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GUWAHATI REGION

SPECIAL STUDY MODULE – ACCOUNTANCY

FOR

CLASS – XII

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CLASS XII

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CHAPTER 1
Accounting for Partnership Firms Fundamentals

"Partnership is the relationship between persons who have agreed to the share the profits of a business carried on by all or any one of them acting for all"

PARTNERSHIP DEED

The partnership deed is a written agreement among the partners which contains the terms of agreement.

RULES APPLICABLE IN THE ABSENCE OF PARTNERSHIP DEED

Profit sharing Ratio - Equal
Interest on Capital - No Interest on Capital is to be allowed
Interest on Drawings - No interest on Drawings is to be charged
Salary or Commission - Not Allowed
Interest on loan by a Partner - Interest is allowed @6% per annum (even if there is a loss)

DISTRIBUTION OF PROFITS AMONG PARTNERS

A Profit and Loss Appropriation Account is prepared to show the distribution of profits among partners. It is nominal account**.**

The Journal Entries regarding Profit and Loss Appropriation Account are as follows:

1. For transfer of balance of Profit and Loss Account

Profit and Loss A/c Dr.
To Profit and Loss Appropriation A/c
(Being net profit transferred to P & L Appropriation A/c)

***2.* For Interest on Capital**

1. For allowing Interest on capital

Interest on Capital A/c Dr.
To Partners' Capital/Current A/c
(Being interest on capital allowed @ ___ % p.a)

2. For transferring Interest on Capital to Profit and Loss Appropriation

Profit and Loss Appropriation A/c Dr.
To Interest on Capital A/c

(Being interest on capital transferred to P & L Appropriation A/c)

3. For Salary of Commission payable to a partner

i. Salary or Commission to a partner :
Partner's Salary/Commission A/c Dr.
To Partner's Capital /Current A/c
(Being salary/commission payable to a partner)

ii. For transferring Partner's Salary/Commission A/c to Profit and Loss Appropriation A/c :
Profit and Loss appropriation A/c Dr.
To Partner's Salary/ Commission A/c

4. For transfer of Reserves :

Profit and Loss Appropriation A/c Dr.
To Reserve A/c
(Being reserve created)

5. For Interest on Drawings :

1. For charging interest on a partner's drawings :
Partner's Capital/Current A/c Dr.
To Interest on Drawings A/c
(Being interest on drawings charged @ ____%p.a.)

2. For transferring Interest on drawings to Profit and Loss Appropriation A/c : Dr.
Interest on Drawings A/c
To Profit and Loss Appropriation A/c
(Being interest on drawings transferred to P & L Appropriations A/c)

6. For transfer to Profit (i.e. Credit Balance of Profit and loss Appropriation Account

Profit and Loss Appropriation A/c Dr.
To Partners Capital A/c
(Being profits distributed among partners)

SPECIMEN OF PROFIT AND LOSS APPROPRIATION ACCOUNT

Profit and Loss Appropriation Account

For the year ending on _______________

Dr. **Cr.**

Particulars	**Amount**	**Particulars**	**Amount**
To interest on capitals		By profit & loss a/c	
To partners salaries/ commission		By interest on drawings	
To Reserve			
To profit transferred to partners capital account			

PARTNERS'CAPITAL ACCOUNTS

Partner's Capital Accounts : The capital accounts of partners may be maintained by following any of the following two methods:
(1) Fixed Capital Accounts
(2) Fluctuating Capital Accounts

(1). Fixed Capital Accounts

Under this method the following two accounts are maintained:

1. **Capital Account**

This account will always show a credit balance. Balance of Capital account remains fixed and only *Additional Capital Introduced* & *Capital Withdrawn or Drawings out of Capital are recorded.*

2. Current Account

The Current account may show a debit or credit balance. All the usual adjustments such as Interest on Capital, partner's salary/commission, drawings (out of profits), interest on drawings and share in profits or losses etc. are recorded in this account.

(2). Fluctuating Capital Accounts :

In this method only one account i.e., Capital Account of each and every partner is prepared and all the adjustment such as interest on capital, interest on drawings etc. are recorded in this account. Capital account may show a debit or credit balance and the balance of this account changes frequently from time to time therefore it is called fluctuating Capital Account.

INTEREST ON DRAWINGS

Interest on drawings in charged by the firm only when it is clearly mentioned in Partnership Deed. It is calculated with reference to the time period for which the money was withdrawn.
Case 1 : When Rate of Interest on Drawings is given in %
Interest on Drawings is calculated with a flat rate irrespective of date of drawings.
Case 2 : *When Rate of Interest on Drawings is given in % p. a.*

(1). **When date of Drawings is not given**

Interest on Drawing = Total Drawings x Rate/100 x 6/12

Note : Interest is calculated for a period of 6 months

(2). **When date of Drawings is given**

Interest on Drawing = Total Drawings x Rate/100 x Time Left after drawings/12

Case 3 : When an equal amount is withdrawn regularly- following month be considered.

	Monthly drawing for 12 month	Quarterly drawing for 12 month	Half- yearly drawing for 12 month	Monthly drawing for 06 month
When drawing are made in the Beginning of each period	6.5	7.5	9	3.5
When drawing are made in the middle of each period	6	6	6	3
When drawing are made in the End of each period	5.5	4.5	3	2.5

INTEREST ON PARTNER'S LOAN

It is a charge against profits. It is provided irrespective of profits or loss. It will also be

provided in the absence of Partnership Deed @ 6% per annum.

The following entries are passed to record the interest on partner's loan

i. For allowing Interest on loan*:*

Interest on Partner's Loan A/c Dr.

To Partner's Loan A/c

(Being interest on loan allowed @___% p.a.)

ii. For transferring Interest on Loan to Profit and Loss A/c:

Profit and Loss A/c Dr.

To Interest on Loan A/c

(Being interest on loan transferred to P & L A/c)

PAST ADJUSTMENTS

If, after preparation of Final Accounts of firm, it is found that some errors or omission in accounts has occurred than such errors or omissions are rectified in the next year by passing an adjustment entry.

A statement is prepared to ascertain the net effect of such errors or omissions on partner's Capital/current accounts in the following manner.

Particulars	A	B	C
A. Amount to be given (CREDITED) * Interest on Capital (Not allowed or provided at a lower rate) * Partner's Salary or Commission etc. (Omitted to be recorded) * Actual Profits (To be distributed in correct ratio) *TOTAL A* B. Amount already given to be taken back now (DEBITED) * Interest on Capital (If given at a higher rate) * Interest on Drawings (if not charged) * Profits already distributed in wrong ratio (debited now) TOTAL B Net Effect (A-B)			

If effect found in (-) capital a/c credited and if (+) then capital a/c debited.

GUARANTEE OF PROFITS TO A PARTNER

Guarantee is an assurance given to the partner of the firm that at least a fixed amount shall be given to him/her irrespective of his/her actual share in profits of the firm. If actual share in profits is less than the guaranteed amount in that case the deficit amount shall be borne either by the firm or by any partner as the case may be.

Note : *Guarantee to a partner is given for minimum share in profits. If the actual share in profits is more than the minimum guaranteed amount then the actual profits will be allowed to the partner*

CHAPTER 2

Reconstitution of Partnership firms & Dissolution

Meaning of Reconstitution:

Any change in agreement of partnership is called reconstitution of partnership firm. In

following circumstances a partnership firm may be reconstituted:
1. Change in Profit Sharing Ratio
2. Admission of a partner
3. Retirement/Death of a partner

Accounting treatment of goodwill:
In case of change in profit sharing ratio, the gaining partner must compensate the sacrificing partner by paying the proportionate amount of goodwill.

