as on 31st December, 2023.
Share capital: 40,000 Equity shares of ₹ 10 each fully paid - ₹ 4,00,000; 1,000 10% Redeemable preference shares of ₹ 100 each fully paid – ₹ 1,00,000.
Reserve & Surplus: Capital reserve – ₹ 50,000; Securities premium – ₹ 50,000; General reserve – ₹ 75,000; Profit and Loss Account – ₹ 35,000
On 1st January 2024, the Board of Directors decided to redeem the preference shares at par by utilisation of reserve. You are required to pass necessary Journal Entries including cash transactions in the books of the company.

Question 4 *(RTP May 2018) / (RTP Nov 2020) (Similar) / (RTP May 2021) (Similar)* Pg no.______

The following are the extracts from the Balance Sheet of ABC Ltd. as on 31st December, 2021:
Share capital: 50,000 Equity shares of ₹10 each fully paid – ₹5,00,000;
1,500 10% Redeemable preference shares of ₹100 each fully paid – ₹ 1,50,000.
Reserve & Surplus: Capital reserve – ₹1,00,000; General reserve –₹ 1,00,000; Profit and Loss Account – ₹75,000.
On 1st January 2022, the Board of Directors decided to redeem the preference shares at premium of 10% by utilization of reserves. You are required to prepare necessary Journal Entries including cash transactions in the books of the company.

Question 5 *(RTP Nov 2018)* Pg no.______

The following are the extracts from Balance Sheet of Meera Ltd. as on 31st December, 2021.
Share capital: 60,000 Equity shares of ₹10 each fully paid – ₹ 6,00,000; 1,500 10% Redeemable preference shares of ₹ 100 each fully paid – ₹1,50,000.
Reserve & Surplus: Capital reserve – ₹ 75,000; Securities premium – ₹ 75,000; General reserve – ₹ 1,12,500; Profit & Loss A/c – ₹ 62,500.
On 1st January 2022, the Board of Directors decided to redeem the preference shares at premium of 10% by utilisation of reserve. You are required to prepare necessary Journal Entries including cash transactions in the books of the company.

Question 6 *(CA Inter May 2018) (10 Marks) / (RTP Nov 2022) / (RTP June 2024) (Sim.)* Pg no.______

Dheeraj Limited had 5,000, 10% Redeemable Preference Shares of ₹ 100 each, fully paid up. The company had to redeem these shares at a premium of 10%.
It was decided by the company to issue the following:
(i) 40,000 Equity Shares of ₹ 10 each at par

(ii) 2,000 12% Debentures of ₹ 100 each.

The issue was fully subscribed and all accounts were received in full. The payment was duly made. The company had sufficient profits. Show journal entries in the books of the company.

Question 7 Pg no.______

Extract of ledger balances of Kalpana Ltd. as on 31st March, 2022 includes the following:

	₹
2,000, 12% Preference shares of ₹ 100 each, fully paid	2,00,000
Surplus	40,000
Securities Premium	12,000

Under the terms of issue, the preference shares are redeemable on 31st March, 2022 at a premium of 10%. The directors desire to make a minimum fresh issue of equity shares of ₹ 10 each at a premium of 5% for redemption purpose.

You are required to ascertain the amount of fresh issue to be made and pass necessary journal entries in the books of the company.

Question 8 (CA Inter Jan 2021) (12 Marks) / (RTP Nov 2021) (Similar) Pg no.______

The Capital structure of a company BK Ltd. consists of 30,000 Equity Shares of ₹ 10 each fully paid up and 2,000 9% Redeemable Preference Shares of ₹ 100 each fully paid up as on 31.03.2022. The other particulars as at 31.03.2022 are as follows:

	Amount (₹)
General Reserve	1,20,000
Profit & Loss Account	60,000
Investment Allowance Reserve (not free for distribution as dividend)	15,000
Cash at Bank	1,95,000

Preference Shares are to be redeemed at a premium of 10%. For the purpose of redemption, the directors are empowered to make fresh issue of Equity Shares at per after utilizing the undistributed reserve & surplus, subject to the conditions that a sum of ₹ 40,000 shall be retained in General Reserve and which should not be utilized.

Company also sold investment of 4500 Equity Shares in G Ltd., costing ₹ 45,000 at ₹ 9 per share. Pass Journal entries to give effect to the above arrangements and also show how the relevant items will appear in the Balance Sheet as at 31.03.2022 of BK Ltd., after the redemption is carried out.

Question 9 (CA Inter May 2019) (10 Marks) Pg no.______

The Summarized Balance Sheet of Clean Ltd. as on 31st March, 2022 is as follows:

Particulars	₹
EQUITY AND LIABILITIES	
1. Shareholders' funds	
Share capital	5,80,000
Reserves and Surplus	96,000
2. Current liabilities	
Trade Payables	1,13,000
TOTAL	7,89,000
ASSETS	
1. Non Current Assets	
Property, Plant & Equipment & Intangible Assets	
Property, Plant & Equipment	6,90,000
Non Current Investments	37,000

2. Current Assets	
Cash and cash equivalents (bank)	62,000
TOTAL	**7,89,000**

The Share Capital of the company consists of ₹ 50 each Equity shares of ₹ 4,50,000 and ₹ 100 each 8% Redeemable Preference Shares of ₹ 1,30,000 (issued on 1.4.2019).

Reserves and Surplus comprises statement of profit and loss only. In order to facilitate the redemption of preference shares at a premium of 10%, the Company decided:

(a) to sell all the investments for ₹ 30,000.

(b) to finance part of redemption from company funds, subject to, leaving a Bank balance of ₹ 24,000.

(c) to issue minimum equity share of ₹ 50 each at a premium of ₹ 10 per share to raise the balance of funds required.

You are required to

(1) Pass Journal Entries to record the above transactions.

(2) Prepare Balance Sheet after completion of the above transactions.

Question 10 (CA Inter Nov 2020) (12 Marks)

Pg no.______

The Books of Arpit Ltd. shows the following Balances as on 31st December, 2021:

	Amount (₹)
6,00,000 Equity shares of ₹ 10 each fully paid up	60,00,000
30,000, 10% Preference shares of ₹ 100 each, ₹ 80 paid up	24,00,000
Securities Premium	6,00,000
Capital Redemption Reserve	18,00,000
General Reserve	35,00,000

Under the terms of issue, the Preference Shares are redeemable on 31st March, 2022 at a premium of 10%. In order to finance the redemption, the Board of Directors decided to make a fresh issue of 1,50,000 Equity shares of ₹ 10 each at a premium of 20%, ₹ 2 being payable on application, ₹ 7 (including premium) on allotment and the balance on 1st January, 2023. The issue was fully subscribed and allotment made on 1st March, 2022. The money due on allotment was received by 20th March, 2022. The preference shares were redeemed after fulfilling the necessary conditions of Section 55 of the Companies Act, 2013.

You are required to pass the necessary Journal Entries and also show how the relevant items will appear in the Balance Sheet of the company after the redemption carried out on 31st March, 2022 with comparative figures of 31st December,2021.

Question 11 (CA Inter Nov 2018) (5 Marks)

Pg no.______

Explain the conditions when a company should issue new equity shares for redemption of the preference shares. Also discuss the advantages and disadvantages of redemption of preference shares by issue of equity shares.

