Chapter I
Accounting for Not –for- profit organization

1) Is it possible for one hospital to have an income and expenditure account whereas another has a profit and loss account?
(1)
2) Why depreciation on fixed assets is not recorded in receipts and Payment Account?
(1)
3) " Not – for –profit organisation" do not maintain any capital account". What do they maintain instead of capital account?
(1)
4) Give two examples of capital receipts which are directly added to the capital fund (1)
5) One horse of a horse race club died. Insurance company has offered to settle the claim at 60% will it be recorded in the Accounts of the club and how?
(1)
6) Define Legacy. Explain its treatment while preparing financial statements of a "Not – for –profit Organisation".
(3)
7) How the following items are shown in the balance sheet of Not –for – profit Organisation on 31st March 2007:
(3)

	Rs.
Expenditure on construction of pavilion (The construction work was in progress)	3,60,000
Pavilion fund on 31st March 2006	3,10,000
Donation received during yr 2006-07	4,20,000
Capital fund on 1st April ,2006	5,50,000

8) Extracts of receipt and payment Account for the year ended 31st March ,2007 are given below:

Subscriptions	Rs.
2005-06	2,500
2006-07	26,750
2007-08	1,000
	30,250

Additional information:
Total number of members : 230
Annual membership fee : Rs 125

Subscription outstanding on April 1, 2006: Rs. 2,750
Prepare a statement showing all relevant items of subscriptions viz. income, advance, outstanding etc.
(3)

9) Show the following information in the Balance Sheet of the cosmos club as on 31st March 2007:

Particulars	Debits(Rs.)	Credit(Rs.)
Tournament Fund	-	1,50,000
Tournament fund Investment	1,50,000	-
Income from Tournament Fund Investment	-	18,000
Tournament Expenses	12,000	-

Additional Information:
Interest accrued on Tournament fund Investment Rs.6,000

(3)

10) Show the treatment of the following items by a not for profit organization:
- Annual Subscription
- Specific Donation
- Sale of old periodical
- Sale of fixed assets

(3)

11) Following is the receipts and payments accounts of Purveni recreation club for the year ended 31st March 2007

RECEIPT AND PAYMENTS ACCOUNT
For the year ended 31st March 2007

Receipts	Amt(Rs)	Payments	Amt(Rs)
To case in hand	8320	By rent of hall	3640
To subscription	26000	By salaries	5200
To entrance fee	3900	By sports Equipments	16,640
To sell of refreshment	9880	By Dance Expenses	4,940
To sale of dance ticket	5850	By supply of Refreshment	6,760
To interest on Investment @ 7%	4550	By Honorarium	1,040
		By sundry Expenses	3,250
		By Electricity Charges	1,820
		By Cash in hand	15,210
	58,500		58,500

Following additional information are also provided to your:

(i) The value of assets and liabilities on 31st March 2006 were as follows

Sport equipment Rs 6760 ; subscription in arrears Rs 1950 ,furniture Rs 12,480, outstanding sent Rs 780 subscription received in advanced Rs 520

(ii) Entrance fee is to be Capitalized

(iii) The value of assets and liabilities on 31st March 2007 were:

Sport equipment Rs 19,760 , subscription in arrears Rs 1,690, furniture Rs 11,180 , outstanding rent Rs 390 , subscription in advance Rs. 2340

(6)

12) Prepare Income and Expenditure account for the year ended 31st March 2008 and the Balance sheet as it 31st march 2008 for the following information of Gandhi welfare society

RECEIPT AND PAYMENTS ACCOUNTS for the year ended 31st March 2008

Receipt	Amt(Rs)	Payments	Amt(Rs)
To Balance c/d To subscriptions 2006-2007 8910 2007-2008 23100 2008-2009 2750 To legacies To Donations for building To sale of old furniture To Miscellaneous Expenses	19,800 242660 7920 46,200 6600 79408	By salaries & Wages By 10% Investment (face value 13750) Purchased on 1/4/07 By Rates &Takes By office Expenses By Entertainment material By Telephonic chares By Internet Charges By Balance c/d	1,42,802 11,000 6809 8602 64,020 2860 16500 1320 148675
	4,02,588		4,02,588

Additional Information:

(i) On 31st March 2007 the society had following assets and liabilities:

Assets: 10 % investment Rs 1,21,000 (face value Rs 165,000 furniture Rs 88,000 Musical Instruments Rs 13,420 , Machinery Rs 61,600 , Fax Machines Rs 18,700, subscription in arrears Rs 17,600

Liabilities: Creditors for entertainment material Rs 5,500 subscription received in advance Rs 2310 and building fund Rs 55,000

(ii) Charge depreciation @ 20% on furniture , machinery and fax machinery
(iii) On 31st march 2008 entertainment material was valued at Rs 28732
Internet charges outstanding Rs 1650
(iv) Each year subscription is paid by 110 members each paying Rs 2310
(v) Payment for entertainment material includes Rs 2200 for previous year

(6)

13) From the following receipts and payments accounts for the year ended 31st March 2007 and Balance Sheet as at 31st March 2006 of Somnath Childrens welfare society prepare Income and Expenditure for the year ended 31st 2007 and Balance Sheet as at 31st 2007

RECEIPT AND PAYMENT ACCOUNT
For the year ended 31st March 2007

Receipts	Amt(Rs)	Payments	Amt(Rs)
To Balance b/d	26,400	By repair	55,200
To Subscription	66,000	By calculation	3,000
To Donation	9960	By printing	19,560
		By stationary	11,400
To life Membership fee	24,000	By Insurance premier	2520
To internet	9000	By rent and rates	1440
		By office expenses	10,320
		By balance c/d	31,920
	1,35,360		1,35,360

Balance Sheet As At 31st March 2006

Liabilities	Amt(Rs)	Assets	Amt(Rs)
Creditors for stationary	4800	Cash	26,400
		Accrued Internet	3600
Subscription on advance	46,800	Subscriptions in	
Outstanding Salary	12000	Arrears	12,000
Capital Fund	9,18,000	3 % investment	3,60,000
		Computer	54,000
		Equipment	36,000
		Car	4,80,000
		Furniture	9,600
	9,81.600		9,81,600

Additional Information:

(1) Rs 6000 were impaid for repairs as on 31st March 2007
(2) Subscription received during 2006-2007 included Rs 2400 for the year 2007-2008
(3) Subscriptions due but not paid on 31st March 2007 were Rs 10,080
(4) Rent and rates includes Rs 240 for the year 2007- 08
(5) Depreciations on the following
    Car @ 5%p.a. ; Furniture @ 10 % pa
    Equipment @ 20% pa
    Computers @ 25% and Printer @ 30%pa (6)

14) Following is the receipts and Payments Account for the year ended 31st March 2007 of theatre club

RECEIPTS AND PAYMENTS ACCOUNT

For the year ended 31st March 2007

Receipt	Amt(Rs)	Payments	Amt(Rs)
To Cash Balance	48540	By cost of Refreshment	3960
To sale Proceeds From Bar	79200	By Dance Expenses	11000
To Subscription	45100	By purchase of Bar	38500
By Dance Ticket Sales	14300	By Auditorium	13200
		By sundry Expenses	16940
By refreshment sales	7040	By cash balance c/d	1,10,880
	194480		194480

Additional Information

	Arrears	Received in Advanced
(i) Subscription 1ST April 2006 31st March 2007	 2200 4400	 1100 1650
(ii) Fixed Assets (Building) Less Depreciation	1st April 2006 22,00,000 - 7,70,000	31st March 2007 22,00,000 - 8,25,000
	14,30,000	13,75,000

(iii) Depreciation is to be charged on auditorium @ 15% on cost

(iv) On 1st April 2006 bar stock was valued at Rs 3300 and it was valued on 31st march 2007 at Rs 4400

15) Excellent Library Society showed the following position on 31st december 2001

Balance Sheet as at 31st dec. 2001

Liabilities	Rs	Assets	Rs
Capital Fund	79,300	Electrical fittings	15,000
Expenses Due	700	Furniture	5000
		Books	40000
		Investments in Securities	15000
		Cash at Bank	2500
		Cash on hand	2500
	80,000		80,000

Receipts and Payments A/C
For the year ending on 31st Dec 2002

Receipts	Rs	Payments	Rs

To Balance b/d Cash at Bank 2500 Cash on hand 2500 To Entrance fees To membership subs To sales proceeds of Old papers To hire of Lecture hall To Interest on Securities	 5000 3000 20,000 150 2000 800	 By electric charges By postage stationary By Telephonic charges By Books Purchased on(1.1.2002) By outstanding Expenses paid By rent A/C By investment in securities By salaries A/C By balance C/d Cash at Bank Cash on hand	 720 500 500 6000 700 8800 4000 6,600 2000 1130
	30,950		30,950

You are required to prepare an Income and Expenditure Account for the year ending 31-12-200 and Balance Sheet as on that date after making the following adjustments:

(a) Memberships subscription included Rs 1000 received in advance
(b) Provide for outstanding Rent Rs 400 and Salaries Rs 300
(c) Books to be depreciated @ 10% including additions. Electrical fittings and furniture are also to be depreciated at the same rate.
(d) 75% of the entrance fees is to be capitalized.
(e) Interest on securities to be calculated @ 5% p.a. including purchases of investment made as on 1.7.2002 for Rs 4000.

NON PROFIT ORG.
(HOTS) SOLUTION

ANSWERS

1. No. Both hospitals will have to prepare Income and Expenditure Account.
2. Depreciation is non cash Expenditure.
3. The amount of capital fund is the capital.
4. (i) Specific donations.
   (ii) Tournament Funds/Life membership Free.

6. Legacy is the money which NFPO gets because of the will of a person it is recorded in Balance sheet.

7. An Extract of Balance sheet

Liabilities	Rs.	Assets	Rs.
Capital fund 5,50,000 (+) Expenditure 3,60,000 On construction Pavilion Fund 3,10,000 (+) donations 4,20,000 Received 7,30,000 (-) Expenditure on construction 3,60,000	9,10,000	Pavilion construction in progress	3,60,000
Total	3,70,000		3,60,000

8. Income from subscription of the current year : Rs.28,750
   Where, outstanding subscription as on 31-03-2007 = Rs. 2,250
9. Total of liabilities: Rs.1,62,000
   (1,50,000+18,000+6000-12,000)
   Total of Assets: Rs.1,56,000
   (1,50,000+6000)
11. Surplus = Rs.13000
    Capital Fund = Rs.93,210
    Balance sheet Total = Rs.1,12,840
    [Hint : (i) Subscription Rs.23,920
    (ii)Rent of Hall Rs.23,920
    (iii)Investment to be a shown closing balance sheet at
    $$\frac{100}{7} \times 4550 = 65000$$
12. Surplus = Rs.1,21,225
    Capital Fund = Rs.2,77,310
    Balance sheet Total = Rs.4,98,855
    [Hint : (i) Subscription Rs.2,54,100
    (ii)Investment to be a shown closing balance sheet at
    $$\frac{165000 \times 10}{100} = 16500$$

$\frac{13750 \times 10 \times 6}{100 \times 12} = 688$ 17188

Entertainment Material = Rs.33088.

