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CHAPTER -5
ADMISSION OF A PARTNER

Key terms to know

- Admission of a partner
- Sacrificing ratio
- Revaluation account

Admission of a partner Revalutation A/c
Debit Side
Asset - > Decrease depreciate
Provision Down Value
Liability -> Increase (Outstanding Expenses)
Credit Side - > Increase, Appreciation
Liability - > Decrease, sundry Creditors

Journal Entry

Date	Particulars	L.F	Debit Rs.	Credit Rs.
	Investment A/c Dr. Buildings A/c Dr. Sundry Creditors A/c Dr. To Revaluation A/c Dr.		XXX XXX XXX	 XXX
	Revaluation A/c Dr. To machinery A/c To Stock A/c To Outstanding A/c		XXX	 XXX XXX XXX
	Revaluation A/c Dr. To A's Capital A/c To B's Capital A/c		XXX	XXX XXX

Revalutation A/c

Dr.

PARTICULARS	**Rs.**	**PARTICULARS**	**Rs.**
To Machinery	XXX	By Investment	XXX
To Stock	XXX	By buildings	XXX
To Provisions for bad debts	XXX	By sundry Creditors	XXX
To Old partners Capital Ac/ (Profit on revaluation)	XXX	(loss on revaluation)	
Shared in old ratio	**XXX**		**XXX**

[Note : The Particular of the capital a/c are to be calculated in old share ratio]

CAPITAL A/c

Dr.

Date	**Particular**	**A**	**B**	**C**	**Particular**	**A**	**B**	**C**
	To Loss Revaluation				By Balanced B/d			
	To P/L A/c Assets				By Bank (Admission)			
	To Balance C/d				By Profit on revaluation			
					By general Reserve			
					By work man Compensation A/c			
					By P/L A/c (Liability)			
					By Good will A/c			

BALANCE SHEET A/c

Liabilities	Rs	Assets	Rs	
Capital Account		Buildings	XXX	
V XXX		Add:- Appreciation	XXX	XXX
P XXX				
D XXX	XXX	Machinery	XXX	
Workmen's Compensation	XXX	Less:- Depreciation	XXX	XXX
Sundry Creditors	XXX	Investments		XXX
Outstanding Wages	XXX	Debtors	XXX	XXX
		Stock	XXX	XXX
		Less:- Decreasing		
		Cash at Bank		XXX
		Prepaid insurance		XXX
	XXX			**XXX**

Calculation of sacrificing ratio and new profit sharing ratio under different situations

1. **When new profit sharing ratio is given**

   When new profit sharing ratio is given, sacrificing ratio has to be calculated as follows:

   Sacrificing ratio = Ratio of share sacrificed by the old partners

   Share sacrificed = old share – New Share

2. **When new profit sharing ratio is not given**

   a. When share sacrificed is given

   When new profit sharing ratio is not given. But the share sacrificed by the old partner (s) is given, new profit sharing ratio is calculated as follows:

New share of old partner	= Old share – share sacrificed
Share of new partner	= Sum of shares sacrificed by old partners

   b. When Proportion of share sacrificed is given

(i) When share sacrificed is given as a proportion on old partners' share

When new profit sharing ratio is not given, but the share sacrificed is given as a proportion on old partners' share, new profit sharing ratio is calculated as follows:

Share sacrificed by old partner	= Old share X Portion of share sacrificed
New share of old partner	= Old share – Share sacrificed
Share of new partner	= Sum of shares sacrificed by old partners

(ii) When Proportion of share sacrificed on new partner's is given

When new profit sharing ratio is not given, but the Proportion of share sacrificed on new partners' share is given, new profit sharing ratio is calculated as follows:

New share of old partner	= Old share- share sacrificed
Share sacrificed	= New patner 's share X proportion of share sacrificed

C. When share sacrificed and Proportion of share sacrificed is not given

When new profit sharing ratio, share sacrificed and the proportion of share sacrificed is not given, but only the share of new partner is given, new profit sharing ratio is calculated by assuming that the share sacrificed is the proportion of old share. New profit sharing ratio is calculated as follows:

Share sacrificed	= New patner 's share X old share
New share of old partner	= Old share- share sacrificed

Accounting treatment for goodwill

Accounting treatment for goodwill on admission of a partner is discussed below:

1. When new partner brings cash towards goodwill
2. When the new partner does not bring goodwill in cash or in kind
3. When the new partner brings only a part of the goodwill in cash or in kind
4. Existing goodwill

1. When new partner brings cash towards goodwill

When new partner brings cash towards goodwill in addition to the amount of capital, it is distributed to the existing partners in the sacrificing ratio. The following journal entries are to be made:

(i) For the goodwill brought in cash credited to old partners' capital account

Date	Particulars	L.F	Debit RS.	Credit RS.
	Cash / Bank A/c Dr. To Old Partners' capital / current A/c (in sacrificing ratio)		xxx	xxx

(ii) For the goodwill brought in kind (in the form of assets) credited to old partners' capital account

Date	Particulars	L.F	Debit RS.	Credit RS.

	Respective Assets A/c Dr. To Old Partners' capital / current A/c (in sacrificing ratio)		xxx	xxx

(iii) For withdrawal of cash received for goodwill by the old partners

Date	Particulars	L.F	Debit RS.	Credit RS.
	Old Partners' capital / current A/c Dr. To Cash / Bank A/c		xxx	xxx

2. When the new partner does not bring goodwill in cash or in kind

If the new partner does not bring goodwill in cash or in kind, his share of goodwill must be adjusted through the capital accounts of the partners. The following journal entry is passed.