Question 12 (RTP Jan 2025)

Pg no.______

The following is the summarized Balance Sheet of Trinity Ltd. as at 31.3. 2023:

Liabilities	₹	Assets		₹
Share Capital				
Authorised				
10,000, 10% Redeemable Preference Shares of ₹ 10 each	1,00,000	Fixed Assets	3,00,000	
90,000 Equity Shares of ₹10 each	9,00,000	Less: Dep	1,00,000	2,00,000
	10,00,000	Investments		1,00,000

Issued, Subscribed and Paid-up Capital		Current Assets and Loans and Advances	
10,000 10% Redeemable Preference Shares of ₹ 10 each	1,00,000	Inventory	45,000
10,000 Equity Shares of ₹ 10 each	1,00,000	Trade receivables	25,000
(A)	2,00,000	Cash and Bank Balances	50,000
Reserves and Surplus			
General Reserve	1,20,000		
Securities Premium	70,000		
Profit and Loss A/c	18,500		
(B)	2,08,500		
Current Liabilities & Provisions(C)	11,500		
Total (A + B + C)	**4,20,000**	**Total**	**4,20,000**

For the year ended 31.3.2024, the company made a net profit of ₹ 35,000 after providing ₹ 20,000 depreciation.

The following additional information is available with regard to company's operation :

1. The preference dividend for the year ended 31.3.2024 was paid.
2. Except cash and bank balances other current assets and current liabilities as on 31.3. 2024, was the same as on 31.3.2023.
3. The company redeemed the preference shares at a premium of 10%.
4. The company issued bonus shares in the ratio of two share for every equity share held as on 31.3.2024.
5. To meet the cash requirements of redemption, the company sold investments.
6. Investments were sold at 90% of cost on 31.3.2024.

You are required to prepare necessary journal entries to record redemption and issue of bonus shares.

Question 13 *(CA Foundation June 2024) (15 Marks)* Pg no.______

The following balances appeared in the Books of Mac Ltd. as on 31stDecember, 2023:

	Amount (₹)
80,000, 10% Preference shares of ₹ 100 each, ₹ 75 paid up	60,00,000
2,00,000 Equity share of ₹ 100 each fully paid up	2,00,00,000
Securities Premium	6,50,000
Capital Redemption Reserve	42,00,000
General Reserve	85,00,000

Under the terms of their issue, the preference shares are redeemable on 31st March,2024 at a premium of 5%. In order to finance the redemption, the company makes a right issue of 60,000 equity shares of ₹ 100 each at a premium of 10%, ₹ 25 being payable on application, ₹ 45 (including premium) on allotment and the balance on 1st August, 2024. The issue was fully subscribed and the allotment made on 1st March,2024. The amount due on allotment was duly received by 25th March,2024.

The preference shares were redeemed after fulfilling the necessary conditions of section 55 of the Companies Act, 2023.

You are required to pass the necessary Journal Entries (including narrations) to give effect to the above arrangement. Also prepare the Notes to accounts on Share Capital, Reserves and Surplus relevant to the Balance Sheet immediately after the redemption of preference shares as on 31st March, 2024. Ignore date column in Journal.

Question 14 (RTP May 2025) Pg no.______

The extract of Balance Sheet of Hari Om Ltd. as on 31st March 2024 is as follows

Sr. No.	Particulars	Notes	₹
I]	EQUITY AND LIABILITIES		
(1)	Shareholders' funds		
	a) Share Capital	1	350,000
	b) Reserve & Surplus	2	64,000
II]	ASSETS		
(1)	Non-current assets		
	a) PPE & Intangible Assets		
	i) PPE		2,25,000
	b) Non-Current Investments		60,000

Notes to accounts:

Sr. No.	Particulars	₹
1.	Share capital	
	Authorized Share Capital	
	40,000 Equity shares of ₹ 10 each fully paid up	4,00,000
	1,000 8% Preference shares of ₹ 100 each fully paid up	1,00,000
		5,00,000
	Issued, Subscribed Called Up and Paid up Share Capital	
	1000, 8% Preference shares of ₹ 100 each fully paid up	1,00,000
	25,000 Equity shares of ₹ 10 each fully paid up	2,50,000
	Total	3,50,000
2.	Reserve and Surplus	
	Securities Premium Reserves	9,000
	Profit and Loss Account	55,000
	Total	64,000

In order to redeem its preference shares, the company issued 5,000 equity shares of ₹10 each at a premium of 10% and sold its investment of ₹ 70,800. Preference shares were redeemed at a premium of 10%.

Show the necessary journal entries in the books of the company.

Unit 6: REDEMPTION OF DEBENTURES

"When you stop chasing wrong things, you give right things a chance to catch you..."

MEANING OF DEBENTURE

A debenture is an instrument issued by a company under its seal, acknowledging a debt and containing provisions as regards repayment of the principal and interest.

LEGAL PROVISIONS

- Under Section 71 (1) of the Companies Act, 2013, a company may issue debentures with an option to convert such debentures into shares, either wholly or partly at the time of redemption.
- Provided that the issue of debentures with an option to convert such debentures into shares, wholly or partly, should be approved by a special resolution passed at a duly convened general meeting.
- Section 71 (2) further provides that no company can issue any debentures which carry any voting rights.
- If a charge has been created on any asset or the entire assets of the company, the nature of the charge & the asset(s) charged are described therein.
- Debentures are usually redeemable i.e. either redeemed in cash or convertible after a time period. Redeemable debentures may be redeemed:
  - after a fixed number of years; or
  - any time after a certain number of years has elapsed since their issue; or
  - on giving a specified notice; or
  - by annual drawing.

DEBENTURE REDEMPTION RESERVE (DRR)

A company issuing debentures may be required to create a debenture redemption reserve account out of the profits available for distribution of dividend and amounts credited to such account cannot be utilised by the company except for redemption of debentures.
Such an arrangement would ensure that the company will have sufficient liquid funds for the redemption of debentures at the time they fall due for payment.
In case of partly convertible debentures, DRR shall be created in respect of nonconvertible portion of debenture issue.

ADEQUACY OF DEBENTURE REDEMPTION RESERVE (DRR)

As per Rule 18 (7) of the Companies (Share Capital and Debentures) Amendment Rules, 2019, the company shall comply with the requirements with regard to Debenture Redemption Reserve (DRR) and investment or deposit of sum in respect of debentures maturing during the year ending on the 31st day of March of next year, in accordance with the conditions given below—

- the Debenture Redemption Reserve shall be created out of the profits of the company available for payment of dividend;
- the limits with respect to adequacy of DRR and investment or deposits, as the case may be, shall be as under:

S.No.	Debentures Issued by	Adequacy of DRR
1	All India Financial Institutions **(AIFIs)** regulated by Reserve Bank of India and **Banking Companies** for both public as well as privately placed debentures	**No DRR** is required
2.	**Other Financial Institutions (FIs)** within the meaning of clause (72) of section 2 of the Companies Act, 2013	DRR will be as applicable to NBFCs registered with RBI (as per (3) below)
3.	**For listed companies** (other than AIFIs and Banking Companies as specified in Sr. No. 1 above):	
a.	All **listed NBFCs** (registered with RBI under section 45-IA of the RBI Act,) and **listed HFCs** (Housing Finance Companies registered with National Housing Bank) for both public as well as privately placed debentures	**No DRR** is required
b.	**Other listed companies** for both public as well as privately placed debentures	**No DRR** is required
4.	**For unlisted companies** (other than AIFIs and Banking Companies as specified in Sr. No. 1 above	
a.	**All unlisted NBFCs** (registered with RBI u/s 45-IA of the RBI (Amendment) Act, 1997) and **unlisted HFCs** (Housing Finance Companies registered with National Housing Bank) for privately placed debentures	**No DRR** is required
b.	**Other unlisted companies**	**DRR shall be 10% of the value of the outstanding debentures issued**

INVESTMENT OF DEBENTURE REDEMPTION RESERVE (DRR) AMOUNT

Further, as per Rule 18 (7) of the Companies (Share Capital and Debentures) Amendment Rules, 2019, following companies are required to make DRR Investment

- All listed NBFCs
- All listed HFCs
- All other listed companies (other than AIFIs, Banking Companies and Other FIs); and
- All unlisted companies which are not NBFCs and HFCs

shall on or before the 30th day of April in each year, in respect of debentures issued, deposit or invest, as the case may be, a sum which should not be less than 15% of the amount of its debentures maturing during the year ending on the 31st day of March of next year, in any one or more of the following methods, namely:

(a) in deposits with any scheduled bank, free from charge or lien;
(b) in unencumbered securities of the Central Government or of any State Government;
(c) in unencumbered securities mentioned in clauses (a) to (d) and (ee) of Section 20 of the Indian Trusts Act, 1882;
(d) in unencumbered bonds issued by any other company which is notified under clause (f) of Section 20 of the Indian Trusts Act, 1882.