In closing balance sheet

Donation for Building

-Advance paid for Building investment = Rs.121000

Add purchases Rs. 11000

Total Rs.1,32,000

13. Surplus = Rs. 7872

Balance sheet Total = Rs.958272

[Hint : (i) Subscription is Rs.108480

(ii)Interest Rs. 10800 (9000+5400-3600=10800)

Repairs Rs. 49200

Stationary Rs. 6600

Surplus = Rs. 21010

Capital Fund = Rs.1483240

Balance sheet Total = Rs.1505900

[Hint : (i) Subscription Rs. 46750

(ii)Profit on balance (Sale+Closing Stock-Purchase-Opening stock)

(79200+4400-35800-3300=41800)

(iii)Depreciation of building =55000

(825000-770000)

(iv) Profit on sale of refreshment

Sale of refreshment	Rs.7040
Cost of refreshment (–)	Rs.3960
Total	Rs.3080

15. Deficit Rs. 1670

Capital funds Rs.79300

Balance sheet Rs.81580

[Hint - (i) Subscription Rs.19000

(ii)Interest on securities (800+50) Rs. 850

Q II. Following is the receipts and payment account of a recreation club for the year ended 31st March 2007

RECEIPTS AND PAYMENTS ACCOUNTS

FOR THE YEAR ENDED 31ST MARCH, 2007

Receipts	Amount (Rs.)	Payments	Amount (Rs.)
To cash in Hand	8,320	By Rent of Hall	3,600
To Subscriptions	26,000	By Salaries	5,200
To Entrance Fees	3,900	By Purchase of Sports	16,640
To Sale of refreshments	9,880	Equipment	4,940
To Sale of Dance Tickets	5,850	By Dance Expenses	6,760
To Interests on	4,550	By Supply of Refreshment	1,040
Investments @7%		By Honorarium	3,250
		By Sundry Expenses	1,820
		By Electricity changes	15,210
		By Cash at Bank	
Total	58,500	Total	58,500

Following additional informations are also provided to you:

(i) Following were the assets and liabilities on 31st March, 2006:

Sports equipment Rs.6,760, subscription in arrears Rs.1,950, Furniture Rs. 12,480

Liabilities –Accrued rent Rs.780 and subscription received in advance Rs.520.

(ii) Following were the assets and liabilities on 31st March 2007:

Sports equipments Rs. 19,760, Subscription in arrear Rs. 1, 690, Furniture Rs. 11,180,

Liabilities – Accrued rent Rs. 390, subscription received in advance Rs. 2, 340.

(iii) Entrance Fees is to be capitalized.

You are required to prepare income and expenditure account for the year ended 31st March, 2007 and balance-sheet as on that date.

Solution: II

INCOME AND EXPENDITURE ACCOUNT OF A RECREATION CLUB FOR THE YEAR ENDED 31ST MARCH, 2007

Dr

Expenditure	Amount (Rs)	Income	Amount (Rs)
To Rent of Hall 3,640 Add: Accrued Rent (Current Year) +390 4,030 Less: Accrued Rent (Previous Year) 780	3,250	By Subscription Rs. 26, 000 **Add:** Subscription in Advance in Previous Year 520 26,520 Add: Subscription in Arrear for Current Year 1,690 28,260 Less: Last Year's arrear –1,950 26,260 Less: Subscription-received in Advance for next Year –2,340	23,920
To Salaries	5,200		
To Honorarium	1, 040		
To Sundry Expenses	3,250		
To Electricity charges	1,820		
To Supply of Refreshment	6,760		
To Dance expenses	4, 940		
To Depreciation Rs. Furniture 1,300 Sports Equipment 3,640	4,940	By Sale of Refreshment	9,880
To Excess of Income Over Expenditure (Surplus) Transferred to Capital Fund	13,000	By Sale of Dance Tickets By Interest on Investments	5,850 4,550
Total	44,200		44,200

BALANCE SHEET AS AT 31ST MARCH, 2007

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Capital Fund* As at 1 April 2006 93,210 Add: Entrance Fees 3,900 97,110 Add: Surplus 13,000	1,10,110	Furniture 12,480 Less: Depreciation 1,300	1,180
Advance Subscription	2,340	Sports Equipment 6,760 Add: Purchases 16,640 23,400 Less: Depreciation – 3,640	19,760
Accrued Rent	390	Investments	65,000
		Subscription Arrear	1,690
		Cash at Bank	15,210
Total	1,12,840		1,12,840

*MEMORANDUM BALANCE SHEET (OPENING) AS AT APRIL 1, 2006

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Subscription Received in		Furniture	12,480
Advance		Sports Equipment	6,760
Accrued Rent	520	Investments*	
	780	$\left(\frac{100}{7}\times 4,550\right)$	
Capital Fund			65,000
(Balancing Figure)	93,210	Cash at Bank	8,320
		Subscription Arrear	1,950
Total	94,510		94,510

Note:

Value of Investment in the beginning of the year has been calculated as follow:

Interest Investment ×100/Rate of investment $\left(4,550\times\frac{100}{7}=Rs.65,000\right)$

Q12. Prepare income and expenditure account for the year ended 31st March 2005 and the balance-sheet as at 31-3-2005 from the following informations related to Somnath welfare society.

RECEIPTS AND PAYMENTS ACOUNT OF SOMNATH WELFARE SOCIETY FOR THE ENDED 31ST MARCH, 2005

Receipts	Amount (Rs.)	Payments	Amount (Rs.)
To Balance b/d	19,800	By Salaries and Wages	1, 42,802
To Subscriptions		By 10% Investments	
2003-04 Rs. 8,910		(Face value 13, 750)	
2004-05 Rs. 2,31,000		Purchased on 1-10-04	11,000
2005-06 Rs. 2,750		By Rates and Taxes	6,809
To Legacies	7,920	By office Expenses	8,602
To Donations for Building	46,200	By Entertainment Material	64,020
To Sale of Old Furniture	6,600	By Telephone Charges	2,860
(at book value)		By Advance for Building	16,500
To Miscellaneous Receipts	79,408	By Internet Charge	1,320
		By Balance c/d	1,48,675
Total	4,02,588		4,02,588

Additional informations:
(i) On 31st March 2004, the society has following assets and liabilities:
Assets:

10% investment Rs. 1,21,000 (face value Rs. 1,65,000)

Furniture Rs. 88,000; Musical instruments Rs. 13, 420, Machinery Rs. 61,600, Fax Machines Rs. 18,700, Subscription in arrears Rs. 17,600.

Liabilities:

(i) Creditors for entertainment material Rs. 5,500, subscription received in advance Rs. 2,310 and building fund Rs. 55,000.

(ii) Charge depreciation @ 20% on furniture, machinery and fax machines.

On 31st March, 2005 entertainment material was valued at Rs. 28,732. Internet charges was outstanding Rs. 1,650.

(iii) Each year subscription is paid by 110 members, each paying Rs. 2,310.

(iv) Payment for Entertainment material includes 2,200 for previous year.

Solution:

INCOME AND EXPENDITURE ACCOUTN IN THE BOOKS OF SOMNATH WELFARE SOCIETY FOR THE YEAR ENDED 31ST MARCH, 2005

Expenditure	Amount (Rs.)	Income	Amount (Rs.)
To Salaries and Wages	1,42802	By Subscriptions:	
To Rates and Taxes	6,809	Rs. 2,42,660	
To Entertainment Material 64,020		Less: Outstanding Subscription Received	
Less: Payment for last year −2,200 61,820			
Less: Closing stock – 28,732		(2003-04) 8,910 2,33,750	
To Office Expenses	33,088		
To Telephone Charge	8,602	Less: Received	
To Internet Charges Rs. 1,320	2,860	In Advance 2,750 2,31,000	
Add: Outstanding 1,650			
To Depreciation	2,970	Add: Subscription Received in 2003-04	
Furniture 88,000			
Sale of Furniture 6,600			
$\frac{81,400\times 20}{100}=$	16,280	As Advance 2,310	
Machinery $\frac{61,600\times 20}{100}=$	12,320	2,33,310	2,54,10

Fax Machine $\frac{18,700 \times 20}{100} =$	3,740	Add: Outstanding Subscription for Current year 20,790	
To Excess of Income Over Expenditure (Surplus)	1,21,225	By Interest on Investments Rs. $\frac{1,65,00 \times 10}{100} = 16,500$ $\frac{13,750 \times 10 \times 6}{100 \times 2} = 688$ By Sunday Receipts	17,188 79,408
Total	3,50,696		3,50,696

BALANCE SHEET AS AT 31ST MARCH, 2005

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Rs. *Capital Fund 2,77,310 Add: Legacies 7,920 2,85,230 Add: Surplus 1,21,225	4,06,455	Rs. Furniture 88,000 – Sale 7,200 –6,600 81,400 –Depreciation 16,280	65,120
Building Fund Rs. 55,000 Add: Donation for Building 46,200 1,01,200 Less: Advance for Building 16,500	84,700	Musical Instrument Rs. Machinery 61,600 –Depreciation 12,320	13,420 49,280
		Fax Machines Rs. 18,700 –Depreciation –3,740	14,960
Creditors for Entertainment Material (Rs. 5,500–Rs. 2,200)	3,300	10% Investments Rs. 1,21,000 Add: Purchases 11,000	1,32,000
Prepaid Subscription	2,750	Outstanding Interest On Investments	17,188
Outstanding Internet Charges	1,650	Entertainment Material	28,732
		Outstanding Subscription Rs. 2003-04 = 8,690 2004-05 =20,790	29,480
		Cash	1,48,675
Total	4,98,855		4,98,855

* Interest on investment is always calculated on face value.

MEMORANDOM BALANCE SHEET OR
*BALANCE-SHEET AS AT 31ST MARCH, 2004

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Creditors for Entertainment Material	5,500	Cash	19,800
Subscription Received In Advance	2,310	Subscription Outstanding	17,600
Building Fund	55,000	10% Investments (Face value Rs. 1,65,000)	1,21,000
Capital Fund (Balancing Figure)	2,77,310	Fax Machine	18,700
		Musical Instrument	13,420
		Machinery	61,600
		Furniture	88,000
Total	3,40,120		3,40,120

Q 13. MEMERANDUM BALANCE SHEET IS GIVEN

Form the following receipts and payments accounts and with the help of given opening balance sheet of a Gandhi Welfare Society prepare income and expenditure account for the year ended 31st March, 2007 and balance sheet as at 31st March, 2007:

BALANCE-SHEET AS AT 1ST APRIL 2006

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Creditors for Stationery	4,800	Cash	26,400
		Accrued Interest	3600
Subscription in Advance	46,800	Outstanding Subscription	12,000
Outstanding Salaries	12,000	3% Investments	3,60,000
Capital Fund	9,18,000	Computers	54,000
		Equipments	36,000
		Car	4,80,000
		Furniture	9,600
Total	9,81,600		9,18,600

RECEIPTS AND PAYMENTS ACCOUNT
FOR THE ENDED 31ST MARCH, 2007

Receipts	Amount (Rs.)	Payments	Amount (Rs.)

To Balance b/d		By Repairs	55,200
Cash	26,400	By Calculators	3,000
To Subscription Received	66,000	By Printer	19,560
To Donations	9,960	By Stationary	11,400
To Life Membership Fees	24,000	By Insurance Premium	2,520
To Interest	9,000	By Rent and Rates	1,440
		By Office Expenses	10,320
		By Balance c/d	31,920
		Cash	
Total	1,35,360		1,35,360

Additional Informations:

(1) Rs. 6,000 were unpaid for repairs as on 31st March 2007

(2) Subscriptions received during 2006-2007 includes Rs. 2,400 for year 2007-2008 and

(3) Subscriptions due but not paid on 31st March 2007 were Rs. 10,080

(4) Rent and rates includes Rs. 240 for the year 2007-2008

(5) Depreciations which include additions also were as follows:

(i) Car @ 5% p.a.

