

Kendriya Vidyalaya Sangathan Jaipur Region



Last Minutes Revision Material

Class: XII {2020-21}

Subject: Accountancy



UNDER THE ABLE GUIDANCE OF
Hon. Mr. B. L. Morodia
Deputy Commissioner
KVS RO JAIPUR

Mr. D. R. Meena
Assistant Commissioner
KVS RO JAIPUR

Mr. Mukesh Kumar
Assistant Commissioner
KVS RO JAIPUR

Dr. R. K. Meena
Principal
K. V. No. 1 Ajmer

Prepared by:

Mr. Alak Dass	{PGT Commerce K. V. No. 4 Jaipur}
Mr. Dinesh Sharma	{PGT Commerce K. V. AFS Suratgarh}
Ms. Ritu Vinayak	{PGT Commerce K. V. Bhilwara}
Mrs. Anjali	{PGT Commerce K. V. Baran}

Checked by :

Dr. Niraj Saraswat	{PGT Commerce K. V. No. 2 Jaipur}
Mr. I. M. Sharma	{PGT Commerce K. V. No. 1 Jaipur }

Accounting for Not-for-Profit Organisation

There are certain organisations which are set up for providing services to its members and the public in general. Such organisations are called Not for Profit Organisation. Eg: Clubs, charitable institutions, schools, welfare societies etc.

ACCOUNTING RECORDS OF NOT-FOR-PROFIT ORGANISATION

1. Receipt & Payment Account 2. Income & Expenditure Account 3. Balance sheet

Receipt and Payment Account: The Receipt and Payment account is a **real A/c** which is prepared at the end of an accounting year giving a summary of all cash receipts and payments {either **Capital or Revenues**/ Previous, Current or Next Year}.

Income and Expenditure Account: It is the summary of income and expenditure for the accounting year. It is just like a profit and loss account {**Nominal A/c**} prepared on accrual basis in case of the business organisations. It includes **only revenue items** of current year only and the balance at the end represents surplus or deficit.

Treatment of some peculiar items:

1. Subscription – Current year subscription is to be calculated and it is shown on the credit side of Income and Expenditure Account. Whereas, subscription received for some specific purpose like subscription for tournament fund, subscription for construction of a building etc. should be capitalized and hence shown on the liability side of the Balance Sheet.

2. Donation a. Specific donation – Donation for building, donation for library etc. must be treated as capital receipt and shown on the liability side of balance sheet. b. General donation can be shown on the credit side of Income and Expenditure A/c.

3. Grant received from central govt., state govt. or local bodies for day to day expense are treated as income. But grant for specific purpose like construction of a building is to be capitalized.

4. Legacies: It is the amount received as per the will of a deceased person who may or may not specify the use of the amount. Legacies, use of which is specified are specific legacy and is shown in the balance sheet as liability. If the use is not specified it is considered as revenue nature and credited to income and expenditure account.

5. Honorarium -- It is the amount paid to the person who is not a regular employee of the institution. This is shown on the expenditure side of the income and expenditure account.

5. Endowment fund – Fund meant for providing permanent means of support. It is a capital receipt.

6. Entrance Fee/Admission Fee – It is the amount of fees collected on the admission of members. In the absence of specific information, it is preferably be revenue item.

7. Life membership fee – It is a lump sum amount received from certain members towards life membership instead of annual subscription. It should be capitalised as it is a capital receipt.

8. Special purpose fund – E.g. Tournament fund, Charity fund, Prize fund, Endowment fund etc. If there is any expense or income relating to that fund it will be added back or will be deducted from that fund only in the Liabilities side of Balance sheet.

Balance Sheet
as at 31st March, 2020

Liabilities	Rs.	Assets	Rs.
Tournament fund: XXXX		Tournament Fund Investment	
Add: Collection for Tournament XXXX		Accrued interest on T. F. Investment.	
Donation for Tournament XXXX			
Interest received from T. F. Inv't XXXX			
Accrued interest on T. F. Inv't. XXXX			
Less: Tournament Expense XXXX	XXXX	If this figure is negative (-) it should be transferred to the expenditure (debit) side of the Income and Expenditure	

Important Question NCERT Q. No. 5 and 13

Difference between Income and Expenditure A/c and Receipt and Payment A/c

Basis	Income and Expenditure	Receipt and Payment A/c
Nature	It is a Nominal A/c.	It is a Real A/c.
Nature of items	It records Income and expenditure of revenue nature	It records receipts and payments of cash and bank of revenue as well as capital
Dr. and Cr. side	Dr. side of this A/c records Expenses and Losses. Cr. side of this A/c records income and gains.	Dr. side of this A/c records the receipts. Cr. side of this A/c records the payments.

Calculation of Expense (Eg. Stationery Consumed) during the year:

Amount paid for stationery (Receipt and Payment A/c)		XXXX
Add: Opening stock of stationery	XXXX	
Closing outstanding	XXXX	
Opening prepaid	<u>XXXX</u>	XXXX
Less: Closing stock of stationery	XXXX	
Opening outstanding	XXXX	
Closing prepaid	<u>XXXX</u>	(XXXX)
Stationery Consumed During the Year		<u>XXXX</u>

*Amount of Stationery to be debited to Income and Expenditure A/c

Note: Stock of stationery is an asset, closing stock of stationery is shown on the asset side of the closing Balance Sheet.

Calculation of Subscription to be shown in Income and Expenditure A/c

Subscription received during the year		XXXX
Add: Closing outstanding subscription	XXXX	
Opening received in advance subscription	XXXX	<u>XXXX</u>
Less: Opening outstanding subscription	XXXX	
Closing received in advance subscription	XXXX	
Subscription not receivable	XXXX	(XXXX)
Income from subscription during the current year {Shown in Income and Expenditure A/c}		<u>XXXX</u>

* 1. If Sub. O/s at the end **as on** is given it means it includes current year as well as previous year pending amount.