Accounting treatment of Reserves and Accumulated Profits:
Case (i) When reserves and accumulated profits/losses are to be distributed
At the time of change in profit sharing ratio, if there are some reserves or accumulated profits/losses existing in the books of the firm, these should be distributed to partners in their old profit sharing ratio.

Case (ii) When accumulated profits/losses are not be distributed at the time of change in ratio
Partners may decide that reserves and accumulated profits/losses will not be affected and remains in the books with same figure. In this case, the gaining partner must compensate the sacrificing partner by the share gained by him i.e.
Gaining Partner's Capital A/c Dr.
To Sacrificing Partner's Capital A/c.

Accounting treatment for Revaluation of Assets and reassessment of Liabilities on change in Profit sharing ratio:

Revaluation of assets and liabilities may be treated in two ways:
(i) When revised values are to be shown in the books.
(ii) When revised values are not to be shown in the books

Goodwill : Nature and Valuation

Meaning of Goodwill:
Goodwill places the organization at a good position due to which the organization is able to earn higher profits without any extra efforts. Goodwill cannot be seen but felt.Therefore goodwill is called an Intangible asset.

Methods of valuation of goodwill :

1. Average profit method :
Average Profit = Total Profits/No. of Years
Goodwill = Average Profit x Number of years of purchase.

2. Super profit method : **Super profit =** Average profit - Normal profit
Normal Profit = Investment (Capital Employed) x Normal Rate of Return/100
Goodwill = Super profit x number of years purchased
3. Capitalization method : In this method capitalized value of the firm is calculated on the basis of normal rate of return. Difference between the capitalized value and actual capital employed is called goodwill.

Admission of a partner

“**A new partner can be admitted only with the consent of all the existing partners.**”
At the time of admission of a new partner, following adjustments are required:
1. Calculation of new profit sharing ratio and sacrificing ratio.
2. Accounting treatment of Goodwill.
3. Accounting treatment of accumulated profit.
4. Accounting treatment of revaluation of assets and reassessment of liabilities.

5. Adjustment of capital in new profit sharing ratio.

- **Sacrifice Ratio : Old Ratio – New Ratio.**

- **Accounting treatment of goodwill on the admission of a new partner :**

(a) when goodwill (premium) is paid privately : no entries are required to pass.
(b) when new partner brings his share of goodwill in cash , and retained in the Business :

(a) Cash/bank a/c Dr.
To premium for goodwill a/c

(b) premium for goodwill a/c Dr.
To old partners capital a/c (in sacrificing ratio)

(c) when goodwill bought in by the new partner is withdrawn by the old partners :
One more journal entry is required to be passed:

Old partners capital a/c Dr.
To cash/bank a/c.

(d) when goodwill already appears in the books : goodwill a/c is written off by the Old partners in their old ratio.

Old partners capital a/c Dr.
To goodwill a/c.

(e) when new partners does not bring his share of goodwill/premium in cash :

New partners current a/c Dr. (his share)
To old partners capital /c (in sacrificing ratio)

Revaluation of Assets & Liabilities

This account is a nominal account in nature. Therefore , if there is a loss due to Revaluation , revaluation a/c is debited and if result in a profit , the revaluation Account is credited.

Journal Entries

(1) For decrease in the value of assets:
Revaluation a/c Dr.
To Assets a/c

(2) For increase in the value of assets:
Assets a/c Dr.
To Revaluation a/c

(3) For increase in the value of Liabilities:
Revaluation a/c Dr.
To Liabilities a/c

(4) For decrease in the value of Liabilities:
Liabilities a/c Dr.
To Revaluation a/c

(5) When Revaluation a/c shows Profits :
Revaluation a/c Dr.
To old partners capital a/c

(6) When Revaluation a/c shows Losses:
old partners capital a/c Dr.
To Revaluation a/c

Proforma of Revaluation a/c

Dr. Cr.

particulars	*Amount*	*Particulars*	*Amount*
To decrease in the value assets		*BY increase in the value of Assets.*	
To increase in the value of Liab.		*BY decrease in the value Liabilities*	
To unrecorded liabilities		*By unrecorded Assets*	
To profit on reav (trf. To old partner capital a/c.)		*By loss on reav. (trf. To old partners capital a/c.)*	

Adjustment of capital

1. *Adjustment of old partners capital a/c on the basis of incoming partners capital :*

   Calculate total capital of the firm on the basis of capital of the new partner . determine new Capital of each partner . Ascertain present capital of the old partner(after all adjustment) Find out surplus/deficit capital by comparing proportionate capital and the present capital.
   Pass journal entry
   (i) *In case present capital is less than the new capital*
   Cash/bank or concerned partners current a/c Dr.
   To concerned partners capital a/c
   (ii) *In case present capital is more than the new capital :*
   concerned partners capital a/c Dr.
   To Cash/bank or concerned partners current a/c

2. *Calculation of news partner capital on the basis of old partners capital :*
   Determine the total adjusted capital of the old partners .Determine the total capital of the New firm. Determine the total capital of the incoming partners as follows. Total capital capital of the new firm x share of incoming partner.

Retirement/Death of a Partner

Amount due to retiring deceased Partner
(To be credited to his capital account)
1. Credit Balance of his capital.
2. Credit Balance of his current account (if any)
3. Share of Goodwill.
4. Share of Reserves or Undistributed profits.
5. His share in the profit revaluation of assets and liabilities.
6. Share in profits upto the date of Retirement/Death.
7. Interest on capital if involved.
8. Salary if any

Deduction from the above sum (to be debited to the capital account)
1. Debit balance of his current account (if any)
2. Share of Goodwill to be written off.
3. Share of Accumulated loss.
4. Drawings and interest on drawings (if any)
5. Share of loss on account of Revaluation of assets and liabilities.
6. His share of business loss

Accounting Treatement
1. Calculation of new profit sharing ration and gaining ratio
2. Treatment of goodwill.
3. Revaluation a/c preparation with the adjustment in the respect of unrecorded assets/liabilities.
4. Distribution of reserves and accumulated profits/loss.
5. Ascertainment of share of profits/loss till the date of retirement/death.
6. Adjustment of capital if required
7. Settlement of the Accounts due to Retired/Deceased partner.

Sacrificing and Gaining Ratio

It is the ratio in which the old partners surrender a part of their share of profit in favour of a new partner.
It is the ratio in which the remaining partner's acquire the outgoing partner's share of profit.

Treatment of Goodwill

1.When old goodwill appears in the books then first of all this is written off in the old ratio.

Remember Old Goodwill Old Ratio

All Partners' capital A/c Dr
To Good will A/c

2. After writing off old goodwill **adjustment of retiring partner's share of goodwill will be made** through the following journal entry.

Remaining Partner's Cap A/c Dr (in gaining ratio)
To Retiring/Deceased Partner's Cap A/c

3. Revaluation of Assets and Reassessment Liabilities

Revaluation A/c is prepared in the same way as in the case of admission of a new partner.
Profit and loss on revaluation is transferred among all the partners in old ratio.

4. Adjustment of Reserves and Surplus (Profits)

(Appearing in the Balance SheetLiability Side)

(a) General Reseve A/c Dr.
Reserve Fund A/c Dr.
P& L A/c (Credit Balance) Dr.
To all partners Capital/Current A/c in old ratio.