(ii) Furniture @ 10% p.a.

(iii) Equipments @ 20% p.a

(iv) Computers @ 25% p.a

(v) Printers @ 30% p.a.

Solution:13

INCOME AND EXPENDITURE ACOUNT OF GANDHI WELFARE ASSOCIATION
FOR THE YEAR ENDED 31ST MARCH, 2007

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Expenditure	**Amount (Rs.)**	**Income**	**Amount (Rs.)**
To Repairs Rs. 55, 200 Add: Outstanding For Current Year 6,000 61,200 Less: Outstanding for Previous year 12,000	49,200	By Subscription Rs. 66,000 Less: Outstanding For Previous year 12,000 54,000 Add: Advance Received Last Year 46,800 1,00,800 Less: Received in	
To Stationery Rs. 11,400 Less: Outstanding (1-4-06) 4,800	6,600		
To Insurance Premium	2,520		

To Rent and Rates Rs. 1,440		Advance	
Less: Prepaid –240	1,200	(2007-2008) 2,400	
To office Expenses	10,320	98,400	
To Depreciation		Add: Outstanding	1,08,480
Rs.		Current Year 10,080	9,960
Car $\frac{4,80,000 \times 5}{100} = 24,000$		By Donations	
		By Interest 9,000	
Furniture $\frac{9,600 \times 10}{100} = 960$		Less: For Previous year 3,600	
		5,400	10,800
Equipments $\frac{36,000 \times 20}{100} = 7,200$		Add: Accrued Interest 5,400	
Computers $\frac{54,000 \times 25}{100} = 13,500$			
Printers $\frac{14,560 \times 30}{100} = 5,868$	51,528		
To Excess of Income Over Expenditure (Surplus)	7,872		
Total	1,29,240		1,29,240

BALANCE-SHEET AS AT 31ST MARCH, 2007

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Rs.		Rs.	
Capital Fund 9,18,000		Equipments 36,000	
Add: Life Membership		– Depreciation 7,200	28,800
Fees 24,000		Computers Rs. 54,000	
9,42,000		– Depreciation 13,500	40,500
Add: Surplus 7,872	9,49,872	Printer Rs. 19,560	
Outstanding Repairs	6,000	–Depreciation 5,868	13,692
Subscriptions Received		Car Rs. 4,80,000	
In Advance	2,400	–Depreciation 24,000	
		Calculations	4,56,000
		Furniture Rs. 9,600	3,000
		–Depreciation 960	
		Investments (3%)	8,640
		Outstanding Subscriptions	3,60,000
		Accrued Interest	10,080
		Prepaid Rent and Rates	5,400
		Cash	240
			31,920

Total	9,58,272		9,58,272

Q 14. Prepare the income and expenditure account for the year ended 31st March, 2007 and the balance sheet as on that date from the given receipts and payments accounts and additional information of a Theatre Club, Karnal:

RECEIPTS AND PAYMENTS ACCOUNTS
FOR THE YEAR ENDED 31ST MARCH, 2007

Receipts	Amount (Rs.)	Payments	Amount (Rs.)
To Balance b/d		By Cost of Refreshment	3,960
Cash in Hand	48,540	By Dance Expenses	11,000
To Sale Proceeds from Bar	79,200	By Purchases for Bar	38,500
To Subscriptions	45,100	By Auditorium	13,200
To Dance Ticket Sales	14,300	By Sundry Expenses	16,940
To Refreshment Sales	7,040	By Balance c/d	
		Cash in Hand	1,10,880
Total	1,94,480		1,94,480

Additional Informations:

(i) Subscriptions:	Outstanding (Rs)	Received in Advance (Rs)
On April 1,2006	2,200	1,100
On March 31, 2007	4,400	1,650

(ii) Fixed Assets	On 1st April 2006 (Rs.)	On 31st March 2007 (Rs.)
Building	22,00,000	22,00,000
Lesss: Depreciation	7,70,00	8,25,000
	14,30,000	13,75,000

(iii) Depreciation is to be charged on the Auditorium at 15% on cost.

(iv) On 1st April, 2006, Bar stock was valued at Rs. 3,300 and it was valued on 31st March, 2007 at Rs. 4,400

Solution:14

INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31ST MARCH, 2007

Dr.

Cr

Expenditure	Amount (Rs.)	Income	Amount (Rs.)
To Depreciation Building (8,25,000–7,70,000)	55,000	By Subscriptions : Rs. 45, 100	
Auditorium (15% on 13,200)	1,980	Add: Advance at the end of Previous year +1,100 = 46,200	
To Sundry Expenses	16,940	Add: Arrear at the End of Current year 4,400 = 50,600	
To Excess of Income over Expenditure (Surplus)	21,010	Less: Arrear in the Beginning of Previous year –2,200 = Rs. 48,400	
		Less: Advance at the End of Current Year –1,650	46,750
		By Profit on Bar (Sale + Closing Stock) – (Purchase + Opening Stock) Rs. $(79,200+4,400) = 83,600$ $-(38,500+3,300) = 41,800$	41,800
		By Profit on Dance Sale of Dance Tickets Rs. 14,300 Less: Dance Expenses –11,000	3,300
		By Profit on Sale of Refreshment Sale of Refreshment – 7,040 Less: Cost of	

		Refreshment –3,960	3,080
Total	94,930		94,930

BALANCE SHEET AS AT 31ST MARCH, 2007

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
*Capital Fund Rs. 14,83,240 Add: Surplus 21,010	15,04,250	Building Rs. 22,00,000 Less: Depreciation 8,25,000	13,75,000
Subscription Received in Advance	1,650	Auditorium Rs. 13,200 Less: Depreciation 1,980	11,220
		Bar Stock	4,400
		Outstanding Subscription (Current Year)	4,400
		Cash in Hand	1,10,880
Total	15,05,900		15,05,900

MEMORANDUM BALANCE-SHEET OR
BALANCE SHEET AS AT APRIL 1, 2006

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Subscription Received in Advance	1,100	Building 22,00,000 Less: Depreciation 7,70,000	14,30,000
Capital Fund (Balancing Figure)	14,83,240	Bar Stock	3,300
		Subscription Outstanding	2,200
		Cash in Hand	48,840
Total	14,84,340		14,84,340

Unit –II

ACCOUNTING FOR PARTNERSHIP FIRMS FUNDAMENTALS

Q.1 X is a partner who used the stock of the firm worth Rs. 10,000 and suffered a loss of Rs. 2,000. He went the firm to bear the loss. How much 'x' is liable to pay to firm.

Q.2 Rajesh and Rakesh two partners draw for private use Rs 1,28,000 and Rs 86000 . Interest is changeable at 6% per annum on drawings .What is the interest?

Q.3 A and B contribute Rs. 80,000 and Rs 40,000 respectively by way of capital on which they agree to pay interest @ 6% p.a. Their respective share of profit is 2:3 and the business profit (before interest) for the year is 6,000. Show the relevant account to allocate interest about the treatment of interest on capital.

Q.4 It was discovered that in arriving at the profit for 2006, the following two items have been ignored.

(i) Outstanding expenses of Rs 3500 and

(ii) Accurate interest on investment of Rs 2,000

Make journal entries relevant to adjustments.

Q.5 A, B and C shared the profit of Rs. 9,00,000 in the ratio of 2:2:1 without providing for interest on B's loan, B granted a loan of Rs. 4,00,000 in the beginning of accounting year. Whereas the partnership deed is silent on the interest on loan and the profit sharing ratio. Give adjusting entry.

Q.6 Calculate interest on X's drawings @ 12% if he withdraws Rs. 2,000 per month during the year.

Q.7 Calculate interest on X's drawings @ 12% p.a if he withdraws Rs. 2,000 per month during the year.

Q.8 Is a partner entitled to salary if he works more than others if partnership deed is silent?

Q.9 Distinguish between drawings against profit and drawings against capital. (Any two)

Q.10 There is no agreement regarding sharing of profits (or) partnerships salary. Rose is a whole-time partner whereas Lilly does not attend business regularly. Rose claims Rs 3,000 salary a month and 60% of balance profits Rs 24,600 Lilly advanced Rs 10,000 as loan and now she claims 10% interest. State how you will settle the accounts.

Q.11 Pink, Black and White are partners sharing 5:3:2 White is guaranteed a minimum amount of Rs 10,000 as share of profit every year. Any deficiency shall be met by Black. The profit for the year ending 31^{st} March 2005 where Rs 60,000. Prepare profit & loss appropriation account

Q.12 Sohan and Mohan are partners sharing profits and losses in the ratio of 2:3 with the capitals of Rs 5,00,000 and Rs 6,00,000 respectively. On 1^{st} Jan 2006 Sohan and Mohan granted loans of Rs. 20,000 and Rs 10,000 respectively to the firm. Show the distribution of profit and losses for the year ended 31^{st} March 2006 if the loss before interest for the year amounted to Rs 2,500

Q.13 Ramesh and Dinesh are partners sharing the profits and losses in the ratio of 2:3 with capital of Rs. 4,00,000 and Rs 6,00,000 respectively. Show the distribution of profit /Loss for the year ended 31^{st} March, 2006, by preparing the relevant account if the partnership deed provides for interest on capital @6% p.a and loss for the year is as Rs. 15,000

Q.14 Mala and Latha are partners in a business their fixed capitals at the end of the year were Rs 48,000 and Rs 36,000 respectively. During the year ended March 31,2006 Mala's drawings and Latha's drawings were Rs. 8,000 and Rs 12,000 respectively. Profits (before sharing interest on capital) during the year were Rs 32,000. Calculate @5% for the year ending 31^{st}, March 2006

Q.15 A,B and C shared the profits of Rs 15,00,000 in the ratio of 2:2:1 without providing for interest on B's loan . B granted a loan of Rs 10,00,000 in the beginning of accounting year whereas the partnership deed is silent on interest on loan and the profit sharing ratio. Give necessary adjusting entries.

Q.16 The partners of a firm distributed the profits for the year ended 31^{st} March 2006 Rs 3,00,000 equally without providing for the following adjustments:

(i) Seema and Rita were entitled to a salary of Rs. 5,000 per annum.
(ii) Nega was entitled a Commission of Rs 5,000
(iii) Seema and Rita had guaranteed a minimum profit of Rs 1,20,000 per annum to Nega
(iv) Profit were to be shared in the ratio of 2:2:1

Prepare necessary journal entries.

Q.17 You and Mohit are partners sharing profits and losses equally and contributed Rs 1,00,000 and Rs 2,00,000 respectively . Interest on capital is provided at 10%. Journalise if capitals are fixed.

Q.18 A and B are partners sharing profits on capital ratio. Their capitals were Rs 5,00,000 and Rs 7,00,000 respectively. They withdraw Rs 50,000 and 70,000 for the year ending 31^{st} March 2006. Interest on drawings was provided at 8% p.a . Journalise

Q.19 Ajay presents the following Profit & Loss appropriate account to his partner Vijay

Profit & Loss appropriate

For the year ended 31st March 2006

Dr. Cr.

Particulars	Amount	Particulars	Amount
To Salary to Ajay To Salary to Vijay To interest on capital @ 6% Ajay on Rs.1,00,000=6,000 Vijay on Rs. 40,000=2,400 To interest on Ajay's Loan To profit transferred to 5/7th Ajay's capital a/c 5000 2/7th Vijay's capital a/c 2000	20,000 17,000 8,400 2,000 7,000	By Profit for the year	54,400
	54,400		54,400

There is no partnership deed. Vijay fees that he has not treated fairly. Point out Ajay has contravened the provisions of law and draw out Profit and Loss Appropriation account on proper lines.