Date	Particulars	L.F	Debit RS.	Credit RS.
	New Partners' Capital Dr. To Old Partners' capital / current A/c (in sacrificing ratio)		xxx	xxx

3. When the new partner bring only a part of the goodwill in cash or in kind

Sometimes the new partner may bring only a part of the goodwill in cash or assets. In such a case, for the cash or the assets brought, the respective account is debited and for the amount not brought in cash or kind, the new partner's capital account is debited. The Following journal entry is passed.

Date	Particulars	L.F	Debit RS.	Credit RS.
	Cash / Bank A/c Dr. New partners' capital A/c Dr. To Old Partners' capital / current A/c (in sacrificing ratio)		xxx xxx	xxx

4. **Existing goodwill**

If goodwill already appears in the books of accounts, at the time of admission if the partners decide, it can be written off by transferring it to the existing partners' capital account / current account in the old profit sharing ratio. The following journal entry is to be passed:

Journal entry

Date	Particulars	L.F	Debit RS.	Credit RS.
	Old Partners' capital / current A/c (in old ratio) Dr. To Goodwill A/c (Existing goodwill written off)		xxx	 xxx

CHAPTER – 6
RETIREMENT AND DEATH OF A PARTNER

Key terms to know

- Retirement of a partner
- Gaining ratio
- Executor's account

1. **When new profit sharing ratio is given**

When new profit sharing ratio is given, only gaining ratio has to be calculated as follows:

Gaining ratio = Ratio of share gained by the continuing partners

Share gained = New share – old share

2. **When new profit sharing ratio is not given**

a. Only one partner gains the retiring partner's share

When new profit sharing ratio is not given and only one continuing partner gains share of the retiring partner, new profit sharing ratio is calculated as follows:

New share of continuing partner = old share + share gained

b. More than one partner gains the retiring partner's share

(i) Proportion of share gained on retiring partner's share is given

When new profit sharing ratio is not given, but the proportion of share gained on retiring partner share is given, , new profit sharing ratio is calculated as follows:

New share of continuing partner = old share + share gained

Share gained = Retiring partner's share X proportion of share gained

(ii) Proportion of share gained is not given

When new profit sharing ratio, share gained and the proportion of share gained is not given, the new share is calculated by assuming that share gained is the proportion of the old share. Therefore, the new profit sharing ratio and the gaining ratio among the continuing partners is their old profit sharing ratio between them.

Adjustment for goodwill

Reputation built up by a firm has an impact on the present and future profit to be earned by the firm. At the time of retirement of a partner, the continuing partners gain part of retiring partner's share of profit. Hence, the retiring partner's share of goodwill is to be valued and adjusted through the capital accounts of the gaining partners. The following journal entry is passed.

Date	Particulars	L.F	Debit Rs.	Credit Rs.

	Continuing partner's capital/current A/c (in gaining ratio) Dr. To Retiring partner's capital/current A/c		xxx	 xxx

Existing goodwill

If goodwill already appears in the balance sheet, at the time of retirement if the partners decide, it can be written off by transferring it to all the partner's capital account/current account in the old profit sharing ration. The following journal entry is to be passed:

Journal entry

Date	Particulars	L.F	Debit Rs.	Credit Rs.
	All partner's capital/current A/c (in old ratio) Dr. To goodwill A/c (Existing goodwill written off)		xxx	 xxx

Adjusting for current year's profit or loss upto the date of retirement

When a partner retires in between in an accounting year, his share of the current year's profit or loss upto the date of retirement has to be distributed to him. It may be estimated based on the current year's turnover. Previous year's profit or the average of the past year's profit. The following journal entry is passed.

Date	Particulars	L.F	Debit Rs.	Credit Rs.
	Profit and loss suspense A/c Dr. To Retiring partner's capital / current A/c (Retiring partner's year share of profit Credited to his capital account)		xxx	 xxx

Settlement of the amount due to the retiring partner

The amount due to the retiring from the partnership firm is the balance of his capital account after making adjustments for goodwill, accumulated profits and losses, profit or loss on revaluation, remuneration due, etc. The settlement is to be done in the manner prescribed in the partnership deed. The amount due to the retiring partner may be settled in one of the following ways:

(i) Paying the entire amount due immediately in cash
(ii) Transfer the entire amount due, to the loan account of the partner
(iii) Paying part of the amount immediately in cash and transferring the balance to the loan account of the partner

The journal entries to be made are as follows:

a. When the amount due is paid in cash immediately

Date	Particulars	L.F	Debit Rs.	Credit Rs.
	Retiring partner's capital A/c Dr. To cash / Bank A/c		xxx	 xxx

b. When the amount due is not paid in cash immediately

Date	Particulars	L.F	Debit Rs.	Credit Rs.
	Retiring partner's capital A/c Dr. To Retiring partner's capital A/c		xxx	 xxx

C. When the amount due is partly paid in cash immediately

Date	Particulars	L.F	Debit Rs.	Credit Rs.
	Retiring partner's capital A/c Dr. To Cash / Bank A/c (amount paid) To Retiring partner's capital A/c		xxx	 xxx xxx

(i) To transfer the amount due to the deceased partner to the executor or legal representative of the deceased partner.

Date	Particulars	L.F	Debit	Credit

			Rs.	Rs.
	Deceased partner's capital Dr. To Deceased partner' executor A/c		xxx	 xxx

(ii) For payment made

a. When the amount due is paid in cash immediately

Date	Particulars	L.F	Debit Rs.	Credit Rs.
	Deceased partner's executor A/c Dr. To cash / Bank A/c		xxx	 xxx

b. When the amount due is not paid in cash immediately

Date	Particulars	L.F	Debit Rs.	Credit Rs.
	Deceased partner executor A/c Dr. To Deceased partner' executor loan A/c		xxx	 xxx

C. When the amount due is partly paid in cash immediately

Date	Particulars	L.F	Debit Rs.	Credit Rs.
	Deceased partner' executor A/c Dr. To cash / Bank A/c (amount paid) To Deceased partner' executor loan A/c		xxx	 xxx xxx

(i) Share of profit of Akash is to be calculated from the closing of the last financial year to the date of death on the basis of the average of the three completed years'(iv) Share of profit of Akash is to be calculated from the closing of the last financial year to the date of death on the basis of the average of the three completed years' profit before death. Profit for 2015, 2016 and 2017 were Rs. 60,000, Rs. 60,000 and Rs. 66,000 respectively.