Adjustment of Capitals

At the time of retirement /death, the remaining partners may decide to adjust their capitals in their new profit sharing Ratio. Then The sum of their capitals will be treated as the total capital of the new firm which will be divided in their New Profit Sharing Ratio.Excess or Deficiency of capital in the individual capital A/c is calculated. Such excess or shortage is adjusted by withdrawal or contribution in cash or transferring to their current A/cs.

JOURNAL ENTRIES

(a) For excess Capital withdrawn by the Partners

Partner’s capital A/c Dr
To Cash/Bank A/c

(b) For deficiency, cash will be brought in by the partner

Cash/Bank A/c Dr
To Partner’s Cap A/c

Death of a Partner

Accounting treatment in the case of death is same as in the case of retirement except the following:

1.The deceased partners claim is transferred to his executer's account.
2. Normally the retirement takes place at the end of the Accounting Period but the death may occur at any time. Hence the claim of deceased partner shall also include his share of profit or loss, interest on capital,his share of goodwill and drawings if any from the date of the last balance sheet to the date of his death.

Dr. Deceased partner capital Account Cr.

To Revaluation a/c (loss)		By bal. b/d	
To share in accumulated Losses		By P&L surplus a/c (current year till death)	
To cash a/c (drawing till death)		By Revaluation a/c (gain)	
To interest on drawing		By gen res/p&L	
To goodwill a/c (share in goodwill written off)		By interest on capital	
To deceased partners Executors a/c (Bal. fig.)		By salary/ commission.	

DISSOLUTION OF A PARTNERSHIP FIRM

Dissolution of firm means termination of partnership among all the partners of the firm" On dissolution of a firm, the following accounts are opened to close the books of the firm:

Realisation Account: It is *nominal account* opened on the dissolution of a firm *to ascertain the profit or loss on realisation of assets and payments of outsiders 'liabilities*.

Partner's Loan Account;

Partners' Capital Accounts; and

Cash or Bank Account.

if the question is sailent about the realisation of an assets, it is assumed that the Assets has not realised any amount.

if question is sailent about the payment of a liability , it has to be paid out in full.

Dr. Format of Realisation A/C Cr.

Particulars	*Amount*	*Particulars*	*AMOUNT*
To all assets(excluding cash/bank,Dr. bal.of p&l a/c, Dr. bal of partner capital/current/c,loan to partner)		*By all Liabilities(excluding,Cr. bal.of p&l a/c,Reserve a/c,Partners capital/current a/c,Loan from partners)*	
To bank/cash (Amount paid for discharging Liabilities)		*By provision on any assets(pro. For doubtful debts,pro for dep.)*	
To bank/cash (Amount paid for unrecorded Liabilities, expenses on realisation)		*By bank/cash (Amount received on sale of assets, unrecorded assets)*	
To partners capital a/c(Liab.taken by a partner or expenses paid by him or remuneration/commission payable to him)		*By partners capital a/c(assets taken over by a partner)*	
To partners capital a/c(for transferring profit on realisation)		*By partners capital a/c(for transferring loss on realisation)*	

CHAPTER 3

Accounting for Share Capital

Some important Terms

(i) One person company : An OPC means a private limited company with only One person as its member (only natural person, citizen of india).minimum Paid-up capital 1,00,000. It can be converted in to public or private company After 2 year of its incorporation.

(ii) **AUTHORISED CAPITAL**:Also Called as Nominal or registered capital .It is the maximum amount of capital a company can issue . It is stated in ***Memorandum of Association.***

(iii) ISSUED CAPITAL:this is part of authorized capital which is offered to public for subscription. It cannot exceed authorized capital .

(iv) SUBSCRIBED CAPITAL : It is part of issued capital subscribed or applied by public.

(v) CALLED UP CAPITAL : It is the amount of nominal value of shares that has been called up by the company for payment by the subscriber towards the share.

(vi) PAID UP CAPITAL : It is part of called up capital that the members of company or shareholders have paid.

(vii) RESERVE CAPITAL : It is that part of uncalled capital which the company reserve to be called upon winding up of company. For this a special resolution has to be passed

(viii) CAPITAL RESERVE : It is capital profit not available for distribution as dividend. It is represented in balance sheet of company as Reserves and Surplus under the heading Shareholders' Funds

(ix) **Sweat Equity shares** : shares issued by the company to its employees or directors at a discount Or for consideration other than cash for providing know-how or making available intellectual

Property rights. Such shares cannot be re sold by their holder with in a period of 3 years.

(x) **Preliminary Expenses** : Expenses incurred on the formation of a company. As per AS-26 Preliminary expenses are to be written off in the year in which they are incurred.

(xi) **Under-subscription of shares** : number of shares applied for by the public is less than the Number of shares offered by the company.it is also called under –subscribed.

(xii) **Over- subscription of shares** : when the number of shares applied for is more than the number Of shares offered to the public for subscription. The directors will have to allot shares on **pro-Rata** basis. It means smaller number of shares are allotted to each applicant according to To the number of shares applied by him.

(xiii**)** **Forfeiture of shares;** if any sharesholder fails to pay the amount due on allotment or any call within the specified period ,the directors may cancel his shares. This is called forfeiture of shares.

Presentation of share capital in company balance sheet (As per schedule III)

EXTRACT OF BALANCE SHEET OF ....

As at ....

Particulars	Note No.	Current year	Previous year
I. EQUITY AND LIABILITIES: Shareholders Fund : (a) share capital (1) (b) Reserve & surplus (c) Money pending against share warrents			

Notes to Accounts:

	Amount	**Amount**
(1) Share capital Authorised capital .... Issued capital .... Subscribed & fully paid capital.............................. Less call in arrears Add Forfeited shares		**...............**

Journal Entries

For receiving application	Bank a/c Dr. To sh. Application a/c sh. Application a/c Dr. To sh. Capital To bank (if return)
On Allotment	Share Allotment Account Dr. To Share Capital A/c Bank Account Dr. To Share Allotment A/c
For call money	Share Call A/c Dr. To Share Capital Account Bank Account Dr. To Share Call A/c

Issue of shares for consideration other than cash	
Issue of shares to promoters	Incorporation cost/ formation cost Dr. To share capital A/c
Issue of shares for purchase of assets	Vendors A/c Dr. To share capital A/c

ISSUES OF SHARES AT PREMIUM : It is issue of share at more than face value. The premium may be charged by the company on application or on allotment or even with calls. Following entries will be passed , if the premium is received with application:

Bank a/c Dr. (including premium)
To share application a/c
share application a/c Dr.
To sh. Capital a/c
To securities premium reserve a/c

If the premium is received with the allotment money.

Sh. Allotment a/c Dr.
To sh. Capital a/c
To securities premium reserve a/c

When allotment money is received:

Bank a/c Dr.
To sh. Allotment a/c

Forfeiture of Shares originally issued at par

Sh. Capital a/c Dr. (no. of sh. Forfeited x called up value per share)
To sh. Allotment (Amount not received on allotment)
To sh. call (amount not received on call)
To sh. Forfeiture (amount received on appl. Or allot, or call so far.)

Forfeiture of Shares which were issued at premium :

(1) When forfeiture take place after the premium is received : During forfeiture securities reserve will not be debited.