Q.20 If capital accounts are fixed, where will you record the following items

(i) drawings
(ii) interest on capital
(iii) withdrawal of capital

Q.21 Calculate the interest on drawings of Ramesh @ 10%p.a for the year ended 31st Dec 2002 in each of the following alternative cases.

(i) if he withdraw Rs 6,000 in the beginning of each quarter.
(ii) If he withdraw Rs 6,000 at the end of each quarter.
(iii) If he withdraw Rs 6,000 during the middle of each quarter.
(iv) If he withdraw Rs. 6,000 per quarter.

Q.22 On April 1, 2001 an existing firm had assets of Rs. 1,50,000 including cash of Rs. 10,000. The partner's capital accounts shared a balance of Rs. 1,20,000 and the reserve contributed the rest. If the normal rate of return is 10% and the goodwill of the firm is valued at Rs 48,000 at four year's purchase of super profits, find the average profits of the firm.

Q.23 From the following information, calculate the value of goodwill of Ramesh and Naresh

(i) At three years purchase of average profits.
(ii) On the basis of capitalisation of super profits
(iii) On the basis of capitalisation of average profits

Information :

(a) Average capital employed in the business Rs. 5,00,000
(b) Net trading results of the firm for the past years Profit 2003 – Rs. 1,47,600
Loss 2004 - Rs 1,48,100
Profit 2005 - Rs 4,48,700
(c) Rate of interest expected from the capital having regard to the risk involved – 10%
(d) Remuneration to each partner for his service Rs. 500 p.m
(e) Assets (excluding goodwill) Rs 7,54,762
Liabilities Rs. 31,329

Q.24 A and B are partners sharing profits & Losses in the ratio of 3:1. Their capitals were Rs. 60,000 and Rs. 40,000 respectively. As from 1st April 2005 it was agreed to change the profit sharing ratio to 3:2. According to the partnership deed goodwill should be valued at three years purchase of the average of five year's profits. The profits of the previous five years were 2001- Rs 30,000, 2002 – Rs.40,000, 2003 – Rs 50,000, 2004 – Rs. 60,000 & 2005 – Rs. 70,000 Pass necessary Journal entry.

Marking Scheme

1. 'X' is liable to pay Rs 10,000

2. Rajesh's interest on drawings

=Rs 1,28,0008 * 6/100 * 6/12 = Rs 3840

Rakesh's interest on drawings
= Rs. 86,000 * 6/100 * 6/12 = Rs. 2580

3 Profit & Loss appropriate account
for the year ending

Particulars	Rs	Particulars	Rs
To interest on capital		By Net profit	6000
A = 4800/7200*6000	4000		
B = 2400/7200*6000	2000		
	6000		6000

Note : Interest on capital A = 80000*6/100=4800
B = 40000*6/100=2400
7200
This is more than profits

4. Journal

Date	Particulars	C.R	Dr.	Cr.
	A's capital a/c Dr B/s capital a/c Dr. To outstanding expenses (Being outstanding expenses recorded) Accrued interest a/c Dr. To A's capital a/c To B's capital a/c (Being accrued interest recorded)		1750 1750 2000	 3500 1000 1000

5.

Date	Particulars	L.F	Dr.	Cr.
	A's capital a/c Dr. B's capital a/c Dr. To A's capital a/c To B's Loan a/c (Being wrong profit share & interest on loan adjusted)		68000 68000	 112000 24000

6. Interest on X's drawings will be
(Rs 2000*12) = 24000*12/100=2880

7. Interest on X's drawings will be
(Rs 2000*12)=24000*12/100 * 6/12 months = 1440

8. No, he is not entitled to salary.

9.

Basis of Distinction	Drawings against profit	Drawings against capital
1 Where debited	To drawings a/c	To capital a/c
2. Part	Part of expected profit	Part of capital
3. Effect	Does not reduce capital	Reduces capital
4. Interest	Not considered to calculate interest on capital	Considered to calculate interest on capital

10.

	Rose	Lily

Interest on loan 6% Residue of profits (24600-600)	 12000	600 12000

11. Profit & Loss appropriation A/c for the year ending 31st March 2005

Particulars	Amount	Particulars	Amount
To profit transferred to Pink's capital a/c Black's capital a/c White's capital a/c	 30000 18000 12000	By Profit & loss a/c	60000
	60000		60000

Note: White share of profit is more than guaranteed amount.

12. Profit & Loss Account for the year ending 31st March 2006

Particulars	Amount	Particulars	Amount
To Loss before interest To interest on Loan Sohan 20000*6/100*3/12 Mohan 10000*6/100*3/12	2500 300 150	By Net Loss transferred To Sohan - 2950*2/5 To Mohan- 2950*3/5	 1180 1770
	2950		2950

Note : Profit & Loss appropriation a/c should not be prepared as Loan interest is change against profits.

13. Ramesh & Dinesh are partners

Profit & Loss a/c for the year ending on 31st March 2006

Particulars	Amount	Particular	Amount
To loss for the year	15000	By loss transferred to Ramesh capital a/c Dinesh's capital a/c	 6000 9000
	15000		15000

Note: * Profit and Loss appropriation account should not be prepared because there is nothing to appropriate
*Interest on capital treated as appropriation.

14. Interest on Mala's capital = Rs 4800*5/100 = Rs. 2400
Interest on Latha's capital = Rs 3600*5/100 = Rs. 1800

Note: Because the capitals are fixed & will not change same in the beginning of year.

15. Statement Sharing the adjustments to be made

Particulars	Firm		A's Capital		B's Capital		C's Capital	
	Loss	Profit	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Amount already credited in 2:2:1		1500000	600000		600000		300000	
Amount which should have been credited as profit (Rs. 150000 – 60000) in 1:1:1	1440000			480000		480000		480000
	1500000	1500000	600000	480000	600000	480000	300000	480000
Net Effect	60000	-	120000 (Dr.)		100000 (Dr.)			180000 (Cr)

Adjusting Journal entry

Date	Particular	C.F	Dr.	Cr.
	A's capital A/c Dr. B's capital A/c Dr. To C's capital A/c To B's Loan A/c (Being the profit distributed in wrong ratio, now rectified after providing interest on loan)		120000 120000	 180000 60000

Note :- 1. Interest on loan (Rs 10000*6/100) = Rs 60000 is a change against profit.
2.Interest on loan is a gain to the partner and it is credited to partner's loan a/c & not to capital a/c.

16. Journal

Date	Particular	C.F	Dr.	Cr.
2006 April	Rita's capital A/c Dr. To Seema's Capital a/c To Nega's Capital a/c (Being adjustment of entry passed for -------------- of salary, commission, guarantee to Nega & change in profit sharing ratio)		40000	 15000 25000

Adjustment Table

Particulars	Seema		Nega		Rita		Firm	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Profit already Credited equally Rs. 300000	100000		100000		100000			300000
Salary to Seema & Rita		5000				5000	10000	
Commission to Nega				5000			5000	
Deficiency of Nega born by Seema & Nega	4000			6000	2000			
Profit distributed in 2:2:1		114000		114000		57000	285000	
	104000	119000	100000	125000	102000	62000	300000	300000

* Nega's deficiency Rs (120000-114000) = Rs. 6000

Rita to bear = 6000*2/3=4000

Seema to bear = 6000*1/3=2000

* Profit calculation Rita =285000*2/3 = 114000

Nega = 285000*2/3 = 114000
Seema = 285000*1/3 = 57000

17

Date	Particulars	L.R	Debit	Credit
	Profit & Loss appropriation a/c Dr. To Your's Current a/c To Mohit's Current a/c (Being interest on capital 10% is provided on capitals)		30000	 10000 20000

18 A's capital a/c Dr. 2000
B's capital a/c Dr. 2800
To Profit & Loss appropriation a/c 4800
(Being interest on drawings at 8% p.a provided on drawings)

19 1. Profit transferred Rs. 54400 to Ajay Rs. 26200
Interest on loan (-) 2000 to Vijay Rs. 26200
52400 equally

2 Hint : 1) Interest on loan is changed to Profit & loss a/c and Profit & Loss appropriation a/c

3 Interest on capitals is not to be allowed.

20. Debited to Current a/c
Credited to capital a/c
Debited to capital a/c

21. 1) Average period= (Time left after 1st withdrawal +Time left after last withdrawal)

12+3/2=15/2 months

Interest on Drawings = 6000*4 Quarter * 10/100*15/2*1/12
= Rs.1500

2) Interest on Drawings = 2400*10/100*9/2*1/12 = Rs. 1500

3) Interest on Drawings = 2400 * 10/100*12/2*1/12 = Rs. 1200

4) Interest on Drawings = Average period = Total period/ 2 = 9/ 2
= 2400*10/100*9/2*1/12= Rs 900

22. Goodwill = Super profit * 4 yrs purchase
48000 = Super profit 8 4
Super profits = 48000/4=12000
Normal profits = 150000*10/100=Rs 1500

Super profits = Average profits – 15000
12000 = Average profits – 15000
Average profits = Rs. 27000

23 1) Average profits = 448200/3= Rs 149400-(500*12*2)
=137400
Goodwill=137400*3=412200

2) Super Profits =137400-500000*10/100
Goodwill = 87400
Goodwill= Rs. 87400*100/10
Goodwill = 874000

3) Goodwill = Total Capitalised value – Net tangible Assets
(137400 *100/10) – (754762 – 31329)
= 1374000 – 723433
= 650567

24. Average profits = Rs. 50000
Goodwill = 50000 * 3 = 150000

	Old Ratio	New Ratio
A	3/4	3/5
B	1/4	2/5

A losses by = ¾ -3/5 = 3/20
B gains by= 2/5 -1/4 = 3/20

Date	Particular	C.F	Dr.	Cr.
	B's Capital A/c Dr. To A's Capital A/c (Being crediting capital a/c of A for the loss of $3/20^{th}$ share)		22500	22500

Reconstitution of partnership

Admission of a Partner

1. Why should a new partner contribute towards goodwill on his admission?

2. Why are assets and liabilities revalued on the admission of a new partner?

3. Give the journal entry to distribute general reserve and profit and loss account balance appearing on the liabilities side of the balance sheet.

4. Under what circumstances premium for goodwill paid by the incoming partner would never be recorded in the books of account?

5. X and Y should profits in the ratio of 3:1. They admit Z to one-third share in the future profits. What will be the new profit sharing ratio?

6. A and B who shared profits in the ratio of 3:1 admit C as a partner for 1/5 share in profits, which he requires equally from the old partners. What will be the new profit sharing ratio?

7. A and B share profits in the ratio of 2:1. C is admitted with 1/3 share in profits. C acquires 2/3 of his share from A and 1/3 of his share from B. What will be new profit sharing ratio?

8. X and Y are partners sharing profits in the ratio of 3:1. They admit Z as a partner. X surrenders 1/3rd of his share and Y 1/4th of his share in favour of Z. What will be new profit sharing ratio?

9. P and q are partners sharing profits in the ratio of 5:3. R is admitted and the new ratio is 4:3:2. What will be sacrificing ratio?

10. M and N are partners. P is admitted for ¼ shares. What is the ratio in which M and N will sacrifice their share in favour of P?