Prepare the necessary ledger accounts and the balance sheet immediately after the death of Akash.

Working notes:

(i) Profit sharing ratio

Profit sharing ratio = capital ratio = 30,000: 30,000: 20,000 that is, 3:3:2

Gaining ratio between Ramesh and Ravi = Old profit sharing ratio = 3:3 that is 1:1

(ii) Calculation of Akash 's share of current year's profit

Average profit = $\frac{66,000+60,000+66,000}{3} = \frac{1,92,000}{3}$ = Rs.64,000

Current year's profit up to the date of death = 64,000 X 3/12 = Rs.16,000

Akash's share of current year's profit = 16,000 X 2/8 = Rs. 4,000

(iii) Akash's share of goodwill = 24,000 x 2/8 = Rs. 6,000

It is to be borne by Ramesh and Ravi in the gaining ratio of 1:1

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XII STD **ACCOUNTANCY FORMATS**

CHAPTER – 1

ACCOUNTS FROM INCOMPLTE RECORDS

Key terms to know

- Incomplete records
- Statement of affaris
- Total Debtors account
- Total Creditors account

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED.

PARTICULARS	Rs.
Capital at the end of the year	XXX
Add: Drawings during the year	XXX
Less : Additional Capital introduced during the year	XXX
Adjusted closing capital	XXX
Less : Opening Capital	XXX
Profit or loss for the year	XXX

FORMAT OF STATEMENT OF AFFAIRS

Liabilities	Rs.	Assets	Rs.
Sundry Creditors	XXX	Cash in Hand	XXX
Bills payable	XXX	Cash at Bank	XXX
Outstanding Expenses	XXX	Sundry Debtors	XXX
Bank Overdraft	XXX	Bills Receivable	XXX
Capital (Balancing Figure)	XXX	Stock in trade	XXX
		Prepaid expenses	XXX
		Fixed assets	XXX
	XXX		**XXX**

FORMAT OF TOTAL DEBTORS ACCOUNT

Particulars	Rs.	Particulars	Rs.
To Balance b/d Opening Balance	XXX	By Cash A/c (received)	XXX
		By Bank A/c (Cheque Received	XXX
To Sales A/c (Credit Sales)	XXX	By Discount Allowed A/c	XXX
To bank A/c (Chequedishonoured)	XXX	By Sales returns A/c	XXX
To Bills receivable A/c (bills Dishonoured)	XXX	By Bad Debts A/c	XXX
		By Bills receivable A/c (bills received)	XXX
		By balance C/d (Closing Balance)	XXX
	XXX		**XXX**

FORMAT OF BILLS RECEIVABLE ACCOUNT

Particulars	Rs.	Particulars	Rs.
To Balance b/d Opening Balance	XXX	By Cash A/c (Bills receivable honoured)	XXX
To sundry debtors A/c (Bills Receivable Received during the year)	XXX	By Sundry DebtorsA/c (Bills Receivable dishonoured	XXX
		By balance C/d (Closing balance)	XXX
	XXX		**XXX**

FORMAT OF TOTAL CREDITORS ACCOUNT

Total Creditors account

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Cash A/c Paid	XXX	By Balance b/d (Opening Balance)	XXX
To Bank A/c (Cheques Paid)	XXX		
To bills payable A/c (Bills Accepted)	XXX	By Purchases A/c (Credit Purchases)	XXX
To Discount received A/c	XXX	By Bank A/c (ChequesDishonoured)	XXX
To Purchase returns A/c	XXX		
To Balance C/d (closing Balance)	XXX	By Bills Payable A/c (Dishonoured)	XXX
	XXX		**XXX**

FORMAT OF BILLS PAYABLE ACCOUNT

Bills payable account

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Cash / Bank A/c	XXX	By Balance b/d	XXX
(Bills Payable Paid)		(Opening Balance)	
To sundry creditors A/c	XXX	By Sundry Creditors A/c	XXX
(Bills Payable Dishonoured)		(Bills Accepted)	
To Balance C/d	XXX		
(Closing Balance)			
	XXX		**XXX**

CHAPTER – 2
ACCOUNTS OF NOT – FOR- PROFIT ORGANISATION

Key Terms to know

- Not – for – Profit Organisation
- Receipts and Payments account
- Income and expenditure accounts

In the books of……

Receipt and Payments account for the Year for the ended 31st march 2015

Receipt		Payment
To balance b/d Cash in hand Cash at bank **<u>To Revenue receipts</u>** Subscription Entrance Fees General Donation Grant – In – Aid Sales of old News Paper Interest on Investment Dividend Locker Rent Received Rent Received Sundry Receipts Grant from government for maintenance of asset / payment of salary Admission fees , donation, special fees Tournament fund receipts **<u>To Capital receipts</u>** Life Membership fees Legacies Endowment fund Sale of fixed asset Sale of investment Receipt for specific purpose fund Interest on specific fund investment **To balance c/d (bal . fig)** (bank overdraft)		**To balance b/d (bank overdraft)** **<u>To revenue payment-</u>** Salary Rent Paid Electricity Charges Postage Rent and taxes Insurance Advertisement Telephone charges Travelling expenses Entertainment expenses Audit fees Repair Upkeep of ground Conveyance charges Office expenses Gardening Expenses Sundry expenses Scholarship given Tournament expenses Purchase of stationery / newspaper / bat and ball **<u>By Capital Payment</u>** Purchase of asset – building / furniture / land Investment Repayment of loan Construction of new tennis court **By balance c/d (bal. fig)** Cash in hand Cash at bank

- It’s all item related to previous year, current year, and subsequent year
- Note – excluded items – depreciation, outstanding, accrued income.