2. If Subscription O/s at the end **for the year ending** it means it is only current year's pending amount.

Important Question NCERT Q. No. 14

Dr.	Format of Receipts and Payments A/c		Cr.
Receipts	Rs.	Payments	Rs.
To Balance b/d {Cash in Hand/Bank}		By Balance b/d {Bank Overdraft}	
To All Receipts {Revenue and Capital}		By All Payments {Revenue and Capital}	
To Balance c/d {in case of Bank Overdraft as Closing Balance}		By Balance c/d {Closing Balance of Cash in Hand/Bank}	

Dr.	Format of Income and Expenditure A/c		Cr.
Expenditure	Rs.	Income	Rs.
To Expenses {Revenue Nature items which are related to the Current Year only}		By Income {Revenue Nature items which are related to the Current Year only}	
To Tournament Exp's {If there is no Tournament Fund}		By Deficit	
To Surplus			

Format of Balance Sheet as at 31st March, 2020

Liabilities	Rs.	Assets	Rs.
Capital Fund		Cash in Hand/Bank	
Add: Surplus or Less Deficit		O/s Subscription	
Add : Life Membership Fees		Other Assets	
Add: Entrance Fees {Capitalised Portion}		Sports Fund Investment or any other Investment	
Other Liabilities			
Subscription Received in Advance			

Important Question NCERT Q. No. 10 and 18

Accounting for Partnership: Basic Concepts

Partnership: Partnership is a relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all.

Partnership Deed: Partnership Deed is a written agreement among the partners detailing the terms and conditions of the partnership.

Provisions in the absence of Partnership Deed:

1. Profit and losses are to be shared equally among partners.
2. No interest is to be allowed on capital.
3. No interest is to be charged on drawings.
4. No salary, commission, remuneration to any partner.
5. Interest on Partner's loan @ 6% per annum.

Different Cases Related to Interest on Capital:

Case 1 When partnership agreement is silent about interest on capital - Not allowed.

Case 2 When partnership agreement provides that interest on capital is to be allowed.

Situation 1 In case there is a loss Not provided

Situation 2 In case there are sufficient profits Fully allowed

Profits are to be distributed in the ratio of capital.

Case 3 When partnership agreement says interest on capital is to be provided as a charge - Fully allowed.

Note: Interest on Capital is always calculated on the opening balance of capital in a year.

In case the question gives closing capital, then opening capital will be calculated first by using the following formula

Opening Capital = Closing Capital + Drawings – Profit – Additional Capital

Important Question NCERT Q. No. 15 and 16

Interest on Partner's Drawings:

Case I. When Fixed Amount is withdrawn at Fixed intervals

Interest on Drawings = Annual Drawings x Rate of Interest x Average Period

	100	12	Average Period		
Various situations of Drawings	Monthly Drawings for 12 months	Quarterly Drawings for 12 months	Half-yearly Drawings for 12 months	Monthly Drawings for 6 months	
When drawings are made in the beginning of each period	6.5	7.5	9	3.5	
When drawings are made in the middle of each period	6	6	6	3	
When drawings are made in the end of each period	5.5	4.5	3	2.5	

Case II. When Unequal Amount is withdrawn at Fixed different dates

1. Simple Method: Interest on Drawings = Amount of Drawings x Rate of Interest x Months Remaining

100 12

2. Product Method: Interest on Drawings = Total of Products x Rate of Interest x 1

100 12

Important Question NCERT Q No. 20 24 and 25

Profit and Loss Appropriation A/c

Dr.	for the year ended...	Cr.	
Particulars	Rs.	Particulars	Rs.
To Profit and Loss A/c {Net Loss}		By Profit and Loss A/c {Net Profit}	
To Interest on Partner's Capitals		By Interest on Partner's Drawings	
To Partner's Salary		By Loss transferred to Partners' Cap./Current A/cs	
To Partner's Commission			
To General Reserve			
To Profit transferred to Partners' Cap./Current A/cs			

Important Question NCERT Q. No. 7.35 and 36.

Methods of Capital Accounts:

I. When Capital are Fixed: (i) Fixed Capital Accounts (ii) Current Accounts

Dr.	Partners' Capital A/c	Cr.	
Particulars	Rs.	Particulars	Rs.
To Cash/Bank A/c {Withdrawal of Capital}		By Bal. b/d {Opening Capital}	
To Bal. c/d {Closing Capital}		By Cash/Bank A/c {Additional Capital}	

Dr.	Partners' Current A/c	Cr.	
Particulars	Rs.	Particulars	Rs.
To Balance b/d {in case of Dr. opening Bal.}		By Balance b/d {in case of Cr. opening Bal.}	
To Drawings A/c		By Interest on Capital A/c	
To Interest on Drawings A/c		By Partner's Salary A/c	
To P and L Appr. A/c {Share of Loss, in case of Loss}		By Partner's Commission A/c	
To Balance c/d {Cr. Closing Balance}		By P and L Appr. A/c {Share of Profit, in case of Profit}	

II. When Capital are Fluctuating: Fluctuating Capital Accounts

Dr.	Partners' Capital A/c	Cr.	
Particulars	Rs.	Particulars	Rs.
To Balance b/d {in case of Dr. opening Bal.}		By Bal. b/d {Opening Capital}	
To Drawings A/c		By Cash/Bank A/c {Additional Capital}	
To Interest on Drawings A/c		By Interest on Capital A/c	
To P and L Appr. A/c {Share of Loss, in case of Loss}		By Partner's Salary A/c	
To Bal. c/d {Closing Capital}		By Partner's Commission A/c	
		By P. and L. Appr. A/c {Share of Profit, in case of Profit}	

Past Adjustments:

Statements Showing Adjustments to be made

Particulars	A		B		Firm	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Wrong Appropriation (I) {Profits wrongly credited}	XXX		XXX			XXX
Correct Appropriation (II)						
Appropriations to be taken into A/c						
(i) Interest on Capital (Cr.)		XXX		XXX		
(ii) Salary/Commission (Cr.)		XXX		XXX		
(iii) Interest on Drawings (Dr.)	XXX		XXX		XXX	
(iv) Net Divisible Profit in P/S Ratio (Cr.) or Divisible Loss (Dr.)		XXX		XXX		XXX
Net effect Dr./Cr. (I) –(II)	Dr./Cr. Balance		Dr./Cr. Balance		NIL	

Adjustment Journal Entry:

Gaining Partners' Capital/Current A/c Dr.

To Sacrificing Partners' Capital/Current A/c

(Being partners' capital accounts adjusted for past adjustment)

Important Question NCERT Q. No. 38,40 and 43.

Guarantee of Profit to a Partner:

Sometimes a partner is admitted into the firm with a guarantee of certain minimum amount by way of his share of profits of the firm. Such assurance may be given by all the old partners in a certain ratio or by any of the old partners, individually to the new partner. The minimum guaranteed amount shall be paid to such new partner when his share of profit as per the profit-sharing ratio is less than the guaranteed amount.