11. Explain the accounting treatment of Goodwill when goodwill account already appears in the books of the firm and new partner brings his share of goodwill in cash.

12. Explain the accounting treatment of Goodwill when new partner cannot bring his share of goodwill in cash.

Short Answer Type

13. K.L and M partners sharing in the ratio of 3:2:1. They admit N for 1/6th share. It is agreed that M would retain his original share. Calculate new ratios and sacrificing ratios.

14. A,B and C are partners, sharing profits in the ratio of 4:3:2. D is admitted for 2/9 share of profits and bring Rs. 30,000 and Rs. 10,000 for his share of goodwill. The new profit sharing ratio will be A:B:C:D, 3:2:2:2. Journalise the above arrangement in the books.

Long Questions

15. Krishna and Suresh are partners in a firm sharing profits in the ratio of 3:2

	Rs		Rs
		Plant & Machinery	
Creditors	15,000	Patents	30,000
Reserves	5,000	Furniture	5,000
Capital account		Stuck	3,000
Krishna 30,000		Debtors	16,000
Suresh 20,000	50,000	Cash	15,000
			1,000
	70,000		70,000

On that data Mohan is admitted as a partner for 1/5 share on the following terms.

(a) He is to contribute Rs. 14,000 as his share of capital which includes his share of premium for goodwill.
(b) Goodwill it valued at 2 years purchase of the average profits of the last four years which were Rs. 10,000; Rs. 9,000; Rs. 8,000 and Rs. 13,000 respectively.
(c) Plant to written down to Rs. 25,000 and patents written up by Rs. 8,000.
(d) A joint life policy taken in the name of the partner for Rs50000 on which premiums have been paid has a surrender value of Rs. 7,000. Prepare Revolution Account, Partners' capital accounts and the balance sheet of the new firm.

16. A and B are partners in a firm. Their balance sheet as on 31/12/1993 was as follows.

Liabilities	**Rs**	**Assets**	**Rs**
Provision for Doubtful Depts.	4,000	Cash	10,000

Workmen Compensation fund	5,600	Sundry	80,000
Outstanding Expenses	3,000	Debtors	20,000
Creditors	30,000	Stock	38,000
Capitals: A	50,000	Fixed Assets	4,000
B	60,000	Profit & loss A/C	
	1,52,600		1,52,600

C was taken into partnerships as from 01.01.94. C brought Rs. 40,000 as his capital but he is unable to bring any amount for goodwill. New profit sharing ratio is 3:2:1. Following terms were agreed upon:

1. Claim on account of workmen's Compensation is Rs. 3,000.
2. To write off Bad Debts amounting to Rs. 6,000.
3. Creditors are to be paid Rs. 2,000 more.
4. Rs. 2,000 be provided for an unforeseen liability.
5. Outstanding expenses be brought down to Rs. 1,200
6. Goodwill is valued at 1 ½ years purchase of the average profits of last three years, less Rs. 12,000. Profits of 3 years amounting to Rs. 12,000; Rs. 18,000, and Rs. 30,000.
   Prepare Journal Entries, capital accounts and balance sheet.

17. Following is Balance sheet of A and B who share profits in the ratio of 2:1

	Rs		**Rs**
Bank overdraft		Sundry Debtors 40,000	
Reserve fund	15,000	Less: Provision 3,600	36,400
Sundry Creditors	12,000	Stock	20,000
Capitals: A	20,000	Building	25,000
B	40,000	Patents	2,000
	30,000	Machinery	33,600
	1,17,000		1,17,000

They admitted C into partnership on this date. New profit sharing ratio is agreed as 3:2:1. C brings in proportionate capital after the following adjustments.

1. C brings in Rs. 10,000 in cash as his share of Goodwill.
2. Provision for doubtful debts is to be reduced by Rs. 2,000

3. There is an old typewriter valued Rs. 2,600. It does not appear in the books of the firm. It is now to be recorded.
4. Patents valueless.
5. 2 % discount is to be received from creditors. Prepare revaluation A/C, Capital A/Cs and Balance Sheet.

Q 18. Following is the balance sheet of A,B and C sharing profits and losses in Proportion of 6:5:3 respectively.

Liabilities	**Rs**	Assets	**Rs**
Creditors	18,900	Cash	1,890
Bills Payable	6,300	Debtors	26,460
General Reuse	10,500	Stock	29,400
Capitals:-		Furniture	7,350
A 35,400		Land & building	45,150
B 29,850		Goodwill	5,250
C 14,550	79,800		
	1,15,500		1,15,500

They agreed to take D into partnership and give him 1/8 the share on the following terms.

(1) That furniture be depreciated by Rs. 920.
(2) An old customer, whose account was written off as bad, has promised to pay Rs 2,000 in full settlement of his full debt.
(3) That a provision of Rs. 1,320 be made for outstanding repair bills.
(4) That the value of land and building have appreciated be brought up to Rs. 54,910
(5) That D should bring in Rs. 14,700 as his capital.
(6) That D should bring in Rs. 14,070 as his share of goodwill.
(7) That after making above adjustment, the capital accounts of old partners be adjusted on the basis of the proportion of D's capital to his share in business i.e. actual cash to be paid off or brought in by the old partners, as the case may be.

Prepare Journal Entries and prepare the balance sheet of new firm.

Reconstitution of partnership

ADMISSION OF A PARTNER
SOLUTIONS

1. Since a new partner gets his share of profit from old partners, he must compensate the old partners for the share sacrificed by them. The amount of compensation given by the new partner is known as goodwill.

2. Assets and liabilities are revalued because the entire profit and loss due to their revaluation is divided amongst the old partners in their old profits sharing ratio. The new partner should not share such profit or loss because it belongs to the period prior to his admission.

3. General Reserve A/c Dr.
   Profit & Loss A/c Dr.
   To old partner's capital A/c (In old ratio)

4. When the circumstances premium for the goodwill in cash to the old partners privately outside the business no entries are passed for it.

5. Calculation of new profit sharing ratio:

   Let total profit be = 1
   Share given to Z = 1/3

   Remaining share = 1-1/3 = 2/3

   Now the old partners will share remaining profit in their old profit sharing ratio:

   Hence,
   x's share = 3/4 of 2/3 = 6/12 or ¾ * 2/3 = 6/12

   y's share = ¼ of 2/3 = 2/12 or ¼ * 2/3 = 2/12

   z's share = 1/3

   Thus, the new profit sharing ratio of x, y and z will be:
   = 6/12 : 2/12 : 1/3
   = (6:2:4)/12 = 6:2:4 or 3:1:2

6. Share of profit given to C = 1/5
   Share acquired by C from A = ½ of 1/5 = 1/10
   Share acquired by C from B = ½ of 1/5 = 1/10

   Therefore,

   A's new share after surrendering 1/10 in C's favour
   = ¾ - 1/10 = (15-2)/20
   = 13/20
   B's new share after surrendering 1/10 in C's favour
   = 1/4 - 1/10 = (5-2)/20
   = 3/20

C’s share = 1/10 + 1/10 = 2/10
Therefore new share equal to
13/20:3/20: 2:10 = (13:3:4)/20
= 13:3:4 Ans.

7. Share of profit given to ‘C’ = 1/3 share

Share acquired by C from A = 1/3 * 2/3 = 2/9

Share acquired by C from B = 1/3 * 1/3 = 1/9

A’s new share after surrendering 2/9 = 2/3 – 2/9 = (6-2)/9
= 4/9

B’s new share after surrendering 1/9 = 1/3 – 1/9 = (3-1)/9
= 2/9

C’s share = 1/3

Therefore, new profit sharing ratio
= 4/9 : 2/9: 1/3 = (4:2:3)/9 or 4:2:3

8. x : y – 3 : 1, z admitted

x -> 1/3 * ¾ = ¼ (x surrender 1/3 of his share)

y -> 1/4 * 1/4 = 1/6 (y surrender 1/4 of his share)

Therefore, z’s share -> ¼ + 1/16 = (4+1)/16 = 5/16

New profit sharing ratio:

x = ¾ - ¼ = 2/4

y = 1/4 – 1/16 = (4-1)/16 = 3/16

z = 5/16

Therefore, 2/4 : 3/16 : 5/16

⇨ (8:3:5)/16
⇨ 8:3:5

9. Old profit sharing ratio of P = 5/8

New profit sharing ratio of P = 4/9

P’s sacrificing ratio = old ratio – new ratio

= 5/8 – 4/9
= (45 -32)/72 = 13/72

Old profit sharing ratio of Q = 3/8

New profit sharing ratio of Q = 3/9

Q's sacrificing ratio = old ratio – new ratio
= 3/8 – 3/9 = (27-24)/72 = 3/72

Sacrificing ratio = 13/72 : 3/72 or 13:3

10. Profit distributed equally.

11. For writing off the goodwill A/c already appearing in the books

Old partner's Capital A/c's Dr. (In old ratio)
To Goodwill A/c

(ii) For bringing goodwill in cash

Bank A/c Dr.
To premium for goodwill (with his share of goodwill)

(iii) For distributing the amount of goodwill brought in by new partner:

Premium for goodwill A/c Dr.
To sacrifice partner's Capital A/c's (In sacrificing ratio)

12. New Partner's Capital A/c Dr. (with his share of goodwill)
To sacrificing Partner's Capital A/c's (In sacrifice ratio)

13. Calculation of New profit Sharing Ratio:

N's share = 1/6; M's share = 1/6

Remaining share for K and L = 1 – (1/6 + 1/6) = 4/6

This will be divided between K and L in their old ratio i.e., 3 : 2

Hence, the new share of K = 3/5 * 4/6 = 12/30

New share of L = 2/5 * 4/6 = 8/30

The new ratio of K, L and M, N = 12/30 : 8/30 : 1/6 :1 /6 or
= 12 : 8 :5 : 5

Calculation of sacrifice ratio:-

Sacrifice made by K = 3/6 – 12/30 = 3/30

Sacrifice made by L = 2/6 – 8/30 = 2/30

Sacrifice made by M = NIL

Thus, sacrificing ratio among K, L and M = 3 : 2 : 0

14.

Date	Particular	Dr. Rs.	Cr. Rs.
	Bank A/c Dr. To D's Capital A/c To Premium for Goodwill A/c (The amount of capital and goodwill/ Premium brought in cash)	40,000	40,000
	Premium for Goodwill A/c Dr. To A's Capital A/c To B's Capital A/c (The amount of goodwill transferred to old partners in sacrificing ratio)	10,000	5,000 5,000

<u>Working Note</u>:- Calculation of sacrificing ratio :-

Sacrificing ratio = Old ratio – New ratio

Thus, A's sacrifice ratio = 4/9 – 3/9 = 1/9

B's sacrifice ratio = 3/9 – 2/9 = 1/9

C's sacrifice ratio = 2/9 – 2/9 = 0

As, C has not made any sacrifice, therefore he will not be entitled to any amount of goodwill brought in by new partner.

A & B have sacrificed in equal proportion, therefore they will get equal share in the goodwill brought in by D.