The amount deposited or invested, as the case may be, above should not be utilised for any purpose other than for the redemption of debentures maturing during the year.

ASSIGNMENT QUESTIONS

Question 1 *(ICAI Study Material)* Pg no.______

The following balances appeared in the books of Paradise Ltd (unlisted company other than AIFI, Banking company, NBFC and HFC) on 1-4-2021:

(a) 12 % Debentures ₹ 7,50,000

(b) Balance of DRR ₹ 25,000

(c) DRR Investment 1,12,500 represented by 10% 1,125 secured bonds of government of India of ₹ 100 each.

Annual contribution to the DRR was made on 31st March each year. On 31-3-2022, balance at bank was ₹ 7,50,000 before receipt of interest. The investments were realized at par for redemption of debentures at a premium of 10% on the above date.

You are required to prepare the following accounts for the year ended 31st March, 2022:

(1) Debentures Account
(2) DRR Account
(3) DRR Investment Account
(4) Bank Account
(5) Debenture Holders Account

Question 2 *(ICAI Study Material)* Pg no.______

The following balances appeared in the books of a company (unlisted company other than AIFI, Banking company, NBFC and HFC) as on December 31, 2021:

6% Mortgage 10,000 debentures of ₹ 100 each; Debenture Redemption Reserve (for redemption of debentures) ₹ 50,000; Investments in deposits with scheduled bank free from any charge or lien ₹ 1,50,000, at interest 4% p.a. receivable on 31st December every year.

Bank Balance with company is ₹ 9,00,000. The Interest on debentures had been paid up to December 31, 2021. On February 28, 2022, the investments were realized at par and the debentures were paid off at 101, together with accrued interest. Write up the ledger accounts concerned.

Question 3 *(ICAI Study Material) / (RTP Nov 2019 & 2021) (Similar)* Pg no.______

Libra Limited (a listed company) recently made a public issue in respect of which the following information is available:

(a) No. of partly convertible debentures issued 2,00,000; face value and issue price ₹ 100 per debenture.

(b) Convertible portion per debenture 60%, date of conversion on expiry of 6 months from the date of closing of issue.

(c) Date of closure of subscription lists 1.5.2021, date of allotment 1.6.2021, rate of interest on debenture 15% payable from the date of allotment, value of equity share for the purpose of conversion ₹ 60 (Face Value ₹ 10).

(d) No. of debentures applied for 2,00,000.

(e) Interest payable on debentures half-yearly on 30th September and 31st March.

Write relevant journal entries for all transactions arising out of the above during the year ended 31st March, 2022 (including cash and bank entries).

Question 4 *(ICAI Study Material)* Pg no.______

A company had issued 20,000, 13% debentures of ₹ 100 each on 1st April, 2021. The debentures are due for redemption on 1st July, 2022. The terms of issue of debentures provided that they were redeemable at a premium of 5% and also conferred option to the debentureholders to

convert 20% of their holding into equity shares (Nominal value ₹ 10) at a price of ₹ 15 per share. Debentureholders holding 2,500 debentures did not exercise the option.
Calculate no. of equity shares to be allotted to Debentureholders exercising the option to the maximum.

Question 5 Pg no._____

The summarised Balance Sheet of Convertible Limited (unlisted company other than AIFI, Banking company, NBFC and HFC) as on 30th June, 2021, stood as follows:

Liabilities	₹
Share Capital: 5,00,000 equity shares of ₹ 10 each fully paid	50,00,000
General Reserve	90,00,000
Profit & Loss A/c	10,00,000
Debenture Redemption Reserve	10,00,000
13.5% Convertible Debentures, 1,00,000 Debentures of ₹ 100 each	1,00,00,000
Other loans	65,00,000
Current Liabilities and Provisions	1,25,00,000
	4,50,00,000
Assets:	
Fixed Assets (at cost less depreciation)	1,60,00,000
Debenture Redemption Reserve Investments	15,00,000
Cash and bank Balances	75,00,000
Other Current Assets	2,00,00,000
	4,50,00,000

The debentures are due for redemption on 1st July, 2021. The terms of issue of debentures provided that they were redeemable at a premium 5% and also conferred option to the debenture holders to convert 20% of their holding into equity shares at a predetermined price of ₹ 15.75 per share and the payment in cash. Assuming that:

(a) except for 100 debenture holders holding totally 25,000 debentures, the rest of them exercised the option for maximum conversion.
(b) the investments realize at par on sale; and
(c) all the transactions are put through, without any lag, on 1st July, 2021.

Pass necessary journal entries.

Question 6 *(ICAI Study Material) / (RTP Nov 2020 & 2022) (Similar)* Pg no._____

XYZ Ltd. has issued 1,000, 12% convertible debentures of ₹ 100 each redeemable after a period of five years. According to the terms & conditions of the issue, these debentures were redeemable at a premium of 5%. The debenture holders also had the option at the time of redemption to convert 20% of their holdings into equity shares of ₹ 10 each at a price of ₹ 20 per share and balance in cash. Debenture holders amounting ₹ 20,000 opted to get their debentures converted into equity shares as per terms of the issue.
You are required to calculate the number of shares issued and cash paid for redemption of ₹ 20,000 debenture holders.

Question 7 *(ICAI Study Material)* Pg no._____

Case Ltd. (unlisted company other than AIFI, Banking company, NBFC and HFC) provides the following information as at 31st March, 2022:

	Particulars	₹
	Equity & Liabilities	
(1)	**Shareholder's Funds**	
	(a) Share Capital	

	Authorized share capital:	
	45,000 equity shares of ₹ 10 each fully paid	4,50,000
	Issued and subscribed share capital:	
	30,000 equity shares of ₹ 10 each fully paid	3,00,000
	(b) Reserves and Surplus	
	Profit & Loss Account	1,62,000
	Debenture Redemption Reserve	18,000
(2)	**Non-current liabilities**	
	(a) Long term borrowings	
	12% Debentures	1,80,000
(3)	**Current Liabilities**	
	(a) Trade payables	1,72,500
	Total	**8,32,500**
	Assets	
(1)	**Non-current assets**	
	(a) Property, Plant and Equipment (Freehold property)	1,72,500
	(b) Non-current Investment: DRR Investment	27,000
(2)	**Current assets**	
	(a) Inventories	2,02,500
	(b) Trade receivables	1,12,500
	(c) Cash and bank balances:	
	Cash at bank	2,73,000
	Cash in hand	45,000
	Total	**8,32,500**

At the Annual General Meeting on 1.4.2022, it was resolved:

a) To give existing shareholders the option to purchase one ₹ 10 share at ₹ 15 for every four shares (held prior to bonus distribution). This option was taken up by all the shareholders.

b) To issue one bonus share for every five shares held.

c) To repay the debentures at a premium of 3%. The DRR Investments realised at par as per existing book value.