Journal Entry:

Guarantor's Partner's Capital/Current A/c Dr.

To Guaranteed Partner's Capital/Current A/c

(Being guarantee of profit adjusted)

Important Question NCERT Q. No. 29 and 31. {Prepared by Sh. Alak Dass Page No. 1-4}

Reconstitution of Partnership

Any change in the existing agreement of partnership is called reconstitution of a firm.

Modes of Reconstitution

- 1) Change in profit sharing ratio
- 2) Admission of a new partner
- 3) Retirement of an existing partner
- 4) Death of a partner
- 5) Amalgamation of two partnership firm.
- 6) Change in profit sharing ratio

When one or more partners acquire an interest in the business from another existing partner. It is said to be a change in profit sharing ratio.

New profit-sharing ratio- it is the rationale in which partners are to share profits/ losses in future.

Sacrificing ratio - It is ratio in which the partner has to agree to sacrifice their share of profit in favour of another partner.

$$\text{Sacrifice Ratio} = \text{Old ratio} - \text{New ratio}$$

Gaining ratio - It is ratio in which the partner has to agree to gain their share of profit from another partner.

$$\text{Gaining Ratio} = \text{New ratio} - \text{Old ratio}$$

Valuation of Goodwill:-

Average profit method :- Average profit x Number of years purchase

Average profit :- Sum total of profits or loss/ Number of years

Weighted average profit method : - Weighted Average profit x number of years

Weighted average profit :- Total of products of actual profits and weights/ Total of weights

Super profit method:- super profit x number of years purchase

Super profit : Average profit - Normal profit

Normal profit : Capital Employed x Normal rate of Return/ 100

Accounting treatment of Goodwill at the time of change in ratio

I) For writing- off goodwill appearing in the balance sheet	All partner's capital/ current A/c To Goodwill A/c	Dr. In old ratio
II) For recording of Goodwill without opening goodwill account	Gaining partner's capital/ current A/c. Dr. To sacrificing partner's capital/ current A/c	In GR In SR

Accounting treatment of Accumulated profits, Reserves and losses

When want to transfer/ distribute or no specific information is given	<ol style="list-style-type: none"> a. For transfer of reserves and accumulated profits Reserves/ profits A/ c. Dr. Workmen compensation Res. A/c . Dr. Investment fluctuation Res. A/c. Dr. To all partner's capital/ current A/c b. For transfers of accumulated losses. All partner's capital/ current a/c. Dr. To Profit and loss a/c. To advertisement suspense A/c. To deferred Revenue Expenditure A/c 	In old ratio
When don't want to transfer/ distribute or ask to pass single journal entry	Gaining partner's capital/ current A/c. Dr. To sacrificing partner's capital/ current A/c (With the amount of net effect)	In GR In SR

Accounting treatment of Revaluation of Assets and Liabilities

I) when revised values are to be recorded in the books:

Dr.	Revaluation A/c	Cr.	
Particulars	₹	Particulars	₹
To Decrease in value of assets	By Increase in value of assets
To Increase in value of liabilities	By Decrease in value of liabilities
To Unrecorded liabilities	By Unrecorded assets
To Profit transferred to old partners' capital/ current A/c — —	By Loss transferred to old partners' capital/current A/c — —

When revised values are not to be recorded in the books of accounts: (single entry will be pass)

Firstly, calculate the net effect through workings

For Profit on Revaluation	Gaining partner's capital/ current A/c. Dr. To Sacrificing partner's capital/ current A/c (With the amount of net effect)
For Loss on Revaluation	Sacrificing partner's capital/ current A/c. Dr. To Gaining partner's capital/ current A/c.

Important questions NCERT EXAMPLE No. 9,12,13,16

Admission of a Partner

Calculation of New Ratio and Sacrificing Ratio:

New Ratio = Old Ratio - Sacrificing Ratio

Sacrificing Ratio = Old Ratio - New Ratio

Accounting treatment of Goodwill at the time of admission of partner:

When goodwill already appears in the books	Old partner's capital/ current A/c Dr. To Goodwill A/c	In Old Ratio
Case I When premium for goodwill is paid by new partner privately	No entry in the books of the firm. For capital bring by new partner Cash/ Bank A/c. Dr. To New partner's capital A/c	
Case II (a) When premium for goodwill is brought by new partner in cash / kind and retained in the business (b) When not retained in business or goodwill withdrawn	Cash/ Bank/ Assets A/c. Dr. To New partner's capital A/c To Premium for goodwill A/c Premium for goodwill A/c Dr. To (Old) Sacrificing partner's capital/current A/c In addition of above two entries (Old) Sacrificing partner's capital/ current A/c. Dr. To Cash / Bank A/c	In Sacrificing Ratio

Case III When the new partner is unable to bring his share of premium for goodwill in cash	New partner' Current A/c Dr. To (Old) Sacrificing partner's capital/ current A/c	with the share of new partner in G/W in GR
Case IV When the new partner brings only a part of premium for goodwill in cash	Cash/ Bank/ Assets A/c. Dr. To New partner's capital a/c To Premium for goodwill a/c Premium for goodwill a/c. Dr. New partner' Current a/c Dr. To (Old) Sacrificing partner's capital/ current a/c	In cash Not in cash (In SR)

Accounting treatment of Accumulated profits, Reserves and losses

Transfer/ distribute or no specific information is given	<p>a) For transfer of reserves and accumulated profits Reserves/ Profits a/ c. Dr. Workmen Compensation Reserve A/c. Dr. Investment Fluctuation Reserve A/c. Dr. To Old partner's capital/ current a/c</p> <p>b) For transfers of accumulated losses. Old partner's capital/ current a/c. Dr. To Profit and loss a/c. To Advertisement suspense a/c. To Deferred Revenue Expenditure a/c</p>	In old ratio
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Hidden Goodwill : Calculation of Hidden Goodwill

₹

Total capital of the firm on the basis of new partner's capital
(Capital of new partner's Capital x Reciprocal of share of new partner)

Less: Adjusted Capital of all partner (including capital of new partner)
Hidden goodwill

Accounting treatment of revaluation of Assets and liabilities will be same as given in changes in profit sharing ratio (revised value)

Important Questions NCERT Q. No. 18,27,30 and 35

Retirement of a Partner

Calculation of New Ratio and Gaining Ratio

New Ratio = Old Ratio - Sacrificing Ratio AND **Gaining Ratio** = New Ratio - Old Ratio