Ans . 15 **Revaluation Account**

Particular	Amt	Particular	Amt

To Plant To Profit transferred to capital Account Krishna 1800 Suresh 1200	5,000 3,000	By Patents	8,000
	8,000		8,000

Capital Account

Particulars	Krishna	Suresh	Mohan	Particular	Krishna	Suresh	Mohan
To Bal c/d	41,400	27,600	10,000	By Bal b/d	30,000	20,000	
				By Reserves	3,000	2,000	
				By Revaluation	1,800	1,200	
				By Joint life Policy	4,200	2,800	
				By Cash A/c			10,000
				By Premium for goodwill A/c	2,400	1,600	
	41,400	27,600	10,000		41,400	27,600	10,000

Opening Balance Sheet

Liabilities	Amount	Assets	Amount
Creditors	15,000	Plant & machinery Patents Furniture Stock Debtors Joint Life Policy Cash	25,000 13,000 3,000 16,000 15,000 7,000 15,000
	94,000		94,000

Working Notes:

1) Valuation of Goodwill :-

Average profit = (10,000+9,000+8,000+13,000)/4 = Rs.10,000

Goodwill at 2 years purchase = 10,000 * 2 = Rs.20,000
Mohan's share of goodwill = 20,000 * 1/5 = Rs.4,000
Mohan's capital = 14,000 – 4,000
= 10,000

2) Entry for joint life policy:-

Joint Life Policy A/c	Dr.	7,000	
To Krishna's Capital A/c			4,200
To Suresh's Capital A/c			2,800

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Date	Particular	Amt Dr.	Amt Cr.
	A's Capital A/c Dr.	2,000	
	B's Capital A/c Dr.	2,000	
	To Profit & loss A/c		4,000
	(Loss appearing in the balance sheet debited to old partner's A/c)		
	Workmen Compensation Fund Dr.	2,600	
	To A's Capital A/c		1,300
	To B's Capital A/c		1,300
	(Excess Fund (Rs. 5600-3000) shared by old partners)		
	Provision for doubtful debts A/c Dr.	4,000	
	Revaluation A/c	2,000	
	To Sundry Debtors A/c		6,000
	(Bad Debts amounting to Rs. 6000 written off)		
	Revaluation A/c Dr.	4,000	
	To Creditors A/c		2,000
	To Unforeseen Liability A/c		2,000
	(Provision for Liabilities)		
	O/s Expenses A/c	1,800	
	To Revaluation A/c		1,800
	(O/s Expenses reduced)		
	A's Capital A/c Dr.	2,100	
	B's Capital A/c Dr.	2,00	
	To Revaluation A/c		4,200
	(Loss on revaluation transferred)		
	C's Capital A/c Dr.	3,000	
	To B's Capital A/c		3,000

	(C's share of goodwill credited to B's capital A/c, as he alone has sacrificed) Cash A/c Dr. To C's Capital A/c (Cash Brought in by C as Capital)	 40,000	 4,00,000

CAPITAL ACCOUNTS

Particulars	A	B	C	Particular	A	B	C
To P& L A/c	2,000	2,000		By Bal b/d	50,000	60,000	
To Revaluation A/c	2,100	2,100		By workmen's compensation fund	1,300	1,300	
To B's capital A/c			3,000	By C's Capital A/c		3,000	
To Bal c/d	47,200	60,200	37,000	By Cash			40,000
	51,300	64,300	40,000		51,300	64,300	40,000

OPENING BALANCE SHEET

Particulars	Amt	Assets	Amt
Liabilities for workmen compensation fund	3,000	Cash	50,000
O/S Expenses	1,200	Sundry Debtors	74,000
Unforeseen Liabilities	2,000	Stock	20,000
Creditors	32,000	Fixed Assets	38,600
Capitals: A B C	47,200 60,200 37,000		
	1,82,600		1,82,600

Working Note :- Valuation of Goodwill

Average Profit = (2000+18000+30000)/3 = Rs.20000
= 20000 * 11/2 = 30000(-) 12000 = Rs.18000
C's share of goodwill = 18,000 x 1/6 = Rs.3,000

Sacrificed ration = Old Ratio – New Ratio
A = ½ - 3/6 = 0
B = ½ - 2/6 = 1/6 Hence, B alone has sacrificed

17. REVALUATION A/C

Particular	Amt.(Rs)	Particular	Amt.(Rs)
To Patents To Profit transferred to: A B	2,000 2,000 1,000	By Provision for doubtful debts By typewriter By provision for discount on creditors	 2,000 2,600 400
	5,000		5,000

CAPITAL A/C

Particulars	A(Rs)	B(Rs)	C(Rs)	Particulars	A(Rs)	B(Rs)	C(Rs)
To Balance c/d	60,000	35,000		By Balance b/d By Reserve fund By Revaluation By Premium for goodwill A/c	40,000 8,000 2,000 10,000	30,000 4,000 1,000	
	60,000	35,000			60,000	35,000	
To Balance c/d	60,000	35,000	19,000	By Balance b/d By Bank	60,000	35,000	19,000
	60,000	35,000	19,000		60,000	35,000	19,000

OPENING BALANCE SHEET

Liabilities	Amt(Rs)	Assets	Amt(Rs)
Sundry Creditors 20,000 Less Provision: <u>400</u> Capitals A B C	 19,600 60,000 35,000 19,000	Bank Sundry Debtors 40,000 Less Provision: <u>1,600</u> Stock Building Machinery Typewriter	14,000 38,400 20,000 25,000 33,600 2,600
	1,33,600		1,33,600

Working Notes:

1. Sacrifice Ratio = Old Ratio – New Ratio
   Sacrifice by A = old 2/3 – new 3/6 = 1/6
   Sacrifice by B = old 1/3 – new 2/6 = 0

   Since B has not made any sacrifice, the ratio amount of premium for goodwill brought in by C will be credited to A.

2. C's Capital is not given in the question. He will bring in capital proportionate to his share of profits. C is given 1/6th share of profits, balance 5/6th is shared by A and B. Total capital of A and B after all adjustments is Rs.60,000 + 35,000
   = 95,000.

   Thus, for 5/6th share of profits the capital = 95,000

   Then total capital of the firm = 95,000 * 6/5 = Rs.1,14,000

   Therefore C's capital for 1/6th share profits = 1,14,000 * 1/6 = Rs.19,000

3. Calculation of balance at bank:

Amt. of Cash brought in by C as goodwill	= 10,000
Amt. of Cash brought in by C as capital	= 19,000
	29,000
(-) bank overdraft	15,000
Balance at bank	14,000

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	Particular	Amt Rs. Dr.	Amt Rs. Cr.
(i)	General Reserve A/c Dr.	10,500	
	To A's Capital A/c		4,500
	To B's Capital A/c		3,750
	To C's Capital A/c		2,250
	(General reserve transferred to old partner's capital A/c's		
(ii)	Revaluation A/c Dr.	2,240	
	To Furniture A/c		920
	To Provision for repairs A/c		1,320
	(Reduction in the value of assets and a provision made for o/s repair bills		
(iii)	Debtors A/c	2,000	2,000

	Dr.		
(iv)	To Revaluation A/c	9,760	
	(Amount receivable from an old customer)		9,760
	Land & Building A/c		
(v)	Dr.	9,520	
	To Revaluation A/c		4,080
	(Increase in the value of land and building)		3,400
			2,040
	Revaluation A/c		
	Dr.		
(vi)	To A's Capital A/c	2,250	
	To B's Capital A/c	1,875	
	To C's Capital A/c	1,125	
	(transfer of profit on revaluation to old partner's		5,250
	capital A/c's		
	A's Capital A/c		
(vii)	Dr.	28,770	
	B's Capital A/c		14,700
	Dr.		14,070
	C's Capital A/c		
	Dr.		
	To Goodwill A/c		
(viii)	(Goodwill appearing in the books written off)	14,070	
			6,030
	Cash A/c		5,025
	Dr.		3,015
	To D's Capital A/c		
	To premium for goodwill A/c		
(ix)	(The mount brought in cash by D being Rs.14,700	3,660	
	for capital and Rs.14070 for goodwill)	3,400	
			7,060
	Premium for Goodwill A/c		
	Dr.		
(x)	To A's Capital A/c	1,320	
	To B's Capital A/c		1,320
	To C's Capital A/c		
	(Goodwill brought in by 'D' credited to old		
	partners)		
	A's Capital A/c		
	Dr.		
	B's Capital A/c		
	Dr.		
	To Cash A/c		
	(Cash withdrawn by A and B)		
	Cash A/c		
	To C's Capital A/c		
	(Cash brought in by C)		

REVALUATION ACCOUNT

Particulars	Amt (Rs.)	Particulars	Amt (Rs.)
To Furniture A/c	920	By Debtor's A/c	2,000
To Provision for repairs	1,320	By Land and Building A/c	9,760
To profit transferred to Capital's A/c's A 4,080 B 3,400 C 2,040	9,520		
	11,760		11,760

CAPITAL ACCOUNTS

Particular	A(Rs.)	B(Rs.)	C(Rs.)	D(Rs.)	Particular	A(Rs.)	B(Rs.)	C(Rs.)	D(Rs.)
To Goodwill	2,250	1,875	1,12		By Balance b/d	35,400	29,850	14,550	
To Balance c/d	47,760	40,150	20,730	14,700	By general Reserve A/c	4,500	3,750	2,250	
					By Revaluation A/c	4,080	3,400	2,040	
					By Cash A/c				14,700
					By premium for goodwill A/c	6,030	5,025	3,015	
	50,010	42,025	21,855	14,700		50,010	42,025	21,855	14,700
To Cash A/c	3,660	3,400			By Balance c/d	47,760	40,150	20,730	14,700
To Balance c/d	44,100	36,750	22,050	14,700	By Cash A/c (Balancing figure)			1,320	
	47,760	40,150	22,050	14,700		47,760	40,150	22,050	14,700

BALANCE SHEET AS ON….

Liabilities	Amt(Rs.)	Assets	Amt(Rs.)
Creditors	18,900	Cash	24,920
Bills Payable	6,300	Debtors	28,460
Provision for repairs	1,320	Stock	29,400
		Furniture	6,430
		Land and Building	54,910
	1,44,120		1,44,120

New profit sharing ratio will be calculated as under:-

Share given to D = 1/8
Balance of profits = 1 – 1/8 = 7/8
A's new share = 7/8 * 6/14 = 3/8
B's new share = 7/8 * 5/14 = 5/16
C's new share = 7/8 * 3/14 = 3/16
D's share = 1/8

A : B : C : D = 3/8 : 5/16 : 3/16 : 1/8 = 6/16 : 5/16 : 3/16 : 2/16

D bring in Rs.14,700 as capital according to his 1/8th share of profit. Therefore, according to D's capital, the total capital of the new firm will be:

= 14,700 * 8/1 = Rs.1,17,600

Therefore A's Capital in new firm = 1,17,600 * 6/16 = Rs.44,100

B's Capital in new firm = 1,17,600 * 5/16 = Rs.36,750

C's Capital in new firm = 1,17,600 * 3/16 = Rs.22,050

D's Capital in new firm = 1,17,600 * 2/16 = Rs.14,700

Reconstitution of partnership

RETIREMENT OR DEATH OF A PARTNER

Very Short Questions.

Q1. In which case the following entries are required :

a) Partner's Capital A/c Dr.
To Partners loan A/c

b) Stock A/c Dr.
Building A/c Dr.
To Revaluation A/c

Q2. Journalise the following :-

(a) Chander, Tara and Ravi were partners in a firm sharing profits in the ratio of 2:1:2 on 15.02.2007 Cander died and the new profit sharing ratio between Tara & Ravi was 4:11. On Chander's death the goodwill of the firm was valued at Rs. 90,000.

Calculate gaining ratio and pan necessary journal entry for the treatment of goodwill on Chander's death without opening goodwill account.