Give the necessary journal entries for these transactions.

PRACTICE QUESTIONS

MULTIPLE CHOICE QUESTIONS

1) Which of the following statements is true?
   (a) A debenture holder is an owner of the company.
   (b) A debenture holder can get his money back only on the liquidation of the company.
   (c) A debenture issued at a discount can be redeemed at a premium.

2) Which of the following statements is false?
   (a) Debentures can be redeemed by payment in lump sum at the end of a specified period.
   (b) Debentures cannot be redeemed during the life time of the company.
   (c) Debentures can be redeemed by payments in annual instalments.

3) For debentures issued by unlisted companies (other than AIFIs, Banking companies, NBFCs and HFCs), Debentures Redemption reserve will be considered adequate if it is:
   (a) 25% of the value of debentures issued through public issue.
   (b) 10% of the value of debentures issued through public issue.
   (c) 5% of the value of debentures issued through public issue.

4) A company has issued 6% debentures for ₹ 10,00,000, interest being payable on 31st March and 30th September. The company redeems ₹ 10,000 debentures at ₹ 96 (ex-interest) on 1st August 2021. The amount of Profit/loss on cancellation of debentures will be
   (a) Profit of ₹ 600
   (b) Profit of ₹ 400
   (c) Loss of ₹ 400

ANSWERS MCQs

1. (c) 2. (b) 3. (b) 4. (b)

TRUE / FALSE

State with reasons whether the following statement is true or false:

a) Amounts credited to the debenture redemption reserve may be utilised by the company for any purpose.
b) All India Financial Institutions (AIFIs) regulated by Reserve Bank of India and Banking Companies for both public as well as privately placed debentures need not create any Debenture Redemption Reserve (DRR).
c) Under payment in instalments method, the payment of entire debenture is made in one lot.
d) At redemption of debentures, DRR should be transferred to general reserve.

Solution

a) **False**: Amounts credited to the debenture redemption reserve should not be utilised by the company for any purpose except for the purpose other than for redemption of debentures.
b) **True**: All India Financial Institutions (AIFIs) regulated by Reserve Bank of India and Banking Companies for both public as well as privately placed debentures need not create any DRR.
c) **False**: Under payment in instalments method, the payment of specified portion of debentures are made in instalments at specified intervals.
d) **True**: DRR is transferred to general reserve at the time of redemption of debentures.

HOMEWORK QUESTIONS

Question 1 *(RTP May 2020) / (RTP May 2021) / (RTP Nov 2023) (Similar)* Pg no.______

The following balances appeared in the books of Lakshya Ltd. as on 1-4-2021:

a) 10 % Debentures ₹ 37,50,000
b) Balance of DRR ₹ 1,25,000
c) DRR Investment 5,62,500 represented by 10% ₹ 5,625 Secured Bonds of the Government of India of ₹ 100 each.

Annual contribution to the DRR was made on 31st March every year. On 31-3-2022, balance at bank was ₹ 37,50,000 before receipt of interest. Interest on Debentures had already been paid. The investment were realized at par for redemption of debentures at a premium of 10% on the above date.

Lakshya Ltd. is an unlisted company (other than AIFI, Banking company, NBFC and HFC). You are required to prepare Debenture Redemption Reserve Account, Debenture Redemption Reserve Investment Account and Bank Account in the books of Lakshya Ltd. for the year ended 31st March, 2022.

Question 2 Pg no.______

The following balances appeared in the books of a company (unlisted company other than AIFI, Banking company, NBFC and HFC) as on December 31st, 2021,

6% Mortgage 25,000 Debentures of ₹ 100 each. Debenture Redemption Reserve (for redemption of debentures) ₹ 1,50,000.

DRR Investments ₹ 3,75,000 at 4% interest receivable on 31st December every year.

Bank Balance with the company ₹ 30,00,000.

The interest on debentures had been paid up to December 31st, 2021. On February 28th, 2022, the investments were sold at par and the debentures were paid off at ₹ 101 together with accrued interest. Write up the ledger accounts concerned.

Question 3 *(CA Inter Jan 2021) (8 Marks)* Pg no.______

During the year 2021-2022, A Limited (a listed company) made a public issue in respect of which the following information is available:

(i) No. of partly convertible debentures issued-1,00,000; face value and issue price ₹ 100 per debenture. (Whole issue was underwritten by X Ltd.)
(ii) Convertible portion per debenture -60%, date of conversion -on expiry of 6 months from the date of closing of issue.
(iii) Date of closure of subscription lists -1st May,2021, date of allotment – 1st June, 2021, rate of interest on debenture -15% p.a. payable from the date of allotment, value of equity share for the purpose of conversion – ₹ 60 (face value ₹ 10)
(iv) Underwriting Commission –2%
(v) No. of debentures applied for by public –80,000
(vi) Interest is payable on debentures half yearly on 30th September and 31st March each year.

Pass relevant journal entries for all transactions arising out of the above during the year ended 31st March, 2022. (including cash and bank entries)

Question 4 *(CA Inter July 2021) (10 Marks)* Pg no.______

AB Limited (a listed company) recently made a public issue in respect of which the following information is available:

(i) No. of partly convertible 8% debentures issued 3,00,000; face value and issue price ₹ 100 per debenture.

(ii) Convertible portion per debenture- 60%, date of conversion- on expiry of 7 months from the date of closing of issue.
(iii) Date of closure of subscription lists 1-5-2020, date of allotment 1-6-2020, rate of interest on debenture 8% payable from the date of allotment, market value of equity share as on date of conversion ₹ 60 (Face Value ₹ 10).
(iv) Underwriting Commission 1%
(v) No. of debentures applied for 2,50,000.
(vi) Interest payable on debentures half-yearly on 30th September and 31st March.

Write relevant journal entries for all transactions arising out of the above during the year ended 31st March, 2021 (including cash and bank entries).

Question 5 (CA Inter Dec 2021) (5 Marks) Pg no.______

A Company had issued 25,000, 12% Debentures of ₹ 100 each on 1st April, 2018. The Debentures were due for redemption on 1st July, 2020. The terms of issue of Debentures provided that they will be redeemable at a premium of 5% and also conferred option to convert 20% of their holding into equity Shares (Nominal value ₹ 10 each) at a price of ₹ 20 per share. Debenture holders holding 5,000 Debentures did not exercise the option. Calculate the number of Equity shares to be allotted to the debenture holders exercising the option to the maximum.

Question 6 (CA Inter Nov 2019) (5 Marks) / (RTP Sep 2024) Pg no.______

A company had issued 40,000, 12% debentures of ₹100 each on 1st April, 2018. The debentures are due for redemption on 1st March, 2022. The terms of issue of debentures provided that they were redeemable at a premium of 5% and also conferred option to the debenture holders to convert redeemable value of 20% of their holding into equity shares (nominal value ₹10) at a predetermined price of ₹15 per share and the payment in cash for remaining debentures. 50 debentures holders holding totally 5,000 debentures did not exercise the option. Calculate the number of equity shares to be allotted to the debenture holders and the amount to be paid in cash on redemption.

