ಜಿಲ್ಲಾಡಳಿತ

ಮತ್ತು

ಪದವಿಪೂರ್ವ ಶಿಕ್ಷಣ ಇಲಾಖೆ

ಚಿಕ್ಕಬಳ್ಳಾಪುರ ಜಿಲ್ಲೆ

ಸುಲಲಿತ

ದ್ವಿತೀಯ ಪಿಯುಸಿ ವಾರ್ಷಿಕ ಪರೀಕ್ಷೆಗೆ

ಸರಳ ಅಭ್ಯಾಸ ಕೈಪಿಡಿ

ACCOUNTANCY

ಸಹಕಾರ:

ಚಿಕ್ಕಬಳ್ಳಾಪುರ ಜಿಲ್ಲಾ ಪದವಿಪೂರ್ವ ಕಾಲೇಜು ಪ್ರಾಂಶುಪಾಲರ ಮತ್ತು ಉಪನ್ಯಾಸಕರ ಸಂಘ.

Chapter-1

Accountancy for Not-For-Profit Organisation

SECTION-A: ONE MARK QUESTIONS

1. **Donations for specific purposes are always capitalized. State True/False.**

Ans: True.

2. **Not-for-profit-organisations are used for the welfare of the ____________ .**

Ans: society.

3. **Not-for-profit organisations are formed for _______________ .**

   a) profit b) service c) profit and service d) None of these

Ans: b) service.

4. **Give an example for Not-for-profit-organisation?**

Ans: i) Charitable Institutions

ii) Hospitals, Public Libraries.

5. **Give an example for specific donation?**

Ans: Donation for buildings.

6. **Receipt and payment A/c is a summary of _________ book.**

Ans: Cash

7. **_______________ are the amounts received as per the will of the deceased person.**

Ans: Legacies

8. **Life membership fees is treated as ________________ .**

Ans: Capital receipt

9. **Name any one final a/c of Not-for-profit -organisation.**

Ans: Income and Expenditure A/c

10. **Capital and Revenue items are recorded in receipt and payment A/c. State True/False.**

Ans: True

11. **Government grant is treated as ________________ receipt.**

Ans: Revenue.

SECTION-D

1. **Following is the Balance sheet of Shri Ramakrishna Education Society, Udupi for the year ending 31.3.2019. (June-2016)**

Balance Sheet as on 31.03.2019

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Fund	54,000	Furniture	40,000
Affiliation fees dues	2,000	Investments	26,000
Building Fund	40,000	Sports Equipments	15,000
Salary Outstanding	4,000	Subscriptions Outstanding	3,000
		Cash at Bank	6,000
		Books	10,000
Total	**1,00,000**	**Total**	**1,00,000**

Dr. Receipts and payments for the year ending 31.3.2020 Cr.

Receipts	Amount (₹)	Payments	Amount (₹)
To Balance b/d	6,000	By Affiliation fees	2,000
To Subscriptions	25,000	By Salaries	42,000
To Govt. Bonds	75,000	By Boards, Maps and Charts	8,000
To Building grants	20,000	By Furniture	5,000
		By Repairs and Painting	4,000
		By Books	35,000
		By Postage	1,000
		By Tournament expenses	5,000
		By Printing and Stationary	6,500
		By Union Day function expenses	8,500
		By Balance c/d	19,000
Total	**1,36,000**	**Total**	**1,36,000**

Adjustments:

a) Salary payable ₹ 3,000.
b) Subscriptions received in advance during the year ₹ 500.
c) Subscriptions due for the current year ₹ 1,200.
d) Depreciate furniture by ₹ 2,900 books by ₹ 6,000 and sports equipments by ₹ 2,500.

Prepare:

i)Income and Expenditure A/c for the year ending 31.3.2020.
ii)Balance sheet as on that date.

Ans: **Shri Ramakrishna Education Society, Udupi.**

Dr. Income and Expenditure A/c for the year ending 31.3.2020 Cr.

Expenditure		Amount (₹)	Income		Amount (₹)
To Affiliation fees	2,000		By Subscriptions	25,000	
(–) P.Y. (O/s)	–2,000	0000	(–) P.Y. (O/s)	–3,000	
To Salaries	42,000			22,000	
(–) P.Y. (O/s)	–4,000		(+) C.Y. (O/s)	1,200	
	38,000			23,200	
(+) C.Y. (O/s)	+3,000	41,000	(–) Received in advance	–500	22,700
To Depreciation:			By Govt. grants		75,000
Books	6,000		By Interest received		10,000
(+) Furniture	2,900				
(+) Sports Equipment	2,500	11,400			
To Repairs and Painting		4,000			
To Postage		1,000			
To Tournament expenses		5,000			
To Printing and Stationary		6,500			
To Union day function exp.		8,500			
To Surpulus		30,300			
		1,07,700			**1,07,700**

Balance Sheet as on 31.03.2020

Liabilities		Amount (₹)	Assets		Amount (₹)
Subscription received			Furniture	40,000	
in advance		500	(+) Additions	5,000	
Salary O/s		3,000		45,000	
Building fund	40,000		(–) Depreciation	–2,900	42,100
(+) Grants	+20,000	60,000	Investments		26,000
Capital Fund :			Sports equipments	15,000	
Opening	54,000		(–) Depreciation	–2,500	12,500
(+) Surplus	+30,300	84,300	Subscriptions O/s		1,200

		Cash @ Bank		19,000
		Books	10,000	
		(+) Additions	35,000	
			45,000	
		(–) Depreciation	6,000	39,000
		Boards, Maps and Charts		8,000
	1,47,800			**1,47,800**

2. **Following is the Balance sheet and Receipts and Payments A/c of Ganesh Education Trust, Udupi.** ***(March, 2016)***

Balance Sheet as on 31.03.2014

Liabilities	Amount (₹)	Assets	Amount (₹)
O/s Office Expenses	5,000	Cash in hand	15,000
Bank Loan	35,000	Furniture	25,000
Capital Fund	1,20,000	Buildings	70,000
		Sports Materials	20,000
		Library Books	30,000
Total	**1,60,000**	**Total**	**1,60,000**

Dr. Receipts and payments for the year ending 31.3.2015 Cr.

Receipts	Amount (₹)	Payments	Amount (₹)
To Balance b/d	15,000	By Office Expenses	22,000
To Subscriptions	50,000	By Postage	100
To Entrance fees	8,000	By Printing	500
To Donations	12,000	By Salary	25,000
To Interest	5,000	By Purchase of Books	10,000
		By Bank Loan paid	5,000
		By Subscriptions to Newspapers	600
		By Balance c/d	26,800
Total	**90,000**	**Total**	**90,000**

Adjustments:

i) Subscriptions outstanding ₹ 5,000.

ii) Subscriptions received in advance ₹ 5,000.

iii) Salary prepaid ₹ 3,000

iv) Capitalise 50% of entrance fees and 50% of donations.

v) Depreciate building by 10% p.a.

Prepare:

a) Income and Expenditure A/c for the year ending 31.3.2015.

b) Balance sheet as on 31.03.2015.

Ans: **Ganesh Education Trust, Udupi.**

Dr. Income and Expenditure A/c for the year ending 31.3.2015 Cr.

Expenditure		Amount (₹)	Income		Amount (₹)
To Office expenses	22,000		By Subscriptions	50,000	
(–) O/s expenses (P.Y.)	5,000	17,000	(+) O/s (C.Y.)	5,000	
To Printing & Stationary		500		55,000	
To Salary	25,000		(–) Subscription		
(–) Prepaid	3,000	22,000	received in advance	5,000	50,000
To Postage		100	By Entrance fees		4,000
To Depreciation on			$8,000 \times \frac{50}{100}$		
building by 10% p.a.		7,000	By Donation		6,000
$70,000 \times \frac{10}{100}$			$12,000 \times \frac{50}{100}$		
To subscription to newpapers		600	By Interest		5,000
To Surplus (Bal)		17,800			
		65,000			**65,000**

Balance Sheet as on 31.03.2015

Liabilities		Amount (₹)	Assets		Amount (₹)
Bank Loan	35,000		Cash in hand		26,800
(–) Repaid	5,000	30,000	Furniture		25,000
Subscription received			Building	70,000	
in advance		5,000	(–) Depreciation	7,000	63,000
Capital fund			Sports materials		20,000
Opening Bal.	1,20,000		Library books	30,000	
(+) Entrance fees	6,000		(+) Purchases	10,000	40,000
(+) Surplus	17,800	1,47,800	Prepaid Salary		3,000
			O/s Subscription		5,000
	Total	**1,82,800**		**Total**	**1,82,800**

3. From the following Receipts and Payments account and Balance Sheet of Union Club, prepare Income and Expenditure account for the year ended 31.3.2018 and Balance sheet as on that date. (March, 2019)

Balance Sheet as on 31.03.2017

Liabilities	Amount (₹)	Assets	Amount (₹)
Outstanding Salary	1,000	Cash in hand	3,500
Capital Fund	39,900	Books	6,200
		O/S subscription	3,600
		Furniture	2,600
		Building	25,000
Total	**40,900**	**Total**	**40,900**

Dr. Receipts and payments for the year ended 31.3.2018 Cr.

Receipts	Amount (₹)	Payments	Amount (₹)
To Balance b/d	3,500	By General expeses	900
To Subscriptions	75,000	By Salary	16,000
To Entrance fees	2,000	By Postage	1,300
To Rent from use of Hall	7,000	By Electricity charges	7,800
To Donation	10,000	By Furniture	26,500
To Sale of Newspaper	400	By Books	13,000
To Life Membership fees	7,300	By Newspaper	600
		By Meeting expenses	7,200
		By T.V. set	16,000
		By Balance c/d	15,900
Total	**1,05,200**	**Total**	**1,05,200**

Additional Information:

a) Subscription outstanding on 31st March, 2018 - Rs. 10,000.

b) Salary outstanding on 31st March, 2018 - Rs. 1,000.

c) Depreciation furniture and Books at 10% each (only on opening balances).

d) Donation to be capitalised.

e) Electricity charged paid in advance - Rs. 650.

Ans: **Union Club**

Dr. Income and Expenditure A/c for the year ending 31.3.2018 Cr.

Expenditure		Amount (₹)	Income		Amount (₹)
To General expenses		900	By Subscriptions	75,000	
To Salary	16,000		(–) O/s (P.Y.)	3,600	
(–) O/s (P.Y.)	1,000			71,400	
	15,000		(+) O/s (C.Y.)	10,000	81,400
(+) O/s (C.Y.)	1,000	16,000	By Entrace fees		2,000
To Postage		1,300	By Rent from use of Hall		7,000
To Electricity charges	7,800		By Sale of Newspaper		400
(–) paid in advance	650	7,150			
To News paper		600			
To meeting expenses		7,200			
To Depreciation					
Furniture (on op. bal) $2,600 \times \frac{10}{100}$	260				
Books $6,200 \times \frac{10}{100}$	620	880			
To Surplus (Bal)		56,770			
Total		**90,800**	**Total**		**90,800**

Balance Sheet as on 31.03.2018

Liabilities		Amount (₹)	Assets		Amount (₹)
O/s Salary (31.3.2018)		1,000	Cash in hand		15,900
Capital Fund:			Books	6,200	
Opening balance	39,900		(+) Additions	13,000	
(+) Surplus	56,770			19,200	
(+) Donation	10,000		(–) Depreciation	620	18,580
(+) Life membership	73,000	1,13,970	Furniture	2,600	
			(+) Purchase	26,500	
				29,100	
			(–) Depreciation	260	28,840
			Building		25,000
			T.V. Set		16,000
			O/s Subscription (31.3.2018)		10,000
			Electricity charges (paid in advance)		650
Total		**1,14,970**	**Total**		**1,14,970**

4. The following are the Balance Sheet and Receipts and Payments of Mandar Education Society, Bagalkot.

Balance Sheet as on 31.03.2018

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital fund	72,800	5% Govt. Bonds	62,000
Audit Fees O/s	5,000	Furniture	6,500
		Maps and Charts	3,200
		Cash in Hand	4,100
		Subscriptions O/s	2,000
Total	**77,800**	**Total**	**77,800**

Dr. Receipts and payments for the year ended 31.3.2019 Cr.

Receipts	Amount (₹)	Payments	Amount (₹)
To Balance b/d	4,100	By Autid fees	5,000
To Subscription	41,000	By Rent	3,600
To Donations	5,000	By Maps and Charts	6,800
To Interest on		By Stationary and Postage	500
donations	1,700	By Salary	16,000
		By Functions	2,100
		By Balance c/d	17,800
Total	**51,800**	**Total**	**51,800**

Adjustments:

a) Audit fees Rs. 2,500 till due.

b) Charge Rs. 500 as depreciation on furniture.

c) Hall of the donation is to be considered as revenue.

d) Outstanding Interest on Govt. Bonds Rs. 1,400.

Prepare:

i) Income and Expenditure A/c and

ii) New Balance Sheet as on 31.3.2019.

Ans: **Mandar Education Society**

Dr. Income and Expenditure A/c for the year ending 31.3.2019 Cr.

Expenditure		Amount (₹)	Income		Amount (₹)
To Audit Fees	5,000		By Subscriptions	41,000	
(–) O/s (P.Y.)	5,000		(–) O/s (P.Y.)	2,000	39,000
	0000		By Donations $5,000\times\frac{1}{2}$		2,500
(+) O/s (C.Y.)	2,500	2,500	By Interest on Govt. bonds		
To Rent		3,600	(+) $62,000\times\frac{5}{100}$	1,700	
To Stationery & Postage		500	$=(3,100-1,700)$	1,400	3,100
To Salary		16,000			
To Functions		2,100			
To Depreciation on Furniture		500			
To Surplus (Balance)		19,400			
Total		**44,600**	**Total**		**44,600**

Balance Sheet as on 31.03.2019

Liabilities		Amount (₹)	Assets		Amount (₹)
Audit Fees O/s		2,500	5% Govt. Bonds	62,000	
Capital Fund			(+) Interest	1,400	63,400
Opening Balance	72,800		Furniture	6,500	
(+) Donations	2,500		(–) Depreciation	500	6,000
(+) Surplus	19,400	94,700	Maps and Charts	3200	
			(+) Additions	6,800	10,000
			Cash in hand		17,800
Total		**97,200**	**Total**		**97,200**

5. Following are the Balance Sheet and Receipt and Payment of Sree Sports, Club, Bengaluru.

Balance Sheet as on 31.03.2018

Liabilities	Amount (₹)	Assets	Amount (₹)
Outstanding Salary	2,000	Cash balance	7,300
Capital fund	32,500	O/s Subscription	1,200
		Sports materials	16,000
		Furniture	10,000
Total	**34,500**	**Total**	**34,500**

Dr. Receipts and payments for the year ended 31.3.2019 Cr.

Receipts	Amount (₹)	Payments	Amount (₹)
To Balance b/d	7,300	By Salary	10,000
To Subscriptions	38,000	By Purchase of sports	
To Entrance fees	2,000	materials	6,000
To Sale of Old news papers	200	By Investments	20,000
To Sale of old		By Fixed deposits	10,000
sports materials	1,200	By Postage	300
To Rent	7,000	By General expenses	400
		By Lighting charges	1,300
		By Balance c/d	7,700
Total	**55,700**	**Total**	**55,700**

Adjustments:

a) Subscription outstanding for the year 2019 is Rs. 3,000.

b) Subscription received is advance for the year 2020 - Rs. 1,000.

c) Depreciation on Sports materials by Rs. 5,000.

d) Capitalize entrance fees.

e) Outstanding lighting charges Rs. 300.

Prepare:

i) Income and Expenditure A/c.

ii) Balance sheet as on 31.3.2019.

Ans: **Sree Sports Club, Bengaluru.**

Dr. Income and Expenditure A/c for the year ending 31.3.2019 Cr.

Expenditure		Amount (₹)	Income		Amount (₹)
To Salary	10,000		By Subscriptions	38,000	
(–) O/s (P.Y.)	2,000	8,000	(–) O/s (P.Y.)	1,200	
To Postage		300		36,800	
To General Expenses		400	(+) O/s (C.Y.)	3,000	
To Lighting Charges	1,300			39,800	
(+) O/s	300	1,600	(–) Received in advance	1,000	38,800
To Depreciation on		5,000	By Sale of old newpapers		200
sports materials			By Sale of old sports materials		1,200
To Surplus		31,900	By Rent		7,000
Total		**47,200**	**Total**		**47,200**

Balance Sheet as on 31.03.2019

Liabilities		Amount (₹)	Assets		Amount (₹)
Subscriptions received in advance		1,000	Cahs Balance		7,700
O/s Lighting charges		300	Sports materials	16,000	
Capital Fund			(+) Purchases	6,000	
				22,000	
Opening balance	32,500		(–) Depreciation	5,000	17,000
(+) Entrance fees	2,000		Investments		20,000
(+) Surplus	31,900	66,400	Fixed Deposits		10,000
			O/s Subscription		3,000
			Furniture		10,000
Total		**67,700**	**Total**		**67,700**

6. **Following are the Balance Sheet and Receipts and Payments of Hassan Sports Club, Hassan.**

Balance Sheet as on 31-03-2017

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Fund	61,000	Buildings	64,000
Subscription for 2017-18	1,000	O/S Subscriptions	1,600
O/s office expenses	4,000	Outstanding Rent	400
Bank Loan	20,000	Furniture	12,000
		Cash at Hand	8,000
Total	**86,000**	**Total**	**86,000**

Dr. Receipt and Payment Account for the year ended 31-03-2018 Cr.

Receipts		Amount (₹)	Payments	Amount (₹)
To Balance B/d		8,000	By Office Expenses	
To Subscriptons:	2016-17	1,600	2016-17	4,000
	2017-18	17,600	2017-18	6,000
	2018-19	2,800	By subscription to	
			Newspapers & Journals	2,000
To Entrance Fees		4,000	By Refreshment Expenses	4,000
To Rent		4,000	By Investments	10,000
To Income from Drama		6,000	By Bank Loan	8,000
To Sale of newspapers		400	By Salary	4,000
			By Balance c/d	6,000
Total		**44,400**	**Total**	**44,400**

Adjustments:

i) Subscriptions outstanding Rs. 1,000

ii) Salary outstanding Rs. 400.

iii) Interest payable Rs. 2,400

iv) Depreciation on Building Rs. 5,000

v) Entrance Fees is to be capitalised.

Prepare: a) Income and Expenditure A/c

b) Balance Sheet as on 31.03.2018.

Ans: **Hassan Sports Club, Hasan.**

Dr. Income and Expenditure Account for the year ending 31st March, 2018 Cr.

Expenditure		**Amount (₹)**	**Income**		**Amount (₹)**
To Office expenses (2017-18)		6,000	By Subscriptions (2017-18)	17,600	
To Subscriptions to newspapers and journals		2,000	**(+)** Subscriptions 2017-18	1,000	
To Refreshment expenses		4,000	(+) O/s	1,000	19,600
To Salary	4,400		By Rent	4,000	
(+) O/s	400	4,800	**(–)** O/s Rent	400	3,600
To Interest payable		2,400	By Income from Drama		6,000
To Depreciation on building		5,000	By Sale of Newspapers		400
To Surplus		5,400			
Total		**29,600**	**Total**		**29,600**

Balance Sheet as on March 31, 2018

Liabilities		**Amount (₹)**	**Assets**		**Amount (₹)**
Capital Fund			Buildings	64,000	
Opening Balance	61,000		**(–)** Depreciation	5,000	59,000
(+) Entrance fees	4,000		Furniture		12,000
(+) Surplus	5,400	70,400	Cash in hand		6,000
Bank loan	20,000		Investments		10,000
(–) Repaid	8,000	12,000	O/s subscriptions		1,000
Salary O/s		400			
Interest payable		2,400			
Subscription received in advance (2018-19)		2,800			
Total		**88,000**	**Total**		**88,000**

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

Dr. Receipt and Payment Account for the year ending on 31.03.2018 Cr.

Receipts		Amount (₹)	Payments	Amount (₹)
To Balance b/d		19,550	By General Expenses	3,200
To subscriptions			By News papers	1,850
2017-18	27,700		By Electricity	3,000
2018-19	500	28,200	By Fixed deposit with bank	18,000
To Sale of old newspaper		800	(on 30-06-2017) @10% p.a.	
To Govt. grant		12,000	By Books	7,000
To Sale of Furniture		3,700	By Salary	3,600
(book value Rs. 5,000)			By Rent	6,500
To Interest received on		900	By Postage charges	300
Fixed Deposits			By Furniture (purchased)	10,500
			By Balance c/d	11,200
Total		**65,150**	**Total**	**65,150**

Additional Information:

i) Subscription outstanding on 31-03-2018 Rs. 1,500

ii) On March 31, 2018 Salary outstanding Rs. 600

iii) On April 1, 2017, Organisation owned Furniture Rs. 12,000, Books Rs. 5,000

Ans: **Adult Literacy Organisation**

Opening Balance Sheet as on 1.4.2017

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Fund		Furniture	12,000
(Balancing figure)	36,550	Books	5,000
		Cash/Bank	19,550
Total	**36,550**	**Total**	**36,550**

Adult Literacy Organisation

Dr. Income and Expenditure Account for the year ending 31st March, 2018 Cr.

Expenditure	Amount (₹)	Income		Amount (₹)
To General Expenses	3,200	By Subscriptions (2917-18)	27,700	
To Newspaper	1,850	(+) O/s (C.Y.)	1,500	29,200

To Electricity		3,000	By Sale of old newspapers		800
To Salary	3,600		By Govt. grant		12,000
(+) O/S	600	4,200	By Interest received	900	
To Rent		6,500	on Fixed deposit		
To Postage Charges		300	(+) O/s Interest	450	1,350
To Loss on sale of old furniture		1,300	$\left(18,000 \times \frac{10}{100} \times \frac{9}{12} - 900\right)$		
(Rs. 5,000–Rs. 3,700)					
To Surplus		23,000			
Total		**43,350**	**Total**		**43,350**

Balance Sheet as on March 31, 2018

Liabilities		Amount (₹)	Assets		Amount (₹)
Capital Fund	36,550		Furniture	12,000	
(+) Surplus	23,000	59,550	(–) Book value sold	5,000	
Subscriptions recd.		500		7,000	
in advance for 2018-19			(+) purchases	10,500	17,500
Salary outstanding on		600	Books	5,000	
31.03.2018			(+) purchases	7,000	12,000
			Cash		11,200
			Fixed Deposit		18,000
			O/s Interest on F.D.		450
			O/s Subscription on 31.3.2018		1,500
Total		**60,650**	**Total**		**60,650**

8. Receipt and Payment account of Shankar Sports Club, is given below for the year ended March 31, 2018.

Receipts	Amount (₹)	Payments	Amount (₹)
To Cash in hand	2,600	By Rent	18,000
To Entrance fees	3,200	By Usages	7,000
To Donation for Building	23,000	By Billiard Table	14,000
To Locker rent	1,200	By Furniture	10,000
To Life membership fees	7,000	By Interest	2,000
To Profit from Entertainment	3,000	By Postage	1,000
To Subscription	40,000	By Salary	24,000
		By Cash in hand	4,000
Total	**80,000**	**Total**	**80,000**

Prepare Income and Expenditure Account and Balance sheet with the help of the following information :

Subscription outstanding on March 31, 2017 is Rs. 1,200 and Rs. 2,300 on March 31, 2018, opening stock of postage stamps's is Rs. 300 and Closing stock is Rs. 200, Rent Rs. 1,500 related 2016-17 and Rs. 1,500 is still unpaid on April 1, 2017 the club owned furniture Rs. 15,000, furniture value at Rs. 22,500 on March 31, 2018. The club took a loan of Rs. 20,000 @ 10% p.a. during the year 2016-17.

Ans: **Shankar Sports Club**

Opening Balance Sheet as on 1.4.2017 (31st March, 2017)

Liabilities	Amount (₹)	Assets	Amount (₹)
Rent unpaid	1,500	Cash in hand	2,600
Loan @ 10% p.a.	20,000	Subscriptions O/s (31.3.2017)	1,200
		Stock of postage, stamps	300
		Furniture	15,000
		Capital fund (deficiency)	2,400
Total	**21,500**	**Total**	**21,500**

Dr. Income and Expenditure Account for the year ending 31.3.2018 Cr.