Subscription Received (Income)

1. Previous Year – outstanding Subscription 2. Current Year – outstanding Subscription	1. Previous Year- Subscription received in advance (related to future) (Subscription received in the year 2018 for the 2019-06-07) 2. Current year – subscription received in the year 2019 for the year 2020)

Note- Subscription related to current year will be taken into income and expenditure account

Computation of Subscription in final account – income and expenditure and balance sheet

Income And Expenditure Account For the Year Ended… 31 December.2001			
Expenditure		**Income**	
1. **Model- Subscription given as-** **Previous Year – 2018** **Current Year – 2019** **Subsequent Year -2020** - **Under this model** - **Only current year Subscription will be taken into account**		By Subscription (Current Year 2019 – will be taken into account) **Less**:- Subscription included –related to previous year or subsequent year **Add**- Outstanding Subscription (current year – 2019)- (It also appear in asset side of balance sheet) **Add-** received in advance in the year 2018 for the year 2019 (it will not appear in balance sheet	

Balance Sheet as on 31.Dec.2001			
Liabilities		**Asset**	
Subscription received in advance* Note – (Subscription received given for subsequent year – should shown in liabilities ill-18		**Outstanding Subscription** * (Current year 2019 given in adjustment) **Outstanding Subscription** * (related to previous year 2018 – given in adjustment)	
Expenditure		**Income**	
II. MODEL **Total Subscription given for the year 2009**		By Subscription For the year -2019 (current yea) **<u>Add</u>**- outstanding subscription (Current year - 2019) It also **appear in asset side** of balance sheet **<u>Add</u>**- **subscription** received in advance in the **year 2018 for the year 2019** (It will **not appear in balance sheet**) **<u>Less-</u>** outstanding subscription related to **previous year 2018** (It will **not appear in balance sheet)** **<u>Less</u>-** subscription received in advance in current year 2019 (It will **appear in the liabilities** of the balance sheet)	

Balance Sheet as on 31.Dec.2001		
Expenditure		**Income**
Subscription received in advance* Note- - (Subscription received given for subsequent year –should shown in liabilities) ill-18		**Outstanding subscription*** (Current year 2001 given in adjustment) **Still Outstanding subscription*** (related to previous year 2018- given in adjustment)

Computation of stock consumed – final accounts (2 marks)

Income And Expenditure Account For the Year Ended… 31 December.2001			
Expenditure		Income	
To opening stock of material (sport Material / ball & bat / stationery) Add- Purchase of material (sport material		By sale of old news paper / stationery / bat and ball	
Balance Sheet as on 31.Dec.2001			
Liabilities		**Asset**	
		Closing Stock of material / stationery/ bat and ball	

Computation of funds such as – prize fund , match fund Tournament fund (2 marks)

Balance Sheet as on 31.Dec.2001		
Liabilities		**Asset**
Prize fund (opening fund) **<u>Add</u>**- Prize fund receipt **<u>Add</u>**- interest received on prize fund investment **<u>Add</u>**- Donation for prize fund **<u>Less-</u>** Prize awarded (Prize distributed) **<u>Less</u>**-Prize expenses		Prize fund investment

Note – Incase funds Opening fund) not given-

- Prize fund receipts / exhibition funds receipts / match fund receipt-will appear in income side.
- Prize expenses / exhibition expenses / match expenses- will appear in expenditure side.

Income And Expenditure Account For the Year Ended… 31 December.2001

Expenditure		Income
To Opening stock of material (sport material / ball & bat / stationery) Add- Purchase of material (sport material / bat & ball / stationery) Less- Closing stock of material (sport material / bat & ball / stationery) To purchase of old newspaper To Loss on sale of asset **To expenses-** 1. Special dinner expenses 2. Electricity charges 3. Postage 4. Maintenance 5. Secretary honorarium (remuneration to non-regular employee) 6. Laboratory expenses 7. Salary 8. Repair and renewals 9. Rent and taxes 10. Charities 11. Donation Paid 12. Depreciation 13. General expenses/ general charges 14. Audit fees 15. Lecture fees 16. Upkeep ground 17. Grass seeds (payments) 18. Bank Charges 19. Entertainment expenses 20. Exhibition expenses 21. Prize awarded 22. Prize expenses 23. Match expenses		By subscription (current year 2001- will be taken into account) **Add-**outstanding subscription (current year-2001-given in additional information- It also **appear in asset side** of balance sheet) **Add**-received in advance for 2001 in the year 2000 (given In adjustment) (it will not **appear in balance sheet**) By sale of old newspaper / stationery By sale of sport material By sale of ball and bat By Profit on sale of asset (furniture) **By Income – Receipts** 1. By collection for special dinner 2. Proceeds from entertainment 3. Sundry receipts 4. Donation received 5. Admission fee received 6. Grant receive 7. Rent received / locker rent received 8. Interest received 9. Interest on Investment 10. Interest on fixed deposit 11. Interest on fixed deposit (receipt) 12. Entrance fees (receipt) 13. Hall rent (receipt) 14. Miscellaneous receipt 15. Miscellaneous Income 16. Exhibition fund receipts 17. Prize fund receipts 18. Match fund receipts