Question 7 (ICAI Study Material) / (RTP May 2022) (Similar) Pg no.______

The Balance Sheet of BEE Co. Ltd. (unlisted company other than AIFI, Banking company, NBFC and HFC) as at 31st March, 2023 is as under:

	Particulars	Note No	₹
I.	**Equity and liabilities**		
(1)	**Shareholder's Funds**		
(a)	Share Capital	1	2,00,000
(b)	Reserves and Surplus	2	1,20,000
(2)	**Non-current liabilities**		
(a)	Long term borrowings	3	1,20,000
(3)	**Current Liabilities**		
(a)	Trade payables		1,15,000
	Total		**5,55,000**
II.	**Assets**		
(1)	**Non-current assets**		
(a)	Property, Plant and Equipment	4	1,15,000
(2)	**Current assets**		
(a)	Inventories		1,35,000
(b)	Trade receivables		75,000
(c)	Cash and bank balances	5	2,30,000
	Total		**5,55,000**

Notes to Accounts

	Particulars		₹
1.	**Share Capital**		
	Authorised share capital:		3,00,000
	30,000 shares of ₹ 10 each fully paid		
	Issued and subscribed share capital		
	20,000 shares of ₹ 10 each fully paid		2,00,000
2.	**Reserve and Surplus**		
	Profit & Loss Account		1,20,000
3.	**Long term borrowings**		
	12% Debentures		1,20,000
4.	**Property, Plant and Equipment**		
	Freehold property		1,15,000
5.	**Cash and bank balances**		
	Cash at bank	2,00,000	
	Cash in hand	30,000	2,30,000

At the Annual General Meeting, it was resolved:

a) To give existing shareholders the option to purchase one ₹ 10 share at ₹ 15 for every four shares (held prior to bonus distribution). This option was taken up by all the shareholders.
b) To issue one bonus share for every five shares held.
c) To repay the debentures at a premium of 3%. The DRR Investments realised at par as per existing book value.

Give the necessary journal entries for these transactions.

Question 8 (CA Inter May 2023) (5 Marks) Pg no.______

On 1st April, 2018 Improvis Limited issued 75,000, 9% Debentures of ₹ 100 each at a premium of 5%. The Debentures are redeemable at 10% premium on 31.03.2023, Investment as required by law was made in Fixed Deposit of Bank on 30.04.2022 earning interest @8% p.a.

You are required to pass Journal Entries for the year 2022-2023 related to Investment and Redemption of the Debentures.

Question 9 – (CA Foundation Sep 2024) (10 Marks) Pg no.______

XYZ Ltd. an unlisted company issued 6000, 12% debentures of ₹ 100 each at a discount of 5% on 01.04.2021. Interest is payable annually on 31st March every year. The debentures are redeemable at premium of 10% in 3 equal annual installments beginning from 31.03.2022. The company invested in specified securities for the redemption of debentures. Entire loss on issue to be booked in the 1st year. You are required to pass journal entries for all the 3 years.

Question 10 (CA Foundation Jan 2025) (5 Marks) Pg no.______

A company had issued 20,000, 8% partly convertible debentures of ₹ 100 each on April 1, 2023. The debentures are due for redemption on June 1, 2024. The terms of issue of debentures provided that 30% of the debentures will be converted into equity shares (Nominal Value ₹ 10) at a price of ₹ 20 per share and remaining will be redeemable at a premium of 5%.

(i) Calculate the number of equity shares to be allotted to the debenture holders at the time of conversion.

(ii) Give the necessary journal entries related to the conversion and redemption of debentures assuming that the company has created the Debenture Redemption Reserve and also invested required amount for redemption of debentures at the time of issue. Debenture Redemption Reserve Investment are sold at par value.

ACCOUNTING TERMINOLOGY

CH 12

"Do not dwell in the past, Do not dream of the future, Concentrate the mind on the present moment."

Acceptance	The drawee's signed assent on bill of exchange, to the order of the drawer. This term is also used to describe a bill of exchange that has been accepted.
Accounting policies	Accounting policies are the specific accounting principles and the methods of applying those principles adopted by an enterprise in the preparation and presentation of financial statements.
Accrual	Recognition of revenues and costs as they are earned or incurred (and not as money is received or paid). It includes recognition of transactions relating to assets and liabilities as they occur irrespective of the actual receipts or payments.
Accrual/ Mercantile Basis of Accounting	The method of recording transactions by which revenues, costs, assets and liabilities are reflected in the accounts in the period in which they accrue. The 'accrual basis of accounting' includes considerations relating to deferrals, allocations, depreciation and amortisation. This basis is also referred to as mercantile basis of accounting.
Accrued Asset	A developing but not yet enforceable claim against another person which accumulates with the passage of time or the rendering of service or otherwise. It may arise from the rendering of services (including the use of money) which at the date of accounting have been partly performed, and are not yet billable.
Accrued Expense	An expense which has been incurred in an accounting period but for which no enforceable claim has become due in that period against the enterprise. It may arise from the purchase of services (including the use of money) which at the date of accounting have been only partly performed, and are not yet billable.
Accrued Liability	A developing but not yet enforceable claim by another person which accumulates with the passage of time or the receipt of service or otherwise. It may arise from the purchase of services (including the use of money) which at the date of accounting have.
Accrued Revenue	Revenue which has been earned in an accounting period but in respect of which no enforceable claim has become due in that period by the enterprise. It may arise from the rendering of services (including the use of money) which at the date of accounting have been partly performed, and are not yet billable.
Accumulated Depletion	The total to date of the periodic depletion charges on wasting assets.
Accumulated Depreciation	The total to date of the periodic depreciation charges on depreciable assets.
Advance	Payment made on account of, but before completion of, a contract, or before acquisition of goods or receipt of services.
Amortisation	The gradual and systematic writing off of an asset or an account over an appropriate period

Amortised Value	The amortizable amount less any portion already provided by way of amortization.
Annual Report	The information provided annually by the management of an enterprise to the owners and other interested persons concerning its operations and financial position. It includes the information statutorily required, e.g., in the case of a company, the balance sheet, profit & loss statement & notes on accounts, auditor's report thereon, and the report of the Board of Directors. It also includes other information voluntarily provided e.g., value added statement, graphs, charts, etc.
Appropriation Account	An account sometimes included as a separate section of the profit and loss statement showing application of profits towards dividends, reserves, etc.
Assets	Tangible objects or intangible rights owned by an enterprise and carrying probable future benefits.
Authorised Share Capital	The number and par value, of each class of shares that an enterprise may issue in accordance with its instrument of incorporation. This is sometimes referred to as nominal share capital.
Average Cost	The cost of an item at a point of time as determined by applying an average of the cost of all items of the same nature over a period. When weightages are also applied in the computation, it is termed as weighted average cost.
Bad Debts	Debts owed to an enterprise which are considered to be irrecoverable.
Balance Sheet	A statement of the financial position of an enterprise as at a given date, which exhibits its assets, liabilities, capital, reserves and other account balances at their respective book values.
Bill of Exchange	An instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only, to or to the order of a certain person or to the bearer of the instrument.
Bonus Shares	Shares allotted by capitalization of the reserves or surplus of a corporate enterprise
Book Value	The amount at which an item appears in the books of account or financial statements. It does not refer to any particular basis on which the amount is determined e.g., cost, replacement value, etc.
Borrowing costs	Borrowing costs are interest and other costs incurred by an enterprise in connection with the borrowing of funds.
Bond/Debenture	A formal document constituting acknowledgment of a debt by an enterprise usually given under its common seal and normally containing provisions regarding payment of interest, repayment of principal and security, if any. It is transferable in the appropriate manner.
Call	A demand pursuant to terms of issue to pay a part or whole of the balance remaining payable on shares or debentures after allotment.
Called-up Share Capital	That part of the subscribed share capital which shareholders have been required to pay.
Capital	Generally refers to the amount invested in an enterprise by its owners e.g. paid-up share capital in a corporate enterprise. It is also used to refer to the interest of owners in the assets of an enterprise.
Capital Assets	Assets, including investments not held for sale, conversion or consumption in the ordinary course of business.
Capital Commitment	Future liability for capital expenditure in respect of which contracts have been made.