Accounting treatment of Goodwill at the time of retirement and death of a partner:

When goodwill already appears in the books	All partner's capital/ current a/c Dr. To Goodwill a/c	In Old ratio
Treatment of Goodwill	Gaining (remaining) Partner's capital/ current A/c. Dr. To Retiring partner's Capital/ Current A/c	With the share of retiring partner In GR
Hidden Goodwill	Amount paid to retiring partner - Adjusted Capital of retiring partner	

Accounting treatment of Accumulated profits, Reserves and losses

Transfer/ distribute or no specific information is given	<ul style="list-style-type: none"> For transfer of reserves and accumulated profits <table> <tr> <td>Reserves/ profits a/ c.</td><td>Dr.</td></tr> <tr> <td>Workmen compensation res. A/c.</td><td>Dr.</td></tr> <tr> <td>Investment fluctuation res. A/c.</td><td>Dr.</td></tr> <tr> <td>To All partner's capital/ current a/c</td><td></td></tr> </table> For transfers of accumulated losses. <table> <tr> <td>All partner's capital/ current a/c.</td><td>Dr.</td></tr> <tr> <td>To Profit and loss a/c</td><td></td></tr> <tr> <td>To Advertisement suspense a/c</td><td></td></tr> <tr> <td>To Deferred Revenue Expenditure a/c</td><td></td></tr> </table> 	Reserves/ profits a/ c.	Dr.	Workmen compensation res. A/c.	Dr.	Investment fluctuation res. A/c.	Dr.	To All partner's capital/ current a/c		All partner's capital/ current a/c.	Dr.	To Profit and loss a/c		To Advertisement suspense a/c		To Deferred Revenue Expenditure a/c		In Old Ratio
Reserves/ profits a/ c.	Dr.																	
Workmen compensation res. A/c.	Dr.																	
Investment fluctuation res. A/c.	Dr.																	
To All partner's capital/ current a/c																		
All partner's capital/ current a/c.	Dr.																	
To Profit and loss a/c																		
To Advertisement suspense a/c																		
To Deferred Revenue Expenditure a/c																		

Death of a Partner

Calculation of profit or loss share of deceased partner:

- 1) On the basis of time: Actual/Average Profit x Share of deceased partner x Time period {In months}/12
- 2) On the basis of Sales:

Profit up to date of death = Profit of last year x Sales up to death / Sales of last year

Profit of deceased partner = Profit up to death x Share of deceased partner

Entry of Profit of deceased partner's share: -

Case 1:- If profit sharing ratio remains same:-

Profit and Loss Suspense Account Dr.

To Deceased partner's capital account

Case 2:- If new ratio given:-

Remaining partner's capital account. Dr.

To Deceased

(In Gaining ratio)

Dissolution of Partnership Firm

When the business of the firm comes to an end and when there is discontinuance of existing relationship among the partners then it is called dissolution of partnership firm. It is different from dissolution of partnership. In dissolution of partnership business remains continue but there is changes in the existing relationship between partners.

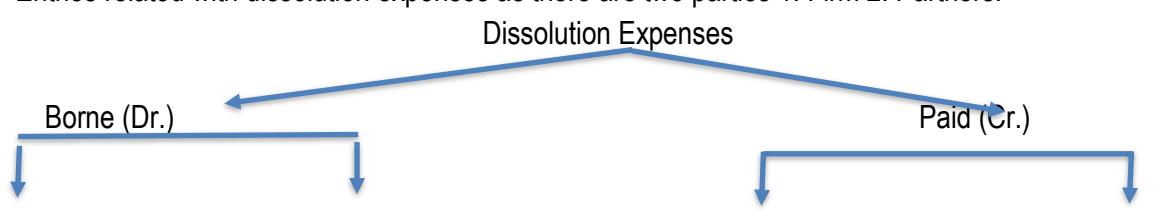
Mode of dissolution of partnership firm: - 1. Dissolution by intervention of court 2. Dissolution by mutual agreement

³ Dissolution by notice. 4. On the happening of an event. 5. Compulsory dissolution.

Accounts under dissolution:-

1. Realisation Account 2. Partner's Loan Account 3. Partner's Capital Account 4. Cash/ Bank Account

Entries related with dissolution expenses as there are two parties 1. Firm 2. Partners



Firm **Partner** **Firm** **Partner**

{Realisation Dr.} {Partner's Capital Dr.}

For Example: Realisation Expenses ₹ 6,000. (In case of Realisation Account. Dr. 6,000)

Entries related with Assets and Liabilities at the time of dissolution:

When assets transfer to realisation account	Realisation Account. To Assets A/c	Dr.
When assets realised	Bank Account. To Realisation Account	Dr.
When assets taken over by partner	Partner's Capital Account. To Realisation Account	Dr.
When Liabilities transfer to realisation account	Liabilities Account. To Realisation Account	Dr.
When liabilities taken over by partner	Realisation Account. To Partner's Capital Account	Dr.
When liabilities paid	Realisation Account. To Bank	Dr.
When liabilities take over the assets	1) If assets are less than liabilities then upto value of assets no entry and remaining liabilities will be paid. 2) Realisation Account To Cash Account 3) If assets are more than liabilities and remaining assets are to be realised (ask in question) upto value of Liabilities no entry Cash Account To Realisation	Dr.
Entries related with partner's loan	<ul style="list-style-type: none"> If Liabilities side given: - (Payments of loan due to partner) Partner's Loan Account To Bank Account If Assets side given (Settlement of loan by firm to partners) Bank Account To Partner's Loan Account 	Dr.

Entries related with profit and loss and related with profit and loss on realisation:

When credit balance of profit and loss account given	Profit and Loss Account. To Partner's Capital/ Current Account	Dr.
When debit balance of profit and loss account given	Partner's Capital/ Current Account. To Profit and Loss account	Dr.
When Profit on realisation	Realisation Account. To Partner's Capital Account	Dr.
When loss on realisation	Partner's Capital Account. To Realisation Account	Dr.