(b) A, B, C and D are partners sharing profits in the ratio of 3:4:3:2. On the retirement of C, the goodwill was valued at Rs. 60,000. A, B and D decided to share future profits equally. Pass the necessary journal entry for the treatment of goodwill, without opening Goodwill Account.

Long Answer Questions.

Q3. A and B are partners sharing profits in the ratio of A 3/6, B 2/6 and transfer to reserve 1/6.
Their Balance Sheet on 31st December 2007 was as follows:

Liabilities	Amount (in Rs.)	Assets		Amount (in Rs.)
Employee's Provident Fund	18000	Goodwill		15,000
Reserve Fund	12000	Plant		90,000
Sundry Creditors	10,000	Patents		4,400
Profit and Loss A/c	24,000	Stock		30,000
Capitals :		Investment		20,000
A 80,000		Debtors :	20,000	
B 40,000	120,000	Less:- Provision	400	19,600
		Cash		5,000
	184,000			184,000

B retires on 1st Jan 2008.The terms were:-

(i) Goodwill is to be valued at 50,000.

(ii) Value of patents is to be increased by Rs. 3,000 but plant was found over-valued by Rs 15,000.
(iii) Prevision for doubtful debts should be 5% on Debtors and prevision for discount should also be made on Debtors & creation at 3%.
(iv) Out of insurance which was entirely debited to profit and loss Account Rs 870 be carried forward as unexpired insurance.
(v) Investments were revalue at Rs 16,000. Half of these investments were taken over by B.
(vi) There is a claim for workmen's compensation to the extent of Rs 5,ooo.

B was paid of in full. A borrowed the necessary money from the bank on the security of plant and stock to pay off B. Prepare Revaluation A/C .capital A/c of B/S of A.

Q4. X, Y, and Z were in partnership sharing profits in the ratio of 3: 2: 1 they had taken a Joint life policy of Rs.50,000 , whose surrender value on 1st Jan 2007 was Rs.18,000 . On this date B/S is as follows:-

Liabilities	Amount (Rs.)	Assets	Amount(Rs.)
Provision for Doubtful Debts	1,300	Cash at bank	10,000
Sundry creditors	15000	Debtors	16,000
Capitals:			
X 78,750		Stock	20,300
Y 70,000		Machinery	60,000
Z 61,250	2,10,000	Land and Building	1,20,000
	2,26,3000		2,26,300

Z retires on the above date and the new profit sharing ratio between X and Y will be 5:4 following terms were agreed:

1) Land and buildings be reduced by 10%.

2) Out of the Insurance premium paid during the year Rs.5,000 be carried forward as unexpired.

3) There is no need of any provision for doubtful debts.

4) Goodwill of the firm be valued at Rs.36,000 and adjustment in this respect be made without raising a goodwill a/c . The joint life policy was also not to appear in the Balance sheet.

5) X and Y decided that their Capital will be adjusted in their new profit sharing ratio by bringing in or paying cash to the partners is a/c will be transfered to his loan a/c.

a) Pan necessary journal entries : Prepare the capital accounts and the new balance sheet.

Q5. A, B and C are partners sharing profits and losses in the ratio of 5:3:2. There balance Sheet as at 31st December 2007 was a follows:-

Liabilities	Rs.	Assets	Rs.
Sundry creditors	29,000	Goodwill	24,000
Provision for Doubtful Debts	5,000	Debtors Investments Land and building	80,000 30,000 1,42,000
Capitals:- A 1,40,000 B 90,000 C 76,000	3,06,000	Machinery Patents Cash at bank	50,000 4000 10,000
	3,40,000		3,40,000

Q6. What are the methods of ascertaining the amount of profit to be given to the executors of deceased partner , if the death of a partner occurs on any day during the year .Explain.

Q7. On 31st Dec 2007. The balance sheet of P,Q and R who were partners in a firm was as under.

Liabilities	Rs.	Assets	Rs.

Sundry creditors Reserve fund Capital:- P 15,000 Q 10,000 R 10,000	25,000 20,000 35,000	Building Investment Debtors Bill Receivable Stock Cash	26,000 15,000 15,000 6,000 12,000 6,000
	80,000		80,000

The partnership dead provides that the profit be shared in the ratio of 2:1:1 and that in the event of death of any partner, his executors will be entitled to be paid out :

a) The capital to his credit at the date of last Balance sheet.
b) His proportion of Reserve at the date of last Balance sheet;
c) Retired on the above date as per the following condition:-

(i) Goodwill of the firm is to be valued at three years Purchase of the average profits of the last five years which were Rs.20,000; Rs.12,000;Rs.30,000;Rs6,000(loss) and Rs.34,000 respectively.

(ii) Machinery is to be reduced to Rs.40,000 of patents are valueless.

(iii) There is no need of any provision for doubtful debts .

(iv) An unclaimed liability of Rs.2,000 is to be written off.

(v) Out of the total insurance premium paid Rs.1,000 be treated as pre paid .

(vi) Investment are revalued at Rs.16,000 and these are taken by C at this value .

Entire Sum payable to C is to be brought in by A and B in such a way so as to Make their capitals proportionate to their new profit sharing ratio which is 2:1.

Prepare Revolution Account .Capital A/c and the opening Balance sheet of A and B

(c) His proportion of profits to the date of death based on the average profits of the last three completed years, plus 10% and.

(d) By way of goodwill, his proportion of the total profits for the three preceding years.

(e)

(f) The net profit for the last three years were:-

2005	-Rs.16,000
2006	– Rs16,000
2007	–Rs15,400

R died on 1st April 2008.He had withdrawn Rs. 5,000 to the date of his death .The investments were sold at par and Rs. Executors were paid off.

Prepare partners capitals Accounts, Rs Executors Accounts and Balance sheet of the surviving partners P and Q.

Testing of Knowledge

Q8. Enumerate the items for which the representatives of decreased partners are entitled to receive.

Q9. Ramesh wants to retire from the firm .The profits on Revaluation on that date were Rs.12,000. Mohan and Rahul want to share this in their new profit sharing ratio 3:2. Ramesh wants this to be shared equally. How are the Profis to be shared? Give reasons.

Q10. From the following particulars.
Calculate the new profit –sharing ratio of the partners:-

(a) A , B and C are partners in a firm sharing profits and losses in the ratio of 5:3:2 B retires from firm and his share was taken up by A and C in the ratio of 2:1.

(b) P , Q and R were partners sharing profits in the ratio of 5:4:1. P retires from the firm.

RETIREMENT AND DEATH OF PARTNER (Solution)

Ans 1. (a) Partner's capital A/C Dr
To partner's loan A/C
(This entry is required when the amount due is transferred to retiring partner's loan A/C)

(b) Stock A/C ....Dr
Building A/C........Dr
To Revaluation A/C
(This entry is required when the stock and building are appericiated)

Ans 2.

	Chandra	Tara	Ravi
Existing Ratio	2/5	1/5	2/5
New Profit Sharing Ratio	-	4/15	11/15
Gaining Ratio	-	4/11 - 1/5 = 1/15	11/15 – 2/5 = 5/15

Gaining Ration = 1:5

Goodwill of 90000 X 2/5 = 18000 X 2
Chander = 36000

Tara Capital A/C ....Dr
Ravi Capital A/c...........Dr

To chander capital A/C 36000
(being the tara and ravi are debited in the gaining ratio)

(b)		A	B	C	D
	Existing Ratio	3/12	4/12	3/12	2/12
	New Ratio	1/3	1/3	-	1/3
	Gaining Ration	11/12	0	-	2/12

Gaining Ration between A & D is 1:2

Goodwill of the firm 60000

(Retire's and C share = 60000 X 3/12
= 15000

Therefore entry will be	Dr	Cr
A capital A/C ……….Dr	5000	
D capital A/C………..Dr	10000	
To C Capital A/C		15000

Ans 3. Revaluation

Particulars	Amount	Particulars	Amount
To Plant	15000	By Patents	3000
To Provision For doubtful debt	600	By unexpired Insurance	870
		By Provision on creditors	300
To Provision For discount on debtors	570	By loss on revaluation	
		A capital A/C	12600
		B capital A/C	8400
To claim on workmen's	5000		
To investment	4000		
	25170		25170

Particulars	A	B	Particulars	A	B
To capital A/C	20000		By balance b/d	80000	40000
To loss A/C	12600	8400	By reserve	7200	4800
revaluation			fund	14400	9600
To goodwill	9000	6000	By profit &		
To investment		8000	loss A/C		
To balance	60000		By A capital		20000
To B's loan		52000	A/c		
	101600	74400		101600	74400

Liabilities	Amount	Assets	amount
Capitals A/c	60000	Plant	
A			
		Patents	7400
B's loan	52000		
Sundry creditors		Stock	
10000			
Less:		Investment	8000
300	9700		
Provision =		Debtors	
9700		19000	
	18000	Less	
Employee		570	18430
provident fund		18430	870
		Unexpired	
		insurance	105000
		Bank	
		(75000+30000)	
	139700		139700

Journal entries

1. prepaid insurance A/c previous for doubtful A/c to revolution A/c (being the increase include of assets)	5000 1300	 6300
2. revolution A/c to land and building A/C	12000	 12000
3. X capital A/C Y capital A/C Z capital A/C To revolution A/C	2850 1900 950	 5700
4. X capital A/C Y capital A/C To Z capital A/C	1000 2000	 3000
5. Z capital 's A/C To Z's loan A/C	69300	 69300
6. bank A/C Tex capital A/C	2100	 2100
7. Y capital A/C To bank A/C	2100	2100

Partner's capitals

Practical	X	Y	Z
To Z capital A/C	2000	4000	—
To Z capital A/C	1000	2000	—
To revolution	2850	1900	950
To balance A/C	72900	62100	69300
	78750	70000	70250
To Z's loan	—	—	69300
To bank A/C		2100	
To balance A/C	75000	60000	
	75000	62100	69300

Practical	X	Y	Z
By balance A/C	78750	70000	61250
By X capital A/C			4000
By Y capital A/C			200
By X capital A/C			1000
By Y capital			2000
	78750	70000	70250

By balance A/C	72900	62100	6900
By balance A/C	2100	___	____
	75000	62100	69300

BALANCE SHEETS

LIABILITIES	AMT.	ASSETS	AMT.
Sunday creditors	15000	Cash at bank	10000
Z's loan	69300	Debtors	1600
Capital A/C X 75000 Y 60000	135000	Stock Prepaid insurance	20300 5000
		Machinery	6000
		Land and buildings	108000
	219300		219300

Ans.5. Revaluation A/C

To machinery	10,000	By provision	5000
To patents	40,000	By unclaimed utility	2000
To investments	14,000	By prepaid insurance	1000
		By loan on revolution A B C	 10,000 6,000 4,000
	28,000		28,000

Partner's capitals A/C

	A	B	C		A	B	C
To loss on revolution	10,000	6000	4000	By balanced	140000	90000	76000
To goodwill	12000	7200	4800	By a capital	____	____	9000
To investment	_____	_____	16000	B capital	____	____	1800
To c's capital	19000	1800	_____	By cash A/C	55000	7000	____

To balance c/d To c'd loan	164000 195000	82000 97000	62000 86800		195000	97000	86800

BALANCE SHEETS

LIABILITIES	AMT.	ASSETS	AMT.
capital a/c A 164000 B 82000	246000	Cash Debtors (land and building) Machinery Prepaid insurance premium	10000 80000 142000 40000 1000
Sundry creditors 29000 Less 2000 For unclaimed	27000		
	273000		273000

Partner's Capital A/c

Particulars		Amount		Particulars		Amount	
	P	Q	R		P	Q	R
To R Capital	7900	3950	-	By balance b/d	15000	10000	10000
To Drawing	-	-	5000	By Reserve	10000	5000	5000
To Balancce c/d	17100	11050	22936	By Profit & pays suspense A/c	-	-	1036
				By P Capital A/c			7900
				By Q Capital A/c			3950
	25000	15000	22936		25000	15000	22936

Balance Sheet

Liabilities	Amount	Assets	Amount
Capital A/c P 17100 Q 11050 28150	28150	Buildings Debtors B/R Stock	26000 15000 6000 12000
Sundry Creditors	25000	Profit & Loss	1086
B's Loan	7936	Suspense A/c	
(Remaining balance) (to be paid to R)	61086	Cash	1000 61086

Ans. 9. Profit to be shared equally because at the time when Ramesh Retire the profit on revaluation is divided in old ratio but not in the new ratio.