Closing stock of material – will also appear in asset side of balance sheet

Opening stock of asset such as – furniture / book/ sport equipment/ premises – purchase of asset will appear in balance sheet

Balance Sheet as on 31.Dec.2001

Liabilities		**Asset**
Opening Capital Add- Surplus (or) Less- Deficit Legacies* Life membership fees* Government grants*- for purchase of book Government grants – for subscription/ Construction of building, equiptment. **Funds-** Match Fund **Add**-receipt for match fund **Less**- match expenses (if the match fund given – receipt for match fund and match expenses – adjusted with match fund – and it will not appear in the income and expenditure account) **Prize fund*** **Add**- Prize fund receipt **Add-**Interest received on prize fund investment **Add**-Donation for prize fund **Less**-Prize awarded (prize distributed) **Less**-Prize expenses Bank Overdraft (Closing) **Subscription received in advance*** (Subsequent year -2020 taken from question) or (adjustment) ill -18 **Reserve for pavilion funds-***(given in adjustments) Subscription for Tournament **Less**- Tournament Expenses (refer ill -19 pg no 65)		Sports Equipment Purchase Computer Investment Fixed deposit Primes and ground Furniture purchase Billiard table purchase Book Purchased **Notes- Example (Asset Purchased)** Opening asset (Opening stock of book) **Add**- Purchase of asset (Purchase of book) **Less**- Sale of assets **Outstanding subscription*** (current year 2019 given in adjustment) **Still Outstanding subscription*** (related to previous year 2018-given in adjustment) **Cash in Hand (Closing)** **Cash at bank (closing)** **Closing stock of material, stationery, ball and bat** Prize fund investment*

CHAPTER – 3

ACCOUNTS OF PARTNERSHIP FIRMS - FUNDAMENTALS

KEY TERMS TO KNOW

- Fixed Capital
- Fluctuating Capital
- Interest on capital
- Interest on drawings
- Profit and loss appropriation account

FORMAT OF PARTNER'S CAPITAL ACCOUNT UNDER FIXED CAPITAL METHOD
Partner's capital account

Date	Particulars	A	B	DATE	Particulars	A	B
		Rs.	Rs.			Rs.	Rs.
	To Cash / Bank A/c (Permanent withdrawal of capital)	XXX	XXX		By Balance b/d	XXX	XXX
					By Cash / bank A/c (additional capital introduced)	XXX	XXX
	To Balance C/d	XXX	XXX				
		XXX	**XXX**			**XXX**	**XXX**

FORMAT OF PARTNER'S CAPITAL ACCOUNT UNDER FIXED CAPITAL METHOD
Partner's Current account

Date	Particulars	A	B	DATE	Particulars	A	B
		Rs.	Rs.			Rs.	Rs.
	To balance b/d *	XXX	XXX		To balance b/d *	XXX	XXX
	To Drawings A/c	XXX	XXX		By interest on capital A/c	XXX	XXX
	To interest on drawings A/c	XXX	XXX		By Salary A/c	XXX	XXX
					By commission A/c	XXX	XXX
	To profit and loss appropriation A/c (Share of loss)	XXX	XXX		By Profit and loss Appropriation A/c (Share of Profit)	XXX	XXX
	To Balance C/d**	XXX	XXX		By Balance C/d	XXX	XXX
		XXX	**XXX**			**XXX**	**XXX**

FORMAT OF CAPITAL ACCOUNT UNDER FLUCTUATING CAPITAL METHOD

Partner’s capital account

Date	Particulars	A	B	DATE	Particulars	A	B
		Rs.	Rs.			Rs.	Rs.
	To Cash/ Bank A/c	XXX	XXX		By Balance b/d	XXX	XXX
	(Capital withdrawn)				By Cash / Bank A/c	XXX	XXX
	To drawings A/c	XXX	XXX		(additional Capital		
	To interest on	XXX	XXX		Introduced)		
	drawings A/c				By interest on capital A/c	XXX	XXX
	To profit and loss	XXX	XXX		By salary A/c	XXX	XXX
	Appropriation A/c	XXX	XXX		By commission A/c	XXX	XXX
	(Share of loss)				By profit and loss		
	To balance C/d	XXX	XXX		appropriation A/c	XXX	XXX
					(Share of profit)		
		XXX	**XXX**			**XXX**	**XXX**

INTEREST ON CAPITAL AND INTEREST ON DRAWING OF PARTNERS

Interest on capital

a) For providing interest on capital

Date	Particulars	L.F	Debit Rs.	Credit Rs.
	Interest on capital A/c To Partner’s capital / Current A/c Dr.		XXX	
				XXX

b) For closing interest on capital account

Date	Particulars	L.F	Debit Rs.	Credit Rs.
	Profit and loss appropriation A/c Dr. To interest on capital A/c		XXX	
				XXX

CALCULATION OF INTEREST ON CAPITAL

Interest on capital = Amount of capital X Rate of interest per annum X period of interest

Particulars	Rs.	Rs.
Capital at the end		XXX
Add : Drawings during the year (if fluctuating capital)	XXX	
Capital withdrawn during the year	XXX	XXX
		XXX
Less : Profit credited during the year (if fluctuating capital)	XXX	
Additional capital introduced during the year	XXX	XXX
Capital at the beginning		XXX

INTEREST ON DRAWINGS

a) For charging interest on drawings

Date	Particulars	L.F	Debit Rs.	Credit Rs.
	Partner's capital/Current A/c Dr.		XXX	
	To interest on drawings A/c			XXX

b) For closing interest on drawings account

Date	Particulars	L.F	Debit Rs.	Credit Rs.
	Interest on Drawings A/c Dr.		XXX	
	To Profit and loss appropriation A/c			XXX