Expenditure		Amount (₹)	Income		Amount (₹)
To Rent	18,000		By Entrance fees		3,200
(–) O/s (P.Y.)	1,500		By Locker rent		1,200
	16,500		By Profit from Entertainment		3,000
(+) O.S. (C.Y.)	1,500	18,000	By Subscription	40,000	
To Usages		7,000	(–) O/s (P.Y.)	1,200	
To Interest		2,000		38,800	
To Postage	1,000		(+) O/s (C.Y.)	2,300	41,100
(+) Op. stock	300		By deficit (Excess of		
	1,300		expenditure over Income)		600
(–) Cl. stock	200	1,100			
To salary		24,000			
To Depn. on Furniture					
(15,000+10,000+22,500)		2,500			
Total		**54,600**	**Total**		**54,600**

Balance Sheet as on 31st March, 2018

Liabilities	Amount (₹)	Assets		Amount (₹)
Loan @ 10% p.a.	20,000	Cah in hand (31.3.2018)		4,000
Donation for building	23,000	Furniture		22,500
Rent unpaid (31.3.2018)	1,500	O/s Subscription (C.Y.)		2,300
		Closing stock of postage stamps		200
		Billiard Table		14,000
		Capital fund (Dr. balance)	2,400	
		(+) Deficit	6,100	
			8,500	
		(–) Life membership fees	7,000	1,500
Total	**44,500**		**Total**	**44,500**

9. Sun Club, Dharwad was started from 1.4.2015. Its receipts and payments account for the year ending 31.3.2016 was as follows. ***(March, 2017)***

Receipts	Amount (₹)	Payments	Amount (₹)
To Subscription	70,000	By Salry	26,500
To Interest	11,000	By Tournament expenses	20,000
To Tournament fund	30,000	By Telephone charges	6,500
To Games fees	25,000	By Games expenses	10,000
To Life membership fees	40,000	By Sports material	20,000
To Donation	2,00,000	By Buildings	2,00,000
To Entrance fees	1,00,000	By Furniture	30,000
		By Office expenses	10,000
		By Investments	1,00,000
		By Balance c/d	53,000
Total	**4,76,000**	**Total**	**4,76,000**

Adjustments:

a) Outstanding salaries - Rs. 2,000.

b) Donations and entrance fees are capitalised.

c) Sports materials on 31.3.2016 were valued at Rs. 8,500.

d) Depriciate building and furniture by 10%.

e) O/s subscription Rs. 5,000 and subscription received in advance Rs. 3,000.

Prepare :

i) Income and Expenditure Account.

ii) Balance sheet.

Sun Club, Dharwad

Dr. Income and Expenditure Account for the year ending 31st March, 2016 Cr.

Expenditure		Amount (₹)	Income		Amount (₹)
To Salary	26,500		By subscription	70,000	
(+) O/s	2,000	28,500	(+) O/s (C.Y.)	5,000	
To Telephone charges		6,500		75,000	
To Games expenses		10,000	(–) received in advance	3,000	72,000
To Office expenses		10,000	By Interest		11,000
To Depreciation @ 10%			By Games fees		25,000
Building - $2,00,000 \times \frac{10}{100}$		20,000			
Furniture - $30,000 \times \frac{10}{100}$		3,000			
Sports materials		11,500			
(20,000 – 8,500)					
To Surplus		18,500			
Total		**1,08,000**	**Total**		**1,08,000**

Balance Sheet as on 31.3.2016

Liabilities		Amount (₹)	Assets		Amount (₹)
Capital Fund			Sports material	20,000	
Opening Balance	-		(–) Depreciation	11,500	8,500
(+) Surplus	18,500		Building	2,00,000	
(+) Life membership	40,000		(–) Depreciation	20,000	1,80,000
(+) Donation	2,00,000		Furniture	30,000	
(+) Entrance fees	1,00,000	3,58,500	(–) Depreciation	3,000	27,000
Tournament fund	30,000		O/s Subscription		5,000
(–) Tournament exp.	20,000	10,000	Cash in hand		53,000
O/s Salaries		2,000	Investments		1,00,000
Subscriptions recd. in adv.		3,000			
Total		**3,73,000**	**Total**		**3,73,000**

Chapter-2

Accountancy for Partnership: Basic Concepts

SECTION-A : ONE MARK QUESTIONS

1. **Section _________ of Indian Partnership Act, 1932 difines Partnership.**

Ans: 4.

2. **A partnership has no separate __________ entity.**

Ans: Legal

3. **Partnership is the result of _________ betwen two or more persons to do business and share**

Ans: Agreement.

4. **In order to form a partnership there should be at least ___________ persons.**

Ans: 2

5. **The agreement should be to carry on some __________ business.**

Ans: Lawfull.

6. **The liability of a partner for his acts is ____________ .**

Ans: Unlimited.

7. **Under ____________ method, the capitals of the partners shall remain fixed.**

Ans: Fixed capital.

8. **Profit and Loss Appropriation Account is merely an extension of ____________ account of firm.**

Ans: P & L A/c

9. **The agreement between the partner should be in :**

   a) oral b) written c) oral or written d) None of the above.

Ans: c) Oral or written

10. **Partnership deed contains:**

    a) Name of firm **b) Name and address of the partners**

    c) Profit and loss sharing ratio **d) All of the above**

Ans: d) All of the above.

11. When varying amounts are withdrawn at different intervals, the interest is calculated using ________________ .

a) Simple method **b) Average method**

c) Product method **d) None of the above**

Ans: c) Product method.

12. In order to form a partnership there should be atleast :

a) one person b) two persons c) seven persons d) None of the above

Ans: b) Two persons.

13. The business of a partnership concern may be carried on by :

a) All the partners **b) Any of them acting for all**

c) All the partners or any of them acting for all. d) None of the above.

Ans: c) All the partners or any of them acting for all.

14. The agreement between partners must be to share:

a) Profits **b) Losses** **c) Profit and Losses** **d) None of the above**

Ans: c) Profits and losses

15. The liability of a partner for acts of the firm is :

a) Limited **b) Unlimited**

c) Both of the above **d) None of the above**

Ans: b) Unlimited

16. The agreement between partners must be in writing: True/False.

Ans: False

17. If the partnership deed is silent about the profit sharing ratio, the profit and loss of the firm is to be shared equally. True/False

Ans: True

18. In the observe of partnership deed, no partner is entitled to get salary or commission. True/False.

Ans: True

19. P/L Appropriation A/c shows how the profits are appropriated among the partners: True/ False.

Ans: True.

20. Interest on partners capital is debited to partner's capital account: True/ False.

Ans: False.

21. State any one feature of partnership firm.

Ans: i) Two or more persons; ii) Agreement or any one.

22. What is the minimum number of partners in the firm ?

Ans: The minimum number of partners in partnership firm is two.

23. Name any one contents of partnership deed.

Ans: i) Name of the firm ; ii) Nature of business or any oen.

24. Name any one method of maintaining capital accounts of partners.

Ans: i) Fixed capital method ii) Fluctuating capital method

25. Why the profit and loss appropriation account is prepared?

Ans: P and L appropriation account is prepared to show how net profit is distributed among the partner.

SECTION-B: TWO MARK QUESTIONS

1. What is partnership ?

Ans: The partnership is an association of two or more persons who agree to carry on a legal business jointly and share the profits or losses from that business in an agreed ratio.

2. Define partnership?

Ans: Under section A of Indian partnership Act, 1932 defines partnership as, "the relation beteen persons who have agreed to share the profits and losses of a business carried on by all or any of them acting for all."

3. State any two features of partnership.

Ans: i) Two or more persons

ii) An agreement

iii) Sharing of profit (any two)

4. What is partnership deed?

Ans: When the partnership agreement is written and signed by all the partners and is duly stamped according to the stamp act. It is called, 'partnership deed.'

5. Name any two contents of the partnership deed?

Ans: i) Name of the firm

ii) Profit and loss sharing ratio

iii) Capital contribution by partners. *(any two.)*

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

Ans: i) Fixed capital method

ii) Fluctuating capital method

7. What is fixed capital method?

Ans: Fixed capital method is the method under which the capitals of the partners shall remain fixed (same) year after year. It will change only when additonal capital is introduced or a part of capital is withdrawn.

8. What is fluctuating capital method?

Ans: Fluctuating capital method is a method under which the capitals of the partners fluctuate (change) from year to year under this method only one account i.e., capital account is maintained for each partner.

9. Name any two methods for calculation of Interest on drawings?

Ans: i) Average period method; ii) Product method

10. What do you mean by profit and loss appropriation account?

Ans: P & L appropriation account is a special account that a firm prepares to show the distribution of profits and losses among the partners.

PROBLEMS on Preparation of P & L Appropriation Account (6 Marks)

Proforma of P & L Appropriation A/c

Dr. Profit and Loss Appropriation A/c Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Profit and Loss A/c (Net loss b/d)	x x x	By Profit and Loss A/c (Net profit c/d)	x x x
To Interest on Capital A/c	x x x	By Interest on Drawings A/c	x x x
To Partner's Salary/Commission A/c	x x x	By Partner's Capital/current A/c	x x x
To Partner's Capital /Current A/c	x x x	(Distribution of losses)	
(Distribution of Profits)			
	x x x x		x x x x

1. Mithun and Nithin are equal partners with captals of Rs. 1,80,000 and Rs. 1,40,000 rspectively on 01-04-2012. The partnership deed provided for interest on capital at 5% per annum. Interest on drawings being: Mithun Rs. 540 and Nithin Rs. 360 and annual commission of Rs. 8,000 to Mithun. During the year Mithun withdrew Rs. 18,000 and Nithin Rs. 12,000 for their private use.

The profit before adjustment of interest on capital, interest on drawings and Mithun's commission was Rs. 42,100 for the year.

Prepare the profit and loss appropriation account for the year ending 31st March, 2013.

Soln:

Dr. Profit and Loss Appropriation A/c for the year ended 31st March, 2013 Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Interest on Capital A/c		By Profit and Loss A/c (Profit)	42,100
Mithun $1,80,000 \times \frac{5}{100}$	9,000		
Nithin $1,40,000 \times \frac{5}{100}$	7,000		

To Mithun's commission A/c	8,000	By Interest on drawings A/c	
To Partner's capital A/c	19,000	Mithun 540	
(Net profit transferred)		Nithin 360	900
Mithun $19,000 \times \frac{1}{2}$ 9,500			
Nithin $19,000 \times \frac{1}{2}$ 9,500			
Total	**43,000**	**Total**	**43,000**

2. **Uma and Suma started a partnership business on 1st April, 2013 with capitals of Rs. 1,00,000 and Rs. 60,000 respectively. They agreed to share the profits and losses in their capital ratio. It was agreed to allow interest on capitals at 10% per annum. Suma is allowed monthly salary of Rs. 750 and Uma an annual commission of Rs. 7,000. During the year Uma withdrew Rs. 12,000 and Suma Rs. 16,000 and respective interest on drawings amounted to Rs. 600 and Rs. 800. The profit of the firm for the year ending before charging the above adjustments Rs. 38,600.**

   Show the P and L Appropriation A/c for the year ending 31st March, 2014.

Soln:

Dr. Profit and Loss Appropriation A/c for the year ended 31st March, 2013 Cr.

Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
To Interest on Capital A/c		By Profit and Loss A/c (Profit)	38,600
Uma $1,00,000 \times \frac{10}{100}$	10,000		
Suma $60,000 \times \frac{10}{100}$	60,000	By Interest on drawings A/c	
To Suma's Salary A/c (750×12)	9,000	Uma 600	
To Uma's commission A/c	7,000	Suma 800	1400
To Partner's capital A/c	8,000		
(Net profit transferred)			
Uma $8,000 \times \frac{5}{8}$ 5,000			
Suma $8,000 \times \frac{3}{8}$ 3,000			
Total	**40,000**	**Total**	**40,000**

3. Vinay and Vidya are partners sharing profits and losses in the ratio of 6:4. Their capitals on 1.04.2012 is Rs. 2,00,000 and Rs. 1,00,000 respectively. They made profit for the year ended Rs. 89,400 before making the following adjustments.

a) Interest on capital at 8% p.a.

b) Allowed Salary Rs. 1,000 p.m. to each partner.

c) Their drawings during the year Rs. 20,000 and Rs. 15,000 respectively.

d) Interest on drawings amounted to Rs. 2,000 and Rs. 1,800 respectively.

Prepare profit and loss appropriation account for the year ended 31st March, 2013.

Soln.

Dr. Profit and Loss Appropriation A/c for the year ended 31st March, 2013 Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Interest on Capital A/c		By Profit and Loss A/c (Profit)	89,400
Vinay - $2,00,000 \times \frac{8}{100}$ =16,000		By Interest on drawings A/c	
Vidya - $1,00,000 \times \frac{8}{100}$ = 8,000	24,000	Vinay 2,000	
To Salary to Vinay (1000×12)	12,000	Vidya 1,800	
To Salary to Vidhya (1000×12)	12,000		
To Partner's capital A/c	45,200		
(Net profit transferred)			
Vinay - $45,200 \times \frac{6}{10}$ = 27,120			
Vidhya - $45,200 \times \frac{4}{10}$ = 18,080			
Total	**93,200**	**Total**	**93,200**

4. Arun and Varun are the partners sharing profits and losses in the ratio of 2:1. Their opening capital being Rs. 80,000 and Rs. 50,000 respectively. They earned a profit of Rs. 20,000 before allowing the followings:

i) Interest on capital @ 8% P.A.

ii) Interest on drawings: Arun Rs. 2,000, Varun Rs. 2,500

iii) Salary to Arun Rs. 3,000 p.a.

iv) Commission to Varun Rs. 2,000 p.a.

Dr. Profit and Loss Appropriation Account Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Partner's Capital A/c		By Profit and Loss A/c (Profit)	20,000
Arun - $80{,}000 \times \frac{8}{100} = 6{,}400$		By Interest on drawings A/c	
Varun - $50{,}000 \times \frac{8}{100} = 4{,}000$	10,400	Arun 2,000	
To Salary to Arun	3,000	Varun 2,500	4,500
To Commission to Varun	2,000		
To Partner's capital A/c (Net profit transferred)			
Arun - $9{,}100 \times \frac{2}{3} = 6{,}067$			
Varun - $9{,}100 \times \frac{1}{3} = 3{,}033$	9,100		
Total	**24,500**	**Total**	**24,500**

5. **X and Y are partners commenced partnership business on 01-04-2019, sharing profits and losses in 3:2 ratio with capitals of Rs. 1,00,000 and 80,000 respectively. They earned profits of Rs. 75,000 for the year before allowings.**
   a) Interest on capitals @ 10% p.a.
   b) Interest on drawings: X- Rs. 1,000 and Y Rs. 800.
   c) Commission payable to X Rs. 2,000 per month.
   d) Salary payable to Y Rs. 3,000 per month.

   Prepare P and L Appropriation A/c for the year ending 31-03-2020.

Soln.

Dr. Profit and Loss Appropriation A/c for the year ended 31.03.2020 Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Interest on Capital A/c		By Profit and Loss A/c (Profit)	75,000
X - $1{,}00{,}000 \times \frac{10}{100} = 10{,}000$		By Interest on drawings A/c	
Y - $80{,}000 \times \frac{10}{100} = 8{,}000$	18,000	X - 1,000	
To Commission to X-(2000×12)	24,000	Y - 800	1,800
To Salary to Y (3000×12)	36,000	By Loss transferred to Partner's capital a/c	1,200
		X - $1200 \times \frac{3}{5} = 720$	
		Y - $1200 \times \frac{2}{5} = 480$	
Total	**78,000**	**Total**	**78,000**

6. **Sachin and Pratham commenced business in partnership with capital and Rs. 1,00,000 and Rs. 80,000 respectively on 01-04-2018 agreeing to share profits and losses in the ratio of 3:2 for the year ending 31-03-2019. They earned the profits of Rs. 36,000 before allowing:**
   a) Interest on capital at 5% p.a.
   b) Interest on drawings: Sachin Rs. 600 and Pratham Rs. 1,000.
   c) Yearly Salary of Pratham Rs. 10,000.
   d) Their drawings during year Sachin Rs. 16,000 and Pratham Rs. 20,000.

   Prepare P and L Appropriation A/c.

Soln.

Dr. Profit and Loss Appropriation A/c for the year ended 31.03.2019 Cr.

Particulars		Amount (₹)	Particulars		Amount (₹)
To Interest on Capital A/c			By Profit and Loss A/c (Profit)		36,000
Sachin - $1{,}00{,}000 \times \frac{5}{100} =$	5,000		By Interest on drawings A/c		
Pratham - $80{,}000 \times \frac{5}{100} =$	4,000	9,000	Sachin -	600	
To Pratham's Salary		10,000	Pratham	1,000	1,600
To Net profit to Partner's Capital A/c					
Sachin - $18{,}600 \times \frac{3}{5} = 11{,}160$					
Pratham - $18{,}600 \times \frac{2}{5} = 7{,}440$		18,600			
Total		**37,600**	**Total**		**37,600**

DIFFERENT METHODS of calculating Interest on partner's drawings

I Direct Method or Specific Period Method/ Average Period Method

1. **Prema is a partner in a firm. She withdrew Rs. 3,000 in the beginning (first) of each month for 12 months. The books of the firm are closed on March, 31st every year.**

   Calculate interest on drawings if the rate of interest is 10% p.a.

Soln: Calculation of interest on drawings of Prema:

$$\text{Interest on drawing} = \text{Total drawings} \times \text{Rate} \times \frac{\text{Average period}}{12}$$

$$\text{Total drawings} = 3000 \times 12 = \text{Rs. } 36{,}000$$

$$\text{Average period} = \frac{\text{Longest period} + \text{Shortest period}}{2}$$

$$= \frac{12+1}{2} = 6\frac{1}{2} \text{ months}$$

$$\therefore \text{Interest on drawings} = 36000 \times \frac{10}{100} \times \frac{6\frac{1}{2}}{12}$$

$$= 36000 \times \frac{1}{10} \times \frac{13}{2} \div 12$$

$$= 36000 \times \frac{1}{10} \times \frac{13}{2} \times \frac{1}{12}$$

$$= 36000 \times \frac{1}{10} \times \frac{13}{24}$$

$$= 36000 \times \frac{13}{240}$$

$\therefore$ Interest on drawings = Rs. 1,950.

2. Mr. Mahohar withdrew Rs. 2,000 in the middle of each month. The partnership deed provider for charging the interest on drawings @ Rs. 12% p.a. Calculate interest on Manohar's drawings for the year ending 31st December, 2017.

Soln: Calculation on Interest on Drawings of Mr. Manohar.

$$\text{Interest on drawing} = \text{Total drawings} \times \text{Rate} \times \frac{\text{Average period}}{12}$$

$$\text{Total drawings} = 2000 \times 12 = \text{Rs. } 24{,}000$$

$$\text{Average period} = \frac{\text{Longest period} + \text{Shortest period}}{2}$$

$$= \frac{11\frac{1}{2} + \frac{1}{2}}{2} = \frac{12}{2} = 6 \text{ months}$$

$$\therefore \text{Interest on drawings} = 24000 \times \frac{12}{100} \times \frac{6}{12}$$

$$= \text{Rs. } 1{,}440$$

3. Hemanth withdrew Rs. 2,500 at the end of each month. The partnership deed provids for charging interest on drawings @ 12% p.a. Calculate interest of Hemanth's drawings for the year ending 31st December, 2018.

Soln: Calculation of interest on drawings of Hemanth.

$$\text{Interest on drawing} = \text{Total drawings} \times \text{Rate} \times \frac{\text{Average period}}{12}$$

$$\text{Total drawings} = 2500 \times 12 \text{ months} = \text{Rs. } 30{,}000$$

$$\text{Average period} = \frac{\text{Longest period} + \text{Shortest period}}{2}$$

$$= \frac{11+0}{2} = 5\frac{1}{2} \text{ months}$$

$\therefore$ Interest on drawings $= 30000 \times \frac{12}{100} \times \frac{5\frac{1}{2}}{12}$

$= 30000 \times \frac{12}{100} \times \frac{11}{2} \div 12$

$= 30000 \times \frac{12}{100} \times \frac{11}{12} \times \frac{1}{12}$

$\therefore$ Interest on drawings of Hemanth = Rs. 1,650

II Problems under Product Method:

4. Sahana and Saniya are partners in a firm. Sohana's drawings for the year 2018-19 are given as under :

Rs. 4,000 on 01.06.2018

Rs. 6,000 on 30.09.2018

Rs. 2,000 on 31.11.2018

Rs. 3,000 on 01.01.2019

Calculate the interest on drawings at 8% p.a. for the year ending on 31.03.2019 under product method.

Soln: Calculation of interest on drawings (under Product Method):

Date (1)	**Amount (2)**	**Period (3)**	**Product (4)** 2×3
01.06.2018	4,000	10	40,000
30.09.2018	6,000	06	36,000
30.11.2018	2,000	04	8,000
01.01.2019	3,000	03	9,000
		Total product	**93,000**

Interest on Drawings $=$ Total product $\times$ Rate $\times \frac{1}{12}$

$= 93,000 \times \frac{8}{100} \times \frac{1}{12}$

$\therefore$ Interest on drawings of Sahana = Rs. 620

5. Radha and Ravi are the partners in a firm. Radha's drawings for the year 2015-16 are given as under :

Rs. 5,000 on 01.04.2015

Rs. 8,000 on 30.06.2015

Rs. 3,000 on 01.12.2015

Rs. 2,000 on 31.03.2016

Calculte the interest on Radha's drawings at 10% p.a. for the year ending 31.03.2016 under product method.

Soln: Calculation of Interest on Radha's drawing under product method.

Date (1)	**Amount (2)**	**Period in months (3)**	**Product (4)** 2×3
01.04.2015	5,000	12	60,000
30.06.2015	8,000	09	72,000
01.12.2015	3,000	04	12,000
31.03.2016	2,000	00	00000
		Total product	**1,44,000**

Interest on Drawings $= \text{Total product} \times \text{Rate} \times \dfrac{1}{12}$

$$= 1{,}44{,}000 \times \frac{10}{100} \times \frac{1}{12}$$

$\therefore$ Interest on drawings of Radha = Rs. 1,200.

6. Yashasvi and Tapasvi are partners in a firm. During the year ended on 31st March, 2020. Yashasvi makes the drawings as under:

Date of drawings	**Amount (in Rs.)**
01.08.2019	**5,000**
31.10.2019	**8,000**
31.12.2019	**10,000**
31.03.2020	**15,000**

Partnership Deed provided that partners are to be charged interest on drawings @ 12% p.a. Calculate the interest on drawings of Yashasvi under product method.

Soln: Calculation of Interest on Yashasvi's drawings under product method:

Date (1)	**Amount (2)**	**Period in months (3)**	**Product (4)** 2×3
01.08.2019	5,000	8	40,000
31.10.2019	8,000	6	40,000
31.12.2019	10,000	3	30,000
31.03.2020	15,000	0	00000
		Total product	1,10,000

Interest on Drawings $= \text{Total product} \times \text{Rate} \times \dfrac{1}{12}$

$$= 1{,}10{,}000 \times \frac{12}{100} \times \frac{1}{12}$$

$\therefore$ Interest on drawings of Yashasvi = Rs. 1,100.

PRACTICAL ORIENTED QUESTIONS

1. How do you treat the following in the absence of partnership deed.

a) Profit Sharing Ratio

b) Interest on Capital

c) Interest on Drawings

d) Interest on Partner's Loans and Advances

e) Partner's Salary/Commission.

Ans: a) Equal share

b) No Interest on Capital

c) No Interest on Drawings

d) 6% Interest on Loans and Advances

e) No any Salary/Commission to any partner.