Capital Employed	The finances deployed by an enterprise in its net fixed assets, investments and working capital. Capital employed in an operation may, however, exclude investments made outside that operation.
Capital Profit/ Capital Loss	Excess of the proceeds realised from the sale, transfer, or exchange of the whole or a part of a capital asset over its cost. When the result of this computation is negative, it is referred to as capital loss.
Capital Reserve	A reserve of a corporate enterprise which is not available for distribution as dividend.
Capital Work-in-progress	Expenditure on capital assets which are in the process of construction or completion.
Cash	Cash comprises cash on hand and demand deposits with banks
Cash equivalents	Cash equivalents are short term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.
Cash Basis of Accounting	The method of recording transactions by which revenues and costs and assets and liabilities are reflected in the accounts in the period in which actual receipts or actual payments are made.
Cash Discount	A reduction granted by a supplier from the invoiced price in consideration of immediate payment or payment within a stipulated period.
Cash Profit	The net profit as increased by non-cash costs, such as depreciation, amortization, etc. When the result of the computation is negative, it is termed as cash loss.
Carrying amount	Carrying amount is the amount at which an asset is recognized in the balance sheet, net of any accumulated amortization and accumulated impairment losses thereon.
Charge	An encumbrance on an asset to secure an indebtedness or other obligations. It may be fixed or floating.
Cheque	A bill of exchange drawn upon a specified banker and not expressed to be payable otherwise than on demand.
Collateral Security	Security which is given in addition to the principal security against the same liability or obligation.
Costs of disposal	Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.
Conservatism	Conservatism states that the accountant should not anticipate any future income however they should provide for all possible losses. When there are many alternative values of an asset, an accountant should choose the method which leads to the lesser value.
Contingency	A contingency is a condition or situation, the ultimate outcome of which, gain or loss, will be known or determined only on the occurrence, or non-occurrence, of one or more uncertain future events.
Contingent Asset	An asset the existence, ownership or value of which may be known or determined only on the occurrence or non-occurrence of one or more uncertain future events.
Contingent Liability	An obligation relating to an existing condition or situation which may arise in future depending on the occurrence or non-occurrence of one or more uncertain future events.
Contra Account	One or two or more accounts which partially or wholly off-set another or other accounts.

Cost	The amount of expenditure incurred on or attributable to a specified article, product or activity.
Cost of Purchase	The purchase price including duties and taxes, freight inwards and other expenditure directly attributable to acquisition, less trade discounts, rebates, duty drawbacks, and subsidies in respect of such purchase.
Cost of Goods Sold	The cost of goods sold during an accounting period. In manufacturing operations, it includes (i) cost of materials; (ii) labour and factory overheads; selling and administrative expenses are normally excluded.
Conversion Cost	Cost incurred to convert raw materials or components into finished or semi-finished products. This normally includes costs which are specifically attributable to units of production, i.e., direct labour, direct expenses and subcontracted work, and production overheads as applicable in accordance with either the direct cost or absorption costing method. Production overheads exclude expenses which relate to general administration, finance, selling and distribution.
Convertible Debenture	A debenture which gives the holder a right to its conversion, wholly or partly, in shares in accordance with the terms of issue.
Cumulative Dividend	A dividend payable on cumulative preference shares which, if unpaid, accumulates as a claim against the earnings of a corporate enterprise, before any distribution is made to the other shareholders
Cumulative Preference Shares	A class of preference shares entitled to payment of cumulative dividends. Preference shares are always deemed to be cumulative, unless they are expressly made non-cumulative.
Current Assets	Cash and other assets that are expected to be converted into cash or consumed in the production of goods or rendering of services in the normal course of business.
Current Liability	Liability including loans, deposits and bank overdraft which falls due for payment in a relatively short period, normally not more than twelve months.
Deferral	Postponement of recognition of a revenue or expense after its related receipt or payment (or incurrence of a liability) to a subsequent period to which it applies. Common examples of deferrals include prepaid rent and taxes, unearned subscriptions received in advance by newspapers & magazine selling company, etc
Deficiency	The excess of liabilities over assets of an enterprise at a given date. The debit balance in the profit and loss statement.
Deficit	The debit balance in the profit and loss statement.
Depletion	A measure of exhaustion of a wasting asset represented by periodic write off of cost or other substituted value.
Depreciation	Depreciation is a measure of the wearing out, consumption or other loss of value of a depreciable asset arising from use, effluxion of time or obsolescence through technology and market changes. Depreciation is allocated so as to charge a fair proportion of the depreciable amount in each accounting period during the expected useful life of the asset. Depreciation includes amortisation of assets whose useful life is predetermined.
Depreciable amount	Depreciable amount of a depreciable asset is its historical cost, or other amount substituted for historical cost in financial statements, less estimated residual value.

Depreciable assets	Depreciable assets are assets which (i) are expected to be used during more than one accounting period; and (ii) have a limited useful life; and (iii) are held by an enterprise for use in the production or supply of goods and services, for rental to others, or for administrative purposes and not for the purpose of sale in the ordinary course of business.
Depreciation Method	Any method of calculating depreciation for an accounting period.
Depreciation Rate	A percentage applied to the historical cost or the substituted amount of a depreciable asset (or in case of diminishing balance method, the historical cost or the substituted amount less accumulated depreciation).
Diminishing Balance Method	A method under which the periodic charge for depreciation of an asset is computed by applying a fixed percentage to its historical cost or substituted amount less accumulated depreciation (net book value). This is also referred to as written down value method.
Discount	A reduction from a list price, quoted price or invoiced price. It also refers to the price for obtaining payment on a bill before its maturity.
Dividend	A distribution to shareholders out of profits or reserves available for this purpose.
Entity Concept	The view of the relationship between the accounting entity and its owners which regards the entity as a separate person, distinct and apart from its owners.
Equity Share	A share which is not a preference share. Also sometimes called ordinary share
Exchange difference	Exchange difference is the difference resulting from reporting the same number of units of a foreign currency in the reporting currency at different exchange rates.
Expenditure	Incurring a liability, disbursement of cash or transfer of property for the purpose of obtaining assets, goods or services.
Expense	A cost relating to the operations of an accounting period or to the revenue earned during the period or the benefits of which do not extend beyond that period.
Expired Cost	That portion of an expenditure from which no further benefit is expected. Also termed as expense.
Extraordinary items	Extraordinary items are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and, therefore, are not expected to recur frequently or regularly.
Fair value	Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.
Fair Market Value	The price that would be agreed to in an open and unrestricted market between knowledgeable and willing parties dealing at arm's length who are fully informed and are not under any compulsion to transact.
First In, First Out (FIFO)	Computation of the cost of items sold or consumed during a period as though they were sold or consumed in order of their acquisition.
First Charge	A charge having priority over other charges.
Fixed asset	Asset held with intention of being used for the purpose of producing or providing goods or services and is not held for sale in the normal course of business.