AVERAGE PERIOD METHOD

Interest on Drawings = $\begin{bmatrix} Total\ amount\ of\ drawings \\ made\ during\ the\ year \end{bmatrix}$ X $\begin{bmatrix} Rate\ of\ interest \\ Per\ annum \end{bmatrix}$ X $\left[\frac{Average\ period}{12}\right]$

Average period = $\dfrac{\begin{bmatrix} Number\ of\ months\ from \\ the\ date\ of\ first\ withdrawal \\ to\ the\ end\ of\ the\ year \end{bmatrix} + \begin{bmatrix} Number\ of\ months\ from\ the\ date\ of \\ last\ withdrawal\ to\ the \\ end\ of\ the\ year \end{bmatrix}}{}$

Frequency of Withdrawal	AVERAGE PERIOD		
	TIME OF WITHDRAWAL		
	At the Beginning	In the Middle	At the end
Monthly	$\frac{(12+1)}{2} = 6.5$	$\frac{(11.5+0.5)}{2} = 6$	$\frac{(11+0)}{2} = 5.5$
Quartely	$\frac{(12+3)}{2} = 7.5$	$\frac{(10.5+1.5)}{2} = 6$	$\frac{(9+0)}{2} = 4.5$
Half - Yearly	$\frac{(12+6)}{2} = 9$	$\frac{(9+3)}{2} = 6$	$\frac{(6+0)}{2} = 3$

SALARY AND COMMISSION TO PARTNERS

a) For partners salary and commission due

Date	Particulars	L.F	Debit Rs.	Credit Rs.
	Partner's Salary A/cDr. Partner's Commission A/c Dr. To Partner's capital / Current A/c		XXX XXX	 XXX

b) For closing patner's salary and commission account at the end of the accounting year

Date	Particulars	L.F	Debit Rs.	Credit Rs.
	Profit and loss appropriation A/c Dr. To Partner's salary A/c To Partner's Commission A/c		XXX	 XXX XXX

(i) Commission as a percentage of net profit before charging such commission

= Net profit before commission X $\frac{\%\ of\ commission}{100}$

(ii) Commission as a percentage of net profit after charging such commission

$$= \text{Net profit before commission X} \frac{\%\ of\ commission}{100+\%\ of\ commission}$$

INTEREST ON LOAN FROM PARTNERS

(a) for providing interest on partner's loan

Date	Particulars	L.F	Debit Rs.	Credit Rs.
	Interest on partner's loan A/c Dr To Partner's Loan A/c		XXX	 XXX

Note : interest on partner's loan being an expense to the firm is debited in form's books. Interest on loan is due to the partner and it is generally added to the loan amount due and hence partner's loan account is credited.

(b) For closing interest on partner's loan account

Date	Particulars	L.F	Debit Rs.	Credit Rs.
	Profit and loss A/c Dr To Interest on Partner's loan A/c		XXX	 XXX

DIVISION OF PROFITS AMONG PARTNERS

Date	Particulars	L.F	Debit Rs.	Credit Rs.
	Profit and loss Appropriation A/c Dr To Partner's Capital / Current A/c		XXX	 XXX

FORMAT OF PROFIT AND LOSS APPROPRIATION ACCOUNT

PARTICULARS	Rs.	PARTICULARS	Rs.
To Interest on Partner's Capital A/c	XXX	By profit and loss A/c	XXX
To Partner's salary A/c	XXX	By Interest on Partners	XXX
To Partner's Commission A/c	XXX	Drawings A/c	
To Partner's Capital / Current A/c Profit	XXX		
	XXX		XXX

*** Amount of profit transferred from profit and loss account.**

CHAPTER 4

GOODWILL IN PARTNERSHIP ACCOUNTS

Key Terms to know

- Goodwill
- Average profit
- Normal Profit
- Super Profie

I . Average Profit Method

1. **Simple average profit method**

$$\text{Average profit} = \frac{\text{Total Profit}}{\text{Number of year}}$$

Goodwill = Average profit X Number of year purchase

Step-2

Average profit

Less - fair remuneration of partner

Less - Insurance Premium Payable in future

2. **Weighted average profit method**

$$\text{Weighted average profit} = \frac{\text{Total of Weighted Profit}}{\text{Total of Weight}}$$

Goodwill=Weighted Average Profit X Number of years of purchase

II. Super profit method

1. **Purchase of super profit method**

Goodwill=Super profit X Number of years of purchase

Super profit = Average profit – Normal Profit

Normal Profit = Capital employed X normal rate of return

Capital employed = fixed asset + current assets – current liabilities

2. **Annuity method**

Goodwill=Super profit X value of annuity (2,4868)

Super profit = Average profit – Normal Profit

Normal Profit = Capital employed X normal rate of return

Capital employed = fixed asset + current assets – current liabilities

3. **Capitalisation of super profit method**

$$\text{Goodwill} = \frac{\text{Super Profit}}{\text{Normal rate of return}}$$

III. Capitalisation method

Goodwill= Total Capitalised Value of the business-Actual vapital employed

$$\text{Total Capitalised Value of the business} = \frac{\text{Average profit}}{\text{Normal rate of return}} \times 100$$

Actual capital employed = Fixed asset (excluding intangible- goodwill)+ current assets – current liabilities

CHAPTER – 7

COMPANY ACCOUNTS

KEY TERMS TO KNOW

- Preference shares
- Equity Shares
- Over Subscription
- Pro Rata allotment
- Calls in advance
- Calls in arrear

(i) When shares are issued for cash at par :

Following are the journal entries to be passed

DATE	PARTICULARS	L.F	Debit Rs.	Credit Rs.
	1. On receipt of application Money Bank A/c Dr. To Equity share application A/c		XXX	XXX
	2. On Allotment of shares to transfer share application money Share application A/c Dr. To Equity Share capital A/c		XXX	XXX
	3.On refund of application money for rejected applications Equity share application A/c Dr. To Bank A/c		XXX	XXX
	4.For allotment Money Due Equity Share allotment A/C Dr. To Equity share capital A/c		XXX	XXX
	5.On Receipt of allotment Money Bank A/c Dr. To Equity Share allotment A/c		XXX	XXX
	6.On Making call for the call money due Equity Share Call A/c Dr. To Equity Share capital A/c		XXX	XXX
	7.On Receipt of call money Bank A/c Dr. To Equity Share Call A/c		XXX	XXX

TUTORIAL NOTE :

The excess application money on allotted shares after adjustment for allotment money should be transferred to calls in advance account.