2. Write two partner's capital A/c under fluctuating capital system with 5 imaginary figures :

Ans: **Partner's Capital Accounts (Under Fluctuating Capital System)**

Dr. **Cr.**

Particulars	Ram (₹)	Rahim (₹)	Particulars	Ram (₹)	Rahim (₹)
To Drawings A/c	10,000	10,000	By Balance b/d	1,00,000	1,00,000
To Int. on Drawings	1,000	1,000	By Int. on Capital A/c	10,000	10,000
To Balance c/d	1,29,000	1,19,000	By Ram's Salary A/c	10,000	——
			By P & L Appro. A/c	20,000	20,000
	1,40,000	**1,30,000**		**1,40,000**	**1,30,000**
			By Balance b/d	**1,29,000**	**1,19,000**

3. Prepare two partner's current a/c under fixed capital system with 5 imaginary figures.

Ans: **Partner's Current Account**

Dr. **Cr.**

Particulars	Giri (₹)	Hari (₹)	Particulars	Giri (₹)	Hari (₹)
To Drawings A/c	10,000	10,000	By Int. on Capital A/c	10,000	10,000
To Int. on Drawings	1,000	1,000	By Giri's Commission	10,000	——
To Balance c/d	29,000	29,000	By P & L Appro. A/c	20,000	20,000
	40,000	**30,000**		**40,000**	**30,000**
			By Balance b/d	**29,000**	**29,000**

4. Prepare P and L Appropriation A/c of the firm with 5 imaginary figures.

Ans:

Dr. **Profit and Loss Appropriation Account** **Cr.**

Particulars	**Amount (₹)**	**Particulars**		**Amount (₹)**
To Int. on Capital A/c		By Profit and Loss A/c (N/P b/d)		98,000
Sahana - $1,00,000 \times \frac{10}{100} = 10,000$		By Int. on Drawings		
Saniya - $1,00,000 \times \frac{10}{100} = 10,000$	20,000	Sahana	1,000	
To Sahana's Salary A/c	10,000	Saniya	1,000	2,000
To Saniya's Commission A/c	10,000			
To Partner's capital A/c				
Sahana - $60,000 \times \frac{1}{2} = 8,000$				
Saniya - $60,000 \times \frac{1}{2} = 8,000$	60,000			
Total	**1,00,000**	**Total**		**1,00,000**

* * *

Chapter-3

Reconstitution of a Partnership Firm Admission of a Partner

SECTION-A: ONE MARK QUESTIONS

1. **________ ratio is used to distribute accumulated profits and losses at the time of admission of a new partner.**

Ans: Old Ratio

2. **Goodwill brought in by new partner in cash is to be distributed among old partners in _______ ratio.**

Ans: Sacrifice Ration.

3. **___________ account is debited for the increase in the value of an asset.**

Ans: Revaluation Account.

4. **Goodwill is an ________ asset.**

Ans: Intangible Asset.

5. **At the time of admission of a new partner, general reserve appearing in the old balance sheet is transferred to :**

   a) **All Partners Capital Account** **b) New Partner's Capital Account**
   c) Old Partners Capital Account **d) None of the above**

Ans: c) Old Partners Capital Account.

6. **In the absence of an agreement to the contrary, it is implied that old partners will contribute to new partner's share of profit in the ratio of :**

   a) Capital b) Old profit sharing ratio c) Sacrificing ratio d) Equally

Ans: d) Equally

7. **Goodwill raised in books at the time of admission of partner will be written off in :**

   a) Old profit sharing ratio b) New profit sharing ratio
   c) Sacrificing ratio d) None of the above

Ans: b) New profit sharing ratio.

8. **Increase n the value of an asset is credited to Revaluation account. T/F.**

Ans: True.

9. **The traditional name of 'Revaluation A/c' is 'Profit and Loss Adjustment A/c'. T/F.**

Ans: True.

10. **Accumulated profit is transferred to all partner's capital accounts including new partner. T/F**

Ans: False.

Adjustment of Capital

Sometime, at the time of admission, the partners agree that their capitals should also be adjusted so as to be in proportionate to their profit sharing ratio. (This is done on the basis of new partners capital and his share). On capital adjustment, if there is excess (surplus) in the capital account, the partner will withdraw the excess amount of capital and if there is deficit (shortage), the partner will bring in the necessary amount to cover the shortage.

Journal Entry: (When adjustments are made in cash)

1) ***If there is deficit (shortage) :***

Cash (or Bank) A/c	Dr.	xxx	___
To Concerned Partner's Capital A/c		___	xxx

2) ***If there is surplus:***

Concerned Partner's Capital A/c	Dr.	xxx	___
To Cash (or Bank) A/c		___	xxx

SECTION-D : 12 Marks Questions

1. **A and B are partners sharing profits and losses in the ratio of 2 : 1. Their Balance Sheet as on 31.3.2020 was as follows :**

Balance Sheet as on 31.03.2020

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

On 01.04.2020, 'C' is admitted into partnership on the following conditions:

a) 'C' should bring in cash Rs. 25,000 as his capital and Rs. 15,000 goodwill for his $1/5^{th}$ share in future profits.

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

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

d) Outstanding salary Rs. 2,000.

Prepare : i) Revaluation Account.

ii) Partner's Capital Account and

iii) New Balance sheet of the firm.

Soln.:

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

Particulars	Amount (₹)	Particulars	Amount (₹)
To Stock (15,000 – 12,000)	3,000	Buildings	12,000
PDD - $\left(\frac{5}{10} \times 20{,}000\right)$	1,000	$\left(\frac{20}{100} \times 60{,}000\right)$	
O/s Salary	2,000		
Partner's Capital A/c	6,000		
A - $6{,}000 \times \frac{2}{3} = 4{,}000$			
B - $6{,}000 \times \frac{1}{3} = 2{,}000$			
Total	**12,000**	**Total**	**12,000**

Dr. **Partners Capital A/cs** **Cr.**

Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)
To 'A's Capital A/c	—	—	10,000	By Balance b/d	60,000	40,000	—
$\left(\frac{2}{5} \times 15{,}000\right)$				By Revaluation A/c	4,000	2,000	—
To 'B's Capital A/c			5,000	By Reserve Fund	8,000	4,000	—
$\left(\frac{1}{3} \times 15{,}000\right)$				(Rs. 12,000 in 2:1 OR)			
To Balance c/d	82,000	51,000	25,000	By Cash A/c (or Bank)			
				(25,000 + 15,000)	—	—	40,000
				By 'C's Capital A/c	10,000	5,000	—
				(Rs. 15,000 in 2:1 SR)			
Total	**82,000**	**51,000**	**40,000**	**Total**	**82,000**	**51,000**	**40,000**
				By Balance b/d	**82,000**	**51,000**	**25,000**

Dr. **Cash/Bank Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	5,000	By Balance c/d	45,000
To C's Capital A/c	40,000		
(25,000 + 15,000)			
Total	**45,000**	**Total**	**45,000**
To Balance b/d	45,000		

New Balance Sheet as on 1.4.2018

Liabilities	Amount (₹)	Assets		Amount (₹)
Creditors	20,000	Cash in Hand		45,000
Bills payable	10,000	(5,000 + 25,000 + 15,000)		
Capitals:		Stock	15,000	
A	82,000	**Less:** Depreciation	3,000	12,000
B	51,000	(or written off)		
C	25,000	Debtors	20,000	
Outstanding Salary	2,000	**Less:** PDD	1,000	19,000
		Machinery		30,000
		Buildings	60,000	
		Add: Appreciation	12,000	72,000
		Investment		12,000
Total	**1,90,000**	**Total**		**1,90,000**

2. **Suresh and Shankar are partners in a firm sharing profits and losses in the ratio of 1 : 1. Their balance sheet as on 31.03.2017 was as follows:**

Balance Sheet as on 31.03.2017

Liabilities		Amount (₹)	Assets		Amount (₹)
Creditors		40,000	Cash at Bank		30,000
Bills Payable		45,000	Stock		25,000
Reserve Fund		15,000	Debtors	40,000	
Capitals:			**Less:** PDD	2,000	38,000
Suresh	60,000		Furniture		10,000
Shankar	40,000	1,00,000	Machinery		15,000
Profit and Loss A/c		30,000	Buildings		92,000
			Patents		20,000
Total		**2,30,000**	**Total**		**2,30,000**

On 01.04.2017, they admitted Jagadish as a new partner for 1/4th share in the future profits on the following terms.

a) Jagadish should bring in cash Rs. 50,000 as his capital and Rs. 25,000 towards Goodwill.

b) Depreciate Machinery by 10%.

c) Increase provision for doubtful debts by Rs. 4000.

d) Buildings are revalued at Rs. 1,20,500.

Prepare : i) Revaluation Account.

ii) Partner's Capital Account and

iii) New Balance sheet of the firm.

Soln.:

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

Particulars		Amount (₹)	Particulars	Amount (₹)
To Machinery $\left(\frac{10}{10}\times 15{,}000\right)$		1,500	By Buildings	28,500
To Provision for Doubtful Debts (PDD)		4,000	(1,20,500 – 92,000)	
To Profit transferred to				
Suresh - $\left(\frac{1}{2}\right)$	11,500			
Shankar - $\left(\frac{1}{2}\right)$	11,500	23,000		
Total		**28,500**	**Total**	**28,500**

Dr. **Partners Capital A/cs** **Cr.**

Particulars	Suresh (₹)	Shankar (₹)	Jagadish (₹)	Particulars	Suresh (₹)	Shankar (₹)	Jagadish (₹)
To Suresh Cap. A/c	—	—	12,500	By Balance b/d	60,000	40,000	—
$\left(\frac{1}{2}\times 25{,}000\right)$				By Revaluation A/c	11,500	11,500	—
To Shankar Cap. A/c			12,500	By Reserve Fund	7,500	7,500	—
$\left(\frac{1}{2}\times 25{,}000\right)$				(Rs. 15,000 in 1:1)			
To Balance c/d	1,06,500	86,500	50,000	By Profit & Loss A/c (30,000 in 1:1	15,000	15,000	—
				By Bank A/c (50,000 + 25,000)	—	—	75,000
				By Jagadish Cap. A/c (Rs. 25,000 1:1 SR)	12,500	12,500	—
Total	**1,06,500**	**86,500**	**75,000**	Total	**1,06,500**	**86,500**	**75,000**
				By Balance b/d	1,06,500	86,500	50,000

Balance Sheet of Suresh, Shankar and Jagadish as on 1.4.2017

Liabilities	Amount (₹)	Assets		Amount (₹)
Creditors	40,000	Cash at Bank		1,05,000
Bills payable	45,000	(30,000 + 50,000 + 25,000)		
Capitals:		(Opening bal. + Capital + Goodwill)		
Suresh	1,06,500	Stock		25,000
Shankar	86,500	Debtors	40,000	
Jagadish	50,000	**Less:** PDD	6,000	34,000
		(2,000 + 4,000)		
		Furniture		10,000
		Machinery	15,000	
		Less: Depreciation	1,500	13,500
		Buildings	92,000	
		Add: Appreciation	28,500	1,20,500
		Patents		20,000
Total	**3,28,000**	**Total**		**3,28,000**

3. Rajesh and Rakesh are partners in a firm sharing profits and losses in the ratio of 3:2. Their balance sheet as on 31.03.2018 stood as follows :

Balance Sheet as on 31.03.2018

Liabilities	Amount (₹)	Assets		Amount (₹)
Creditors	41,500	Cash at Bank		22,500
General reserve	4,000	Bills Receivable		3,000
Capitals Accounts :		Debtors	18,000	
Rajesh	30,000	**Less:** PDD	1,000	17,000
Rakesh	16,000	Stock		20,000
		Buildings		25,000
		Machinery		4,000
Total	**91,500**	**Total**		**91,500**

On 01.04.2018, they admit Shyam as a new partner and offered him 1/5th share in the future profits on the following terms:

a) He has to bring Rs. 10,000 as his capital and Rs. 5,000 towards goodwill.

b) Appreciate buildings by 20%.

c) Maintain 5% PDD on debtors.

d) Provide for outstanding repair bills Rs. 1,000.

Prepare: i) Revaluation Account

ii) Partner's Capital Accounts and

iii) New Balance Sheet of the firm.

Soln.:

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

Particulars		Amount (₹)	Particulars	Amount (₹)
To Provision for O/s Repair bills		1,000	Buildings $\left(\frac{20}{100}\times 25,000\right)$	5,000
To Profit transferred to:			PDD $\left[1,000-\left(\frac{5}{100}\times 18,000\right)\right]$	100
Rajesh - $\left(\frac{3}{5}\right)$	2,460			
Rakesh - $\left(\frac{2}{5}\right)$	2,460	4,100		
	Total	**5,100**	**Total**	**5,100**

Dr. **Combined Partners Capital A/cs** **Cr.**

Particulars	Rajesh (₹)	Rakesh (₹)	Shyam (₹)	Particulars	Rajesh (₹)	Rakesh (₹)	Shyam (₹)
To Rajesh Cap. A/c $\left(\frac{3}{5}\times 5,000\right)$	—	—	3,000	By Balance b/d	30,000	16,000	—
To Rakesh Cap. A/c $\left(\frac{3}{5}\times 5,000\right)$			2,000	By Revaluation (Profit)	2,460	1,640	—
To Balance c/d	37,860	21,240	10,000	General Reserve (Rs. 4,000 in 3:2 OR)	2,400	1,600	—
				By Bank A.c (1,000 + 5,000)	—	—	15,000
				By Shyam's Cap. A/c (Rs. 5,000 in 3:2 SR)	3,000	2,000	—
Total	**37,860**	**21,240**	**15,000**	**Total**	**37,860**	**21,240**	**15,000**
				By Balance b/c	37,860	21,240	10,000

New Balance Sheet as on 1.4.2018

Liabilities	Amount (₹)	Assets		Amount (₹)
Creditors	41,500	Cash at Bank		37,500
Capital Accounts:		(22,500 + 10,000 + 5,000)		
Rajesh	37,860	Bills Receivable		3,000
Rakesh	21,240	Debtors	18,000	
Shyam	10,000	**Less:** PDD	900	17,100
Provision for O/s repair bills	1,000	Stock		20,000
		Buildings	25,000	
		Add: Appreciation	5,000	30,000
		Machinery		4,000
Total	**1,11,600**	**Total**		**1,11,600**

4. **Sachin and Dravid are partners in a firm sharing profits and losses in the ratio of 3:2. Their balance sheet is given below:**

Balance Sheet as on 31.03.2017

Liabilities	Amount (₹)	Assets		Amount (₹)
Creditors	18,000	Cash in hand		2,000
Bills payable	12,000	Cash at Bank		18,000
Reserve Fund	3,000	Sundry Debtors	25,000	20,000
Capitals:		**Less:** PDD	2,000	23,000
Sachin - 50,000		Stock		10,000
Dravid - 50,000	1,00,000	Furniture		25,000
		Buildings		50,000
		P & L Account		5,000
Total	**1,33,000**	**Total**		**1,33,000**

On 01.04.2017, they admit Ashwin as a new partner into partnership on the following terms :

a) He brings in Rs. 40,000 as capital and Rs. 18,000 towards goodwill for 1/4th share in future profits.

b) Depreciate furniture by 10% and buildings are revalued at Rs. 45,000

c) PDD is increased to Rs. 3,500

d) Prepaid insurance Rs. 2,000

Prepare: i) Revaluation Account

ii) Partner's Capital Accounts and

iii) New Balance Sheet as on 01.04.2017.

Soln.:

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

Particulars	Amount (₹)	Particulars		Amount (₹)
To Furniture $\left(\frac{10}{100}\times 25,000\right)$	2,500	By Prepaid Insurance		2,000
		By Loss transferred to :		
To Buildings	5,000	Sachin $\left(\frac{3}{5}\right)$	4,200	
(50,000 – 45,000)		Dravid $\left(\frac{2}{5}\right)$	2,800	7,000
To PDD (3,500 – 2,000)	1,500			
Total	**9,000**	**Total**		**9,000**

Dr. **Partners Capital A/cs** **Cr.**

Particulars	Sachin (₹)	Dravid (₹)	Ashwin (₹)	Particulars	Sachin (₹)	Dravid (₹)	Ashwin (₹)
To Revaluation	4,200	2,800	—	By Balance b/d	50,000	50,000	----
To Profit & Loss A/c (5,000 in 3 : 2)				By Reserve fund (3,000 in 3 : 2)	1,800	1,200	----
To Sachin's Cap. A/c $\left(\frac{3}{5}\times 18000\right)$	—	—	—	By Bank A/c (40,000 + 18,000)	—	—	58,000
To Dravid Cap. A/c $\left(\frac{2}{5}\times 18,000\right)$	—	—	—	By Ashwin's Cap. A/c (18,000 in 3 : 2 SR)	10,800	7,200	—
To Balance c/	55,400	53,600	40,000				
Total	**62,600**	**58,400**	**58,000**	**Total**	**62,600**	**58,400**	**58,000**
				To Balance c/d	**55,400**	**53,600**	**40,000**

New Balance Sheet as on 1.4.2017

Liabilities		Amount (₹)	Assets		Amount (₹)
Creditors		18,000	Cash at hand		60,000
Bills payable		12,000	Cash at Bank		18,000
			Sundry debtors	25,000	
Capitals:			**Less:**PDD (2,000+1,500)	3,500	21,500
Sachin	55,400		Stock		10,000
Dravid	53,600		Furniture	25,000	
Ashwin	40,000	1,49,000	**Less:** Depreciation	2,500	22,500
			Buildings	50,000	
			Less: Depreciation	5,000	45,000
			Prepaid Insurance		2,000
Total		**1,79,000**	**Total**		**1,79,000**

5. **Surekha and Sunita are partners in a firm. Their Balance Sheet as on 31.03.2017 was as follows :**

Balance Sheet as on 31.03.2017

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	1,50,000	Cash at Bank	50,000
General Reserve	50,000	Stock	50,000
		Furniture	1,20,000
Capitals:		Debtors	40,000
Surekha	1,20,000	Buildings	1,00,000
Sunita	50,000	Investments	40,000
Total	**4,00,000**	**Total**	**4,00,000**

On 01.04.2017, Kavita is admitted into the partnership on the following terms.

a) She brings in Rs. 60,000 as capital and Rs. 20,000 towards Goodwill for 1/4th share in the future profits.

b) Depreciate furniture by 10% and appreciate building by Rs. 22,000.

c) Investments are to be revalued at Rs. 50,000

d) Provide Rs. 2,000 for outstanding salary.

Prepare: i) Revaluation Account

ii) Partner's Capital Accounts and

iii) New Balance Sheet of the firm.

Soln.:

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

Particulars		Amount (₹)	Particulars	Amount (₹)
To Furniture $\left(\frac{10}{100}\times 1,20,000\right)$		12,000	By Buildings A/c	22,000
To Salary outstanding		2,000	By Investments (50,000 – 40,000)	10,000
To Profits transferred to				
Surekha $\left(\frac{1}{2}\right)$	9,000			
Sunita $\left(\frac{1}{2}\right)$	9,000	18,000		
	Total	**32,000**	**Total**	**32,000**

Dr. **Partners Capital A/cs** **Cr.**

Particulars	Surekha (₹)	Sunita (₹)	Kavita (₹)	Particulars	Surekha (₹)	Sunita (₹)	Kavita (₹)
To Surekha's Cap. A/c $\left(\frac{1}{2}\times 20,000\right)$	—	—	10,000	By Balance b/d	1,20,000	80,000	—
To Sunita's Cap. A/c $\left(\frac{1}{2}\times 20,000\right)$	—	—	10,000	By Revaluation A/c	9,000	9,000	—
To Bank A/c (Goodwill amt. withdrawn)	10,000	10,000	—	By General Reserve (Rs. 50,000 in 1:1)	25,000	25,000	—
				By Bank A/c	—	—	80,000
To Balance c/d	1,54,000	1,14,000	60,000	(60,000 + 20,000)			
				By Kavitha's Cap. A/c (Rs. 20,000 in 1:1 SR)	10,000	10,000	—
Total	**1,64,000**	**1,24,000**	**80,000**	**Total**	**1,64,000**	**1,24,000**	**80,000**
				To Balance c/d	**1,54,000**	**1,14,600**	**60,000**

New Balance Sheet as on 1.4.2017

Liabilities	Amount (₹)	Assets		Amount (₹)
Creditors	1,50,000	Cash at Bank		1,10,000
Capitals:		(50,000 + 60,000+20,000–20,000)		
Surekha	1,54,000	Stock		50,000
Sunitha	1,14,000	Furniture	1,20,000	
Kavitha	60,000	**Less:** Depreciation	12,000	1,08,000
O/S Salary	2,000	Debtors		40,000
		Buildings	1,00,000	
		Add: Appreciation	22,000	1,22,000
		Investments	40,000	
		Add: Appreciation	10,000	50,000
Total	**4,80,000**	**Total**		**4,80,000**

6. **Raja and Rani are partners in a firm sharing profits and losses in the ratio of 3:2. Their Balance Sheet as on 31.03.2018 was as follows :**

Balance Sheet as on 31.03.2018

Liabilities		Amount (₹)	Assets		Amount (₹)
Creditors		40,000	Cash		5,000
Bills Payable		20,000	Machinery		60,000
General Reserve		25,000	Stock		25,000
Capitals Accounts :			Debtors	23,000	
Raja	60,000		**Less:** PDD	3,000	20,000
Rani	40,000	1,00,000	Buildings		50,000
			Investments		20,000
			P and L Account		5,000
Total		**1,85,000**	**Total**		**1,85,000**

On 01.04.2018, they admitted Mantri as a partner and offer him 1/5th share in the future profits on the following terms:

a) Mantri has to bring in Rs. 30,000 as his capital and Rs. 10,000 towards goodwill. Goodwill is to be withdrawn by the old partners.

b) Depreciate Machinery by 5%.

c) Appreciate buildings by 10%.

d) PDD is reduced to Rs. 2,000 and investments are to be revalued at Rs. 25,000.

Prepare: i) Revaluation Account

ii) Partner's Capital Account and

iii) New Balance Sheet of the firm.

Soln.:

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

Particulars		Amount (₹)	Particulars	Amount (₹)
To Machinery		3,000	By Buildings	5,000
$\left(\frac{10}{100}\times 60,000\right)$			$\left(\frac{10}{100}\times 50,000\right)$	
To Profit transferred to:			By PDD (3,000 – 2,000)	1,000
Raja - $\left(\frac{3}{5}\right)$	4,800		By Investments	5,000
Rani - $\left(\frac{2}{5}\right)$	3,200	8,000	(25,000 – 20,000)	
Total		**11,000**	**Total**	**11,000**

Dr. **Partners Capital A/c** **Cr.**

Particulars	Raja (₹)	Rani (₹)	Manthri (₹)	Particulars	Raja (₹)	Rani (₹)	Manthri (₹)
To P/L A/c	3,000	2,000	—	By Balance b/c	60,000	40,000	—
(Rs. 5,000 in 3:2)				By Revaluation A/c	4,800	3,200	—
To Raja's Cap. A/c	—	—	6,000	By General Reserve	15,000	10,000	—
$\left(\frac{3}{5}\times 10,000\right)$				(Rs. 25,000 in 3:2)			
To Rani's Cap. A/c	—	—	4,000	By Cash A/c	—	—	40,000
To Cash A/c	6,000			(30,000 + 10,000)			
$\left(\frac{2}{5}\times 10,000\right)$				By Manthri's Cap. A/c	6,000	4,000	—
To Balance c/d	76,800	51,200	30,000	(Rs. 10,000 in 3:2 SR)			
Total	**85,800**	**57,200**	**40,000**	**Total**	**85,800**	**57,200**	**40,000**
				By Balance b/d	76,800	51,200	30,000

New Balance Sheet as on 1.4.2018

Liabilities	Amount (₹)	Assets		Amount (₹)
Creditors	40,000	Cash		35,000
Bills Payable	20,000	(5,000+30,000+10,000–10,000)		
Capital		Machinery	60,000	
Raja	76,800	**Less:** Depreciation	3,000	57,000
Rani	51,200	Stock		25,000
Manthri	30,000	Debtors	23,000	
		Less: PDD	2,000	21,000
		Buildings	50,000	
		Add: Appreciation	5,000	55,000
		Investments	20,000	
		Less: Appreciation	5,000	25,000
Total	**2,18,000**	**Total**		**2,18,000**

7. **A and B are partners in a firm sharing profits and losses in the ratio of 6:4. Their balance sheet as on 31.03.2017 was as follows :**

Balance Sheet as on 31.03.2017

Liabilities	Amount (₹)	Assets		Amount (₹)
Creditors	20,000	Cash in hand		5,000
Bills payable	6,000	Debtors	20,000	
Reserve Fund	4,000	**Less:** PDD	2,000	18,000
Capitals:		Stock		17,000
A - 40,000		Buildings		30,000
B - 30,000	70,000	Furniture		30,000
Total	**1,00,000**	**Total**		**1,00,000**

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

a) He brings Rs. 25,000 as capital and Rs. 8,000 towards goodwill for $1/6^{th}$ share in the future profits.

b) Depreciate furniture at 10% and appreciate buildings by 20%.

c) Provision for doubtful debts is no longer necessary.

d) Provide Rs. 1,000 for repair charges.

e) Goodwill is to be withdrawn by the old partners.