Dr.	Realisation Account		Cr.
Particulars	₹	Particulars	₹
To Assets (By name) (except cash in hand, cash at bank and fictitious assets)		By provision for doubtful debts By Liabilities (By name) (except General Reserve, Reserve fund, Partner's capital and loan)	
To Bank (liabilities paid)		By Investment Fluctuation Fund	
To Bank (dissolution expenses)		By Bank (Assets realised)	
To Bank (Unrecorded liabilities)		By Bank (Unrecorded Assets)	
To Partner's Capital Account (liability taken over)		By Partner's Capital Account	
To Profit transfer to Partner's Capital Account		(Assets taken over) By loss transfer to Partner's Capital account	

Partner's Loan Account

1. If Liabilities side given: -

Particulars	₹	Particulars	₹
To Bank account	xxxx	By balance b/d	xxxx

Partner's Loan Account

2. If Assets side given: -

Particulars	₹	Particulars	₹
To Balance b/d	xxxx	By Bank account	xxxx

Dr.	Partner's Capital Account			Cr.	
Particulars	A(₹)	B(₹)	Particulars	A(₹)	B(₹)
To Undistributed losses	xxx	xxx	By balance b/d	xxx	xxx
To Realisation a/c (Assets taken over)	xxx	xxx	By accumulated reserve	xxx	xxx
To Realisation a/c (loss on realisation)	xxx	xxx	By Realisation a/c (Liabilities taken over)	xxx	xxx
To Bank (final payment)	xxx	xxx	By Realisation a/c (Profit on realisation)	xxx	xxx
			By Bank (Final Settlement)	xxx	xxx

Dr.	Cash /Bank Account			Cr.
Particulars	₹	Particulars	₹	
To Balance b/d	xxx	By Realisation account (Liabilities paid)		xxx
To Realisation a/c (Assets realised)	xxx	By Realisation account (Dissolution expenses)		xxx
To Realisation a/c (Unrecorded Asset)	xxx	By Realisation account (Unrecorded Liability)		xxx
To Partner's Capital account (Final Settlement)	xxx	By Partner's Loan account		xxx
		By Partner's Capital account (Final payment)		xxx

Company Accounts (20 marks)

Part I- Issue of Shares

Topic- A. Types of share capital (1 mark)

- Authorised/nominal/registered capital: maximum number of shares issued by company given in MOA.
- Issued Capital: offered to the public.
- Subscribed capital- Capital for which public subscribe.
 - c. Subscribed and fully paid-up capital -entire nominal (face) value is called and also paid-up by the shareholders.
 - d. Subscribed but not fully paid-up capital is-
 - the company has called-up the entire nominal (face) value of the share but has not received it.
 - the company has not called-up the entire nominal (face) value of share.
 - Called up Capital= subscribed shares × face value called up
 - Paid up capital= called up capital - calls in arrears
 - Reserve capital= uncalled capital called at the time of winding up to pay debts.

Topic-B. Issue of shares for consideration other than cash (4 marks and probably Q.16)

Issue of Shares for Consideration other than Cash									
At Par					At Premium				
On Purchase of Asset					On Purchase of Asset				
Sundry Assets A/c	Dr.	xxx			Sundry Assets A/c	Dr.	xxx		
To Vendor's A/c			xxx		To Vendor's A/c			xxx	
				Purchase Consideration					
Vendor's A/c	Dr.	xxx			Vendor's A/c	Dr.	xxx		
To Share Capital A/c			xxx		To Share Capital A/c			xxx	
(No. of shares × Face Value)					To Securities Premium A/c			xxx	
				Face Value (Rs 10 or 100)					
Calculation of No. of Shares					$\text{No. of shares} = \frac{\text{Purchase Consideration}}{\text{Issue Price or Face Value} + \text{Premium}}$				
$\text{No. of shares} = \frac{\text{Purchase Consideration}}{\text{Issue Price or Face Value}}$									

Topic-C. Entries for issue of shares at par/ Premium (full subscription/ under subscription/oversubscription) (8 marks and Q.22)

i. For receipt of Application money:

Bank A/c ...Dr. [amount received on application/ if issued at premium then including premium]
To Shares Application A/c

ii. For Allotment of Shares:

Shares Application A/c Dr. [application money on shares allotted]
To Share Capital A/c. [amount paid towards face value of share capital]
To Securities Premium Reserve A/c. [if premium is given with application]
To Bank A/c (If money refund in case of over subscription)
To Share allotment A/c. (if excess application money is adjusted on allotment)
To calls in advance A/c. (if excess application money is adjusted towards any call)

iii. For Amount due on Allotment:

Shares Allotment A/c ...Dr.	[amount due on shares allotted]
To Share Capital A/c	[amount due towards face value of share]
To Securities Premium Reserve A/c.	[amount due towards premium]

iv. For receipt of Allotment money:

Bank A/c Dr.	[amount received on shares allotted]
Calls-in-Arrears A/c ...Dr.	[amount not received against allotment money]
To Shares Allotment A/c	(amount excluding excess application money)

v. For first call being due:

Shares First Call A/c ...Dr.	[amount payable on first call]
To Share Capital A/c.	[amount due towards face value of share]
To Securities Premium Reserve A/c.	[amount due to towards premium]

vi. For receipt of first call:

Bank A/c ... Dr.	[amount received on first call]
Calls-in-Arrears A/c ...Dr.	[amount not received towards first call money due]
Calls-in-Advance A/c...Dr.	(excess application money adjusted towards call)
To Shares First Call A/c	

Topic-D. Entries for Forfeiture and Reissue (4 marks/ additional entries to 8 marks Question)

<u>Forfeiture entry</u>	<u>Description</u>
Share capital A/c. Dr.	No. of shares forfeited face value called up
Securities premium reserve A/c. Dr.	No. of shares forfeited × unpaid premium
To calls in arrears A/c	Amount not received on allotment and calls including premium not received
To share forfeited A/c	Amount received by the company

<u>Reissue entry</u>	<u>Description</u>
Bank. A/c. Dr.	Amount received on reissue
Share forfeited A/c Dr.	Discount on reissue
To Share Capital A/c A/c	Reissued shares× called up/ paid up value of share
To security premium reserve A/c	Reissued shares × premium on reissue of shares

<u>Transfer of gain to Capital reserve</u>	<u>Description</u>
Share forfeited A/c. Dr. To Capital Reserve A/c	Credit balance of share forfeited (on reissued shares) - Debit balance/ discount of reissued shares.