(2) When forfeiture take place before the premium is received :

Sh. Capital a/c Dr. (amount called up, excluding premium)
Sec. premium a/c Dr. (if the premium has not been received)
To sh. Allotment a/c (amount not received on allot. Including premium)
To sh. Call a/c (amount not received on call)
To sh. Forfeiture a/c (amount received on appl..and call so far)

Forfeiture of Shares which were issued at Discount :

Sh. Capital a/c Dr. (amount called up so far, including discount)
To sh. Discount a/c (from the amount of discount)
To sh. Allotment a/c (amount not received on allotment)
To sh. Call a/c (amount not received on call)
To sh. Forfeiture a/c (amount received so far)

Re-Issue of forfeited shares :

(a) If forfeited share are reissued at par :

Bank a/c Dr.
To sh. Capital a/c

(b) If forfeited share are reissued at premium:

Bank a/c Dr.
To sh. Capital a/c
To securities premium reserve a/c

(c) If forfeited share are reissued at discount :

Bank a/c Dr.
Sh.forfeiture a/c Dr.

To sh. Capital

CHAPTER 4
ACCOUNTING FOR DEBENTURES

Debentures is an instrument of debt owned by a company as an acknowledgement of debt, such measurements are issued under the seal of company and duly signed by authorized signatory.

Issue of debenture for consideration other than cash

on purchase of assets	Assets a/c Dr. To vendors a/c
For issue of Deb. At par	vendors a/c Dr. To Deb. a/c
For issue of Deb. At premium	vendors a/c Dr. To Deb. a/c To securities premium reserve a/c
For issue of Deb. At Discount	vendors a/c Dr. Discount on ded. a/c Dr. To Deb. a/c

Issue of Deb. As collateral Security

Collateral securities means secondary security in addition to the principal security.

Bank a/c Dr.
To bank Loan a/c
Debenture suspense A/C Dr.
To Debenture a/c

Accounting for Issue of Deb.considering the terms and condition of Redemption.

1.

When deb. Are issued at par and are redeemable at par	
For Issue	For Redemption
Bank a/c Dr. 100 To Deb. App & a/c allot. 100	Deb. a/c Dr. 100 To debentureholders a/c 100
Deb. App & a/c allot Dr. 100 To Deb. a/c 100	debentureholders a/c Dr. 100 To Bank 100

2.

When deb. Are issued at discount and are redeemable at par	
For Issue	For Redemption
Bank a/c Dr. 100 To Deb. App & a/c allot. 100	Deb. a/c Dr. 100 To debentureholders a/c 100
Deb. App & a/c allot Dr. 95 Discount on issue of deb Dr. 5 To Deb. a/c 100	debentureholders a/c Dr. 100 To Bank 100

3.

When deb. Are issued at premium and are redeemable at par	
For Issue	For Redemption
Bank a/c Dr. 105 To Deb. App & a/c allot. 105	Deb. a/c Dr. 100 To debentureholders a/c 100
Deb. App & a/c allot Dr. 105 To Deb. a/c 100 To sec. prem. Res a/c 5	debentureholders a/c Dr. 100 To Bank 100

4.

When deb. Are issued at par and are redeemable at premium	
For Issue	For Redemption

Bank a/c Dr. 100 To Deb. App & a/c allot. 100	Deb. a/c Dr. 100 prem. On redeem. Of deb Dr. 5 To debrntureholders a/c 105
Deb. App & a/c allot Dr. 100 Loss on issue of deb Dr. 5 To Deb. a/c 100 To prem. On redeem. Of deb. 5	debentureholders a/c Dr. 105 To Bank 105

5.

When deb. Are issued at discount and are redeemable at premium	
For Issue	For Redemption
Bank a/c Dr. 98 To Deb. App & a/c allot. 98	Deb. a/c Dr. 100 prem. On redeem. Of deb Dr. 5 To debrntureholders a/c 105
Deb. App & a/c allot Dr. 98 Loss on issue of deb Dr. 7 To Deb. a/c 100 To prem. On redeem. Of deb. 5	debentureholders a/c Dr. 105 To Bank 105

6.

When deb. Are issued at premium and are redeemable at premium	
For Issue	For Redemption
Bank a/c Dr. 106 To Deb. App & a/c allot. 106	Deb. a/c Dr. 100 prem. On redeem. Of deb Dr. 10 To debrntureholders a/c 110
Deb. App & a/c allot Dr. 106 Loss on issue of deb Dr. 10 To Deb. a/c 100 To prem. On redeem. Of deb. 10 To secu. Prem. Res. a/c 6	debentureholders a/c Dr. 110 To Bank 110

Redemption of debenture.

It refers to discharge of liability on accounts of debenture by repaying amount of debentureholders..

Sources of finance for redemption of Debentures.

1. Redemption from the proceeds of fresh issue of shares & Debenture.
2. Redemption out of capital: DRR create equivalent to 25% of the amount of deb. Issued before redemption commence.
3. Redemption out of profits : An amount equal to deb. Issued (100% of the amt. of deb.) is transferred from surplus in statement of P&L to the DRR a/c.

SEBI guidelines for Redemption of Deb.

1. DRR is obligatory only for non-convertible Deb.
2. DRR create 25% before starting the redemption of Deb.
3. Every company require to create DRR shall before the 30th day of april of each year, deposit or invest , not less than 15% of the amount of its deb. Maturing during the year ended on the 31st march of the next year.

Exception to the rule of creating DRR:

1. Banking companies.
2. All india financial institution regulated by RBI.

Questions for practice on different topic.

1. A , B and C are partners with fixed capitals of 1,00,000 , 200,000 and 3,00,000 respectively. Their partnership deed provides that :
(a) A is to be allowed a monthly salary of 600 and B is to be allowed a monthly salary of 400.
(b) C will be allowed a commission of 5% of the net profit after allowing salaries of A and B.
(c) Interest is to be allowed on capitals @ 6%.
(d) Interest will be charged on partners annual drawings at 4%.
(e) The annual drawings were :B 10,000 and C 15,000.
The net profit for the year ending 31st march, 2014 amounted to 1,72,000.

Prepare P&L Appropriation account.

[Ans: Share of profit 39,000 to each partner.]

2. Calculate interest on A' drawing :
(1) If he has withdrawn 60,000 on 1st oct. 2006 and the rate of interest on drawing is 8% per annum.
(2) If he has withdrawn 60,000 on 1st oct. 2006 and the rate of interest on drawing is 8% . Books are closed on 31st march 2007.

[Ans(1)2,400 (2) 4,800]

3. A , B and C are partners in a firm. On 1-4-2010 there capital stood at 50,000 25,000 25,000 respectively. As per provisions of the partnership deed :
(a) C was in entitled for a salary of 1,000p.m.
(b) Partners were entitled to interest on capital at 5%p.a.
(c) Profits were to be shared in the ratio of capital.
The net profit for the year ended 2011 of 33,000 was divided equally without providing for the above terms.

[Ans: A capital debit by 500 . B capital debit by 5,750 and C capital credit 6,250.]

4. A , B and C are partners sharing profits in the ratio 4:3:1.The partners agreed to share future profits in the ratio of 5:4:3. Calculate each partners gain or sacrifice due to change in ratio.

[Ans A sacrifices 2/24, B sacrifices 1/24 and C gains 3/24.]