Prepare: i) Revaluation Account

ii) Partner's Capital Account and

iii) New Balance Sheet of the firm after admission.

Soln.:

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

Particulars		Amount (₹)	Particulars	Amount (₹)
To Furniture $\left(\frac{10}{100}\times 30,000\right)$		3,000	By Buildings $\left(\frac{20}{100}\times 30,000\right)$	6,000
To Provision for repair charges		4,000	By PDD	2,000
To Profit transferred to				
A - $\left(\frac{6}{10}\right)$	2,400			
B - $\left(\frac{4}{10}\right)$	1,600	4,000		
	Total	**8,000**	**Total**	**8,000**

Dr. **Partners Capital A/c** **Cr.**

Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)
To 'A's Cap. A/c $\left(\frac{6}{10}\times 10,000\right)$	—	—	4,800	By Balance b/c	40,000	30,000	—
To B's Cap. A/c $\left(\frac{4}{10}\times 10,000\right)$	—	—	3,200	By Revaluation A/c	2,400	1,600	—
To Cash A/c (Goodwill amount withdrawn)	4,800	3,200	—	By Reserve Fund	2,400	1,600	—
				By Cash A/c	—	—	33,000
To Balancd c/d	44,800	33,200	25,000	By C's Capital A/c (Rs. 8,000 in 6:4 SR)	4,800	3,200	—
Total	**49,600**	**36,400**	**33,000**	**Total**	**49,600**	**36,400**	**33,000**
				By Balance b/d	**44,800**	**33,200**	**25,000**

New Balance Sheet as on 1.4.2017

Liabilities	Amount (₹)	Assets		Amount (₹)
Creditors	20,000	Cash in Hand		30,000
Bills Payable	6,000	(5,000+25,000+8,000–8,000)		
		Debtors		20,000
Capitals:		Stock		17,000
A	44,800	Buildings	30,000	
B	33,200	**Add:** Appreciation	6,000	36,000
C	25,000	Furniture	30,000	
Provision for repair charges	1,000	**Less:** Depreciation	3,000	27,000
Total	**1,30,000**	**Total**		**1,30,000**

8. **Anil and Sunil are partners in a firm sharing profits in the ratio of 2:1. Their balance sheet as on 31.03.2016 was as follows:**

Balance Sheet as on 31.03.2016

Liabilities	Amount (₹)	Assets	Amount (₹)
Bills Payable	16,000	Cash	4,000
Sundry Creditors	5,000	Sundry Debtors	30,000
Reserve Fund	9,000	Stock	32,000
Capitals:		Furniture	8,000
Anil	60,000	Buildings	56,000
Sunil	50,000	Motor Car	10,000
Total	**1,40,000**	**Total**	**1,40,000**

On 01.04.2016, they admitted Vimal for $1/4^{th}$ share in future profits under the following terms.

a) He should bring cash for capital Rs. 40,000 and Rs. 30,000 for goodwill.

b) Half of the goodwill amount withdrawn by the old partners.

c) Buildings are revalued at Rs. 66,000 and make a provisiion for legal charges Rs. 700.

d) Stock and Motor Car be depreciated by 10% cash.

e) Provide for doubtful debts at 5% on debtors.

Prepare: i) Revaluation Account

ii) Partner's Capital Account and

iii) New Balance Sheet of the firm.

Soln.:

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

Particulars	Amount (₹)	Particulars	Amount (₹)
To Provision for legal charges	700	By Buildings A/c	10,000
To Stock $\left(\frac{10}{100} \times 32,000\right)$		(66,000 – 56,000)	
To Motor Car $\left(\frac{10}{100} \times 10,000\right)$	1,000		
To Provision for doubtful	1500		
debts (PDD) $\left(\frac{5}{100} \times 30,000\right)$			
To Profit transferred to :			
Anil $\left(\frac{2}{3}\right)$ 2,400			
Sunil $\left(\frac{1}{3}\right)$ 1,200	3,600		
Total	**10,000**	**Total**	**10,000**

Dr. **Partners' Capital A/c** **Cr.**

Particulars	Anil (₹)	Sunil (₹)	Vimal (₹)	Particulars	Anil (₹)	Sunil (₹)	Vimal (₹)
To Anil's Cap. A/c $\left(\frac{2}{3} \times 30,000\right)$	—	—	20,000	By Balance b/d	60,000	50,000	—
To Sunil's Cap. A/c $\left(\frac{1}{3} \times 30,000\right)$	—	—	10,000	By Revaluation A/c	2,400	1,200	—
To Cash A/c ($\frac{1}{2}$ of Goodwill amt. withdrawn)	10,000	5,000	—	By General Reserve (Rs. 9,000 in 2:1)	6,000	3,000	—
				By Cash A/c (40,000 + 30,000)	—	—	70,000
To Balance c/d	78,400	59,200	40,000				
				By Vimal's Cap. A/c (Rs. 30,000 in 2:1 SR)	20,000	10,000	—
Total	**88,400**	**64,200**	**70,000**	**Total**	**88,400**	**64,200**	**70,000**
				To Balance b/d	78,400	59,200	40,000

Dr. **Cash Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	4,000	By Anil's Capital A/c $\left(\frac{1}{2} \times 20,000\right)$	10,000
To Vimal's Capital (40,000 + 30,000)	70,000	By Sunil's Capital $\left(\frac{1}{2} \times 10,000\right)$	5,000
		By Balance c/d	59,000
Total	**74,000**	**Total**	**74,000**
To Balance b/d	59,000		

New Balance Sheet as on 1.4.2016

Liabilities	Amount (₹)	Assets		Amount (₹)
Bills Payable	16,000	Cash at Bank (4,000 + 40,000 + 30,000 – 15,000)		1,10,000
Sundry Creditors	5,000	Sundry Debtors	30,000	
Capitals:		**Less:** PDD	1,500	28,500
Anil	78,400	Stock	32,000	
Sunil	59,200	**Less:** Depreciation	3,200	28,800
Vimal	40,000	Furniture		8,000
Provision for legal charges	700	Buildings	56,000	
		Add: Appreciation	10,000	66,000
		Motor car	10,000	
		Less: Depreciation	1,000	9,000
Total	**1,99,300**	**Total**		**1,99,300**

9. Purari and Purohit are equal partners. Their Balance Sheet as on 31.03.2017 was as follows :

Balance Sheet as on 31.03.2017

Liabilities	Amount (₹)	Assets		Amount (₹)
Bills Payable	6,600	Cash		1,800
Sundry Creditors	12,800	Stock		23,600
Capitals:		Sundry debtors	25,000	
Pujari - 40,000		**Less:** PDD	5,000	20,000
Purohit - 30,000	70,000	Furniture		4,000
		Buildings		40,000
Total	**89,400**	**Total**		**89,400**

On 01.04.2017, they admit Pandit as a new partner and offered him 1/4th share in the profit on the following terms:

a) He should bring in Rs. 30,000 as capital and Rs. 18,000 towards goodwill.

b) Half of the goodwill should be withdrawn by the old partners.

c) Stock and furniture to be depreciated by 10% each.

d) PDD is reduced by Rs. 3,000.

Prepare: i) Revaluation Account

ii) Partner's Capital Account and

iii) New Balance Sheet of the firm.

Soln.:

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

Particulars		Amount (₹)	Particulars	Amount (₹)
To Furniture $\left(\frac{10}{100} \times 23,600\right)$		2,360	By PDD	3,000
By Furniture $\left(\frac{10}{100} \times 4,000\right)$		400		
To Profit transferred to:				
Pujari - $\left(\frac{1}{2}\right)$	120			
Purohit - $\left(\frac{1}{2}\right)$	120	240		
Total		**3,000**	**Total**	**3,000**

Note on PDD:

PDD appearing in Balance Sheet Rs. 5,000

It is decreased by Rs. 3,000 (Adj. d)

Therefore, balance PDD is 5,000 – 3,000 = Rs. 2,000

Treatment:

i) Take decrease in PDD of Rs. 3,000 on the credit side of Revaluation A/c.

ii) Deduct Balance PDD of Rs. 2,000 from debtors of Rs. 25,000 in the Balance Sheet.

Dr. **Partners' Capital A/c** **Cr.**

Particulars	Puraji (₹)	Purohit (₹)	Pandit (₹)	Particulars	Pujari (₹)	Purohit (₹)	Pandit (₹)
To Pujari's Cap. A/c $\left(\frac{1}{2}\times 18{,}000\right)$	—	—	9,000	By Balance b/d	40,000	30,000	—
				By Revaluation A/c	120	120	—
To Purohit Cap. A/c $\left(\frac{1}{2}\times 18{,}000\right)$	—	—	9,000	By Cash A/c (30,000 + 18,000)	—	—	48,000
To Cash (Half of the goodwill amount withdrawn)	4,500	4,500	—	By Pandit Capital A/c (Rs. 18,000 in 1:1 SR)	9,000	9,000	—
To Balance c/d	44,620	34,620	30,000	Purohit - $\left(18{,}000\times\frac{1}{2}\right)$			
Total	**49,120**	**39,120**	**30,000**	**Total**	**49,120**	**39,120**	**30,000**
				To Balance b/d	**44,620**	**34,620**	**30,000**

New Balance Sheet as on 1.4.2017

Liabilities	Amount (₹)	Assets		Amount (₹)
Bills Payable	6,600	Cash (1,800+30,000+18,000–9,000)		40,800
Sundry Creditors	12,800	Stock	23,600	
Capital Accounts:		**Less:** Depreciation	2,360	21,240
Pujari	44,620	Sundry Debtors	25,000	
Purohit	34,620	**Less:** PDD (5,000 – 3,000)	2,000	23,000
Pandit	30,000	Furniture	4,000	
		Less: Depreciation	400	3,600
		Buildings		40,000
Total	**1,28,640**	**Total**		**1,28,640**

10. Sharat and Bharat are sharing profits and losses in the ratio 2 : 1. Their Balance Sheet as on 31.03.2018 was as follows :

Balance Sheet as on 31.03.2018

Liabilities		Amount (₹)	Assets	Amount (₹)
Creditors		12,000	Cash in Hand	10,000
Bills Payable		8,000	Debtors	5,000
Reserve Fund		9,000	Stock	10,000
Capitals:			Furniture	4,000
Sharat	20,000		Buildings	40,000
Bharat	20,000	40,000		
	Total	**69,000**	**Total**	**69,000**

They admitted Kamat into partnership giving him1/4th share in the future profits on the following terms :

a) The new partner should bring Rs. 25,000 as his capital.

b) The goodwill of the firm is valued at Rs. 24,000.

c) Value of buildings is to be appreciated by Rs. 7,000 and furniture to be appreciated by Rs. 1,000.

d) Stock is valued at 10% less than the book value and there is an oustanding printing bill for Rs. 400.

Prepare: i) Revaluation Account

ii) Partner's Capital Account and

iii) Balance Sheet of the new firm.

Soln.:

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

Particulars		Amount (₹)	Particulars	Amount (₹)
To Stock $\left(\frac{10}{100}\times 10,000\right)$		1,000	Buildings	7,000
To Outstanding Printing bill		400	Furniture	1,000
To Profit transferred to				
Sharat - $\left(\frac{2}{3}\right)$	4,400			
Bharat - $\left(\frac{1}{3}\right)$	2,200	6,600		
	Total	**8,000**	**Total**	**8,000**

Dr. **Partners' Capital A/c** **Cr.**

Particulars	Sharat (₹)	Bharat (₹)	Kamat (₹)	Particulars	Sharat (₹)	Bharat (₹)	Kamat (₹)
To Sharat's Cap. A/c $\left(\frac{2}{3} \times 6000\right)$	—	—	4,000	By Balance b/d	20,000	20,000	—
To Bharat's Cap. A/c $\left(\frac{1}{3} \times 6000\right)$	—	—	2,000	By Revaluation A/c	4,400	2,200	—
To Balance c/d	34,400	27,200	19,000	By Reserve Fund (Rs. 9,000 in 2:1 OR)	6,000	3,000	—
				By Cash A/c	—	—	25,000
				By Kamaths Cap. A/c (Rs. 6,000 in 2:1 SR)	4,000	2,000	—
Total	**34,400**	**27,200**	**25,000**	**Total**	**34,400**	**27,200**	**25,000**
				To Balance c/d	**34,400**	**27,200**	**19,000**

Note: Kamath's share of goodwill = $\frac{1}{4} \times 24,000 = 6,000$

Sacrifice ratio of Sharat and Bharath = 2 : 1 (i.e., old ratio itself.)

Credit to Sharat = $\left(\frac{2}{3} \times 6000\right)$ = 4,000

Credit to Bharat = $\left(\frac{1}{3} \times 6000\right)$ = 2,000

New Balance Sheet as on 31.3.2017

Liabilities	Amount (₹)	Assets		Amount (₹)
Creditors	12,000	Cash (10,000 + 25,000)		35,000
Bills Payable	8,000	Debtors		5,000
		Stock	10,000	
Capitals:		**Less:** Depreciation	1,000	9,000
Sharat	34,400	Furniture	4,000	
Bharat	27,200	**Add:** Appreciation	1,000	5,000
Kamat	19,000	Buildings	40,000	
Outstanding Printing Bill	400	**Add:** Appreciation	7,000	47,000
Total	**1,01,000**	**Total**		**1,01,000**

11. Vani and Sandhya are partners sharing profits and lossesin the proportion of 3/5 and 2/5. Their Balance Sheet as on 31.03.2018 was as follows :

Balance Sheet as on 31.03.2018

Liabilities	Amount (₹)	Assets		Amount (₹)
Creditors	77,500	Cash at Bank		21,500
Reserve Fund	20,000	Stock		39,000
P and L Account	5,000	Debtors	60,000	
Capitals:		**Less:** PDD	3,000	57,000
Vani	60,000	Furniture		10,000
Sandhya	30,000	Buildings		40,000
		Machinery		25,000
Total	**1,92,500**	**Total**		**1,92,500**

On 01.04.2018, Chaya is admitted into partnership on the following terms.

a) She should bring Rs. 40,000 as capital for 1/6th share and Goodwill of the firm is valued at Rs. 30,000.

b) Depreciate furniture by 10%.

c) Appreciate buildings by 20%

d) PDD is increased by Rs. 3,000.

e) An amount of Rs. 2,000 due to a creditor is not likely to be claimed and hence to be written off.

Prepare: i) Revaluation Account

ii) Partner's Capital Account and

iii) New Balance Sheet of the firm.

Soln.:

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

Particulars		Amount (₹)	Particulars	Amount (₹)
To Furniture A/c $\left(\frac{10}{100}\times 10{,}000\right)$		1,000	By Buildings $\left(\frac{20}{100}\times 40{,}000\right)$	8,000
To PDD		3,000	By Creditors (written off)	2,000
To Profit transferred to				
Vani - $\left(\frac{2}{5}\right)$	3,600			
Sandhya - $\left(\frac{2}{5}\right)$	2,400	6,600		
Total		**10,000**	**Total**	**10,000**

Note: Chaya's share of goodwill = $\frac{1}{6} \times 30{,}000 = 5{,}000$

Sacrifice ratio of Vani and Sandhya = 3 : 2 (i.e., in this case, old ratio itself)

Dr. **Partners' Capital A/c** **Cr.**

Particulars	Vani (₹)	Sandhya (₹)	Chaya (₹)	Particulars	Vani (₹)	Sandhya (₹)	Chaya (₹)
To Vani's Cap. A/c $\left(\frac{3}{5} \times 5{,}000\right)$	—	—	3,000	By Balance b/d	60,000	30,000	—
To Sandhya's Cap. A/c	—	—	2,000	By Revaluation A/c	3,600	2,400	—
To Balance c/d	81,600	44,400	35,000	By Reserve (Rs. 20,000 in $\frac{3}{5} : \frac{2}{5}$)	12,000	8,000	—
				By P & L A/c (5,000 in $\frac{3}{5} : \frac{2}{5}$)	3,000	2,000	—
				By Bank A/c	—	—	4,000
				By Chaya's Capital A/c (Rs. 5,000 in 3:2 SR)	3,000	2,000	—
Total	**81,600**	**44,400**	**40,000**	**Total**	**81,600**	**44,400**	**40,000**
				To Balance c/d	**81,600**	**44,400**	**35,000**

New Balance Sheet as on 01.04.2018

Liabilities		Amount (₹)	Assets		Amount (₹)
Creditors	77,500		Cash at Bank (21,500 + 40,000)		61,500
Less: Creditors written off	2,000	75,500	Stock		39,000
			Debtors	60,000	
Capitals:			**Less:** PDD (3,000+3,000)	6,000	54,000
Vani		81,600	Furniture	10,000	
Sandhya		44,400	**Less:** Depreciation	1,000	9,000
Chaya		35,000	Buildings	40,000	
			Add: Appreciation	8,000	48,000
			Machinery		25,000
Total		**2,36,500**	**Total**		**2,36,500**

12. Gouri and Ganesh are partners in a firm sharing profit equally. Following is their Balance Sheet as on 31.03.2017.

Balance Sheet as on 31.03.20117

Liabilities	Amount (₹)	Assets		Amount (₹)
Creditors	20,000	Cash in Hand		7,000
Bills Payable	4,000	Stock		25,000
General Reserve	6,000	Buildings		40,000
Capitals:		Debtors	17,000	
Gouri	80,000	**Less:** PDD	1,500	15,500
Ganesh	40,000	Fruniture		14,500
		Patents		30,000
		Plant and Machinery		18,000
Total	**1,50,000**	**Total**		**1,50,000**

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

a) Shiva should bring Rs. 25,000 as capital.

b) Goodwill of the firm is valued at Rs. 14,000.

c) Stock is to be increased by 8%.

d) Provision for doubtful debts is to be increased to Rs. 2,600.

e) Capital Accounts of partners are to be adjusted in their new profit sharing ratio 3:3:1, based on Shiva's Capital after adjusting goodwill, (Adjustments to be made in cash).

f) Sacrifice ratio of Gouri and Ganesh = 1 : 1

Prepare: i) Revaluation Account

ii) Partner's Capital Account and

iii) New Balance Sheet of the firm.

Soln.:

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

Particulars		Amount (₹)	Particulars	Amount (₹)
To PDD (2,600 – 1,500)		1,100	By Stock $\left(\frac{8}{100} \times 25,000\right)$	2,000
To Partner's Capital A/c		900		
Gouri: $\left(\frac{1}{2}\right)$	450			
Ganesh: $\left(\frac{1}{2}\right)$	450			
Total		**2,000**	**Total**	**2,000**

Dr. **Partners Capital A/cs** **Cr.**

Particulars	Gouri (₹)	Ganesh (₹)	Shiva (₹)	Particulars	Gouri (₹)	Ganesh (₹)	Shiva (₹)
To Cash (Balancing figure excess withdrawn)	15,450	—	—	By Balance b/d	80,000	40,000	—
To Gouri's Cap. A/c $\left(2,000 \times \frac{1}{2}\right)$	—	—	1,000	By Revaluation A/c	450	450	—
To Ganesh Cap. A/c $\left(2,000 \times \frac{1}{2}\right)$	—	—	1,000	By General Reserve (Rs. 6,000 in 1:1)	3,000	3,000	—
To Balance c/d (see note 1)	69,000	69,000	23,000	By Cash A/c (Capital)	—	—	25,000
				By Shiva's Cap. A/c (2,000 in 1:1 SR)	1,000	1,000	—
				By Cash (Deficit brought in)	24,550		
Total	**84,450**	**69,000**	**25,000**	**Total**	**84,450**	**69,000**	**25,000**
				By Balance b/d	**69,000**	**69,000**	**23,000**

Note: 1) Shiva's share of goodwill = $\frac{1}{7} \times 14,000 = 2,000$

Gouri gets credit as per sacrifice = $\frac{1}{2} \times 2,000 = 1,000$

Ganesh gets credit as per sacrifice = $\frac{1}{2} \times 2,000 = 1,000$

2) Calculation of capital of partners in the profit sharing ratio :
[Taking new partners (Shiva's) share and his capital as the base)

New profit sharing ratio of Gouri, Ganesh and Shiva = 3 : 3 : 1 OR $\frac{3}{7} : \frac{3}{7} : \frac{1}{7}$

Shiva's capital after adjustment for goodwill = 25,000 – 2,000 = 23,000

Shiava's share = $\frac{1}{7}$

$\therefore$ **Total capital of the firm :**

For $\frac{1}{7}$ share Shiava's capital is Rs. 23,000.

Therefore, total capital is how much?

On cross multiplication, $\frac{1}{7} = 23,000$

$1 = ?$

$$23{,}000 \times 1 \div \frac{1}{7}$$

$$23{,}000 \times 1 \times \frac{1}{7} = \mathbf{1{,}61{,}000}$$

$\therefore$ Gouri's capital $= \frac{3}{7} \times 1{,}61{,}000 = \textbf{Rs. 69,000}$

$\therefore$ Ganesh's capital $= \frac{3}{7} \times 1{,}61{,}000 = \textbf{Rs. 69,000}$

Note 2:

Dr. **Cash Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	7,000	By Gouri's Capital a/c	15,450
To Shiva's Capital A/c	25,000	By Balancd c/d)	41,100
To Ganesh's Capital A/c	24,550		
Total	**56,550**	**Total**	**56,550**
To Balance b/d	**41,100**		

New Balance Sheet as on 1.4.2017

Liabilities	Amount (₹)	Assets		Amount (₹)
Creditors	20,000	Cash in hand		27,433
Bills Payable	4,000	(7,000 + 25,000 + 24,550 – 15,450)		
		Stock	25,000	
		Add: Appreciation	2,000	27,000
Capitals:		Buildings		40,000
Gouri	75,000	Debtors	17,000	
Yamuna	50,000	**Less:** PDD	2,600	14,400
Shiva	23,000	(1,500 + 1100)		
		Furniture		14,500
		Patents		30,000
		Plant and Machinery		18,000
Total	**1,85,000**	**Total**		**1,85,000**

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

Balance Sheet as on 31.03.20117

Liabilities		Amount (₹)	Assets		Amount (₹)
Creditors		40,000	Stock		39,000
Bank Loan		8,000	Debtors	32,000	
Capitals:			**Less:** PDD	1,000	31,000
Mahendra	80,000		Land and Buildings		40,000
Surendra	40,000	1,20,000	Machinery		36,000
			Motor Car		8,000
			Cash at Bank		14,000
Total		**1,68,000**	**Total**		**1,68,000**

On 01.04.2017, Chandra is admitted into partnership for 1/5th share in profits on the following terms :

a) Chandra brings Rs. 26,000 as capital.

b) Goodwill of the firm is valued at Rs. 10,000.

c) Motor car and Machinery are to be depreciated by 20% and Rs. 3,800 respectively.

d) Provision for doubtful debts is to be maintained at 10%.

f) The Capital Accounts of all the partners are to be adjusted in their new profit sharing ratio 2:2:1, based on Chandra's Capital. (Adjustments are to be made in cash).

Prepare: i) Revaluation Account

ii) Partner's Capital Account and

iii) New Balance Sheet of the firm.