Fixed Cost	That cost of production which by its very nature remains relatively unaffected in a defined period of time by variations in the volume of production.
Fixed Deposit	Deposit for a specified period and at specified rate of interest.
Fixed or Specific Charge	A charge which attaches to a particular asset which is identified when the charge is created, and the identity of the asset does not change during the subsistence of the charge.
Floating Charge	A general charge on some or all assets of an enterprise which are not attached to specific assets and are given as security against a debt.
Financial Instrument	A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity shares of another enterprise
Foreign currency	Foreign currency is a currency other than the reporting currency of an enterprise.
Forfeited Share	A share to which title is lost by a member for non-payment of call money or default in fulfilling any engagement between members or expulsion of members where the articles specifically provide therefor.
Free Reserve	A reserve the utilization of which is not restricted in any manner.
Functional Classification	A system of classification of expenses and revenues and the corresponding assets and liabilities to each function or activity, rather than by reference to their nature.
Fund	An account usually of the nature of a reserve or a provision which is represented by specifically earmarked assets.
Fundamental Accounting Assumptions	Basic accounting assumptions which underlie the preparation and presentation of financial statements. They are going concern, consistency & accrual. Usually, they are not specifically stated because their acceptance & use are assumed. Disclosure is necessary if they are not followed.
Gain	A monetary benefit, profit or advantage resulting from a transaction or group of transactions.
General Reserve	A revenue reserve which is not earmarked for a specific purpose.
Going Concern Assumption	An accounting assumption according to which an enterprise is viewed as continuing in operation for the foreseeable future. It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of its operations.
Goodwill	An intangible asset arising from business connections or trade name or reputation of an enterprise.
Gross Margin or Gross Profit	The excess of the proceeds of goods sold and services rendered during a period over their cost, before taking into account administration, selling, distribution and financing expenses. When the result of this computation is negative it is referred to as gross loss.
Government	Government refers to government, government agencies and similar bodies whether local, national or international.
Government grants	Government grants are assistance by government in cash or kind to an enterprise for past or future compliance with certain conditions. They exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the enterprise.

Gross book value	Gross book value of a fixed asset is its historical cost or other amount substituted for historical cost in the books of account or financial statements. When this amount is shown net of accumulated depreciation, it is termed as net book value.
Income and Expenditure Statement	A financial statement, often prepared by non-profit making enterprises like clubs, associations etc. to present their revenues and expenses for an accounting period & to show the excess of revenues over expenses (or vice versa) for that period. It is similar to profit & loss statement & is also called revenue and expense statement.
Intangible Asset	Asset which does not have a physical identity e.g. goodwill, patents, copyright etc.
Inventories	Inventories are assets: (a) held for sale in the ordinary course of business; (b) in the process of production for such sale; or in the form of materials or supplies to be consumed in the production process or in the rendering of services.
Investment	Expenditure on assets held to earn interest, income, profit or other benefits
Investments	Assets held not for operational purposes or for rendering services i.e. assets other than fixed assets or current assets (e.g. securities, shares, debentures, immovable properties).
Issued Share Capital	That portion of the authorized share capital which has actually been offered for subscription. This includes any bonus shares allotted by the corporate enterprise.
Joint venture	A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity, which is subject to joint control.
Last In, First Out (LIFO)	Computation of the cost of items sold or consumed during a period on the basis that the items last acquired were sold or consumed first.
Liability	The financial obligation of an enterprise other than owners' funds.
Lien	Right of one person to satisfy a claim against another by holding or retaining possession of that other's assets/property.
Long-term Liability	Liability which does not fall due for payment in a relatively short period, i.e., normally a period not more than twelve months.
Lease	A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.
Materiality	An accounting concept according to which all relatively important and relevant items, i.e., items the knowledge of which might influence the decisions of the user of the financial statements are disclosed in the financial statements
Mortgage	A transfer of interest in specific immovable property for the purpose of securing a loan advanced, or to be advanced, an existing or future debt or the performance of an engagement which may give rise to a pecuniary liability. The security is redeemed when the loan is repaid or the debt discharged or the obligations performed.
Net Assets/ Shareholders' funds/ Net Worth	The excess of the book value of assets (other than fictitious assets) of an enterprise over its liabilities. This is also referred to as net worth or shareholders' funds.

Net Fixed Assets	Fixed assets less accumulated depreciation thereon up-to-date.
Net Profit/Net loss	The excess of revenue over expenses during a particular accounting period. When the result of this computation is negative, it is referred to as net loss. The net profit may be shown before or after tax.
Net realizable value	Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale
Obsolescence	Diminution in the value of an asset by reason of its becoming out-of date or less useful due to technological changes, improvement in production methods, change in market demand for the product or service output of the asset, or legal or other restrictions.
Operating Profit	The net profit arising from the normal operations and activities of an enterprise without taking account of extraneous transactions and expenses of a purely financial nature.
Paid-up Share Capital	That part of the subscribed share capital for which consideration in cash or otherwise has been received. This includes bonus shares allotted by the corporate enterprise.
Preference Share Capital	That part of the share capital of a corporate enterprise which enjoys preferential rights in respect of payments of fixed dividend and repayment of capital. Preference shares may also have full or partial participating rights in surplus profits or surplus capital.
Preliminary Expenses	Expenses relating to the formation of an enterprise. These include legal, accounting and share issue expenses incurred for formation of the enterprise.
Prepaid Expense	Payment for expense in an accounting period, the benefit for which will accrue in the subsequent accounting period(s).
Prime Cost	The total cost of direct materials, direct wages and other direct production expenses.
Prior Period Item	Prior period items are income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods.
Profit/Loss	A general term for the excess of revenue over related cost. When the result of this computation is negative it is referred to as loss.
Profit and Loss Account	A financial statement which presents the revenues and expenses of an enterprise for an accounting period and shows the excess of revenues over expenses (or vice versa). It is also known as profit and loss account.
Promissory Note	An instrument in writing (not being a bank note or currency note) containing an unconditional undertaking, signed by the maker, to pay a certain sum of money only to, or to the order of, a certain person or to the bearer of the instrument.
Provision	An amount written off or retained by way of providing for depreciation or diminution in value of assets or retained by way of providing for any known liability the amount of which cannot be determined with substantial accuracy.
Provision for Doubtful Debts	A provision made for debts considered doubtful of recovery.
Prudence	A concept of care and caution used in accounting according to which (in view of the uncertainty attached to future events) profits are not

	anticipated, but recognised only when realised, though not necessarily in cash. Under this concept, provision is made for all known liabilities and losses, even though the amount cannot be determined with certainty and represents only a best estimate in the light of available information.
Redeemable Preference Share	The preference share that is repayable either after a fixed or determinable period or at any time decided by the management (by giving due notice), under certain conditions prescribed by the instrument of incorporation or the terms of issue.
Redemption	Repayment as per given terms normally used in connection with preference shares and debentures.
Reserve	The portion of earnings, receipts or other surplus of an enterprise (whether capital or revenue) appropriated by the management for a general or a specific purpose other than a provision for depreciation or diminution in the value of assets or for a known liability. The reserves are primarily of two types: capital reserves and revenue reserves.
Revaluation Reserve	A reserve created on the revaluation of assets or net assets of an enterprise represented by the surplus of the estimated replacement cost or estimated market values over the book values thereof.
Residual value	Residual value is the amount which an enterprise expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.
Revenue/ Income	Revenue is the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods, from the rendering of services, and from the use by others of enterprise resources yielding interest, royalties and dividends. Revenue is measured by the charges made to customers or clients for goods supplied and services rendered to them and by the charges and rewards arising from the use of resources by them.
Revenue Reserve	Any reserve other than a capital reserve
Right Share	An allotment of shares on the issue of fresh capital by a corporate enterprise to which a shareholder is entitled on payment, by virtue of his holding certain shares in the enterprise in proportion to the number of shares already held by him.
Sales Turnover / Gross Turnover / Gross Sales	The aggregate amount for which sales are effected or services rendered by an enterprise. The terms gross turnover and net turnover are sometimes used to distinguish sales aggregate before & after deduction of returns and trade discounts.
Secured Loan	Loan secured wholly or partly against an asset.
Share Capital	Aggregate amount of money paid or credited as paid on the shares and/ or stocks of a corporate enterprise.
Share Discount	The excess of the face value of shares over their issue price.
Shareholders' Equity	The interest of the shareholders in net assets of a corporate enterprise. However, in case of liquidation it is represented by residual assets after meeting prior claims.
Share Issue Expenses	Costs incurred in connection with the issue and allotment of shares. These include legal and professional fees, advertising expenses, printing costs, underwriting commission, brokerage, and also expenses in connection with the issue of prospectus and allotment of shares.