5. A business has earned average profits of 1,00,000 during last few years and the normal rate of return in similar business is 10%. Find out the value of goodwill by
(1) Capitalization of super profit method and
(2) Super profit method if the goodwill is valued at 3 years purchase of super profit.
The assets of business where 10,00,000 and its liabilities 1,80,000

[Ans: (1) 1,80,000 (2) 54,000]

6. A and B are partners in a firm sharing profit and loss in the ratio of 3:2.A surrenders 1/3 of his share and B surrenders ¼ of his share in favour of C, a new partner. Calculate sacrificing ration and new ratio.

[Ans: sacrificing ratio 2:1 , New ratio 4:3:3]

7. A and B are partners in a firm sharing profit in the ratio of 3:2. They admit C into the firm for 3/7th profits (which he takes 2/7th from A and 1/7th from B) and brings 6,00,000 as premium out of his share of 7,20,000. Goodwill account does not appears in the books of A and B.
[ANS: Premium for goodwill account will be debited by 6,00,000 and current account of C will be debited by 1,20,000 and capital account of A and B credited by 4,80,000 , 2,40,000 respectively]

8. Following is the balance sheet of A and B who share profit in the ratio of 2:1.

Creditors	18,000	Cash	22,000
P&L a/c	12,000	Debtors 35,000 Less:Provision 3,500	31,500
Capitals A 40,000 B 35,000	75,000	Stock	20,000
		fixtures	7,500
		goodwill	24,000
	1,05,000		1,05,000

C is given 1/5th share in the profits of the firms. C brings in 30,000 as his capital on following terms:

(a) Goodwill of the firm is to be valued at 2 years purchase of the average profits of the last 3 years which were 15,000, 25,000 and 50,000. C does not bring his share of goodwill in cash.
(b) Stock to be discounted at 10% and provision for doubtful debts be reduced by 1,000.
(c) Fixtures are valueless.
(d) A bill for 500 for electric charges has been omitted to be recorded.
(e) There is claim against the firm for damage 1,500. This will have to be paid in future.

Pass journal entries , revaluation a/c, capital a/c and balance sheet of new firms.

[ans: loss on revaluation 10,500, C current a/c dr. 12,000 capital a/c A 33,000 B 31,500 C 30,000 , BALANCE SHEET TOTAL 1,14,500.]

9. A , B and C are partners sharing profits in the ratio 6:4:5. Their capitals were A- 1,00,000. B- 80,000 and C- 60,000. On 1st april 2009, B retired from the firm and the new profit sharing ratio between A and C was decided as 11: 4 . On B retirement the goodwill of the firm was valued at 1,80,000. Showing your calculations clearly pass necessary journal entry for the treatment of goodwill on B retirement.

[Ans- only A gain 5/15 . C has also sacrificed 1/15. A will debited by 60,000 and B andC will be credited by 48,000 and 12,000.]

10. You are given the B/S of A,B & C who sharing P&L in the ratio of 2:2:1. As at 31st march 2007.

creditors	40,000	goodwill	30,000
Reserve fund	25,000	Fixed assets	60,000
A capital	30,000	stock	10,000
B capital	25,000	Sundry debtors	20,000
C capital	15,000	Cash at bank	15,000
	1,35,000		1,35,000

B died on june 15, 2007. According to the deed , his legal representative are entitled to ;
(a) Balance in capital a/c.
(b) share of goodwill valued on the basis of thrice the average profits of past 4 years.
© share in profit up to the date of death on the basis of average profits for the past 4 year.
(d) interest on capital @ 12% p.a.

Profits for the year ending on march 31 of 2004,2005,2006,2007 were 15,000 17,000 19,000 and 13,000 respectively.

B's legal representative were to be paid the amount due. A and C continue as equal partners. Work out amount payable to B representative.

[answer- Amount paid to B representative 44,158]

11. P,Q and R sharing P&L in the ratio of 5:3:2. They decided to dissolve the firm on 31/03/2013
Their balance sheet as on date

creditors	19,000	bank		3,500
B/P	12,000	stock		19,800
Loan from S	7,300	Debtors Less : provision	15,000 1,000	14,000
P capital	25,000	investment		10,000
Q capital	10,000	furniture		12,000
R capital	9,000	machinery		23,000
	82,300			82,300

An unrecorded assets is taken by P at 5,000. Investment are taken by Q at 10% discount. Other assets are realized as follows: stock 16,500 , debts 14,500 , furniture 7,800 , machinery 20,500.expenses on realization amounted to 500 are met by R.
Close the books of the firm giving relevant ledger.

[Ans. Loss on realization 6,000. Final payment to P 17,000 and R 8,300. Q brings 800. Total bank a/c 63,600.]

12. A company purchased another company business for 2,70,000. An amount of 1,00,000 was paid in cash 1,50,000 equity shares issued at premium in full settlement. Pass entry in purchasing company book.
[answer- securities premium will be credited by 20,000]

13. A Co. ltd issued 20,000 equity shares of 100 each at a premium of 10 per shares . the payment are as follows:
On application……………..30 per share
On allotment …………… 30 per shares(including premium)
On first call…………….25 per shares
On final call ……………..25 per shares.
35,000 applications were received. Applications for 10,000 were rejected. Applicants for 15,000 Were allotted 10,000 shares and remaining applicants were accepted in full. The directors made both the calls. One shareholders holding 500 shares fails to pay the two calls and as a consequence his shares were forfeited. 200 of these shares were re-issued as fully paid at 80 per shares. Expenses on issue came to 10,000. Pass journal entries.
[answer – balance of securities premium 1,90,000. Bal. of sh. Forfeiture 15,000. Capital reserve 6,000.]

14. X ltd. Forfeited 800 shares of 20 each issued at a premium of 2 per shares to Mahesh (18 called-up) on which he did not pay first call of 4 . of these , 300 shares were re-issued @ 15 per Shares as 18 paid-up. Pass journal.
[answer- capital reserve 3,300]

15. Show by means of journal entries how would you record the following issues.
(a) A ltd. Issue rs.5,00,000, 13% deb. at a discount of 8% redeemable at par.
(b) B ltd. Issue rs. 6,00,000 , 12% deb. At a discount of 6% redeemable at a premium of 7%.
(C) C ltd. Purchased plant for rs. 8,00,000 payable as to rs. 2,30,000 in cash and the balance By an issue of 10% deb. Of rs. 100 each at a discount of 5%.

16. X Co. ltd. Had issued 14% rs. 100 deb. Amounting to rs. 2,00,000 redeemable at the option Of the company by drawing at par or by purchase in the open market . it decided to redeem rs. 50,000 deb. By the purchase of rs. 30,000 deb. In the open market at rs. 98 each and draw rs. 20,000 deb.
Show necessary journal entries.
[answer- debenture redemption investment- 7,500. Profit on redemption transferred to Capital reserve – 600.]

17. gaurav ltd. Inviting applications for 3,000 shares of rs. 100 each at a premium of 20 payable As follows:
On applications …………………20
On allotment……………………..50 (including premium)
On first call ……………………..20
On final call……………………..30.
Applications were received for 4,000 shares and allotment made on pro-rata basis to the Applicant of 3,600 shares , the remaining applicants being rejected. Money received on Application was adjusted on account of sum due on allotment.
Renuka, whom 360 shares were allotted failed to pay the allotment money and Calls money, and her shares were forfeited.
Kanika, the holder of 200 shares failed to pay the two calls, her shares were Also forfeited. All these shares sold to Naman as fully paid for rs. 80 per shares. Show Journal entries in the books of company.
[answer : amount received on allotment- 1,21,440. Capital reserve – 7440.]