Soln.:

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

Particulars	Amount (₹)	Particulars		Amount (₹)
To Motor Car $\left(80{,}000 \times \frac{20}{100}\right)$	1,600	By Loss transferred to:		
To Machinery	3,800	Mahendra - $\left(\frac{1}{2}\right)$	3,800	
To PDD $\left[\left(\frac{10}{100} \times 32{,}000\right) - 1{,}000\right]$	2,200	Surendra - $\left(\frac{1}{2}\right)$	3,800	7,600
Total **7,600**		**Total**		**7,600**

Dr. **Partners' Capital A/cs** **Cr.**

Particulars	Mahendra (₹)	Surendra (₹)	Chandra (₹)	Particulars	Mahendra (₹)	Surendra (₹)	Chandra (₹)
To Revaluation A/c	3,800	3,800	—	By Balancd c/d	80,000	40,000	—
To Mahendra Cap. A/c $\left(2,000 \times \frac{1}{2}\right)$	—	—	1,000	By Bank A/c	—	—	26,000
To Surendra Cap. A.c $\left(2,000 \times \frac{1}{2}\right)$	—	—	1,000	By Chandra's Cap. A/c Chandra's share of goodwill (Rs. 2,000 in 1:1 SR)	1,000	1,000	—
To Cash (Bal. fg. (Excess withdrawn)	29,200	—	—				
To Balance c/d (see note)	48,000	48,000	24,000	By Cash (Balancing fig.) (Deficit brought in)	—	10,800	—
Total	**81,000**	**51,800**	**26,00**	**Total**	**81,000**	**51,800**	**26,000**
				To Balance b/d	**48,000**	**48,000**	**24,000**

Note: 1) Chandra's share of goodwill = $\frac{1}{5} \times 10,000 = 2,000$

Mahendra gets credit = $\frac{1}{2} \times 2,000 = 1,000$

Surendra gets credit = $\frac{1}{2} \times 2,000 = 1,000$

2) Calculation of capital of partners in the profit sharing ratio :
[Taking Chandra's (new partners') Capital after goowill adjustment and his share as the base.]

New profit sharing ratio of Mahendra, Surendra and Chandra = 2:2:1 **OR** $\frac{2}{5} : \frac{2}{5} : \frac{1}{5}$.

Chandra's capital after adjustment of goodwill = 26,000 – 2,000 = 24,000

Chandra's share = $\frac{1}{5}$

$\therefore$ Total capital $= \frac{5}{1} \times 24,000 = \textbf{Rs. 1,20,000}$

$\therefore$ **Mahendra's Capital** $= \frac{2}{5} \times 1,20,000 = \textbf{Rs. 48,000}$

$\therefore$ **Surendra's Capital =** $= \frac{2}{5} \times 1,20,000 = \textbf{Rs. 48,000}$

New Balance Sheet as on 1.4.2017

Liabilities	Amount (₹)	Assets		Amount (₹)
Creditors	40,000	Stock		39,000
Bills Payable	8,000	Debtors	32,000	
			3,200	28,800
Capitals:		Land and Buildings		40,000
Mahendra	48,000	Machinery	36,000	
Surendra	48,000	**Less:** Depreciation	3,800	32,200
Chandra	24,000	Motor Car	8,000	
		Less: Depreciation	1,600	6,400
		Cash at Bank		21,600
		(14,000+26,000+10,800–29,200)		
Total	**1,68,000**	**Total**		**1,68,000**

14. Ganga and Yamuna are partners in a firm. Following is their Balance Sheet as on 31.03.2017.

Balance Sheet as on 31.03.20117

Liabilities		Amount (₹)	Assets		Amount (₹)
Creditors		20,000	Cash in Hand		7,000
Bills Payable		4,000	Stock		15,000
Capitals:			Debtors	16,000	
Ganga	40,000		**Less:** Provision	500	15,500
Yamuna	20,000	60,000	Furniture		4,500
			Patents		4,000
			Plants and Machinery		18,000
			Land and Building		20,000
	Total	**84,000**		**Total**	**84,000**

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

a) Kaveri should bring Rs. 13,000 as capital.

b) Goodwill of the firm is valued at Rs. 6,000.

c) Provision for doubtful debts is to be increased by Rs. 1,200.

d) Patents and machinery are to be reduced by 20% and Rs. 2,000 respectively.

e) Buildings is to be increased by Rs. 4,000.

f) Capital Accounts of partners are to be adjusted in their new profit sharing ratio 3:2:1, based on Kaveri's Capital after adjusting goodwill. (Adjustments to be made in cash).

g) Sacrifice ratio of Ganga and Yamuna is 0 : 1.

Prepare: i) Revaluation Account ii) Cash Account

ii) Partner's Capital Accounts and

iii) New Balance Sheet of the firm.

Soln.:

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

Particulars	Amount (₹)	Particulars	Amount (₹)
To Provision for doubtful debts (PDD)	1,200	By Buildings	4,000
To Patents $\left(\frac{20}{100} \times 4,000\right)$	800		
To Machinery	2,000		
Total	**4,000**	**Total**	**4,000**

Note: There is no profit no loss on revaluation. (Account is self balancing).

Dr. **Partners Capital A/cs** **Cr.**

Particulars	Ganga (₹)	Yamuna (₹)	Kaveri (₹)	Particulars	Ganga (₹)	Yamuna (₹)	Kaveri (₹)
To Yamuna's Cap. A/c (Goodwill adjustment)	—	—	1,000	By Balance b/d	40,000	20,000	—
To Cash (Bal. fig.) (Excess withdrawn)	4,000	—	—	By Cash A/c	—	—	13,000
				By Kaveri Capital A/c (Rs. 1,000 in 0 : 1 SR)	—	1,000	—
To Balance c/d	36,000	24,000	12,000				
				By Cash A/c (Bal. Fig.) (Deficit brought in)	—	3,000	—
Total	**40,000**	**24,000**	**13,000**	**Total**	**40,000**	**24,000**	**13,000**
				To Balance b/d	**36,000**	**24,000**	**12,000**

Note: 1) Kaveri's share of goodwill = $\frac{1}{6} \times 6,000 = 1,000$

Credit to Ganga = $0 \times 1000 = 0$

Credit to Yamuna = $1 \times 1000 = 1,000$

2) Calculation of partners' in the new firm:

Kaveri's share = $\frac{1}{6}$ and her capital after adjusting goodwill = 13,000 – 1,000 = 12,000

$\therefore$ Total capital = $\frac{6}{1} \times 12{,}000 =$ Rs. 72,000

NPSR of Ganga, Yamuna and Kaveri = 3 : 2 : 1 OR $\frac{3}{6}:\frac{2}{6}:\frac{1}{6}$

$\therefore$ **Ganga's Capital** $= \frac{3}{6} \times 72{,}000 = \textbf{Rs. 36,000}$

$\therefore$ **Yamuna's Capital** $= \frac{2}{6} \times 72{,}000 = \textbf{Rs. 24,000}$

Dr. **Cash Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	7,000	By Ganga's Capital a/c	4,000
To Kaveri's Capital A/c	13,000	By Balancd c/d	9,000
To Yamuna's Capital A/c	3,000		
Total	**23,000**	**Total**	**23,000**
To Balance b/d	19,000		

New Balance Sheet as on 1.4.2017

Liabilities	Amount (₹)	Assets		Amount (₹)
Creditors	20,000	Cash in hand		19,000
Bills Payable	4,000	Stock		15,000
		Debtors	16,000	
Capitals:		**Less:** PDD	1,700	14,300
Ganga	36,000	(500 + 1,200)		
Yamuna	24,000	Furniture		4,500
Kaveri	12,000	Patents	4,000	
		Less: Depreciation	800	3,200
		Plant and Machinery	18,000	
		Less: Depreciation	2,000	16,000
		Land and Building	20,000	
		Add: Appreciation	4,000	
Total	**1,01,000**	**Total**		**1,01,000**

* * *

Chapter-4

Reconstitution of a Partnership Firm Retirement and Death of a Partner

SECTION-A: ONE MARK QUESTIONS

1. Write any one circumstance/reason for retirement of a partner.

Ans: a) Old age of a partner b) Illness of apartner
c) Lunacy of a partner d) All the above

Ans: d) All the above.

2. What is gain ratio?

Ans: It is a ratio in which continuing partners gain or benefit from retiring partners share of a profit.

3. Mention any one ratio to be calculated on retirement of a partner.

Ans: a) Gain ratio ;

b) New profit sharing ratio

4. How the gain ratio is calculated on the retirement of a partner? OR Write the formula for calculation of gain ration.

Ans: Gain ratio = New ratio – Old ratio.

5. Give the formula for calculation of new profit sharing ratio on retirement of a partner.

Ans: N.P.S.R = Old ratio + Gain ratio.

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

Ans: Revaluation account is closed by transferring its profit or loss to all partners capital account in their old profit sharing ratio.

7. Who is an executor?

Ans: Executor is the legal representative of a deceased partner.

8. When do you prepare executor's account.

Ans: It is prepared in case of death of a partner.

9. Why executors account is opened? OR What is the purpose of preparing executors account?

Ans: Executors account is opened to transfer amount due to deceased partner.

10. Give the meaning of accrued profit or loss.

Ans: This is the amount of profit or loss accrued till the date of death of the deceased partner.

11. Exapnd GR.

Ans: Gain Ratio.

12. Expand NPSR.

Ans: New Profit Sharing Ratio.

13. New Ratio – Old Ratio = ———— Ratio.

Ans: Gain Ratio.

14. Old Ratio + Gain Ratio = ——— ratio.

Ans: New Profit Sharing Ratio.

15. What do you mean by retirement of a partner?

Ans: When a partner ceases to be a partner of the firm due to oldage, illness etc. It is said to be retirement of a partner.

16. Profit or loss on revolution is transferred to all partners capital accounts in case of retirement of a partner. (State: True/False).

Ans: True.

17. Accumulated profit is transferred to continuing partners capital accounts. (State: Treu/False).

Ans: False.

18. Increase in the value of asset is debited to Revaluation account. (State: True/ False).

Ans: False.

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

a) Old profit sharing ratio ; b) New profit sharing ratio

c) Equal ratio d) None of the above

Ans: a) Old profit sharing ratio.

20. On retirement of a partner, retiring partners share of goodwill is debited to continuing partners capital account is :

a) Old profit sharing ratio b) New profit sharing ratio

c) Gain ratio d) None of the above

Ans: c) Gain ratio

21. In case of retirment of a partner, profit or loss on revaluation transferred to:

a) Only to the capital accounts of continuing partners.

b) Only to the capital account of retiring partner.

c) All the partners capital account.

d) None of the above.

Ans: c) All the partners capital account.

SECTION B: TWO MARKS QUESTION

22. Anand, Mahesh and Sudeep were partners sharing profits and losses in the ratio of 4:3:2. Mahesh retires from partnership, the new profit sharing ratio of Anand and Sudeep is 5:3. Find out gain ratio.

Ans: Gain Ratio = New Ratio – Old Ratio

$$\text{Gain ratio of Anand} = \frac{5}{8} - \frac{4}{9} = \frac{45-32}{72} = \frac{13}{72}$$

$$\text{Gain ratio of Sideep} = \frac{3}{8} - \frac{2}{9} = \frac{27-16}{72} = \frac{11}{72}$$

$\therefore$ Gain ratio = 13 : 11

23. X, Y and Z are partners sharing profits and losses in the ratio of 5:3:2. Y retires from the business. X and Z share the future profit in the ratio of $\frac{5}{8}$ and $\frac{3}{8}$ respectively. Find out the gain ratio of X and Z.

Ans: Gain Ratio = New ratio – Old Ratio

$$\text{Gain ratio of } X = \frac{5}{8} - \frac{3}{10} = \frac{25-20}{40} = \frac{5}{40}$$

$$\text{Gain ratio of } Z = \frac{3}{8} - \frac{2}{10} = \frac{15-8}{40} = \frac{7}{40}$$

$\therefore$ Gain ratio = 5 : 7

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

Ans: Benefit ratio = New ratio – Old ratio

$$\text{Benefit ratio of Vani} = \frac{1}{2} - \frac{4}{9} = \frac{9-8}{18} = \frac{1}{18}$$

$$\text{Benefit ratio of Rani} = \frac{1}{2} - \frac{3}{9} = \frac{9-6}{18} = \frac{3}{18}$$

$\therefore$ Benefit ratio of Vani and Rani is 1 : 3.

25. Prakash, Vijay and Naveen are partners sharing profits in the rati of 3 : 2 : 1. Naveen retires and his share gained by Prakash and Vijay in the ratio of $\frac{1}{8}$ and $\frac{1}{24}$ respectively. Calculate the new profit sharing ratio.

Ans: New Ratio = Old ratio + Gain ratio

$$\text{New Ratio of Prakash} = \frac{3}{6} + \frac{1}{8} = \frac{12+3}{24} = \frac{15}{24}$$

$$\text{New Ratio of Vijay} = \frac{2}{6} + \frac{1}{24} = \frac{8+1}{24} = \frac{9}{24}$$

$\therefore$ New profit sharing ratio = 15 : 9 **OR** 5 : 3.

26. A, B and C were partners sharing profits and losses in the ratio of 2 : 2 : 1. A retires and his share gained by B and C in the rtio of 6/25 and 4/25 respectively. Calculate the new profit sharing ratio.

Ans: New ratio = Old Ratio + Gain Ratio

$$\text{New ratio of B} = \frac{2}{5} + \frac{6}{25} = \frac{10+6}{25} = \frac{16}{25}$$

$$\text{New ratio of C} = \frac{1}{5} + \frac{4}{25} = \frac{5+4}{25} = \frac{9}{25}$$

$\therefore$ N.P.S.R is 16 : 9.

27. Ramesh, Prakash and Suresh were partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. On 31st March, 2020, their balance sheet was as under :

Balance Sheet as on 31.03.2020

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	14,000	Cash	8,000
Reserve Fund	6,000	Debtors	11,000
Capitals:		Patents	10,000
Ramesh - 30,000		Stock	11,000
Prakash - 25,000		Machinery	50,000
Suresh - 15,000	70,000		
Total	**90,000**	**Total**	**90,000**

Ramesh dies on 30th September, 2021. It was agreed between his executors and the surviving partners that :

a) Goodwill to be valued at two and half years purchase of the average profits of the previous four years, which were: 2016-17 – Rs. 12,000; 2017-18 – Rs. 20,000, 2018-2019 – Rs. 13,000, 2019-20 – Rs. 15,000 (as per AS26).

b) Share in the profit from the date of last balance sheet till to the date of death to be calculated on the basis of last year's profit.

c) Interest on Capital to be allowed at 12% p.a.

Prepare Ramesh's Capital Account.

Ans: **Ramesh's Capital A/c**

Dr. **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Ramesh's Executors's a/c	57,300	By Balance b/d	30,000
(Transfer)		By Prakahs's Capital A/c	11,250
		By Suresh's Capital A/c	7,500
		By Profit and Loss suspenses A/c	3,750
		By Interest on Capital A/c	1,800
		By Reserve Fund A/c	3,000
Total	**57,300**	**Total**	**57,300**

Working Notes:

i) Goodwill :

Goodwill of the firm = $\dfrac{12,000+20,000+13,000+15,000}{4} \times 2\dfrac{1}{2}$

$= \dfrac{60,000}{4} \times \dfrac{5}{2}$

$= 15,000 \times \dfrac{5}{2} = 37,500$

$\therefore$ Ramesh's share of goodwill = $37,500 \times \dfrac{5}{10}$ = Rs. 18,750

Treatment of Goodwill (in Gain ratio) :

Prakash's Capital A/c	$18,750 \times \dfrac{3}{5}$	Dr.	11,250	
Suresh's Capital A/c	$18,750 \times \dfrac{2}{5}$	Dr.	7,500	
To Ramesh's Capital A/c				18,750

ii) Share of Profit = $15,000 \times \dfrac{6}{12} \times \dfrac{5}{10} = \text{Rs. } 3,750$

iii) Interest on Capital = $30,000 \times \dfrac{12}{100} \times \dfrac{6}{12} = \text{Rs. } 1,800$

iv) Reserve Fund = $6,000 \times \dfrac{5}{10} = \text{Rs. } 3,000$

28. A, B and C were partners in a firm, sharing profits and losses in the ratio of 2:2:1. The balance sheet of the firm as on 31.3.2019 was as under.

Balance Sheet as on 31.03.2019

Liabilities		Amount (₹)	Assets	Amount (₹)
Current Liabilities		35,000	Current Assets	50,000
Capitals :			Fixed Assets	70,000
	A - 40,000		Profit and Losses A/c	10,000
	B - 35,000			
	C - 20,000	95,000		
	Total	**1,30,000**	**Total**	**1,30,000**

'C' died on 30th June, 2019. His executors were entitled for the following :

a) His capital as in last balance sheet.

b) His share in the profit and loss account.

c) Interest on capital is to be allowed at 100% p.a.

d) His salary at Rs. 800 p.m.

e) His share of profit upto the date of his death. The profit of the firm for the current year estimated at Rs. 20,000

Prepare C's Executor's A/c.

Ans: **C's Executor's A/c**

Dr. **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Profit and Loss A/c $\left(1{,}000 \times \frac{1}{5}\right)$	2,000	By C's capital A/c	20,000
		By Interest on capital A/c $\left(20{,}000 \times \frac{10}{100} \times \frac{3}{12}\right)$	500
To Balance c/d	21,900		
		By Salary A/c (800×3)	2,400
		By P and L Suspense A/c $\left(20{,}000 \times \frac{1}{5} \times \frac{3}{12}\right)$	1,000
Total	**23,900**	**Total**	**23,900**

29. X, Y and Z are partners sharing profits and losses in the ratio of 2:2:1. Their balance sheet as on 31st March, 2019 was follows :

Balance Sheet as on 31.03.2019

Liabilities		Amount (₹)	Assets	Amount (₹)
Sundry Creditors		30,000	Cach	10,000
Capital Account:			Debtors	25,000
	A - 15,000		Stock	40,000
	B - 25,000		Machinery	40,000
	C - 30,000	70,000		
Reserve Fund		15,000		
	Total	**1,15,000**	**Total**	**1,15,000**

X died on 31st July, 2019 and his executors are entitled to :

a) His capital on the date of previous balance sheet.

b) His portion of reserve fund on the date of last balance sheet.

c) His portion of profit to the date of death on the basis of previous year's profit.

d) His share of goodwill as calculated on the basis of three years purchase of the average profits of past four years which were as under :

2015-16 Rs. 23,000; 2016-17 Rs. 20,000; 2017-18 Rs. 19,000; 2018-19 Rs. 18,000 (as per AS26).

Ascertain the amount payable to the executors of the deceased partner.

Ans: **X's Capital A/c**

Dr. **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To X's Executors's a/c	47,400	By Balance b/d	15,000
		By Reserve Fund A/c $\left(10,000 \times \frac{2}{5}\right)$	6,000
		ByP & L Suspense A/c $\left(18,000 \times \frac{2}{5} \times \frac{4}{12}\right)$	2,400
		By Y's Capital A/c	16,000
		By Z's Capital A/c	8,000
Total	**47,400**	**Total**	**47,400**

Calculation of Goodwill :

$$\text{Average profits} = \frac{23{,}000 + 20{,}000 + 19{,}000 + 18{,}000}{4}$$

$$= \frac{80{,}000}{4} = 20{,}000$$

$$\therefore \quad \text{Goodwill} = 20{,}000 \times 3 = 60{,}000$$

$$\text{X's share} = 60{,}000 \times \frac{2}{5} = \text{Rs. } 24{,}000$$

Treatment of goodwill as per As 26: (In Gain Ratio):

Y's capital A/c $\left(24{,}000 \times \frac{2}{3}\right)$	Dr.	16,000	
Z's capital A/c $\left(24{,}000 \times \frac{1}{3}\right)$	Dr.	8,000	
To X's capital A/c			24,000

30. Raju, Ravi and Roopa are partners sharing profit and losses in the ratio of 4:3:3. Their capital balances on 01-04-2019 stood Rs. 1,00,000, Rs. 80,000 and Rs. 50,000 respectively.

Raju dies on 01-10-2019. The partnership deed provides the following.

a) Interest on capital at 12% p.a.

b) He had withdrawn Rs. 5,000 upto date of death.

c) Raju's share of goodwill Rs. 5,000 (as per AS26).

d) His share of profit upto the date of death on the basis of previous year profits. Previous year profits Rs. 20,000.

Prepare Raju's Executor's Account.

Ans: **Raju's Executor's A/c**

Dr. **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Raju's Drawings A/c	5,000	By Raju's capital A/c	1,00,000
To Balance c/d	1,10,000	By Interest on Capital A/c $\left(1,00,000 \times \frac{12}{100} \times \frac{6}{12}\right)$	6,000
		By Ravi's Capital A/c $\left(5,000 \times \frac{3}{6}\right)$	2,500
		By Roopa's Capital A/c	2,500
		By P & L Suspense A/c $\left(20,000 \times \frac{6}{12} \times \frac{4}{10}\right)$	4,000
Total	**1,15,000**	**Total**	**1,15,000**
		By Balance b/d	1,10,000

31. **Arathi, Kalpana and Jayanthi are partners sharing profit and losses in the ratio of 2 : 2 : 1. Their capital balances on 1st April, 2019 stood Rs. 60,000, Rs. 50,000 and Rs. 40,000 respectively.**

    Kalpana died on 31st December, 2019. According to partnership deed, her executors are entitled to get the following :

    a) Her capital as on the date of last balance sheet.
    b) Her share of General reserve. General reserve Rs. 15,000.
    c) Kalpana's share of goodwill Rs. 12,000 (as per AS 26).
    d) Interest on Capital at 10% p.a.
    e) Her share of profit upto the date of death on the basis of previous year profits. Previous year profits Rs. 24,000.

    Prepare Kalpana's Capital Account.

Ans: **X's Capital A/c**

Dr. **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Kalpana's executors A/c	78,450	By Balance b/d	50,000
(Transfer)		By General Reserve A/c $\left(15,000 \times \frac{2}{5}\right)$	6,000
		By Arathi's Capital A/c $\left(12,000 \times \frac{2}{3}\right)$	8,000

		By Jayanthi's Capital A/c $\left(12{,}000 \times \frac{1}{3}\right)$	4,000
		By Interest on Capital A/c $\left(50{,}000 \times \frac{10}{100} \times \frac{9}{12}\right)$	3,750
		By P and L Suspense A/c $\left(24{,}000 \times \frac{9}{12} \times \frac{2}{5}\right)$	7,200
Total	**78,950**	**Total**	**78,950**

SECTION C

32. Radha, Sheela and Meena were in partnership sharing profits and losses in the proportion of 3 : 2 : 1. On April 1, 2020 Sheela reitres from the firm and on that date, their Balance Sheet was as follows:

Balance Sheet as on 01-04-2020

Liabilities		Amount (₹)	Assets	Amount (₹)
Trade creditors		3,000	Cash in Hand	1,500
Bills payable		4,500	Cash at Bank	7,500
Expenses owing		4,500	Debtors	15,000
General Reserve		13,500	Stock	12,000
Capitals:			Factory premises	22,500
Radha	15,000		Machinery	8,000
Sheela	15,000		Loose Tools	4,000
Meena	15,000	45,000		
Total		**70,500**	**Total**	**70,500**

The terms were :

a) Goodwill of the firm was valued at Rs. 13,500 (as per AS26).

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

c) Machinery and loose tools are to be valued at 10% less than their book balue.

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

Prepare: i) Revaluation Account

ii) Partner's Capital Accounts and

iii) Balance Sheet of the firm after retirement of Sheela.