Topic-E. Pro-rata Allotment of shares in oversubscription (8 marks Q.22)

Meaning of Pro-rata Allotment of Shares: alternative available with the company for allotment of shares when shares applied > shares allotted and As per this alternative, all applicants are allotted shares in proportion which is called Partial or Pro rata Allotment. Let us look at an example=====

Example: - A Ltd issued 2000 equity shares @ Rs.10 each together with a premium of Rs.2. Amount was called as follows on application Rs.2 on allotment Rs.5 including premium on first call Rs.3 and balance on final call. Applications were received for 3000 shares. It was decided to refund application money to the applicants of 600 shares and remaining were made pro rata. X who was allotted 40 shares did not paid allotment and first call subsequently his shares were forfeited after first call. Y who applied for 72 shares did not paid both the calls and his shares were also forfeited. Out of forfeited shares 80 shares were reissued to Z @8 per share fully paid up (including all the shares of X and remaining of Y).

Pro-rata Allotment

Share applied by public (1)	Share allotted by company (2)	Extra shares (3)= (1)- (2)	Extra Money = (3) × application money	Money Refund	Money adjusted on allotment
600	nil	600	1200	1200	nil
2400	2000	400	800	nil	800
Total 3000	Total 2000	Total 1000	Total 2000	Refund 1200	Adjusted 800

Calculation of Calls - in - arrears

Category	App-2	Allotment-5	First call-3	Final call-2
X-40 allotted 48 applied	Paid	200 unpaid -16 (advance app money on 8 shares adjusted) 184 (final arrear on allotment)	120 unpaid	Not called
Y-72 applied 60 allotted	Paid	Paid	180 unpaid	120 unpaid

Note: Share applied by X = Shares Applied in pro-rata category × Share allotted to X

Shares allotted in pro-rata category.

Share allotted to Y = Shares allotted in pro-rata category × Share applied by Y.

Shares Applied in pro-rata category

Part II- Issue of Debentures

Topic-A Debentures issued as collateral security (can be sub-part of 4 mark ques)

Collateral security means when debentures are issued as secondary security along with primary security against loan taken by the company.

Bank a/c. To Bank loan	Dr.	Amount of Loan taken by Company
Debenture suspense a/c To x% Debentures a/c	Dr.	Amount of debentures issued as collateral security

Topic-B Six cases of issue and redemption of Debentures (can be sub-part of 4 marks question or 6-mark question)

(1) Debentures issued at Par and redeemable at par	Bank Account To Debenture Account	Dr.
(2) Debenture issued at Par and redeemable at Premium	Bank Account Loss on Issue of Debenture Account To Debenture Account To Premium on Redemption of Debenture Account	Dr. Dr.
(3) Debentures issued at premium and redeemable at par	Bank Account To Debenture Account To Premium on Issue of Debenture Account	Dr.
(4) Debentures issued at premium and redeemable at premium	Bank Account Loss on Issue of Debenture A/c To Debenture Account To Premium on Issue of Debenture A/c To Premium on Redemption of Debenture Account	Dr. Dr.
(5) Debenture issued at Discount and redeemable at par	Bank Account Discount on Issue of Debenture A/c To Debenture Account	Dr. Dr.
(6) Debentures issued at a discount and redeemable at premium	Bank Account Discount on Issue of Debenture A/c Loss on Issue of Debenture A/c To Debenture Account To Premium on Redemption of Debenture Account	Dr. Dr.

Topic-C Interest on Debentures (can be a part of 4 Marks Question)

ACCOUNTING ENTRIES

- ✓ **When interest is due and ignores tax :**
Interest on Debentures A/c Dr.
To Debenture Holders A/c
- ✓ **Transfer of interest to P&L Account :**
Profit and Loss A/c Dr.
To Interest on Debentures A/c
- ✓ **When the Interest is Due and TDS :**
Interest on Debenture A/c Dr.
To Income Tax Payable A/c
To Debenture Holders A/c
- ✓ **TDS paid to the government :**
Income tax Payable A/c Dr.
To Bank A/c
- ✓ **For payment of interest to holders :**
Debenture holders A/c Dr.
To Bank A/c

Discount on issue
To x% Debentures

2. Discount or loss on issue of debentures now will be written off in the year of the issue of debentures and the entry will be-

Securities premium reserve a/c Dr.
Statement of profit and loss a/c Dr.

To Discount/Loss on issue of Debentures a/c {Prepared by Ms. Ritu Vinayak Page No. 11-14}

ANALYSIS OF FINANCIAL STATEMENTS (20 Marks)

Financial Statements are statements which are prepared at the end of the year to find out the profitability and financial position of a business. Financial Statements includes: - 1. Statement of Profit and Loss 2. Balance Sheet

Objectives/Importance of Financial Statement Analysis/Ratios/Cash Flow Analysis (1 marks)

1. **To Know the Profitability (Operational Profit in case of Cash Flow Statement):-** Provide information about the earning capacity of the business.
2. **To Know the Financial Strength (In terms of Liquidity in case of Cash Flow Statement):-** Provide information about economic resources and obligations of a business.

Limitations of Financial Statements Analysis/Ratios/Cash Flow Analysis

- (i) **Window Dressing**:- Manipulation of Accounts to show the better picture of business
- (ii) **Ignores Price level changes**:- as a change in price level makes analysis of financial statements of different accounting years invalid.
- (iii) **Ignores qualitative aspect**:- as the quality of management, quality of staff etc. are ignored while carrying out the analysis of financial statements.

Financial Statement Analysis

Financial Statement Analysis is the critical examination of the financial information contained in financial statements in order to understand and make decision regarding the operation of the firm.