18. A and R sharing P&L in the ratio of 3:1. Their B/S as at 31/03/2012 was as follows.

creditors	30,000	Debtors 50,000 Less provision 5,000	45,000
Bills payable	1,000	stock	30,000
Reserve fund	16,000	Bills receivable	10,000
Outstanding salary	3,000	patents	1,000
Capital of A	60,000	machinery	40,000
Capital of R	20,000	cash	4,000
	1,30,000		1,30,000

They admitted T as a new partner on this date. New profit sharing ratio is agreed 3:2:3. T bring In proportionate capital after the following adjustment:

(a) T bring 16,000 as his share of goodwill.
(b) provision for doubtful debts is to be reduced by 2,000.
(C) there is an old typewriter valued at 2,400. It does not appear in the books of the firm, it is Now be recorded.
(d) patents are valueless.

Prepare **revaluation a/c, capital account and balance** sheet of new firms.

[answer: profit on revaluation 3,400. Capital of A, R and T were 90,550,24,850,and 69,240. Balance sheet total- 2,18,640].

19. David and John were partners in a firm sharing profits in the ratio of 4 : 1. Their capitals on 1.4.2006 were : David Rs.2,50,000 and John Rs.50,000. The partnership deed provided that David will get a commission of 10% on the net profit after allowing a salary of Rs.2,500 per month to John. The profit of the firm for the year ended 31.3.2007 was Rs.1,40,000.
Prepare Profit and Loss Appropriation Account for the year ended 31.3.2007.

[Answer :- Profit to David Rs.79,200; John Rs.19,800]

20. A, B and C were partners in a firm having capitals of Rs.60,000, Rs.60,000 and Rs.80,000 respectively. Their current account balances were : A Rs.10,000; B Rs.5,000 and C Rs.2,000 (Dr.). According to the partnership deed the partners were entitled to interest on capital @5% p.a. C being the working partner was also entitled to a salary of Rs.6,000 p.a. The profits were to be divided as follows:
(a)The first Rs.20,000 in proportion to their capitals
(b) Next Rs.30,000 in the ratio of 5 : 3 : 2
(c) Remaining profits to be shared equally
The firm made a profit of Rs.1,56,000 before charging any of the above items.
Prepare the profit and loss appropriation account and pass the necessary Journal entry for the appropriation of profits.

[Answer :- Share of profit : A Rs.51,000; B Rs.45,000; C Rs.44,000]

21. Singh and King entered into partnership on 1st April 2013 without any partnership deed. They introduced capitals of Rs.5,00,000 and Rs.3,00,000 respectively. On 31st October 2013, Singh advanced Rs.2,00,000 by way of loan to the firm without any agreement as to interest.

The profit and loss account for the year ended 31.3.2014 showed a profit of Rs.4,30,000 but the Partners could not agree upon the amount of interest on loan to be charged and the basis of division of profits.
Pass a journal entry for the distribution of the profit between the partners and prepare the capital accounts of both the partners and Loan account of Singh.

[Answer :- Profit to Singh and King Rs.2,12,500 each; Capital A/c of Singh Rs.7,12,500 and King Rs.5,12,500 Balance of Singh's Loan A/c Rs.2,05,000]

22. X and Y are partners in a firm sharing profits equally. Their capitals on 31st March 2014 were Rs.2,40,000 and Rs.1,80,000 respectively. Drawings of the partners to the date were Rs.40,000 and Rs.60,000 respectively. Profit for the year was Rs.1,60,000. Calculate interest on capital @ 8 % p.a. for the year ended 31st March 2014.

[Answer :- Interest on X's Capital Rs.16,000 and Y Rs.12,800]

23. Calculate interest on drawings of Mr. Vinod @ 8% p.a. for the year ended 31st March, 2014 in each of the following cases:
Case 1: If he withdrew Rs.2,000 at the beginning of each year.

Case 2: If he withdrew Rs.2,000 during the middle of each month.
Case 3: If he withdrew Rs.2,000 at the end of each month.

[Answer:- Case 1: Rs.1,040; Case 2: Rs.960; Case 3: 880]

24. Vinod and Mohan were partners in a firm. The partnership agreement provided that interest on drawings was to be charged @12% p.a. Vinod had withdrawn the following amounts during the year ended 31.12.2013:
January 1 Rs.10,000
March 31 Rs.16,000
July 1 Rs.20,000
Deember 31 Rs.4,000
Calcualte interest on Vinod's Drawings.

[Answer:- Interest on Mr. Vinod's Drawings Rs.3,840]

25. A and B are partners sharing profits and losses in the ratio of 3:2. They admit C into partnership giving him 1/5th share in profits which he acquires from A and B in the ratio of 2:1. Calculate the new profit sharing ratio.

[Answer:- New Ratio 7:5:3]

26. Ram and Mohan are partners in a firm sharing profits in 4:1 ratio. They admitted Sohan as a new partner for 1/4th share in the profits, which Sohan acquired fully from Ram.
Determine the new profit sharing ratio of the partners.

[Answer:- New Ratio : 11:4:5]

27. A, B, C and D are in partnership sharing profits and losses in the ratio of 36:24:20:20 respectively. E joins the partnership for 20% share. A, B, C and D would share profits in future in 3/10; 4/10; 2/10; 1/10. Calculate the new profit sharing ratio after E's admission.

[Answer:- New Ratio 6:8:4:2:5]

28. X and Y were partners in a firm sharing profits in the ratio of 3:2. They admitted Z and M as new partners. The new profit sharing ratio will be 2:2:1:1. Z and M brought in Rs.11,00,000 each for their respective capitals and also necessary amount of premium for goodwill in cash. Goodwill was valued at Rs.9,60,000 for the firm. Calculate the sacrificing ratio of X and Y and pass necessary journal entries for the above transactions in the books of the firm.

[Answer:- (i) Cash/Bank A/c Dr.25,20,000; Z's Capital A/c Cr.11,00,000; M's Capital A/c Cr.11,00,000; Premium for Goodwill A/c Cr.3,20,000
(ii) Premium for Goodwill A/c Dr.3,20,000; X Cr.2,56,000; Y Cr.64,000.]

29. Ram, Shyam and Mohan were partners in a firm sharing profits in the ratio of 3:2:1. They admitted Vinod as a new partner for 1/7th share in the profits. The new profit sharing ratio will be 2:2:2:1 respectively. Vinod brought Rs.6,00,000 for his capital and Rs.90,000 for his 1/7th share of goodwill. Give necessary journal entries.

[Answer:-(i) Cash/Bank A/c Dr.6,90,000; Vinod's Capital A/c Cr.6,00,000; Premium for goodwill Cr.90,000
(ii) Premium for goodwill Dr.90,000; Mohan's Capital A/c Dr.75,000; Ram Cr.1,35,000; Shyam Cr.30,000.]

30 . A, B and C were partners in a firm sharing profits in 2:3:5 ratio. A was guaranteed a minimum profit of Rs.1,00,000. Any deficiency on this account was to be borne by C. the net profit of the firm for the year ended 31.3.2013 was Rs.4,50,000. Prepare Profit and Loss Appropriation Account.

[Answer:- C's Capital A/c Dr. 10,000 and A's Capital A/c Cr.10,000]

31. A, B and C are partners sharing profits in the ratio of 5:4:1. C is given a guarantee that his share of profits in any given year would be Rs.5,000. Deficiency, if any, would be borne by A and B equally. The profits for the year 2013 amounted to Rs.40,000. Pass necessary journal entries.