Ans: **Revaluation A/c**

Dr. **Cr.**

Particulars		Amount (₹)	Particulars	Amount (₹)
To Machinery $\left(8000 \times \frac{10}{100}\right)$		800	By Expenses owing $(4,500-3,750)$	750
To Loose Tooles $\left(4000 \times \frac{10}{100}\right)$		400	By Factory premises $(24,300-22,500)$	1,800
To Porfit to partners's Capital A/c				
Radha - $1,350 \times \frac{3}{6}$	675			
Sheela - $1,350 \times \frac{2}{6}$	450			
Meena - $1,350 \times \frac{1}{6}$	225	1,350		
Total		**2,550**	**Total**	**2,550**

Dr. **Partners Capital A/cs** **Cr.**

Particulars	Radha (₹)	Sheela (₹)	Meena (₹)	Particulars	Radha (₹)	Sheela (₹)	Meena (₹)
To Sheela's Cap. A/c	3,375	----	1,125	By Balance b/d	15,000	15,000	15,000
To Sheelas loan A/c	----	24,450	----	By General Expenses	6,750	4,500	2,250
				By Radha's capital A/c	----	3,375	----
				By Meena's capital A/c	----	1,125	----
Balance c/d	19,050	----	16,350	By Revaluation A/c	675	450	225
Total	**22,425**	**24,450**	**17,475**	**Total**	**22425**	**24450**	**17475**
				By Balance c/d	**19,050**	**—**	**16,350**

Sheela's Loan A/c

Dr. **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
		By Sheela's Capital a/c	24,450

Balance Sheet as on 01-04-2020

Liabilities		Amount (₹)	Assets		Amount (₹)
Trade creditors		3,000	Cash in Hand		1,500
Bills payable		4,500	Cash at Bank		7,500
Expenses owing	4,500		Debtors		15,000
(–) Reduced	759	3,750	Stock		12,000
Sheela Loan A/c		24,450	Factory premises	22,500	
Capitals:			(–) Appreciation	1,800	24,300
Radha	19,050		Machinery	8,000	
Meena	16,350	35,400	(–) Depreciation	800	7,200
			Loose Tools	4,000	
			(–) Depreciation	400	3,600
Total		**71,100**	**Total**		**71,100**

Working Notes:

Treatment of goodwill as per AS 26.

Goodwill of the firm valued at Rs. 13,500

Sheela's shae of goodwill = $13,500 \times \frac{2}{6} = 4,500$

Journal Entry:

Radha's Capital A/c $4,500 \times \frac{3}{4}$ Dr. 3,375

Meena's Capital A/c $4,500 \times \frac{3}{4}$ Dr. 1,125

To Sheela's Capital 4,500

33. Akash, Bhuvan and Chirag were partners sharing profits and losses in the ratio of 2 : 2 : 1. Their Balance Sheet as on 31.03.2019 was as follows :

Balance Sheet as on 31-03-2019

Liabilities	Amount (₹)	Assets		Amount (₹)
Creditors	32,000	Cash in Hand		24,500
Bills payable	24,000	Bills Receivable		22,000
Reserve Fund	32,000	Debtors	42,000	
Profit and Loss A/c	10,000	(–) PBD	2,000	40,000

Capitals :			Stock	38,000
Akash	70,000		Furniture	24,000
Bhuvan	50,000		Machinery	40,000
Chirag	30,000	1,50,000	Buildings	60,000
	Total	**2,48,000**	**Total**	**2,48,000**

On 01-04-2019 Chirag retired due to change of resisdence and the following adjustments were made:

a) Goodwill of the firm was valued at Rs. 20,000 (as per AS 26).

b) PBD inceased by Rs. 1,000.

c) Buildings to be valued at Rs. 62,000 and stock valued at Rs. 36,000

d) An investment not recorded in the books, costing Rs. 6,000 has to be taken into account.

e) Chirag is to be paid Rs. 10,000 immediately after his retirement and the balance transfer to his loan account.

Prepare: i) Revaluation Account

ii) Partner's Capital Accounts and

iii) New Balance Sheet.

Ans: **Revaluation A/c**

Dr. **Cr.**

Particulars		Amount (₹)	Particulars	Amount (₹)
To PBD		1,000	By Buildings	2,000
To Stock			(62,000 – 60,000)	
(28,000 – 36,000)		2,000	By Investment	6,000
To Porfit transferred to				
partners's Capital A/c				
Akash - $5,000 \times \frac{2}{5}$	2,000			
Bhuvan - $5,000 \times \frac{2}{5}$	2,000			
Chirag - $5,000 \times \frac{1}{5}$	1,000	5,000		
Total		**8,000**	**Total**	**8,000**

Dr. Partners Capital A/cs Cr.

Particulars	Akash (₹)	Bhuvan (₹)	Chirag (₹)	Particulars	Akash (₹)	Bhuvan (₹)	Chirag (₹)
To Chirag's cap. A/c	2,000	2,000	----	By Balance b/c	70,000	50,000	30,000
To Cash A/c	----	----	10,000	By Reserve Fund	12,800	12,800	6,400
To Chirag's loan A/c	----	----	33,400	By Profit and Loss A/c	4,000	4,000	2,000
(Transfer)				By Akash's cap A/c	----	----	2,000
To Balance c/d	86,800	66,800	----	By Bhuvan's cap A/c	----	----	2,000
				By Revaluation A/c	2,000	2,000	1,000
Total	**88,800**	**68,800**	**43,400**		**88,800**	**68,800**	**43,400**
				By Balance c/d	**86,800**	**66,800**	**—**

Balance Sheet as on 01-04-2019

Liabilities	Amount (₹)	Assets		Amount (₹)
Creditors	32,000	Cash in hand	24,000	
Bills payable	24,000	(–) paid to Chirag	10,000	14,000
Chirag's loan a/c	33,400	Bills receivable		22,000
Capitals:		Debtors	42,000	
Akash	86,800	(–) PBD (2,000 + 1,000)	3,000	39,000
Bhuvan	66,800	Stock	38,000	
		(–) Depreciation	2,000	36,000
		Furniture		24,000
		Machinery		40,000
		Buildings	60,000	
		(+) Appreciation	2,000	62,000
		Investment		6,000
Total	**2,43,000**	**Total**		**2,43,000**

34. Dinesh, Vinay and Mohan were partners in a firm sharing profits and losses in the ratio of 2 : 3 : 5. Dinesh retires on 31-03-2019 on which date their Balance Sheet was as under :

Balance Sheet as on 31-03-2019

Liabilities		**Amount (₹)**	**Assets**	**Amount (₹)**
Creditors		40,200	Cash at Bank	41,000
Profits and Loss A/c		20,000	Debtors	20,000
Capitals :			Stock	34,000
Dinesh	20,000		Furniture	15,000
Vinay	30,000		Building	50,000
Mohan	50,000	1,00,000		
	Total	**1,60,000**	**Total**	**1,60,000**

The terms were as under:

a) Dinesh's share of goodwill valued at Rs. 8,000 (as per AS 26).

b) Maintain PBD at 5% on Debtors.

c) Depreciate Furniture by 10% and appreciate buildings by 20%

d) Insurance premium paid in advance Rs. 2,000

e) Dinesh is to be paid Rs. 21,000 by cheque immediately after his retirement and the balance transfer to his loan A/c.

Prepare: i) Revaluation Account

ii) Partner's Capital Accounts and

iii) New Balance Sheet after retirement of Dinesh.

Ans: **Revaluation A/c**

Dr. **Cr.**

Particulars		**Amount (₹)**	**Particulars**	**Amount (₹)**
To PBD $20{,}000 \times \frac{5}{100}$		1,000	By Buildings $50{,}000 \times \frac{20}{100}$	10,000
To Furniture $15{,}000 \times \frac{10}{100}$		1,500	By prepaid insurance	2,000
To Porfit transferred to partners's Capital A/c				
Dinesh - $9{,}500 \times \frac{3}{10}$	1,900			
Vinay - $9{,}500 \times \frac{3}{10}$	2,000			
Mohan - $9{,}500 \times \frac{5}{10}$	4,750	9,500		
	Total	**12,000**	**Total**	**12,000**

Dr. Partners Capital A/cs Cr.

Particulars	Dinesh (₹)	Vinay (₹)	Mohan (₹)	Particulars	Dinesh (₹)	Vinay (₹)	Mohan (₹)
To Dinesh's cap. A/c	----	3,000	5,000	By Balance b/c	20,000	30,000	50,000
(Gain raito)				By P and L a/c	4,000	6,000	10,000
To Bank A/c	21,000	----	----	By Vinay' Capital a/c	3,000	----	----
To Dinesh's loan a/c	12,900	----	----	By Mohan's Capital a/c	5,000	----	----
To Balance c/d	----	35,850	59,750	By Revaluation	1,900	2,850	4,750
Total	**88,800**	**68,800**	**43,400**		**33,900**	**38,850**	**64,750**
				By Balance c/d	**—**	**35,850**	**59,750**

Balance Sheet as on 31-03-2019

Liabilities		Amount (₹)	Assets		Amount (₹)
Creditors		40,000	Cash at Bank		20,000
Dinesh's loan A/c		12,900	(41,000 – 21,000)		
Capitals:			Debtors	20,000	
Vinay	35,850		(–) PBD	1,000	19,000
Mohan	59,750	95,600	Stock		34,000
			Furniture	15,000	
			(–) Depreciation	1,500	13,500
			Building	50,000	
			(+) Appreciation	10,000	60,000
			Prepaid Insurance		2,000
Total		**1,48,500**	**Total**		**1,48,500**

35. Bharathi, Jyothi and Swetha were partners in a firm sharing profits and losses in the ratio of 4:3:3. Their Balance Sheet as on 31st March, 2019 was as under.

Balance Sheet as on 31-03-2019

Liabilities	Amount (₹)	Assets		Amount (₹)
Creditors	36,000	Cash at Bank		12,000
Bills Payable	24,000	Debtors	22,500	
		(–) PBD	2,500	20,000

Capitals :			Bills receivable	16,000
Bharathi	50,000		5% Govt. Securities	10,000
Jyothi	40,000		Furniture	8,000
Swetha	30,000	1,20,000	Motor van	40,000
			Land and Building	74,000
Total		**1,80,000**	**Total**	**1,80,000**

Swetha retires from business due to illness and the following adjustments are to be made.

a) Reduce P.B.D. by Rs. 1,000.

b) Bills receivable includes one bill of Rs. 4,000 recovery of which is considered as doubtful. Hence that should be written off.

c) Interest on Govt. securities earned but not received for last six months period.

d) Goodwill of the firm valued at Rs. 21,000 (as per AS 26).

e) Rent receivable Rs. 2,000.

f) Settlement made to the retiring partner through bank overdraft.

Prepare: i) Revaluation Account

ii) Partner's Capital Accounts and

iii) New Balance Sheet.

Ans: **Revaluation A/c**

Dr. **Cr.**

Particulars	Amount (₹)	Particulars		Amount (₹)
To Provision for doubtful bill	4,000	By P.B.C.		1,000
		By O/s interest on Govt. securities: $10,000 \times \frac{5}{100} \times \frac{6}{12}$		250
		By Rent receivable		2,000
		To Loss transferred to partners's Capital A/c		
		Bharati - $750 \times \frac{4}{10}$	300	
		Jyothi - $750 \times \frac{3}{10}$	225	
		Swetha - $750 \times \frac{3}{10}$	225	750
Total	**4,000**	**Total**		**4,000**

Dr. **Partners Capital A/cs** **Cr.**

Particulars	Bharati (₹)	Jyothi (₹)	Swetha (₹)	Particulars	Bharati (₹)	Jyothi (₹)	Swetha (₹)
To Swetha's Cap.A/c	3,600	2,700	----	By Balance b/c	50,000	40,000	30,000
Revaluation A/c	300	225	225	By Bharathi's cap. A/c	----	----	3,600
To Bank A/c	----	----	36,075	By Jyothi's cap. A/c	----	----	2,700
To Balance c/d	46,100	37,075	----				
Total	**50,000**	**40,000**	**36,300**		**50,000**	**40,000**	**36,300**

Balance Sheet as on 31-03-2019

Liabilities		Amount (₹)	Assets		Amount (₹)
Creditors		36,000	Debtors	22,500	
Bills payable		24,000	(–) PBD	1,500	21,000
Bank overdraft			Bills Receivable	16,000	
(36,075 – 12,000)		24,075	(–) PDB	4,000	12,000
Capitals:			5% Govt. securities	10,000	
Bharathi	46,100		(+) O/s interest furniture	250	10,250
Jyothi	37,075	83,174	Furniture		8,000
			Motor van		40,000
			Land and Building		74,000
			Rent receivable		2,000
Total		**1,67,250**	**Total**		**1,67,250**

36. Gopal, Sridhar and Raju were partners in a firm. Their Balance Sheet as on 01-04-2019 was as follows :

Balance Sheet as on 01-04-2019

Liabilities		Amount (₹)	Assets	Amount (₹)
Creditors		18,000	Cash	6,000
Bills Payable		24,000	Debtors	12,000
Reserve Fund		6,000	Stock	18,000
Capital:			Furniture	5,000
Gopal	18,000		Machinery	14,000
Sridhar	18,000		Building	40,000
Raju	18,000	54,000	Profit and Loss A/c	3,000
Total		**98,000**	**Total**	**98,000**

On the above date, Gopal was retired from business and the following adjustments are to be made.

a) Goodwill of the firm valued at Rs. 9,000 (as per AS 26).

b) Interest on bank loan at 10% due for six months.

c) Provide for outstanding repair bill Rs. 1,400.

d) Salary paid in advance Rs. 1,800.

e) Building is revalued at Rs. 43,600.

Prepare: i) Revaluation Account

ii) Partner's Capital Accounts and

iii) New Balance Sheet.

Ans: **Revaluation A/c**

Dr. **Dr.**

Particulars		**Amount (₹)**	**Particulars**	**Amount (₹)**
To O/s interest on		1,400	By Prepaid Salary	1,800
bank loan $20{,}000 \times \frac{10}{100} \times \frac{6}{12}$		1,400	By Building (43,600 – 40,000)	3,600
To Profit transferred to partners's Capital A/c				
Gopal - $3000 \times \frac{1}{3}$	1,000			
Sridhar - $3000 \times \frac{1}{3}$	1,000			
Radha - $3000 \times \frac{1}{3}$	1,000	3,000		
	Total	**5,400**	**Total**	**5,400**

Dr. **Partners Capital A/cs** **Cr.**

Particulars	**Gopal (₹)**	**Sridhar (₹)**	**Raju (₹)**	**Particulars**	**Gopal (₹)**	**Sridhar (₹)**	**Raju (₹)**
To P and L A/c	1,000	1,000	1,000	By Balance b/d	18,000	18,000	18,000
To Gopal's cap. A/c	----	1,500	1,500	By Reserve Fund	2,000	2,000	2,000
To Gopal's loan A/c	23,000	----	----	By Sridhar's Capital A/c	1,500	----	----
To Balance c/d	----	18,500	18,500	By Raju's Capital A/c	1,500	----	----
				By Revaluation A/c	1,000	1,000	1,000
Total	**24,000**	**21,000**	**21,000**	**Total**	**24,000**	**21,000**	**21,000**
				By Balance b/d	**—**	**18,500**	**18,500**

Balance Sheet as on 1-04-2019

Liabilities		Amount (₹)	Assets		Amount (₹)
Creditors		18,000	Cash		6,000
Bank Loan	20,000		Debtors		12,000
(+) O/s interest	1,000	21,000	Stock		18,000
O/s repair bill		1,400	Furniture		5,000
Gopal's loan A/c	----	23,000	Machinery		14,000
Capital :			Building	40,000	
Sridhar	18,500		(+) Appreciation	3,600	43,600
Raju	18,500	37,000	Prepaid Salary		1,800
	Total	**1,00,400**		**Total**	**1,00,400**

* * *

Chapter-5

Dissolution of Partnership Firm

SECTION-B: TWO MARK QUESTIONS

1. **What is dissoluton of a partnership?**

Ans: It means some of the partners terminate their connections with the firm and the remaining partners continue the business of the firm under the same name.

2. **Give the meaning of dissolution of partnership firm?**

Ans: It means complete closing down of the business of partnership. In other words when all the business activities of the firm are brought to an end.

3. **State any two circumstances under which a partnership firm is dissolved.**

Ans: a) On the completion of the business for which a partnership firm was formed.

b) On the expiry of certain term, fixed by partnership firm.

4. **Why is Realisation Account prepared?**

Ans: It is opened in the dissolution of partnership firm. It is generally prepared to findout profit or loss made by a firm on the realisation of assets and payment of liabilities to outsiders.

5. **Write the Journal entry for the payment of unrecorded liabilities on the dissoluton of a firm.**

Ans: Realisation A/c Dr.

To Bank A/c

(Unrecord liability paid)

6. **Give the Journal entry for assets taken over by a partners on dissolution of firm.**

Ans: Partners Capital A/c Dr.

To Realisation A/c

(Asset taken over by partner.)

7. **Give the Journal entry for liability taken over by a partner on dissolution of a firm.**

Ans: Realisation A/c Dr.

To Partner's Capital A/c

(Being liability paid.)

8. **How do you chose Realisation A/c on dissolution of a firm?**

Ans: It is closed by transferring profit or loss of realisation to all the Partners Capital A/c.

9. Give the journal entry for transfer of realisation profit to partners capital A/c.

Ans: Realisation A/c Dr.

To All the partners Capital A/c

(Transfer of profit to partners capital A/c)

10. What is Realisation A/c ?

Ans: It is an account opened at the time of dissolution of partnership firm to record assets realised and liabilities paid off and to ascertain profit or loss on realisation.

SECTION-D: TWELVE MARK QUESTIONS

11. Anup and Sumit are equal partners in a firm. They decided to dissolve the partnership on 31.03.2019 when their balance sheet was as under.

Balance Sheet of Anup and Sumit as on 31.03.2019

Liabilities		**Amount (₹)**	**Assets**	**Amount (₹)**
Creditors		30,000	Cash at Bank	14,000
Loan		40,000	Sundry Debtors	12,000
Reserve Fund		10,000	Machinery	47,000
Capitals:			Stock	42,000
Anup	60,000		Land and Building	60,000
Sumit	60,000	1,20,000	Furniture	25,000
	Total	**2,00,000**	**Total**	**2,00,000**

The assets were realised as follows :

Land and Building	Rs. 72,000
Furniture	Rs. 22,500
Stock	Rs. 40,500
Machinery	Rs. 48,000
Sundry Debtors	Rs. 10,500

The creditors were paid Rs. 25,000 in full settlement. Expenses of realisation amounted to Rs. 2,500.

Prepare: 1) Realisation A/c

2) Partners Capital A/c

3) Bank A/c

Ans:

Realisation A/c

Dr. **Cr.**

Particulars	Amount (₹)	Particulars		Amount (₹)
To Sundry debtors	12,000	By Creditors		30,000
To Machinery	47,000	**By Bank A/c**		
To Stock	42,000	**(Assets realised)**		
To Land and Building	60,000	Land and Building	72,000	
To Furniture	25,000	Furniture	22,500	
To Bank A/c		Stock	40,500	
(Liabilities paid off)	25,500	Machinery	48,000	
To Bank A/c (realisation exp. paid)	2,500	Sundry Debtros	10,500	1,93,500
To Partners cap A/c (Profit)	9,500			
Anup = $9,500 \times \frac{1}{2} = 4,750$				
Sumit = $9,500 \times \frac{1}{2} = 4,750$				
Total	**2,23,500**	**Total**		**2,23,500**

Partner's Capital A/c

Dr. **Cr.**

Particulars	Anup (₹)	Sumit (₹)	Particulars	Anup (₹)	Sumit (₹)
To Bank A/c (Balance)	69,750	69,750	By Balance b/d	60,000	60,000
			By Realisation A/c (Profit)	4,750	4,750
			By Reserve fund (10,000 $\rightarrow$ 1 : 1)	5,000	5,000
Total	**69,750**	**69,750**	**Total**	**69,750**	**69,750**

Bank A/c

Dr. **Cr.**

Particulars	Amount (₹)	Particulars		Amount (₹)
To Bank A/c b/d	14,000	By Realisation A/c		22,500
To Realisation A/c	1,93,500	(Liabilities paid off)		
(Assets realised)		By Realisation A/c		2,500
		(Realisation expenses paid)		
		By Loan A/c		40,000
		By Partners Capital A/c		
		Anup	69,750	
		Sumit	69,750	1,39,500
Total	**2,07,500**	**Total**		**2,07,500**

12. Seeta and Sarita sharing profits in the ratio of 3:1 and they agree upon dissolution. The Balance sheet as on 31-03-2019 is as under: ***(Supplementary-2020)***

Balance Sheet as on 31-03-2019

Liabilities		Amount (₹)	Assets	Amount (₹)
Loan		12,000	Cash at Bank	25,000
Creditors		18,000	Stock	45,000
Capital :			Furniture	16,000
Seeta -	1,00,000		Debtors	70,000
Sarita	78,000	1,78,000	Plant and Machinery	52,000
	Total	**2,08,000**	**Total**	**2,08,000**

Additional Information :

a) Seeta took over plant and machinery at an agreed value of Rs. 60,000.

b) Stock and furniture were sold for Rs. 42,000 and Rs. 13,900 respectively.

c) Liabilities were paid in full.

d) Realisation expenses were Rs. 1,500

e) Debtors were taken over by Sarita at Rs. 69,000.

Prepare: 1) Realisation A/c 2) Partners Capital A/c 3) Bank A/c

Ans: **Realisation A/c**

Dr. **Cr.**

Particulars	Amount (₹)	Particulars		Amount (₹)
To Stock A/c	45,000	By Creditors A/c		18,000
To Furniture A/c	16,000	**By Bank A/c (Assets realised)**		
To Debtors A/c	70,000	By Stock	42,000	
To Plant and Machenery A/c	52,000	By Furniture	13,900	55,900
To Bank A/c		By Seeta's Capital A/c		60,000
(Liabilities paid off)		(Plant and Machinery		
To Creditors	18,000	takes over)		
To Bank A/c		By Sarita's Capital A/c		69,000
(Realisation expenses paid)	1,500	(Debtors takes over)		
To Partners Capital A/c (Profit)	400			
Seeta = $400 \times \frac{3}{4} = 300$				
Sarita = $400 \times \frac{1}{4} = 100$				
Total	**2,02,900**	**Total**		**2,02,900**

Partner's Capital A/c

Cr. **Cr.**

Particulars	Seeta (₹)	Sarita (₹)	Particulars	Seeta (₹)	Sarita (₹)
To Realisation A/c	60,000	69,000	By Balance b/d	1,00,000	78,000
(Assets taken over)			By Realisation A/c	300	100
To Bank A/c (Bal.)	40,300	9,100	(Profit)		
Total	**1,00,300**	**78,100**	**Total**	**1,00,300**	**78,100**

Bank A/c

Dr. **Cr.**

Particulars	Amount (₹)	Particulars		Amount (₹)
To Bank A/c b/d	25,000	By Realisation A/c		18,000
To Realisation A/c	55,900	(Creditors paid off)		
(Assets realised)		By Realisation A/c		1,500
		(Realisation expenses paid)		
		By Loan A/c		12,000
		By Partners Capital A/c		
		Seeta	40,300	
		Sarita	9,100	49,400
Total	**80,900**		**Total**	**80,900**

13. Rashmi and Geetha are partners sharing profits and losses in the ratio of 3:2. Their Balance Sheet as on 31.03.2018 as follows :

Balance Sheet as on 31-03-2020

Liabilities	Amount (₹)	Assets	Amount (₹)
Sundry Creditors	10,000	Cash at Bank	5,000
Bills payable	10,000	Bills receivable	10,000
Rashmi's Loan A/c	5,000	Sundry Debtors	20,000
Reserve Fund	10,000	Stock	15,000
Capitals:		Machinery	15,000
Rashmi	30,000	Furniture	10,000
Geetha	40,000	Goodwill	30,000
Total	**1,05,000**	**Total**	**1,05,000**

On the above date the firm was dissolved.

a) The assets were realised as follows :

Biils receivable - Rs. 7,500 ; Debtors and Stock - 10% less than the book value; Machinery realised - 5% more than the book value; and goodwill realised for Rs. 12,000.

b) Furniture was taken over by Geetha at Rs. 8,000.

c) Dissolution expenses were Rs. 600.

d) All the liabilities were discharged in full.