Following are the journal entries to be passed :

Date	Particulars	L.F	Debit Rs.	Credit Rs.
	(a) For money received in advance on allotment and call bank A/c To call in advance A/c		 XXX	 XXX
	(b) For adjusting towards call(s) Calls in advance A/c To share call A/c		 XXX	 XXX

In the books of Anu company
Journal Entries

Date	Particulars	L.F	Debit Rs.	Credit Rs.
	Equity share capital A/c To Equity Share final call A/c To forfeited Shares A/c Forfeited Shares		XXX	 XXX XXX
	Bank A/c Forfeited Shares A/c To share capital A/c Reissued Shares		XXX XXX	 XXX

REISSUE OF FOREITED SHARES

Date	Particulars	L.F	Debit Rs.	Credit Rs.
	Forfeited shares A/c To Capital Reserce A/c Dr.		XXX	 XXX

$$\frac{Total\ Amount\ forfeited}{Total\ Number\ of\ shares\ forfeited}$$ X Number of shares reissued.

SHARES ISSUED AT PREMIUM

Date	Particulars	L.F	Debit Rs.	Credit Rs.
	(i) If premium is collected with application money **(a) For receiving application money** (application money + premium) Dr. Bank A/c To Enquity share application A/c		 XXX	 XXX
	(b) For receiving application money Equity share application A/c Dr. To Equity share capital A/c To securities premium A/c		 XXX	 XXX XXX
	(i) If premium is collected with application money **(a) For allotment/ Call money due (allotment/call money + premium)** Equity Share allotment / call A/c Dr. To equity share capital A/c To securities Premium A/c		 XXX	 XXX XXX
	(b) For receiving allotment/call money **Bank A/c** To Equity share allotment / call A/c Dr.		 XXX	 XXX
	(iii) When shares are forfeited (for which premium is not received) Equity Share capital A/c Dr. Securities premium A/c Dr. To Equity share allotment A/c To Equity share call A/c To Forfeited shares A/c		 XXX XXX	 XXX XXX XXX

CHAPTER - 8

FINANCIAL STSTEMENT ANALYSIS

Key terms to know

- Financial Statement
- Financial Statement analysis
- Common Size Statement
- Comparative Statement
- Trend analysis

Preparation of Comparative Statements

A Comparative statement has five columns. Following are the steps to be followed in preparation of the comparative statement:

(i) Column 1: In this column, particulars of items of income statement or balance sheet written.

(ii) Column 2: Enter absolute amount of year 1.

(iii) Column 3: Enter absolute amount of year 2.

(iv) Column 4: Show the difference in amounts between year 1 and 2. If there is an increase in year 2, Put Plus sign and if there is decrease put minus sign.

(v) Column 5: Show percentage increase or decrease of the difference amount shown in column 4 by dividing the amount shown in column 4 (absolute amount of increase or decrease) by column 2 (year 1 amount).That is.

$$\text{Percentage increase or decrease} = \frac{\text{Absolute amount of increase or decrease}}{\text{Year 1 amount}} \times 100$$

Format of Comparative Statement

Particulars	**Year 1**	**Year 2**	**Absolute amount of increase (+) or decrease (-)**	**percentage increase (+) or decrease (-)**
	Rs	**Rs**	**Rs**	
(1)	**(2)**	**(3)**	**(4)**	**(5)**

Preparation of Common Size Statements

Common size statement can be prepared with three columns. Following are steps to be followed in preparation of common size statement:

(i) Column 1: In this column, particulars of items of income statement or balance sheet are written.
(ii) Column 2: Enter absolute amount.
(iii) Column 3: Choose a common base as 100.For example, revenue from operations can be taken as the base for income statement and total of balance sheet can be taken as the base for balance sheet. Work out the percentage for all the items of column 2 in terms of the common base and enter them in column 3.

Format of Common Size Statement

Particulars	**Absolute**	**Percentage**

Trend analysis

The Following steps can be followed to compute trend percentages:

(i) Take the earliest year as the base year.
(ii) Take the figures for the base year as 100.
(iii) Express the Figures for the other year as a percentage to the base year and determine the trend.

Illustration 12

Calculate trend percentage for the following particulars of Kurinji Ltd.