Tools and Techniques of Financial Statement Analysis

1. Comparative Analysis
2. Common Size Analysis
3. Ratio Analysis
4. Cash Flow Analysis

PRESENTATION OF BALANCE SHEET ITEMS-3 Marks

	MAIN HEADS	SUB-HEADS	ITEMS UNDER SUB-HEADS
I. EQUITY AND LIABILITIES	1. SHARE HOLDERS FUND	(a) Share Capital	Equity Share Capital, Preference Share Capital, Calls in arrears {-}, Share Forfeiture A/c {+}
		(b) Reserve and Surplus	Capital Reserve, Capital Redemption Reserve, Security Premium Reserve, Debenture Redemption Reserve, General Reserve, Surplus/Deficit in Statement of Profit and Loss
	2. NON-CURRENT LIABILITIES	(a) Long Term Borrowings	Debentures, Bonds, long term loans, public deposits
		(b) Long Term Provisions	Provision for Employees Benefits, Provision for Warranties, Encashment of Employees leave on Retirement
	3. CURRENT LIABILITIES	(a) Short Term Borrowings	Bank Overdraft, Cash Credits, Short term Loan (repayable within a year)
		(b) Trade Payables	Sundry Creditors, Bills Payable
		(c) Short term Provisions	Provision for taxation, Provision for Expenses, Provision for Doubtful Debts, Provision for Employees Benefit (Short Term)
		(d) Other Current Liabilities	Unpaid Dividend, Unclaimed Dividend, Outstanding Expenses, Income Received in Advance, Call in Advance and Interest thereon, Current Maturities of Long-term Debts (Debenture payable within 12 month), Unpaid Matured Debenture/debts and interest thereon, Interest Accrued but due on borrowing, Interest Accrued but not due on borrowing.
II. ASSETS	1.NON-CURRENT ASSETS	(a) Fixed Asset (Tangible and Intangible Assets)	Tangible Assets: - Land, Building, Furniture and Fixtures, Vehicles, Leasehold Property, Office equipment (Computer), Plant and Machinery Intangible Assets: -Goodwill, Brands/Trademarks, Computer Software, Mining Rights, Mastheads and Publishing Titles, Copyrights and Patents, Recipes, formulae, Models, Licenses, Franchise

	(b)Non-Current Investments	Trade Investment, Investment in equity, Preference share, Government or Trust Securities, Debenture, Bonds, Mutual Funds,
	(c) Long Term loans and Advances	Capital Advances, Security Deposits
2.CURRENT ASSETS	(a) Current Investments	Short term Investments realizable within 12 months include investment in Equity shares, Preference Shares, Government securities, Treasury bill etc.
	(b)Inventories	Raw Material, Work-in-Progress, Finished Goods, Stock-in-trade, stores and spares, loose tools.
	(c)Trade Receivables	Sundry Debtors and Bills Receivables
	(d)Cash and Cash Equivalents	Cash in hand, Balance with Banks, Cheques, Drafts in hand, Digital cash
	(e)Short term loans and Advances	Advances recoverable in cash, Advances given for purchases of goods
	(f)Other Current Assets	Prepaid expenses, Accrued Incomes, Payment of Advance Tax

Remembrance: -

1. Preparation of Statement of Profit and Loss: -Part II, Schedule III, Companies Act 2013
2. Preparation of Balance Sheet: - Part I, Schedule III, Companies Act 2013

FORMAT OF STATEMENT OF PROFIT AND LOSS

Particulars	Note No.	Figures for the Current reporting Period	Figures for the previous reporting period
I. Revenue from Operations	
II. Other Incomes	
III. Total Revenue(I+II)	
IV. Expenses	
(a) Cost of Materials Consumed	
(b) Purchases of Stock-in-Trade	
(c) Changes in inventories of finished goods, work-in-progress and stock-in-trade	
(d) Employee Benefits Expenses	
(e) Finance costs	
(f) Depreciation and Amortization Expenses	
(g) Other Expenses	
Total Expenses(a+b+c+d+e+f+g)	
V. Profit before Tax (III-IV)	
VI. Tax Expense	
VII. Profit after Tax(V-VI)	

Question for Practice: -Prepare Comparative and Common Size income statement from the following information year's ended march 31, 2019 and 2020. – 4 Marks

Particulars	2019(Rs.)	2020(Rs.)
1.Net Revenue from Operations	8,00,000	10,00,000
2.Cost of material consumed	60% of Revenue from operations	60% of Revenue from operations
3.Employee Benefit Expenses	10% of Gross profit	10% of Gross Profit
4.Income Tax rate	50%	60%

Sol.

Comparative Income statement

Particulars	2019 (Rs)	2020 (Rs)	Absolute Change (Increase/Decrease)	Percentage Absolute Change (Increase/Decrease)
Net Revenue from Operations	8,00,000	10,00,000	2,00,000	25%
Less: Cost of material consumed	(4,80,000)	(6,00,000)	1,20,000	25%
Employee Benefit Expenses	(32,000)	(40,000)	8,000	25%
Profit Before Tax	2,88,000	3,60,000	72,000	25%
Less: Tax	(1,44,000)	(2,16,000)	72,000	50%
Profit after tax	1,44,000	1,44,000	-----	-----

Common Size Income Statement

Particular	Absolute Amount		Percentage to Revenue from Operation	
	2019 (Rs)	2020 (Rs)	Percentage 2019	Percentage 2020
Net Revenue from Operations	8,00,000	10,00,000	100%	100%
Less: Cost of material consumed	(4,80,000)	(6,00,000)	60%	60%
Employee Benefit Expenses	(32,000)	(40,000)	4%	4%
Profit Before Tax	2,88,000	3,60,000	36%	36%
Less: Tax	(1,44,000)	(2,16,000)	18%	21.6%
Profit after tax	1,44,000	1,44,000	18%	14.4%

Ratio Analysis

An Analysis of financial Statements with the help of Ratios is termed as Ratio Analysis. It Can be Expresses in Percentage, Fractions, Times etc.

S.NO	TYPE OF RATIOS WITH OBJECTIVE	SUB TYPES	FORMULA AND ITS COMPOSITION
1	Liquidity Ratios: -To Determine Short Term Financial Position	Current Ratio=	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
		Liquid/Quick/ Acid Test Ratio=	$\frac{\text{Liquid Assets}}{\text{Current Liabilities}}$
		Working Capital=	Current Assets – Current Liabilities
		Liquid Assets=	Current Assets- (Stock+ Prepaid Exp+ Advance Payment of Tax)
2	Solvency Ratios: -To Determine Long Term Financial Position	Debt Equity Ratio=	Debt/Equity
		Debt=	Long term Debt (Non-Current Liabilities)
		Non-Current Liabilities=	Long term borrowing+ Long term Provision
		Equity=	Shareholders fund
		Shareholders fund=	Share Capital+ Reserve and Surplus
		Total Assets to Debt Ratio=	Total Assets/Debt
		Proprietary Ratio=	Shareholder fund/Total Assets
		Interest coverage	Interest=EBIT/Fixed Interest Charge (Calculated in Times)