Prepare: 1) Realisation A/c 2) Partners Capital A/c 3) Bank A/c

Ans:

Realisation A/c

Dr. **Cr.**

Particulars		Amount (₹)	Particulars		Amount (₹)
To Sundry Debtors A/c		20,000	By Sundry Creditors A/c		10,000
To Bills receivables A/c		10,000	By Bills payable A/c		10,000
To Stock A/c		15,000	**By Bank A/c**		
To Machinery A/c		15,000	**(Assets realised)**		
To Furniture A/c		10,000	By Bills receivable	75,00	
To Goodwill A/c		30,000	By Sundry debtors	18,000	
To Bank A/c			(20,000 – 2000)		
(Liabilities paid off)			(10% less than BV		
To Sundry creditors	10,000		$20,000 \times \frac{10}{100}$)		
To B/P	10,000	20,000	By Stock A/c		
To Bank A/c			(15,000 – 1,500)	13,500	
(Dissolution exp. paid)		600	(10% less than BV)		
			By Machinery	15,750	
			(5% more than BV)		
			$15,000 \times \frac{5}{100}$		
			By Goodwill A/c	12,000	66,750
			By Geetha's Capital A/c		8,000
			(Furniture takesover)		
			By Partners Capital A/c		25,850
			(3:2) (Loss)		
			Rashmi = $25,850 \times \frac{3}{5} = 15,510$		
			Geetha = $25,850 \times \frac{2}{5} = 10,340$		
Total		**1,20,600**	**Total**		**1,20,600**

Partner's Capital A/c

Dr. **Cr.**

Particulars	Rashmi (₹)	Geetha (₹)	Particulars	Rashmi (₹)	Geetha (₹)
To Realisation A/c	-	8,000	By Balance b/d	30,000	40,000
(Furniture taken over)			By Reserve Fund	6,000	4,000
To Realisation A/c (Loss)	15,510	10,340	(10,000 → 3 : 2)		
To Bank A/c (Bal)	20,490	25,660			
Total	**36,000**	**44,000**	**Total**	**36,000**	**44,000**

Bank A/c

Dr. **Cr.**

Particulars	Amount (₹)	Particulars		Amount (₹)
To Balance b/d	5,000	By Realisation A/c		20,000
To Realisation A/c	66,750	(Liabilities paid off)		
(Assets realised)		By Realisation A/c		600
		(Dissolution expenses paid)		
		By Rashmi's Loan A/c		5,000
		By Partners Capital A/c		
		Rashmi	20,490	
		Geetha	25,660	46,150
Total	**71,750**		**Total**	**71,750**

14. Shruti, Shilpa and Shreya were partners sharing profits and losses in the ratio of 2:2:1. They decided to dissolve the firm. Their Balance Sheet on the date of dissolution was as follows :

Balance Sheet as on 31-03-2020

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	30,000	Cash at Bank	6,000
Bills payable	20,000	Debtors	30,000
Shreya's Loan A/c	8,000	Stock	30,000
General Reserve	10,000	Furniture	22,000
Capitals:		Machinery	20,000
Shruti	40,000	Buildings	50,000
Shilpa	30,000		
Shreya	20,000		
Total	**1,58,000**	**Total**	**1,58,000**

The assets realised as follows :

a) Debtors realised 10% less than B.V., the stock realised 15% more than B.V., Building realised Rs. 60,000.

b) The furniture was taken over by Shruti at Rs. 20,000.

c) The Machinery was taken over by Shilpa at Rs. 15,000.

d) Creditors and Bills payable were paid off at a discount of 5%.

e) Cost of dissolution amounted to Rs. 1,500.

Prepare: 1) Realisation A/c 2) Partners Capital A/c 3) Bank A/c

Ans:

Realisation A/c

Dr. **Cr.**

Particulars		Amount (₹)	Particulars		Amount (₹)
To Debtors A/c		30,000	By Creditors A/c		30,000
To Stock A/c		30,000	By Bills payable A/c		20,000
To Furniture A/c		22,000	**By Bank A/c**		
To Machinery A/c		20,000	**(Assets realised)**		
To Building A/c		50,000	By Debtors	27,000	
To Bank A/c			(30,000 – 3,000)		
(Liabilities paid off)			By Stock	34,500	
To Creditors	28,500		(30,000 – 4,500)		
(30,000 – 1,500)			By Building	60,000	1,21,500
B/P (20,000 – 1,000)	19,000	47,500	By Shruti's Capital A/c		20,000
To Bank A/c		1,500	(Furniture taken over)		
(Dissolution exp. paid)			By Shilpa's Capital A/c		15,000
To Partners Capital A/c		5,500	(Machinery taken over)		
(2 : 2 : 1) (Profit)					
Shruti = $5,500 \times \frac{2}{5} = 2,200$					
Shilpa = $5,500 \times \frac{2}{5} = 2,200$					
Shreya = $5,500 \times \frac{1}{5} = 2,200$					
Total		**2,06,500**	**Total**		**2,06,500**

Dr. **Partners Capital A/cs** **Cr.**

Particulars	Shruti (₹)	Shilpa (₹)	Shreya (₹)	Particulars	Shruti (₹)	Shilpa (₹)	Shreya (₹)
To Realisation A/c	20,000	15,000	----	By Balance b/d	40,000	30,000	20,000
(Assets taken over)				By General Reserve	4,000	4,000	2,000
To Bank A/c	26,200	21,200	23,100	By Realisation A/c	2,200	2,200	1,100
Total	**46,200**	**36,200**	**23,100**	**Total**	**46,200**	**36,200**	**23,100**

Bank A/c

Dr. **Cr.**

Particulars	Amount (₹)	Particulars		Amount (₹)
To Balance b/d	6,000	By Realisation A/c		47,500
To Realisation A/c	1,21,500	(Liabilities paid off)		
		By Realisation A/c		1,500
		(Dissolution expenses paid)		
		By Shreya's Loan		8,000
		By Partners Capital A/c		
		Shruti	26,200	
		Shilpa	21,200	70,500
Total	**1,27,500**		**Total**	**1,27,500**

15. Rekha and Chetana sharing profit at 3 : 1 ratio and they agree upon dissolution. The balance sheet as on 31st March, 2018 is as under.

(March-2019)

Balance Sheet of Rekha and Chetana as on 31-03-2018

Liabilities	Amount (₹)	Assets	Amount (₹)
Loan	2,400	Cash at Bank	5,000
Creditors	3,600	Stock	9,000
Capital		Furniture	3,200
		Debtors	14,000
Capitals:		Plant and Machinery	10,400
Rekha	22,000		
Chetana	13,600		
Total	**41,600**	**Total**	**41,600**

Additional Information :

a) Rekha took over plant and machinery at an agreed value of Rs. 12,000.

b) Stock and furniture were sold for Rs. 8,400 and Rs. 2,780 respectively.

c) Debtors were took over by Chetana at Rs. 13,000.

d) Liabilities were paid in full by the firm.

e) Realisation expenses were Rs. 320.

Prepare: 1) Realisation A/c

2) Partners Capital A/c

3) Bank A/c

Ans: **Realisation A/c**

Dr. **Cr.**

Particulars	Amount (₹)	Particulars		Amount (₹)
To Stock A/c	9,000	By Creditors A/c		3,600
To Furniture A/c	3,200	**By Bank A/c**		
To Debtors A/c	14,000	**(Assets realised)**		
To Plant and Machinery A/c	10,400	By Stock	8,400	
		By Furniture	2,780	11,180
To Bank A/c	3,600	(30,000 – 3,000)		
(Creditors paid off)		By Rekha's Capital A/c		12,000
To Bank A/c (Realisation exps. paid)	320	(Plant and Machinery taken over)		13,000
		By Chetana's capital A/c (Debtors taken over)		
		By Partners capital A/c		740
		3 : 1 Ratio (loss)		
		$740\times\frac{3}{4}=555$; $740\times\frac{1}{4}=185$		
Total	**40,520**	**Total**		**40,520**

Partner's Capital A/c

Dr. **Cr.**

Particulars	Rekha (₹)	Chetana (₹)	Particulars	Rekha (₹)	Chetana (₹)
To Realisation A/c (Assets realised)	12,000	13,000	By Balance b/d	22,000	13,600
To Realisation A/c(Loss)	555	185			
To Bank A/c (Bal)	9,445	415			
Total	**22,000**	**13,600**	**Total**	**22,000**	**13,600**

Bank A/c

Dr. **Cr.**

Particulars	Amount (₹)	Particulars		Amount (₹)
To Balance b/d	5,000	By Realisation A/c		3,600
To Realisation A/c	11,180	(Creditors paid off)		
(Assets realised)		By Realisation A/c		320
		(Rekha's expenses paid)		
		By Partners Capital A/c		
		Rekha	9,445	
		Chetana	415	9,860
		By Loan A/c		2,400
Total	**16,180**	**Total**		**16,180**

16. Vinay, Vaibhav and Naveen are partners in a firm, sharing profits and losses in the ratio of 3 : 2 : 1 respectively. Their Balance Sheet as on 31.03.2018 was as under : (September, 2019)

Balance Sheet as on 31-03-2028

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	40,000	Cash at Bank	15,000
Bills payable	10,000	Debtors	50,000
Naveen's Loan A/c	12,000	Stock	60,000
General Reserve	6,000	Furniture	28,000
Capitals:		Machinery	45,000
Vinay	80,000	Buildings	50,000
Vaibhav	60,000		
Naveen	40,000		
Total	**2,48,000**	**Total**	**2,48,000**

The firm was dissolved on the above date. The assets realised as under:

a) Debtors realised 10% less than B.V., stock realised 5% more than B.V., Building realised Rs. 60,000.

b) Creditors and Bills payable were paid in full.

c) Furniture was taken over by Vinay for Rs. 25,000.

d) Machinery was taken over by Vaibhav for Rs. 40,000

e) Cost of dissolution amounted to Rs. 3,000.

Prepare: 1) Realisation A/c
2) Partners Capital A/c
3) Bank A/c

Ans: **Realisation A/c**

Dr. **Cr.**

Particulars		Amount (₹)	Particulars		Amount (₹)
To Debtors A/c		50,000	By Creditors A/c		40,000
To Stock A/c		60,000	By Bills payable A/c		10,000
To Furniture A/c		28,000	**By Bank A/c**		
To Machinery A/c		45,000	**(Assets realised)**		
To Building A/c		50,000	By Debtors	45,000	
To Bank A/c			(50,000 – 5,000)		
(Liabilities paid off)			By Stock	69,000	
To Creditors	40,000		(60,000 + 9,000)		
To B/P	10,000	50,000	By Building	60,000	1,74,000

To Bank A/c (Dissolution exp. paid)	3,000	By Vinay's capital A/c (Furniture taken over)	25,000
To Partners Capital A/c (3 : 2 : 1) (Profit)	3,000	By Vaibhav's capital A/c (Machinery taken over)	40,000
Vinay = $3,000 \times \frac{2}{6} = 1,500$			
Vaibhav = $3,000 \times \frac{2}{6} = 1,000$			
Naveen = $3,000 \times \frac{1}{6} = 500$			
Total	**2,89,000**	**Total**	**2,89,000**

Dr. **Partners Capital A/cs** **Cr.**

Particulars	Vinay (₹)	Vaibhav (₹)	Naveen (₹)	Particulars	Vinay (₹)	Vaibhav (₹)	Naveen (₹)
To Realisation A/c (Assets taken over)	25,000	40,000	----	By Balance b/d	80,000	60,000	40,000
				By Realisation A/c	1,500	1,000	500
To Bank A/c	59,500	23,000	41,500	By General Reserve (6000 → 3 : 2 : 1)	3,000	2,000	1,000
Total	**84,500**	**63,000**	**41,500**	**Total**	**84,500**	**63,000**	**41,500**

Bank A/c

Dr. **Cr.**

Particulars	Amount (₹)	Particulars		Amount (₹)
To Balance b/d	15,000	By Realisation A/c (Liabilities paid off)		50,000
To Realisation A/c (Assets realised)	1,74,000	By Realisation A/c (Dissolution expenses paid)		3,000
		By Naveen's Loan A/c		12,000
		By Partners Capital A/c		
		Vinay	59,500	
		Vaibhav	23,000	
		Naveen	41,500	1,24,000
Total	**1,89,000**	**Total**		**1,89,000**

* * *

Chapter-6

Accounting for Share Capital

SECTION-A: ONE MARK QUESTIONS

1. A company is an ____________ person created by Law.

Ans: Artificial.

2. _______ is the part of the issued capital.

Ans: Subscribed capital.

3. Call money received in advance is called ___________ .

Ans: Calls-in-advance.

4. ___________ is minimum number of members in a public company.

Ans: 07.

5. ________ is minimum number of members in private company.

Ans: 02.

6. Profit on forfeiture of shares is transferred to _______ account.

Ans: Capital Reserve.

7. Equity Share holders are :

a) Creditors **b) Owners**

c) Customers of the company **d) None of the above**

Ans: b) Owners

8. Shares can be forfeited for :

a) Non-payment of call money

b) Failure to attend meeting

c) Failure to repay the loan to the bank

d) The pledging of shares or a security

Ans: a) Non-payment of call money.

9. Maximum number of members in a private company is,

a) 40 b) 200 c) 70 d) No limits.

Ans: b) 200

10. If application are received for more numbers of shares than that offered to public, it is called

a) Less offers b) Under subscription

c) Over subscriptions d) more offers

Ans: c) Over subscriptions

11. If a shareholder fails to pay call money, it is called ....

a) calls unpaid **b) calls-in-advance**

c) calls-in-arrears **d) None of the above**

Ans: c) calls-in-arrears

12. A company is an artificial person: [True/False.]

Ans: True.

13. Shares of a public company are transforable: [True/False.]

Ans: True.

14. Private companies invite the public to subscribe for its shares: [True/False.]

Ans: False.

15. Forfeiture of share is cancellation of the rights of the shareholders: [True/False.]

Ans: True.

SECTION-B: TWO MARK QUESTIONS

16. What is a Joint stock company ?

Ans: Joint stock company is an association of persons formed to carry a business with view to earn profit having common seal, stock called share capital.

17. State any two features of Joint stock company?

Ans: i) Company is voluntary association of persons.

ii) It is compulsorily registered under companies Act.

iii) It is legal and artificial person. [Any two.]

18. What do you mean by over subscription?

Ans: When the public apply for more shares than those offered to them, it is said to be over subscription of shares.

19. What is calls-in-arrears?

Ans: The amount remaining un-paid on allotment or on calls is called callin-in-arrears.

20. What is forfeiture of shares?

Ans: Forfeiture of shares means cancellation of the rights of the shareholder on the shares held by him for non-payment of allotment or calle money or both on such shares.

21. State any two categories of share capital.

Ans: i) Nominal capital

ii) Issued capital

iii) Subscribed capital [Any two.]

22. What is meant by issue of shares at premium?

Ans: Issue of shares at premium means the issue of shares at a price higher than the face value of the shares.

23. What is buy-back of shares?

Ans: Buy back of shares means purchase of its own shares by a company.

24. What is meant by under subscription of shares?

Ans: When the number of shares applied for by the public is less than the number of shares offered for subscription of shares.

Journal entries relating to Issue of Shares at Par Value :

1. **When Share application money received: Entry will be,**

   Bank A/c Dr.

   To Share application A/c

2. **When Share application money transferred to Share Capital A/c**

   Share Application A/c Dr.

   To Share Capital A/c

3. **When allotment money due: Entry will be**

   Share allotment A/c Dr.

   To Share Capital A/c

4. **When allotment money received: Entry will be**

   Bank A/c Dr.

   To Share Allotment A/c

5. **When Share call money due : Entry will be**

   Share Call A/c Dr.

   To Share Capital A/c

6. **When Calls money received: Entry will be**

   Bank A/c Dr.

   To Share Capital A/c

PROBLEMS ON ISSUE OF SHARES AT PAR (6 MARKS)

1. **The Bangalore Software Company Ltd., issued 5,000 equity shares of Rs. 10/- each. The amount was payable as follows.**

   Rs. 2 on application

   Rs. 3 on allotment

   Rs. 5 on first and final call.

   All the shares were subscribed and the amount was duly received. Pass the necessary Journal entries in the books of Company.

Soln: Journal Entries in the books of Bangalore Software Company Ltd.

Date	Particulars		LF	Debit (₹)	Credit (₹)
1.	Bank A/c	Dr.		10,000	---
	To, Equity Share Application A/c (Being the E-share application money received on 5,000 shares at Rs.2 per share)			---	10,000
2.	Equity Share Application A/c	Dr.		10,000	---
	To, Equity Share Capital A/c (Being the application money transferred to E-share Capital A/c)			---	10,000
3.	Equity Share allotement A/c	Dr.		15,000	---
	To, Equity Share Capital A/c (Beging allotment money due on 5,000 equity shares at Rs. 3 per share.)			---	15,000
4.	Bank A/c	Dr.		15,000	---
	To, Equity Share Allotment A/c (Being allotment money received.)			---	15,000
5.	Equity Share first and final call A/c	Dr.		25,000	---
	To, Equity Share Capital A/c (Being E-share first and final call money due on 5,000 shares at Rs. 5 per share)			---	25,000
6.	Bank A/c	Dr.		25,000	
	To, Equity Share first and final call A/c (Being E-share first and final call money received.)				25,000

2. **The Sunrise Company Ltd., issued 20,000 preference shares of Rs. 100 each. The amount was payable as follows :**

   Rs. 10 on application

   Rs. 50 on allotment

   Rs. 40 on first and final call.

   All the shares were subscribed and the amount was duly received. Pass the necessary Journal entries in the books of Company.

Soln: Journal Entries in the books of Sunrise Company Ltd.

Date	Particulars		LF	Debit (₹)	Credit (₹)
1.	Bank A/c	Dr.		2,00,000	---
	To, Preference Share Application A/c (Being the P-share application money received on 20,000 shares at Rs. 10 per share)			---	2,00,000

2.	Preference Share Application A/c To, Preference Share Capital A/c (Being the application money transferred to P-share Capital A/c)	Dr.		2,00,000	2,00,000
3.	Preference Share allotement A/c To, Preference Share Capital A/c (Beging share allotment money due on 20,000 shares at Rs. 50 per share.)	Dr.		10,00,000	10,00,000
4.	Bank A/c To, Preference Share Allotment A/c (Being allotment money received.)	Dr.		10,00,000	10,00,000
5.	Preference Shares first and final call A/c To, Preference Share Capital A/c (Being share first and final call money due on 20,000 shares at Rs. 40 per share)	Dr.		8,00,000	8,00,000
6.	Bank A/c To, Preference Share first and final call A/c (Being share first and final call money received on 20,000 shares at Rs. 40 per share)	Dr.		8,00,000	8,00,000

3. 'ABC' Company issued 5,000 equity shares of Rs. 100 each. The amount was payable as follows :

On Application	**Rs. 20**
On Allotment	**Rs. 40**
On first and final call	**Rs. 40**

All the shares were subscribed and the amount was duly received. Pass the necessary Journal entries up to the stage of first and final call money received.

Soln: Journal Entries in the books of 'ABC' Company Ltd.

Date	Particulars		LF	Debit (₹)	Credit (₹)
1.	Bank A/c To, Equity Share Application A/c (Being the Equity share application money received on 5,000 shares at Rs.20 per share)	Dr.		1,00,000	1,00,000
2.	Equity Share Application A/c To, Equity Share Capital A/c (Being equity share application money transferred to Equity share Capital A/c)	Dr.		1,00,000	1,00,000

3.	Equity Share allotement A/c To, Equity Share Capital A/c (Beging allotment money due on 5,000 equity shares at Rs. 40 per share.)	Dr.		2,00,000	 2,00,000
4.	Bank A/c To, Equity Share Allotment A/c (Being allotment money received.)	Dr.		2,00,000	 2,00,000
5.	Equity Share first and final call A/c To, Equity Share Capital A/c (Being E-share first and final call money due on 5,000 shares at Rs. 40 per share)	Dr.		2,00,000	 2,00,000
6.	Bank A/c To, Equity Share first and final call A/c (Being E-share first and final call money received.)	Dr.		2,00,000	 2,00,000

PROBLEMS ON ISSUE, FORFEITURE AND RE-ISSUE OF FORFEITED SHARE (12 MARKS)

1. Sunrise Trading Company Ltd., issued 10,000 ordinary shares of Rs. 100 each at a premium of Rs. 10 per share. The amount payable is as follows :

On Application Rs. 20

On Allotment Rs. 40 (including premium)

On First and Final Call Rs. 50

All the shares were subscribed and money duly received except the first and final call on 500 shares. The directors forfeited shares and re-issued them at fully paid at Rs. 80 per share.

Pass the Journal Entries in the books of Company.

Soln: Journal Entries in the books of Sunrise Trading Co. Ltd.

Date	Particulars		LF	Debit (₹)	Credit (₹)
1.	Bank A/c To, Share Application A/c (Being share application money received on 10,000 shares at Rs.20 per share)	Dr.		2,00,000 ---	--- 2,00,000
2.	Share Application A/c To, Share Capital A/c (Being the application money transferred to E-share Capital A/c)	Dr.		2,00,000 ---	--- 2,00,000

3.	Share Allotement A/c	Dr.		4,00,000	
	To, Share Capital A/c				3,00,000
	To, Security premium A/c				1,00,000
	(Beging allotment money due on 10,000 equity shares at Rs. 40 per share including premium.)				
4.	Bank A/c	Dr.		4,00,000	
	To, Share Allotment A/c				4,00,000
	(Being allotment money received.)				
5.	Share first and final call A/c	Dr.		5,00,000	
	To, Share Capital A/c				5,00,000
	(Being share first and final call money due on 10,000 shares at Rs. 50 per share)				
6.	Bank A/c	Dr.		4,75,000	
	To, Share first and final call A/c				4,75,000
	(Being share first and final call money received.)				
7.	Share Capital A/c	Dr.		50,000	
	To, Share forfeiture A/c				25,000
	To, Share first and final call A/c				25,000
	(Being forfeiture of 500 shares for non-payment of first and final call money.)				
8.	Bank A/c	Dr.		40,000	
	Share forfeiture A/c	Dr.		10,000	
	To Share Capital A/c				50,000
	(Being re issue of forfeited shares at Rs. 80 per share fully paid.)				
9.	Share forfeiture A/c	Dr.		15,000	
	To Capital reserve A/c				15,000
	(Being balance in Shares Forfeiture A/c transferred to Capital Reserve A/c)				

2. Madhura Tiles Ltd., issued 50,000 equity shares of Rs. 10/- each at a premium of Rs. 2 per share. The amount payable was as follows :

Rs. 2 On Application

Rs. 6 On Allotment (including premium)

Rs. 4 On First and Final Call.

All the shares were subscribed and money duly received except the first and final call on 5000 shares. The directors forfeited these shares and re-issued them as fully paid up at Rs. 7 per share.

Pass the Journal Entries regarding issue, and re-issue of forfeited shares.

Soln: Journal Entries in the books of Madhura Tiles Ltd.,

Date	Particulars		LF	Debit (₹)	Credit (₹)
1.	Bank A/c	Dr.		1,00,000	
	To, Equity Share Application A/c				1,00,000
	(Being Equity share application money received on 50,000 shares at Rs. 2 per share)				
2.	Equity Share Application A/c	Dr.		1,00,000	
	To, Equity Share Capital A/c				1,00,000
	(Being the application money transferred to E-share Capital A/c)				
3.	Share Allotement A/c	Dr.		4,00,000	
	To, Share Capital A/c				3,00,000
	To, Security premium A/c				1,00,000
	(Beging share allotment money due on 50,000 shares at Rs. 6 per share including premium.)				
4.	Bank A/c	Dr.		4,00,000	
	To, Equity Share Allotment A/c				4,00,000
	(Being allotment money received.)				
5.	Equity Share first and final call A/c	Dr.		2,00,000	
	To, Equity Share Capital A/c				2,00,000
	(Being share first and final call money due on 50,000 shares at Rs. 4 per share)				
6.	Bank A/c	Dr.		1,80,000	
	To, Equity Share first and final call A/c				1,80,000
	(Being share first and final call money received.)				
7.	Equity Share Capital A/c $(5{,}000 \times 10)$	Dr.		50,000	
	To, Forfeited Share A/c $(5{,}000 \times 6)$				30,000
	To, Equity Share first and final call A/c				20,000
	(Being forfeiture of 5000 shares for non-payment of first and final call money.)				
8.	Bank A/c	Dr.		35,000	
	Share forfeiture A/c	Dr.		15,000	
	To Equity Share Capital A/c				50,000
	(Being re-issue of forfeited shares at Rs. 7 per share fully paid.)				