Particulars	**Rs in thousands**		
	2015-16	**2016-17**	**2017-18**
Revenue from operations	120	132	156
Other Income	50	38	65
Expenses	100	135	123

Trend analysis for Kurinji Ltd

Particulars	**Rs in thousands**			**Trend Percentage**		
	2015-16	**2016-17**	**2017-18**	**2015-16**	**2016-17**	**2017-18**
Revenue from operations	**120**	**132**	**156**	**100**	**110**	**130**
Add: Other income	50	**38**	**65**	**100**	**46**	**130**
Total revenue	**170**	**170**	**221**	**100**	**100**	**130**
Less: Expenses	**100**	**135**	**123**	**100**	**135**	**123**
Profit	**70**	**35**	**98**	**100**	**50**	**140**

CHAPTER - 9
RATIO ANALYSIS

Key terms to know

- ❖ Ratio
- ❖ Ratio analysis
- ❖ Liquidity ratios
- ❖ Long term solvency ratios
- ❖ Profitability ratios
- ❖ Turnover ratios
- ❖ Shareholder's funds

Current assets include	**Current liabilities include**
(i) Current investments	(ii) Short term borrowings
(iii) Inventories (stock)	(ii) Trade Payables (Bills Payable and sundry Creditors)
(iv) Trade receivables (Bills receivable and sundry debtors less provision for doubtful debts)	(iv) Other current liabilities (Expenses payable, income received in advance, etc.)
(v) Cash and cash equivalents (cash in hand, cash at bank, etc.)	(vi) Short term provisions
(vii) Short term loans and advances given	
(viii) Other current assets (prepaid expenses, accrued income, etc)	

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

Quick ratio

Quick ratio gives the proportion of quick assets to current liabilities. It indicates whether the business concern is in a position to pay its current liabilities as and when they become due, out of its quick assets.

$$\text{Quick ratio} = \frac{\text{Quick assets}}{\text{Current liabilities}}$$

Quick assets = Current assets- Inventories + Prepaid expenses.

(i) Debt equity ratiois calculated to assess the long term solvency position of a business concern.

$$\text{Debt equity ratio} = \frac{\text{Long term debt}}{\text{Shareholder's funds}}$$

Long term debt	Shareholders' funds
Long term debt includes debentures, bonds, long term loans and other long term borrowings.	Shareholders' funds = Equity share capital +preference share capital + Reserves and surplus

(ii) Proprietary ratio

$$\text{Proprietary ratio} = \frac{\text{Shareholders' funds}}{\text{Total assets}}$$

(iii) **Capital gearing ratio**

$$\text{Capital gearing ratio} = \frac{\text{Funds bearing fixed interest or fixed dividend}}{\text{Equity shareholders' funds}}$$

Funds bearing fixed interest or fixed dividend	Equity Shareholders' funds
Preference Share Capital Debentures Bonds Long term borrowings carrying fixed interest	Equity Shareholders' funds = Equity share capital + Reserves and surplus

(i) Inventory turnover ratio

$$\text{Inventory turnover ratio} = \frac{\text{Cost of revenue from operations}}{\text{Average inventory}}$$

Cost of revenue from operations = Purchase of stock in trade + changes in inventories of finished goods + direct expenses

(or)

Revenue from operations – Gross profit

Tutorial note

Revenue from operations is the net sales.

Changes in inventory = Opening inventory –Closing inventory

Direct expenses = Wages + Carriage inwards freight inwards dock charges + Octroi + import duty + Coal, gas, fuel and power + other direct expenses

$$\text{Average inventory} = \frac{\text{Opening inventory} + \text{Closing inventory}}{2}$$

(ii) Trade receivables turnover ratio

Trade receivables turnover ratio is the comparison of credit revenue from operations with average trade receivables during an account period. It gives the velocity of collection of cash from trade receivables. It is calculated as follows:

$$\text{Trade receivables turnover ratio} = \frac{\text{credit revenue from operations}}{\text{Average trade receivables}}$$

$$\text{Average trade receivables} = \frac{\text{Opening trade receivables + closing trade receivables}}{2}$$

(iii) Trade payable turnover ratio

Trade payables turnover ratio is the comparison of net credit purchases with average trade payables during an accounting period.It gives the velocity of payment of cash towards trade payables.it is calculated as follows:

$$\text{Trade payables turnover ratio} = \frac{\text{Net credit Purchases}}{\text{Average trade payables}}$$

Net credit Purchases = Total credit Purchases- purchases return

$$\text{Average trade payables} = \frac{\text{Opening trade payables + Closing trade payables}}{2}$$

Trade payables = Trade creditors + Bills Payable

(iv) Fixed assets turnover ratio

$$\text{Fixed assets turnover ratio} = \frac{\text{Revenue from operations}}{\text{Average fixed assets}}$$

$$\text{Average fixed assets} = \frac{\text{Opening Fixed assets + Closing Fixed assets}}{2}$$

I. Gross Profit ratio

$$\text{Gross Profit ratio} = \frac{\text{Gross Profit}}{\text{Revenue from operations}} \times 100$$

Gross Profit = Revenue from operations – Cost of revenue from operations

II. Operating cost ratio

Operating cost ratio is the proportion of operating cost to revenue from operations. This ratio is a test of the operational efficiency of the business. It is calculated as under.

$$\text{Operating Cost ratio} = \frac{\text{Operating Cost}}{\text{Revenue from operations}} \times 100$$

Operating Cost is the cost which is associated with the operating activities of the business.

Operating cost = cost of revenue from operations + Operating expenses

Operating expenses = Employee benefit expenses + Depreciation + Other expenses related to office and administration, selling and distribution.

III. Operating profit ratio

$$\text{Operating profit ratio} = \frac{\text{Operating profit}}{\text{Revenue from operations}} \times 100$$

Alternatively, it is calculated as under.

Operating profit ratio = 100 – Operating cost ratio

Operating Profit = Revenue from operations – Operating cost

Net profit after tax = Gross profit + Indirect income – Indirect expenses – Tax

(OR)

Net profit after tax = Revenue from operations – cost of revenue from operations operating expenses – Non operating expenses + Non-operating income – Tax

V. Return on Investment (ROI)

$$\text{Return on Investment (ROI)} = \frac{\text{Net profit Before and tax}}{\text{Capital employed}}$$

Capital employed = Shareholders' funds + Noncurrent liabilities.

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