3	Turnover Ratios (Other Name of Turnover Ratios- Activity Ratios/Efficiency Ratios/Asset Movement Ratios/Operational Ratios)-To Determine Operational Efficiency	Inventory Turnover Ratio = Cost of Revenue from operation/Average Inventory Average Inventory = $\frac{\text{opening Inventory} + \text{closing inventory}}{2}$
		Tr. Rece. Turn. Ratio = Net credit revenue from operation/Av. A/c Receivable Average Accounts Receivable = $\frac{\text{opening receivables} + \text{closing Receivable}}{2}$
		Trade Payable Turnover Ratio = Net Credit Purchase/Average Trade Payables Average Trade payables = $\frac{\text{Opening payables} + \text{closing trade payables}}{2}$
		Working Capital Turnover Ratio = Net Revenue from Operation (Cost of revenue from Operation)/Net working Capital
4	Profitability Ratios: -To Determine Profitability and Earning Capacity of Business	Gross profit Ratio = (Gross Profit/Net Revenue from operations) X 100 Net Revenue from operations =Total Revenue from operations-Revenue from operations returns
		Operating Ratio = (Cost of revenue from operation+ operating expenses)/Net Revenue from operations X 100
		Operating profit Ratio = (Operating profit/Net revenue from operation) X 100
		Operating Profit Ratio = 100-operating ratio
		Net profit Ratio = Net Profit /Net Revenue from operation
		Return on Investment (ROI) = (Profit before interest and tax/cap. Emp.) X 100

CASH FLOW STATEMENT

Cash Flow Statement is a Statement that shows flow of Cash and Cash Equivalents during a particular period under each activity i.e. operating, investing and financing. **Cash flow Statement is Prepared as per AS (Accounting Standard)-3(Revised)-**

Remembrance: Cash means ready cash which include Cash in hand, Cash at Bank

Cash Equivalent are short term highly liquid investments that are readily convertible into cash within a short period, short period here means within 3 months or less. They are not subject to insignificant risk of change in value. Examples are Treasury Bill, Commercial Bill, Marketable Securities etc.

Classification of Cash Flows (Non-Financing Companies)-Learn Any Two Examples under each category and recall items resulting in inflows and outflows of Cash-1 Mark

Part A:- Cash Flow From Operating Activities		Part B:-Cash Flow From Investing Activities		Part C: -Cash Flow From Financing Activities	
Cash Inflows	Cash Outflows	Cash Inflows	Cash Outflows	Cash Inflows	Cash Outflows
Cash Sales	Cash Purchase	Cash Sale of Fixed Assets (Tangible/Intangible)	Cash Purchase of Fixed Assets (Tangible/Intangible)	Issue of Shares	Buy Back of Equity Shares
Cash Received from Trade Receivables	Cash Paid to Trade Payables	Cash Sale of Investment	Cash Purchase of investment (Other Than Marketable Securities)	Issue of Debentures	Redemption of Preference Shares
Royalties, Fees, Commission Received	Payment of Operating Expenses such as Rent, wages, Salaries etc.	Dividend Received	Income Tax Paid (related to investing Activity)	Proceeds from Long term Borrowing/Short Term Borrowing	Redemption/ Repayment of Debenture including premium
Income Tax Refund	Payment of Income Tax	Interest Received	Increase in Short Term Loans & Advances	Proceeds from bank Overdraft/ Cash Credit	Repayment of Bank Overdraft/ Cash Credit
		Rent Received from Property held as Investment		Interest received on calls in arrears	Share Issue Expense, Dividend paid, Interest on Loans, Debenture and Public Deposit
		Decrease in Short Term Loans & Advances			

Remembrance-1 Mark

S.N.	Particulars	Trading, Manufacturing Enterprises	Bank, Financing Enterprises
1	Interest Paid: Out-Flow	Financing	Operating
2	Dividend Paid: Out-Flow	Financing	Financing
3	Interest Received: In-Flow	Investing	Operating
4	Dividend Received: In-Flow	Investing	Operating

CASH FLOW STATEMENT
AS PER AS-3 (REVISED) {INDIRECT METHOD}

I. CASH FLOW FROM OPERATING ACTIVITIES			
(A) NET PROFIT BEFORE TAXATION AND EXTRAORDINARY ITEMS *		XXXXX	
Adjustment for Non-operating and Non-Cash items		XXXX	
(B) Add:- Depreciation during the year		XXXX	
Interest on borrowings and debentures		XXXX	
Preliminary expenses/Discount on issue of debentures written off.		XXXX	
Goodwill/ Patents/ Trademarks/Copyrights amortised		XXXX	
Loss on sale of Fixed Assets/Investments		XXXX	
Increase in provision for doubtful debts		XXXX	
Premium on redemption of debentures written off		(XXXX)	
(C) Less: Interest/Dividend/ Rental income		(XXXX)	
Profit on sale of Fixed Assets/Investments		(XXXX)	
Decrease in provision for doubtful debts		(XXXX)	
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES(A+B+C)		XXXXX	
Add: Decrease in C. A. and increase in C. L.			
Less: Increase in C. A. and decrease in C. L.			
Cash generated from operations		(XXXX)	
Less: Tax Paid			XXXXX
NET CASH FLOW/USED IN OPERATING ACTIVITIES			
II. CASH FLOW FROM INVESTING ACTIVITIES			
Proceeds from sale of tangible/intangible fixed assets/non-current investment		XXXX	
Interest/dividend/rent received		XXXX	
Purchase of tangible/intangible fixed assets/non-current investment		(XXXX)	
NET CASH FLOW/ USED IN INVESTING ACTIVITIES			XXXXX
III. CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from issue of shares/debentures		XXXX	
Increase in long term borrowings/bank overdraft/cash credit		XXXX	
Decrease in long term borrowing/ bank overdraft/cash credit		(XXXX)	
Payment of final dividend/interest/interim dividend		(XXXX)	
Redemption of debentures/preference shares		(XXXX)	
NET CASH FLOW/ USED IN FINANCING ACTIVITIES			XXXXX
IV. NET INCREASE/DECREASE(I+II+III)			XXXXXX
V. ADD: CASH AND CASH EQUIVALENT IN THE BEGINNING OF THE YEAR (INCLUDING CURRENT INVESTMENT AND MARKETABLE SECURITIES)			XXXXXX
VI CASH AND CASH EQUIVALENT END OF THE YEAR (INCLUDING CURRENT INVESTMENT AND MARKETABLE SECURITIES)			XXXXXX

*Net Profit Before Tax = Profit of the year {CY-PY} + Transfer to Reserve+ Provision for Tax {CY} + Interim Dividend+ Proposed Dividend {PY} {Prepared by Sh. Dinesh Sharma Page No. 14-19}