Share warrants	Share warrants or options are financial instruments that give the holder the right to acquire equity shares.
Securities Premium	The excess of the issue price of shares over their face value.
Sinking Fund	A fund created for the repayment of a liability or for the replacement of an asset.
Straight Line Method	The method under which the periodic charge for depreciation is computed by dividing the depreciable amount of a depreciable asset by the estimated number of years of its useful life.
Subscribed Share Capital	That portion of the issued share capital which has actually been subscribed and allotted. This includes any bonus shares allotted by the corporate enterprise.
Substance over Form	An accounting concept according to which the substance and not merely the legal form of transactions and events governs their accounting treatment and presentation in financial statements.
Creditors / Trade Creditors / Trade payables	Amount owed by an enterprise on account of goods purchased or services received or in respect of contractual obligations. Also termed as trade creditors or account payables or Trade payables.
Sundry Debtors / Trade Debtors / Receivables	Person from whom amounts are due for goods sold or services rendered or in respect of contractual obligations. Also termed as debtors, trade debtors, account receivables, trade receivables.
Surplus	Credit balance in the profit and loss statement after providing for proposed appropriations, e.g., dividend or reserves
Trade Discount	A reduction granted by a supplier from the list price of goods or services on business considerations other than for prompt payment
Unexpired Cost	That portion of an expenditure whose benefit has not yet been exhausted.
Unissued Share Capital	That portion of the authorised share capital for which shares have not been offered for subscription.
Unpaid Dividend	Dividend which has been declared by a corporate enterprise but has not been paid, or the warrant or cheque in respect whereof has not been dispatched within the prescribed period.
Useful life	Useful life is either (i) the period over which depreciable asset is expected to be used by enterprise; or (ii) the number of production or similar units expected to be obtained from the use of the asset by the enterprise

PRACTICE QUESTIONS

TRUE / FALSE

State with reasons whether the following statement is true or false:

1. The drawer's signed assent on bill of exchange, to the order of the drawee is called an acceptance:
2. That portion of an expenditure whose benefit has been exhausted is called Unexpired Expenditure.
3. Accrual basis of accounting is the method of recording transactions by which revenues and costs and assets and liabilities are reflected in the accounts in the period in which actual receipts or actual payments are made.
4. Authorised Share capital is sometimes referred to as nominal share capital.
5. Fixed assets less interest on obligations undertaken to purchase asset less accumulated depreciation thereon up-to-date are called Net Fixed Assets.
6. The credit balance in the profit and loss statement is called a deficit.

Solution

1. **False:** The drawee's signed assent on bill of exchange, to the order of the drawer. This term is also used to describe a bill of exchange that has been accepted.
2. **False:** Unexpired Cost – That portion of an expenditure whose benefit has not yet been exhausted.
3. **False:** Cash Basis of Accounting is the method of recording transactions by which revenues and costs and assets and liabilities are reflected in the accounts in the period in which actual receipts or actual payments are made.
4. **True:** Authorised share capital is number and par value of each class of shares that an enterprise may issue in accordance with its instrument of incorporation and is sometimes referred as nominal share capital.
5. **False:** Net Fixed Assets – Fixed assets less accumulated depreciation thereon up-to-date.
6. **False:** The debit balance in the profit and loss statement is deficit.

Question 1 *(CA Foundation Jan 2021) (4 Marks)* Pg no.______

Define the following terms:

(i) Capital Commitment
(ii) Expired Cost
(iii) Floating Charge
(iv) Obsolescence

Solution

(i) **Capital commitment**: Future liability for capital expenditure in respect of which contracts have been made.

(ii) **Expired cost:** The portion of the expenditure from which no further benefit is expected. Also termed as expense.

(iii) **Floating charge:** A general charge on some or all assets of an enterprise which are not attached to the specific assets and are given as security against a debt.

(iv) **Obsolescence:** Diminution in the value of an asset by reason of its becoming out-of-date or less useful due to technological changes, improvement in production methods, change in market demand for the product or service output of the asset, legal or other restrictions.

Question 2 ***(CA Foundation Dec 2021) (4 Marks)*** ***Pg no.______***

Explain the followings:
(i) Accrual Basis of Accounting (ii) Amortisation (iii) Contingent Assets (iv) Contingent Liabilities

Solution

1. **Accrual Basis of Accounting**: The method of recording transactions by which revenues, costs, assets and liabilities are reflected in accounts in the period in which they accrue.
2. **Amortisation**: The gradual and systematic writing off of an asset or an account over an appropriate period.
3. **Contingent Asset**: An asset the existence, ownership or value of which may be known or determined only on the occurrence or non-occurrence of one or more uncertain future events.
4. **Contingent Liability**: An obligation relating to an existing condition or situation which may arise in future depending on the occurrence or non-occurrence of one or more uncertain future events.

Question 3 ***(CA Foundation June 2023) (4 Marks)*** ***Pg no.______***

Briefly explain the following terms:

a. Materiality
b. Conservatism
c. Extraordinary item
d. Floating Charge

Solution

a. Materiality refers to all relatively important and relevant items, i.e., items the knowledge of which might influence the decisions of the user of the financial statements are disclosed in the financial statements.
b. Conservatism states that the accountant should not anticipate any future income however they should provide for all possible losses. When there are many alternative values of an asset, an accountant should choose the method which leads to the lesser value.
c. Extraordinary items are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and, therefore, are not expected to recur frequently or regularly.
d. Floating charge is a general charge on some or all assets of an enterprise which are not attached to specific assets and are given as security against a debt.

Question 4 ***(CA Foundation Dec 2023) (4 Marks)*** ***Pg no.______***

Briefly explain the following terms.

(i) Conversion Cost
(ii) Diminishing Balance Method
(iii) Money Measurement Concept
(iv) Realisation Concept

Solution

(i) **Conversion Cost:** Cost incurred to convert raw materials or components into finished or semi-finished products. This normally includes costs which are specifically attributable to units of production, i.e., direct labour, direct expenses and subcontracted work, and production overheads as applicable in accordance with either the direct cost or absorption costing method.

(ii) **Diminishing Balance Method:** It is a method under which the periodic charge for depreciation of an asset is computed by applying a fixed percentage to its historical cost or substituted amount less accumulated depreciation (net book value). This is also referred to as written down value method.

(iii) **Money measurement concept:** As per this concept, only those transactions, which can be measured in terms of money are recorded. Transactions, even if, they affect the results of the business materially, are not recorded if they are not convertible in monetary terms.

(iv) **Realisation concept:** It closely follows the cost concept. Any change in value of an asset is to be recorded only when the business realises it.