9.	Share forfeiture A/c	Dr.		15,000	
	To Capital reserve A/c (Being balance in Shares Forfeiture A/c transferred to Capital Reserve A/c)				15,000

3. Ramakrishna Construction Ltd., issued 15,000 shares of Rs. 100 each at a premium of Rs. 10 per share, payable as follows :

On Application Rs. 30 per share

On Allotment Rs. 50 per share (including premium)

On First and Final Call Rs. 30 per share

All the shares were subscribed and company received all the money due with the exception of the call money on 150 shares. These shares were forfeited and re-issued to Neha as fully paid share at Rs. 120 each.

Pass the Journal Entries regarding issue, and re-issue of forfeited shares.

Soln: Journal Entries in the books of Ramakrishna Construction Ltd.

Date	Particulars		LF	Debit (₹)	Credit (₹)
1.	Bank A/c [15,000 × 30]	Dr.		4,50,000	
	To, Share Application A/c (Being Share application money received on 15,000 shares at Rs. 30 per share)				4,50,000
2.	Share Application A/c	Dr.		4,50,000	
	To, Share Capital A/c (Being the application money transferred to E-share Capital A/c)				4,50,000
3.	Share Allotement A/c [15,000 × 50]	Dr.		7,50,000	
	To, Share Capital A/c [15,000 × 40]				6,00,000
	To, Security premium A/c [15,000 × 10] (Beging share allotment money due on 15,000 shares at Rs. 50 per share including premium.)				1,50,000
4.	Bank A/c	Dr.		7,50,000	
	To, Equity Share Allotment A/c (Being Share allotment money received on 15,000 shares at Rs. 90 per share.)				7,50,000
5.	Share first and final call A/c [15,000 × 30]	Dr.		4,50,000	
	To, Share Capital A/c (Being share first and final call money due on 15,000 shares at Rs. 30 per share.)				4,50,000

6.	Bank A/c [$14,850 \times 30$] To, Share first and final call A/c (Being 1st and final call money received on 14,850 shaers and calls in arrears on 150 shares.)	Dr.		4,45,500	 4,45,500
7.	Equity Share Capital A/c [150×100] To, Forfeited Share A/c [150×70] To, Share first and final call A/c [150×30] (Being forfeiture of 150 shares for the non-payment of first and final of Rs. 30 per share.)	Dr.		15,000	 10,500 4,500
8.	Bank A/c [150×120] To, Share Capital A/c [150×100] To, Securities Premium A/c [150×20] (Being re-issue of 150 forfeited shares Rs. 100 per each at Rs. 120 per share.)	Dr.		18,000	 15,000 3,000
9.	Share forfeiture A/c To Capital reserve A/c (Being balance in Forfeiture Shares A/c in respect of 150 re-issued forfeited shares transferred to Capital Reserve A/c)	Dr.		10,500	 10,500

4. The Rajesh Trading Company Ltd issued 10,000 shares of Rs. 10 each at a premium of Rs. 2 per share payable as follows :

On Application	**Rs. 2 per share**
On Allotment	**Rs. 6 per share (including premium)**
On First and Final Call	**Rs. 4 per share**

All the shares were subscribed and company received all the money duly received except the first and final call on 1,000 shares. These shares were forfeited and only 800 shares are re-issued at Rs. 8/- each as fully paid up.

Pass the Journal Entries regarding issue, and re-issue of forfeited shares.

Soln: Journal Entries in the books of The Rajesh Trading Company, Ltd.,

Date	Particulars		LF	Debit (₹)	Credit (₹)
1.	Bank A/c [$10,000 \times 2$] To, Share Application A/c (Being Share application money received on 10,000 shares at Rs. 2 per share)	Dr.		20,000	 20,000
2.	Share Application A/c To, Share Capital A/c (Being the application money transferred to share Capital A/c)	Dr.		20,000	 20,000

3.	Share Allotement A/c [10,000 × 6] To, Share Capital A/c [10,000 × 4] To, Security premium A/c [10,000 × 2] (Beging share allotment money due on 10,000 shares at Rs. 6 per share including premium.)	Dr.		60,000	 60,000 20,000
4.	Bank A/c To, Equity Share Allotment A/c (Being allotment money received on 10,000 shares at Rs. 6 per share.)	Dr.		60,000	 60,000
5.	Share first and final call A/c [10,000 × 4] To, Share Capital A/c [10,000 × 4] (Being share first and final call money due on 10,000 shares at Rs. 4 per share.)	Dr.		40,000	 40,000
6.	Bank A/c [9,000 × 4] To, Share first and final call A/c (Being 1st and final call money received on 9,000 shares at Rs. 4 per shar and calls-in-arrears on 1000 shares.)	Dr.		36,000	 36,000
7.	Share Capital A/c [10,000 × 10] To, Forfeited Share A/c [1000 × 6] To, Share first and final call A/c [1000 × 4] (Being forfeiture of 1000 shares for the non-payment of first and final call of Rs. 4 per share.)	Dr.		10,000	 6,000 4,000
8.	Bank A/c [800 × 8] Frofeited Shares A/c A/c [800 × 2] To, Share Capital A/c [800 × 10] (Being re-issue of 800 forfeited shares at Rs. 8 per share as fully paid up.)	Dr. Dr.		6,400 1,600	 8,000
9.	Forfeited Shares A/c [800 × 4] (6 – 2) To Capital reserve A/c (Being balance in Forfeited shares A/c in respect of 800 forfeited shares re-issued transferred to Capital Reserve A/c)	Dr.		3,200	 3,200

5. ABC Company Ltd., issued 20,000 shares equity shares of Rs. 10 each. The amount was payable as follows :

On Application	**Rs. 2 per share**
On Allotment	**Rs. 3 per share**
On First and Final Call	**Rs. 5 per share**

All the shares were subscribed. Akash Holding 500 shares did not pay first and final call money. The directors forfeited his shars and these shares were re-issued to Sagar at Rs. 7 per share as fully paid up.

Give the Journal Entries in the books of the Company.

Soln: Journal Entries in the books of ABC Company Ltd.,

Date	Particulars		LF	Debit (₹)	Credit (₹)
1.	Bank A/c [20,000 × 2] To, Share Application A/c (Being Share application money received on 20,000 shares at Rs. 2 per share)	Dr.		40,000	40,000
2.	Share Application A/c To, Share Capital A/c (Being share application money transferred to share Capital A/c)	Dr.		40,000	40,000
3.	Share Allotement A/c [20,000 × 3] To, Share Capital A/c (Beging share allotment money received on 20,000 shares at Rs. 3 per share.)	Dr.		60,000	60,000
4.	Bank A/c [20,000 × 3] To, Share Allotment A/c (Being allotment money received on 20,000 shares at Rs. 3 per share.)	Dr.		60,000	60,000
5.	Share first and final call A/c [20,000 × 5] To, Share Capital A/c [10,000 × 4] (Being share first and final call money due on 20,000 shares at Rs. 5 per share.)	Dr.		1,00,000	1,00,000
6.	Bank A/c [19,500 × 5] To, Share first and final call A/c (Being 1st and final call money received on 9,000 shares and calls-in-arrears on 500 shares.)	Dr.		97,500	97,500

7.	Share Capital A/c [500 × 10]	Dr.		10,000	
	To, Forfeited Share A/c [500 × 5]				2,500
	To, Share first and final call A/c [500 × 5]				2,500
	(Being forfeiture of 500 shares for the non-payment of first and final call of Rs. 5 per share.)				
8.	Bank A/c [500 × 7]	Dr.		3,500	
	Frofeited Shares A/c A/c [500 × 3]	Dr.		1,500	
	To, Share Capital A/c [500 × 10]				5,000
	(Being re-issue of 500 forfeited shares at Rs. 7 per share as fully paid up.)				
9.	Forfeited Shares A/c [500 × 2]	Dr.		1,000	
	To Capital reserve A/c				1,000
	(Being balance in Forfeited shares A/c transferred to Capital Reserve A/c)				

* * *

Chapter-8

Financial Statements of a Company

SECTION-A: ONE MARK QUESTIONS

1. Which of the following is shown under the head 'Fixed Assets.'

a) Goodwill b) Patents c) Buildings d) All of the above

Ans: All of the above.

2. Give an example for current asset.

Ans: Current Investments.

3. Write one objectives of financial statments.

Ans: To provide information about economic resources and obligations of a business.

4. Financial Statements generally include,

a) Comparative Statement b) Fund Flow Statement

c) Income Statement and Balance sheet d) None of the above

Ans: c) Income statement and Balance sheet.

5. Give one example for current liability.

Ans: Creditors.

6. Share capital appears under the head ____________ .

Ans: Share holders fund.

7. Fixed assets are classified as tangible and ____________ assets.

Ans: Intangible.

8. Share capital is shown as ________________ .

a) Authorised capital b) Issued Capital

c) Subscribed capital d) All the above.

Ans: d) All the above.

SECTION-B: TWO MARK QUESTIONS

9. Mention two types of financial statments.

Ans: i) Statement of Profit and Loss

ii) Balance Sheet

10. State any two features of financial statements.

Ans: i) Recorded facts ; ii) Legal Implications.

11. State any two objectives of financial statements.

Ans: i) To provide information about economic resources and obligations of a business.

ii) To provide information about the earning capacity of the business.

12. Give any two limitations of financial statements.

Ans: i) Lack of qualitative information.

ii) They are only interim reports.

iii) Assets may not realise.

13. Mention any two items which are shown under the head 'Reserve and Surplus.'

Ans: i) Capital Reserve

ii) Capital Redemption Reserve

14. State any two differences between current liabilities and non-current liabilities.

Ans: Current liability is held by company for the purpose of trade and non-current liabilities which is not for purpose of trade.

15. State any two types of reserve.

Ans: i) Capital Reserve

ii) General Reserve

16. Name any two internal users of financial statements.

Ans: Creditors, Shareholders, Consumers.

17. How will you disclose the following items in the balance sheet of a company,

i) Loose tools ii) 10% debentures

Ans: i) Loose tools - Assets side under the head of current assets.

ii) 10% debentures - Liability side under the head of non-current liabilities.

18. What is Balance Sheet?

Ans: Balance sheet means a position statement of a company. It is a statement of equity, liabilities and assets stating the financial positions of an enterprise at a given date.

SECTION-C: SIX MARK QUESTIONS

1. From the following information, prepare statement of profit and loss for the year ended 31.03.2019 as per schedule III of the Companies Act, 2013.

Particulars	Rs.
Revenue from operations	8,00,000
Other Income	50,000
Cost of Materials Consumed	2,00,000
Employee benefit Expenses	1,00,000
Depreciation and Amortization	50,000
Tax	30%

Ans: **Statement of Profit and Loss for the year ending 31.03.2019**

Particulars	Note No.	(₹)
I Income		
i) Revenue from Operations		8,00,000
ii) Other Income		50,000
Total Revenue		**8,50,000**
II Expenses		
i) Cost of materials consumed		2,00,000
ii) Employee benefit expenses		1,00,000
iii) Depreciation and Amotization		50,000
Total Expenses		**3,50,000**
III Profit Before Tax (I – II) (PBT)		5,00,000
Less : Tax at 30% (PBT x Tax. Rate)		1,50,000
Profit for the year (PAT)		**3,50,000**

2. **Following Information is related to Akash Ltd.**

Particulars	Rs.
Revenue from operations	5,00,000
Purchases	3,00,000
Salary	10,000
Depreciation	8,000
Interest on Loan	5,000
Tax	54,000

Prepare a statement of profit and loss for the year ended 31.03.2017 as per schedule III of companies act, 2013.

Ans: **Statement of Profit and Loss for the year ending 31.03.2017**

Particulars	Note No.	(₹)
I Income		
i) Revenue from Operations		5,00,000
ii) Other Income		---
Total Revenue		**5,00,000**

II	**Expenses**		
	i) Purchase of goods		3,00,000
	ii) Employee benefit expenses (Salary)		10,000
	iii) Finance cost (Interest on loan)		5,000
	iv) Depreciation		8,000
	Total Expenses		**3,23,000**
III	**Profit Before Tax (PBT) (I – II)**		1,77,000
	Less : Tax (Income)		54,000
	Profit after Tax (PAT)		**1,23,000**

3. From the following information prepare statement of profit and loss for the yer ended 31-03-2018 as per schedule III of Companies Act, 2013.

Particulars	Rs.
Revenue from operations	**5,00,000**
Purchase of goods	**3,00,000**
Salary to employees	**40,000**
Leave encashment	**10,000**
Rent and Taxes	**30,000**
Repairs to Machinery	**20,000**
Tax	**30%**

Ans: **Statement of Profit and Loss for the year ending 31.03.2018**

	Particulars	Note No.	(₹)
I	**Income**		
	i) Revenue from Operations		5,00,000
	ii) Other Income		---
	Total Revenue (A)		**5,00,000**
II	**Expenses**		
	i) Purchase of goods		3,00,000
	ii) Employee benefit expenses (Salary)		
	Salaries to employees	40,000	
	leave enchshment	10,000	50,000
	iii) Other Expenses		
	Rent and Taxes	30,000	
	Repairs to Machinery	20,000	50,000
	Total Expenses (B)		**4,00,000**

III	**Profit Before Tax (PBT) (A – B)**		1,00,000
	Less : Tax at 30% (on PBT) $\left(1,00,000 \times \frac{30}{100}\right)$		30,000
	Profit after Tax (PAT)		**70,000**

4. From the following details you are required to prepare statement of profit and loss for the year ended 31.03.2018.

Particulars	**Rs.**
Plant and Machinery	**40,000**
Furniture	**20,000**
Share Capital	**4,00,000**
Sales	**3,00,000**
Purchases	**1,80,000**
Trade Payables	**30,000**
Depreciation on Plant Machinery	**4,000**
Amortisation of Goodwill	**6,000**
Interest on Debentures	**30,000**
Interest on Borrowings	**20,000**
Tax	**30%**

Ans: **Statement of Profit and Loss for the year ending 31.03.2018**

		Particulars	**Note No.**	**(₹)**
I	**Income**			
	i)	Revenue from Operations (Sales)		3,00,000
	ii)	Other Income		---
		Total Revenue (A)		**3,00,000**
II	**Expenses**			
	i)	Purchase		1,80,000
	ii)	**Finance Cost**		
		Interest on Debentures	30,000	
		Interest on Borrowings	20,000	50,000
	iii)	Depreciation on Plant and Machinery		4,000
	iv)	Amortization of Goodwill		6,000
		Total Expenses (B)		**2,40,000**
III	**Profit Before Tax (PBT) (A – B)**			60,000
	Less : Tax at 30% (on PBT) $\left(6,00,000 \times \frac{30}{100}\right)$			18,000
	Profit after Tax (PAT)			**42,000**

5. The following information is related to Harish Ltd.

Particulars	**Rs.**
Cash sales	**2,00,000**
Credit Sales	**3,00,000**
Sales Retures	**20,000**
Cost of materials consumed	**3,00,000**
Buildings	**2,00,000**
Machinery	**1,50,000**
Bad debts	**5,000**
Tax	**42,000**

Note: Depreciation on buildings and machinery at 10% each.

Prepare Statements of Profit and Loss for the year ending 31.3.2019 as per companies Act, 2013.

Ans: **Statement of Profit and Loss for the year ending 31.03.2019**

		Particulars	**Note No.**	**(₹)**
I	**Income**			
	i)	Revenue from Operations (Sales)		
		Cash Sales	2,00,000	
		Credit Sales	3,00,000	
			5,00,000	
		Less: Sales retursn	20,000	4,80,000
		Total Revenue (A)		**4,80,000**
II	**Expenses**			
	i)	Cost of materials consumed		3,00,000
	ii)	Depreciation on building $\left(2,00,000 \times \frac{10}{100}\right)$		20,000
	iii)	Depreciation on machinery $\left(1,50,000 \times \frac{10}{100}\right)$		15,000
	iv)	Bad debts		5,000
		Total Expenses (B)		**3,40,000**
III	**Profit Before Tax (PBT) (A – B)**			1,40,000
	Less : Tax			42,000
	Profit after Tax (PAT)			**98,000**

6. From the following information prepare statement of profit and loss for the year ending 31.3.2020.

Particulars	Rs.
Revenue from Operations	5,00,000
Other Incomes	20,000
Employee benefit expenses	60,000
Cost of materials consumed	3,00,000
Other expenses	40,000
Income tax	30%

Ans: **Statement of Profit and Loss for the year ending 31.03.2020**

	Particulars	Note No.	(₹)
I	**Income**		
	i) Revenue from Operations		5,00,000
	ii) Other Income		20,000
	Total Revenue (A)		**5,20,000**
II	**Expenses**		
	i) Employee benefit expenses		60,000
	ii) Cost of materials consumed		3,00,000
	iii) Other expenses		40,000
	Total Expenses (B)		**4,00,000**
III	**Profit Before Tax (PBT) (A – B)**		1,20,000
	Less : Tax $\left(1,20,000 \times \frac{30}{100}\right)$		36,000
	Profit after Tax (PAT)		**84,000**

7. From the following particulars prepare statement of profit and loss for the year ending 31.3.2017 and calculate profit before tax.

Particulars	(₹)	(₹)
Plant and Machinery	1,60,000	---
Land	6,75,000	---
Depreciation on Plant and Machinery	16,000	---
Purchases	4,00,000	---
Closing Stock	1,50,000	---
Wages	1,20,000	---
Sales (Net)	---	10,00,000

Salaries	**80,000**	**---**
Bank overdraft	**----**	**2,00,000**
10% Debentures (Issued on 1.4.2016)	**----**	**1,00,000**
Equity share Capital	**----**	**2,00,000**
Preference share Capital	**----**	**1,00,000**
	16,00,000	**16,00,000**

Additional Information :

i) Equity dividend at 10% declared on paid up capital.

ii) Dividend on the preference share capital paid in full.

iii) Rs. 2,00,000 transferred to general reserve.

Ans: **Statement of Profit and Loss for the year ending 31.03.2017**

		Particulars	Note No.	(₹)
I	**Income**			
	i)	Revenue from Operations		10,00,000
		Total Income (A)		**10,00,000**
II	**Expenses**			
	i)	Cost of materials consumed		4,00,000
	ii)	Employee benefit expenses	1	2,00,000
	iii)	Finance cost $\left(1,00,000 \times \frac{10}{100}\right)$		10,000
	iv)	Depreciation and amortisation		16,000
		Total Expenses (B)		**6,26,000**
III	**Profit Before Tax (PBT) (A – B)**			3,74,000

Notes to Accounts:

Employee benefit Expenses ;

Wages	1,20,000
Salary	80,000
	2,00,000

PREPARATION OF BALANCE SHEET OF A COMPANY

8. From the following information prepare balance sheet of Jindal Company Ltd. as at 31.03.2018 as per schedule III of Companies Act, 2013.

Particulars	Rs.
Share Capital	10,00,000
Reserve and Surplus	5,00,000
10% Debentures	5,00,000
Creditors	2,00,000
Bills payable	3,00,000
Fixed Assets	15,00,000
Trade Receivables	5,00,000
Short term Investments	2,00,000
Cash and Cash equivalents	3,00,000

Ans: **Balance Sheet as on 31.03.2021**

Particulars	Note No.	(₹)
I Equity and Liabilities		
1. Shreholders fund		
a) Share Capital		10,00,000
b) Reserves and Surplus		5,00,000
2. Non-Current Liabilities		
a) Long term borrowings		
10% Debentures		5,00,000
3. Current Liabilities		
a) Trade Payables		
Creditors		2,00,000
Bills Payable		3,00,000
Total		**25,00,000**
II Assets		
1. Non-Current Assets		
Tangible Assets		
a) Fixed assets		15,00,000
2. Current Assets		
a) Trade Receivables		5,00,000
b) Short term Investments		2,00,000
c) Cash and Cash Equivalents		3,00,000
Total		**25,00,000**

9. From the following information prepare balance sheet for the year ending 31.3.2018 as per schedule III of Companies Act, 2013.

Particulars	Rs.
Inventories	7,00,000
Equity Share Capital	16,00,000
Plant and Machinery	8,00,000
Preference Share Capital	6,00,000
General Reserve	6,00,000
Creditors	3,50,000
Provision for Taxation	2,50,000
Land and Building	26,00,000
Cash at Bank	5,00,000
12% Debentures	12,00,000

Ans: **Balance Sheet as on 31.03.2018**

Particulars	Note No.	(₹)
I Equity and Liabilities		
1. Shreholders fund		
a) Share Capital		16,00,000
b) Preference Share Capital		6,00,000
c) Reserve and Surplus		6,00,000
2. Non-Current Liabilities		
a) Long term borrowings		
12% Debentures		12,00,000
3. Current Liabilities		
a) Creditors		3,50,000
Provision for Taxation		2,50,000
Total		**46,00,000**
II Assets		
1. Non-Current Assets		
Tangible Assets		
a) Fixed assets		
Plant and Machinery		8,00,000
Land and Buildings		26,00,000
2. Current Assets		
a) Inventories		7,00,000
c) Cash at Bank		5,00,000
Total		**46,00,000**

10. From the following trial balance prepare balance sheet of Star Ltd. for the year ending 31.3.2018 as per schedule III of Companies Act, 2013.

Sl. No.	Particulars	Debit (₹)	Credit (₹)
1.	Equity Share Capital	-	2,00,000
2.	Preference Share Capital	-	3,00,000
3.	Reserves and Surplus	-	3,00,000
4.	Sales	-	5,00,000
5.	Other non-current liabilities	-	2,00,000
6.	Tangible Assets	4,00,000	-
7.	Intangible Assets	2,50,000	-
8.	Salaries	90,000	-
9.	Printing and Stationary	30,000	-
10.	Rent	80,000	-
11.	Purchases	3,00,000	-
12.	Trade Receivables	3,50,000	-
	Total	15,00,000	15,00,000

Ans: **Balance Sheet of Star Ltd. for the year ending 31.03.2018**

Particulars	Note No.	(₹)
I Equity and Liabilities		
1. Shreholders fund		
a) Share Capital		2,00,000
b) Preference Share Capital		3,00,000
c) Reserve and Surplus		3,00,000
2. Non-Current Liabilities		2,00,000
Total		**10,00,000**
II Assets		
1. Non-Current Assets		
a) Fixed assets		
Tangible Assets		4,00,000
Intangible Assets		2,50,000
2. Current Assets		
a) Trade Receivables		3,50,000
Total		**10,00,000**

11. From the following information prepare balance sheet of Surya Ltd. for the year ending 31st March, 2018 as per Schedule III of Companies Act, 2013.

Particulars	(₹)
Equity share capital	20,00,000
Inventories	14,00,000
Plant and Machinery	10,00,000
Preference share Capital	12,00,000
Debenture Redemption Reserve	6,00,000
Outstanding Expenses	3,00,000
Proposed dividend	5,00,000
Land and Buildings	20,00,000
Current Investments	8,00,000
Cash Equivalents	10,00,000
Short term loan from Z Ltd.	4,00,000
Public Deposit	12,00,000

Ans: **Balance Sheet of Surya Ltd. for the year ending 31.03.2018**

Particulars	Note No.	(₹)
I Equity and Liabilities		
1. Shreholders fund		
a) Share Capital		20,00,000
b) Preference Share Capital		12,00,000
c) Reserve and Surplus		
Debenture Redemption Reserve		6,00,000
2. Non-Current Liabilities		
a) Short term borrowing		
i) Short term loan from Z Ltd.		4,00,000
ii) Pubic Deposit		12,00,000
b) Other current liabilities		
i) Outstanding expenses		3,00,000
c) Short-term provisions		
Proposed dividend		5,00,000
Total		**62,00,000**

II Assets		
1. Non-Current Assets		
Tangible Assets		
a) Fixed assets		
Plant and Machinery		10,00,000
Land and Buildings		20,00,000
2. Current Assets		
a) Current Investments		8,00,000
b) Inventories		14,00,000
c) Cash and Cash equivalents		10,00,000
Total		**62,00,000**

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