[Answer:- (i) P/L App. A/c Dr.40,000; A's Capital A/c Cr.20,000; B's Capital A/c Cr.16,000 and C's Capital A/c Cr. Rs.4,000.
(ii) A's Capital A/c Dr. 500; Bs Capital A/c Dr.500 and C's Capital A/c Cr.1,000.]

PART – B
CHAPTETR – 5
ANALYSIS OF FINANCIAL STATEMENT.

Objective: To prepare a true and fair view of the financial performance (profit/loss) of the business.
To present a true and fair view of the financial position (asset/equity & liabilities).

Forms of Balance sheet (schedule III)
Name of the company ……………………
Balance sheet as at …………………….

Particulars	Note No.	Current year	Previous year
1	**2**	**3**	**4**
I. Equity AND LIABILITIES:			
(1) Shareholder's fund			
(a) share capital			
(b) Reserve & surplus			
(2) Non current Liabilities:			
(a) Long term borrowings			
(b) Long term provisions			
(3) Current Liabilities:			
(a) Short term Borrowings			
(b) Trade payables			
© Other current liabilities			
(d) Short- term provision			
TOTAL			
II. ASSETS:			
(1) Non current Assets :			
(a) Fixed assets:			
(i) Tangible assets			
(ii) Intangible assets			
(b) Non-current Investment			

© Long term loans and advances **(2) Current assets:** **(a) current investment** **(b) inventories** **© Trade receivables** **(d) cash & cash equivalents** **(e) short term loans & advances** **(f) other current assets** **TOTAL**			

FORMS OF STATEMENT OF PROFIT & LOSS

Name of the company ……………………
Profit & Loss statement for the year ended ……………………..

Particulars		Note No.	Current year	Previous year
I.	**Revenue from operations**		**xxxx**	**Xxxx**
II.	**Other income**		**xxxx**	**Xxxx**
III.	**Total revenue (I+II)**		**xxxx**	**Xxxx**
IV.	**Expenses:** **Cost of materials consumed** **Purchase of stock in trade** **Changes in inventories of finished goods,** **Work in progress and stock in trade** **Employee benefits expenses** **Finance cost** **Depreciation and amortization expenses** **Other expenses**			
	Total Expenses		**xxxxx**	**Xxxx**
v.	**Profit before Tax (III-IV)**		**xxxxx**	**Xxxx**
VI.	**Tax**		**xxxx**	**Xxxx**
VII.	**Profit after tax (V- VI)**		**xxxx**	**xxxx**

Some items, their heading and sub- heading

Items	**Heading**	**Sub-heading**
Sundry debtors	Current assets	Trade receivables
Loose Tools	Current assets	Inventories
Work-in-progress	Current assets	Inventories
Bills receivables	Current assets	Trade receivables
Prepaid expenses	Current assets	Other current assets
General reserve	Shareholders fund	Reserve & surplus
Subsidy reserve	Shareholders fund	Reserve & surplus
Bank overdraft	Current liabilities	Short term borrowing
Share issue expenses (written off in next 12 month)	Current assets	Other current assets
Premium on redemption of deb.	Non current liab.	Other long term liab.

investment	Non current assets	Non current investment
Loan from bank	Non current liabilities	Long term borrowing
Provision for tax	Current liabilities	Short term provision
Unclaimed dividends	Current liabilities	Other current liab.
Outstanding salary	Current liabilities	Other current liab

Objectives of financial Analysis :

(a) To measure the earning capacity or profitability.
(b) To measure the financial strength.
(c) To make comparative study with others firms.

Uses of financial Analysis:

(a) For taking investment decision.
(b) for taking credit decision.
© For taking dividend decision.

Limitations of financial Analysis:

(a) Limitations of financial statement.
(b) Affected by window dressing.
© Do not reflect changes of price level.

HORIZONTAL ANALYSIS : When financial statement for a number of years are Analyzed the analysis is called horizontal analysis. It is mostly in the form of **comparative statement**.

VERTICAL ANALYSIS : When financial statement for a single year are analysed The analysis is called vertical analysis. The items in the financial statement are Expressed as a percentage to total and the total is taken as equivalent to 100. Such analysis are termed as **common size statement**.

ACCOUNTING RATIO

Accounting Ratio : It is arithmetical relationship between two accounting variables.

Ratio Analysis : A tool used by individuals to conduct a quantitative analysis of information in a company's financial statements

Classification or types of ratios

Ratios are classified into four categories
1. Liquidity Ratios also called as short term solvency ratios.
2. Solvency Ratios.
3. Activity ratios also known as Turnover ratios or Performance ratios.
4. Profitability ratios.

1. CURRENT RATIO = CURRENT ASSETS/CURRENT LIABILITIES

2. Quick Ratio or Acid test ratio or liquid ratio= Liquid assets/Current liabilities.

3. Debit Equity Ratio= Debt/ Equity or Long term debts/shareholders funds or net worth.
[Long Term Debts includes long term borrowing and long term provisions'.
Shareholders funds include share capital and reserve and surplus]

4.Total assets to debt ratio = total assets/debt or total assets/long term debts.
[Total assets includes non current assets + current assets]

5 .Proprietary Ratio= Equity/total assets
Or proprietor's funds or shareholders funds /total assets.

6. Interest Coverage Ratio= Profit before charging interest and income tax/ fixed interest charges.

7. Inventory Turnover Ratio= Cost of revenue from operations /average inventory.
[Cost of revenue from operations= Revenue from operation – Gross profit]

8.Trade Receivables Turnover Ratio= Net credit Revenue from operation/Average trade Receivables

9.Trade Payables Turnover Ratio= Net credit purchase/ Average trade payables.

10.Gross Profit Ratio= Gross Profit x 100/net sales.

11.Operating Ratio = Cost of revenue from operations+ operating expenses x 100/ Revenue from operation
[operating expenses= employee benefit exp.+ depreciation and amortisation exp. + other exp.]

12. Operating Profit Ratio= Operating profit x 100/ revenue from operation

13. Net Profit Ratio= Net profit x 100/revenue from operation.

14. Return on investment= Net profit before interest, tax and dividend x 100/ capital Employed.

CHAPTER 6
CASH FLOW STATEMENT

It is a statement showing inflows (receipts) and out flow (payment) of cah during a particular period. It analyses the reason for changes in balance of cash between the two balance sheet dates. It includes only those item which effect cash.

Objectives

1. Useful for short term financial planning
2. Useful in preparing cash budget
3. Study of the trend of cash receipt and payments
4. Helpful in making dividend decision.

Limitations

1. Not suitable for judging the liquidity
2. Possibility of window dressing
3. It ignores non cash transaction
4. It ignores the accrual concept of accounting

Procedure Of Preparing Cash Flow Statement

Cash flow from operating activities : It is the main revenue generating activities of an enterprises.

1. **Cash flow from investing activities**: it is the activities of purchase and sale of long-term assets .these assets also includes the purchase and sale of such investment which are not include in cash equivalent.
2. **Cash flow from financing activities** : Those activities that result in change in capital and borrowing of the enterprises.

Format of cash flow statement

ABC Ltd.

CASH FLOW STATEMENT for the year ended …………………..
(as per accounting standard – 3 Revised)

A. **Cash flow from operating activities**:		
Net profit before tax (see note no. 1)		
Adjustment for non cash & non operating items:		
Add : depreciation …….		
Preliminary exps./discount on shares and debenture written off. ……..		
Goodwill,patents & trade mark amortised ……..		
interest on long term …….		
Borrowing , loss on sale of fixed assets. ………		
Less: interest income (…..)		
Dividend income (…..)		
Rental income (…..)		
Profit on sale of fixed assets (….)		
Operating profit before working capital changes		
Add: decrease in current assets …………		
Increase in current liabilities …………		
Less : increase in current assets (………)		
Decrease in current liabilities (………)		
Cash generated from operations		
Less: income tax paid (net of tax refund received)		
Net cash from (or used in) operating activities		
B. CASH FLOW FROM INVESTING ACTIVITIES :		
Proceeds from sale of tangible fixed assets ……….		
Proceeds from sale of intangible fixed assets like goodwill ………		
Proceeds from sale of non- current investment ……….		
Interest & dividend received ……….		
Rent received ………….		
Purchase of tangible fixed assets (……..)		
Purchase of in tangible fixed assets (…….)		
Purchase of non-current investment (……)		
NET CASH FROM (OR USED IN) INVESTING ACTIVITIES		
C. CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from issue of shares & deb. …………		
Proceed from other long term borrowings ………		
Final dividend paid (……….)		
Interim dividend paid (……)		
Interest on long term borrowing paid (……..)		
Repayments of loan (…..)		
Redemption of debentures (………..)		
Net cash from (or used in) financing activities		
Net increase (or decrease) in cash & cash Equivalents (A+B+C)		
Add : cash and cash Equivalents in the beginning of the year		
Cash and cash Equivalents at the end of the year		

Note No. 1 **Calculation of Net profit before Tax :**

Particulars	
Net profit of the current year (after appropriation)	

Add: transfer to reserve Proposed dividend for current year Interim dividend paid during the year Provision for tax made during the year Less : refund of tax NET PROFIT BEFORE TAX	

Classification of business activities as per AS-3 showing cash inflow and cash outflows

Operating Activities

Cash inflows	**Cash outflows**
Cash sales	Cash purchase
Cash received from royalty, fees ,commission	Cash paid to trade payables/ creditors
Cash received from debtors / trade receivables.	Payment of operating expenses, office & selling expenses. Payment of income tax.
Cash inflows in case of financial companies	**Cash outflow in case of financial companies**
Interest & dividend received	Interest paid in cash
Proceeds from sale of securities	Payment for purchase of securities
Loan & advances repaid by third parties.	Loan & advances to third parties.

Investing activities.

Cash inflows	**Cash outflows**
Proceeds from sale of assets	Purchase of fixed assets
Proceeds from sale of non current investment.	Purchase of non current investment.
Interest received on debenture.	
Dividend received on shares.	

Financing Activities

Cash inflows	**Cash outflows**
Proceeds from sale of shares in cash	Payment of buy back of equity shares
Proceeds from issue of debenture in cash	Payment for redemption of preference shares.
Proceeds from long-term borrowings.	Payment for redemption of debenture.
	Repayment of loans
	Payment of dividend
	Payment of interest.

Questions for Practice on different topic.

1. Under what major sub heading will the following items be placed in the B/S Of a company as per schedule-III, part-I of the companies act, 2013.
(a) capital reserve (b) Bonds (c) Loans repayable on demand (d) Vehicles
(e) goodwill (f) Loose tools**.**

Answer: (a) reserve & surplus (b) long term borrowing (c) short term borrowing (d) fixed assets-tangible (e) fixed assets- intangible (f) inventories.

2. Prepare the balance sheet of saraswati Ltd. From the following particulars.

Share capital(shares of 100 each) 8,00,000
Land & building 7,00,000
Securities premium 1,60,000
Statement of P&L (cr. Bal.) 3,30,000
Computer software 1,50,000
Proposed dividend 80,000
Cash & cash equivalent 1,40,000
Trade receivables 3,80,000

Answer: Total of balance sheet 13,70,000.

3. Prepare a comparative statement of P&L from the following :

particulars	31st march, 2013	31st march, 2012
Revenue from operations	12,50,000	10,00,000
Cost of materials consumed	7,20,000	6,00,000
Other expenses	38,000	40,000

Interest on investment @ 50,000 each year..

Answer: profit before tax 2012 4,10,000; 2013 5,42,000.

4. prepare a common size statement of P&L from the following.

	Note no.	31/03/2002	31/03/2003
Revenue from operation		42,00,000	40,00,000
Other income		25,200	30,000
Finance cost		26,88,000	24,00,000
Other expenses		1,51,200	1,60,000
Income tax (40%)			

Answer:

	% of revenue from operations	
	2002	**2003**
Other income	0.60	0.75
Finance cost	64.00	60.00
Other expenses	3.60	4.00
Profit before tax	33.00	36.75
Profit after tax	19.80	22.05

5. working capital 4,80,000; total debt 16,00,000; long term debt 10,00,000; Inventory 3,40,000; prepaid insurance 20,000;**. Calculate liquid ratio.**

Answer : 1.2

6. working capital 5,40,000; current ratio 2.8:1; inventory 3,30,000; Calculate **current assets, current liabilities and quick ratio.**

Answer: 8,40,000; 3,00,000; 1.7:1.

7. calculate **debt equity** ratio from the following**:**

Equity share capital	3,00,000
Preference share capital	50,000
reserve	1,60,000
Profit & loss (accumulated loss)	(50,000)
Long term borrowing	2,00,000
Provision for employee benefits	60,000

Answer : 0.57:1

8. calculate **(a) debt equity ratio (b) proprietary ratio (c) total assets to debt ratio** from the following information:

5% debenture		15,00,000
Loan from IDBI		10,00,000
Trade payable		11,00,000
Equity share capital		28,00,000
Reserve		1200,000
Profit & Loss balance		4,00,000
Goodwill		6,00,000
Other non current assets		46,00,000
Current assets		28,00,000

Answer: (a) .26:1 (b) 7.43)1 (c) 52.47% (d) 1.17:1

9. on the basis of given information , calculate (a) **gross profit ratio** (b) **debt equity ratio** and (c) **working capital turnover ratio.**

Net revenue from operation	3,75,000	Current assets	4,25,000
Cost of revenue from operation	2,50,000	Equity share capital	1,90,000
Current liabilities	1,20,000	debentures	75,000
loans	60,000		

Answer: (a) 33.33% (b) 0.71:1 (c) 1.23 times

10. From the following Balance sheet, prepare a cash flow statement as per AS-3.

Particulars	**31.03.12**	**31.03.11**
I. Equity &liabilities:		
(1) shareholders funds:		
(a) share capital	1,50,000	1,20,000
(b) reserve & surplus	60,000	50,000
(2) current liabilities:		
Trade payables	1,10,000	1,50,000
Total	**3,20,000**	**3,20,000**
II. Assets :		
(1) Non-current assets :		
Fixed assets	80,000	50,000
(2) current assets :		
(a) inventory	40,000	60,000
(b) Trade receivables	80,000	1,00,000
(c) cash & cash equivalent	1,20,000	1,10,000
Total	**3,20,000**	**3,20,000**

A dividend of 30,000 was paid during the year 2011-12.

Answer : cash from operating activities 40,000 ; cash used investing activities (30,000) ; cash from financing activities nil.

THE END