Ans. 10.

	A	B	C
Old Ratio	5/10	3/10	2/10
Acquiring Ratio By A and B	2/10	--	1/10
	7/10		3/10

B Retires

His Share was taken
By A and B in ratio 2:1

A = 3/10 x 2/3 = 2/10 B = 3/10 x 1/3 = 1/10

Therefore New ratio = 7:3

Ans B.

	P	Q	R
Old Share ratio	5/10	4/10	1/10
P retires	--	4/10	1/10

Therefore New Ratio 4:1.

Accounting for share capital and debenture

Issue and Redemption of debentures

Q1. Anirudh Ltd. Has 4000, 8% debentures of Rs. 100 each due for redemption on March 31,2005. The company has debenture redemption reserve of Rs. 1,50,000 on that date. Assuming that no interest is due, record the necessary Journal entries at the time of redemption of debentures.

Q2. The company allots 1,000 12% debentures of Rs. 100 each at issue prices of Rs. 96 per debenture redeemable at a premium of Rs. 8 per debenture. The liability of premium is also to be recorded at the time of issue of debentures.

Q3. What is meant by issue of debentures as "Purchase Consideration".

Q4. Vijaya Ltd. Acquired assets of Rs. 40 lakhs and took over creditors of Rs. 4 lakhs from Sunil Enterprises. Vijaya Ltd. Issued 12% Debentures of Rs. 10% as purchase consideration. Record necessary Journal entries in the books of Vijaya Ltd.

Q 5. Blank Enterprises issued 30,000 12% debentures of Rs. 10 each at par to be redeemed out of profits after 5 years at par. Debentures are callable after 3 years at an exercise price of Rs. 11 per debenture. After 4 years the company invoked the call option and holders of the nominal value of Rs. 50,000 responded to the call option. Record the necessary Journal entries.

Q6. What is meant by issue of debentures as collateral Security?

Q7. On 1.1.2005, Fast computers Ltd. Issued 20,00,000 6% debentures of Rs. 100 each at a discount of 4% redeemable at a premium of 5% after three years. The amount was payable as follows:

On application Rs. 50 per debenture balance on allotment.

Record the necessary Journal entries for issue of debentures.

Q8. What do you mean by "Trust Deed" in context of debenture?

Q9. Promising Company Ltd. Took a loan of Rs. 10,00,00,000 from a bank giving Rs. 12,00,00,000 9% debentures as collateral security. Pass the necessary Journal entries regarding issue of debentures, if any, and show this loan in the Balance Sheet of the Company.

Q10. Pass the necessary Journal entries in the books of A B Ltd. for the following transactions:

(i) Issued 5,00,000 12% debentures of Rs. 100 each at a discount of 6% repayable at a premium of 6%.

(ii) Converted 100, 12% debentures of s. 100 each into 9% preference shares of Rs. 100 each issued at a premium of 25%.

(iii) Converted 100, 12% debentures of Rs. 100 each issued at a discount of Rs. 10 each.

Q11. Gopalan Ltd. purchased 5,000 of its own 8% debentures of Rs. 1000 each at Rs. 987 per debentures. It also purchased another lot of 600 debentures of the same services at Rs. 986. Record necessary Journal entries in the books of the company.

Q 12. Ganga Ltd. issued 18,00,000 9% debentures of Rs. 500 each. The board of directors decided to purchase 80,000 debentures at a price of Rs. 485 each for investment purpose. After few months, they decided to sell these debentures @ Rs. 510 each in the market.

Record the necessary entries to show the above transactions.

Q13. A Company redeemed 1000, 15% debentures of Rs. 100 each by converting them to 12% preference shares of Rs. 100 each at 25% premium and 500, 15% debentures of Rs. 100 each by purchasing from market for immediate cancellation at Rs. 95 a debenture. Give Journal entries.

14. Pass the necessary Journal entries for the following transactions in the book of P Ltd.

(i) Issued Rs. 2,00,000 12% debentures as collateral security.

(ii) Converted 1000 12% debentures of Rs. 100 each into 10% preferences shares of Rs. 100 each. The preference shares were issued at a premium of 25%.

(iii) Redeemed 1000 12% debentures of Rs. 100 each at a premium of 10% by draw of lots.

(iv) Paid half yearly interest on Rs. 360,000 12% debentures.

Q 15. Exe. Ltd. purchased assets of the book value of Rs. 4,00,000 and took over the liabilities of Rs. 50,000 from Mohan Bros. It was agreed that the purchase consideration, settled at Rs. 3,80,000, be paid by issuing debentures of Rs. 100 each.

What Journal entries will be made in the following three cases if debentures are issued.

(a) at par

(b) at a discount of 10%

(c) at a premium of 10%?

It was agreed that any fraction of debentures be paid in cash.

Q16. X Ltd. purchased assets of Y ltd. as under.

Plant and Machinery	Rs.	8,00,000
Land and Building	Rs.	72,00,000

The purchase consideration was Rs. 80,00,000. Rs 20,00,000 were paid though cheque and the remaining amount by issue of 6% debentures of Rs. 100 each at a premium of 20%.

Pass the necessary Journal entries in the books of X ltd.

Q 17. On 1st April, 2004 Mode Ltd. issued Rs. 4, 00,000 8% debentures of Rs. 100 each at a discount of 5% and redeemable at 10% premium after 4 years and offered the holders option to convert their holding into equity shares of Rs. 10 each after 31st March, 2006. On 1st April, 2006, 25%n holders exercised their options. Give the necessary journal entries both at the time of issue and at the time of options. Give the necessary journal entries both at the time of conversion under the alternative cases.

Case: 1 If equity shares of Rs 10 each are issued at par.

Case: 2 If equity shares of Rs 10 each are a premium of Rs 2.50 per share.

Case: 3 If equity shares of Rs 10 each are a discount of 95%.

Accounting for Share Capital and Debenture

Solutions To Questions

ISSUE OF SHARES

1. Employees stock option plan as introduced by companies (Amendment) Act, 2000 means an option (right and not an obligation). Given to the whole time directors and employees right to purchase shares of a company at a pre-determined price, which usually is lower than the market price.

2. Issued capital is that part of Authorised capital which is actually offered to the public for subscription. Issued Capital may or may not be different from Authorised Capital depending upon whether the whole amount is offered to the public or not.

3. Reserve capital

Only at the time of winding up of the Company.

Capital Reserve

To write off capital losses any time during the life of the Company

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4. Private placement of shares means raising capital through private sources and contacts. In such a case shares are issued to promoters, their friends and relatives, share holders of group companies, mutual funds, NRI's, Financial Institutions etc.

   Options:
   a) Sweat Equity Shares
   b) Employees Stock Option Plan

5. At the rate of 5% p.a.

6. JOURNAL

	Rs.	Rs.
Share Capital A/C Dr To Share Discount A/C	60	
To Share Allotment A/C		10
To Share Forfeiture A/C		20
(Being forfeiture of 10 shares, Rs. 6 called up)		30
Bank A/C Dr	72	
To Share premium A/C		
To Share Premium A/C		64
(Being reissue of 8 shares @ Rs. 9 each, Rs. 8 called up)		8
Share Forfeiture A/C Dr	24	
To Capital Reserve		24
(Being reissue of 8 shares)		

7. Journal

Sundry Assets A/C Dr	41,80,000	
To Bhwnesh Ind. Corp.		41,80,000
(Being Assets purchased)		
a) Bhwnesh Ind. Corp A/C Dr	41,80,000	
To Equity Share Capital A/C		41,80,000
(Being issue of 41,800 shares of Rs. 100 each)		
b) Bhwnesh Ind. Corp. A/C Dr	41,80,000	
To Equity Share Capital A/C		38,00,000
To share Premium A/C		3,80,000
(Being issue of shares of Rs. 100 each at a premium of 10%)		
c) Bhwnesh Ind. Corp. A/C Dr	41,80,000	

Discount on issue of shares A/C Dr To Equity share capital (Being issue of 44,000 shares of Rs. 100 each at a discount of 5%)	2,20,000	44,00,000

8. Journal

Authorised Capital (1,00,000 shares of Rs. 10 each)	Rs. 10,00,000
Issued Capital (90,000 shares of Rs. 10 each)	9,00,000
Subscribed Capital: (85,000 shares of Rs. 10 each) called-up capital:	8,50,000
(85,000 shares, Rs. 6 per share)	5,10,000
Paid-up capital: Share Capital:5,10,000 Less: Calls-in-arrears 1,000 5,09,000	

9. Journal

(i) Assets A/C Dr To Kailash (Being Assets purchased)	Rs. 2,00,000	RS. 2,00,000
(ii) Kailash A/C Dr To share Capital A/C To Share Premium A/C To Cash (Being payment by issue of 15,000 shares of Rs. 10 each at a premium of 10% and balance in cash)	2,00,000	 1,50,000 15,000 35,000
(iii)Bank A/C Dr. To share Application A/C	2,00,000	

(Being issue of 20,000 shares of Rs. 10 each at per) (iv)Share Application A/C Dr To Share Capital A/C (Being transfer of applications money to share capital) (v) Incorporation Cost A/C Dr Discount A/C Dr To Equity Share Capital A/C (Being issue of 400 shares of Rs. 10 each at a discount of 5% to promoters.	 2,00,000 3,800 200	2,00,000 2,00,000 4,000

10. CASH BOOK

Dr	Date	Particulars	Amount	Date	Particulars	Cr Amount Rs.
		To Share Application A/C To Share Allotment A/C To Share First Call A/C To Share Final Call A/C	64,000 31,000 29,000 24,000 1,48,000		By Balance c/d	1,48,000 1,48,000

JOURNAL

	Rs	Rs
Building A/C Dr To Vendors A/C (Being building purchased) Endor's A/C Dr To share capital A/C (Being payment made by issue of 8000 shares of Rs. 20 each) Share Application A/C Dr. To Share Capital A/C (Being the transfer of application money to share capital) Share Allotment A/C Dr To share Capital A/C (Being Rs. 2 due on allotment in respect of 16,000 shares)	1,60,000 1,60,000 64,000 32,000 1000	 1,60,000 1,60,000 64,000 32,000

Calls-in-Arrears A/c Dr To share Allotment A/C (Being arrears on Allotment received) Share First call A/c Dr To share capital A/C (Being amount due on First Call-16000 shares @ Rs. 2 each) Calls-in-arrears A/C Dr To share First Call A/C (Being arrears on First call amount received) Share Final call A/C Dr To share capital A/C (Being amount due on Final Call) Calls in Arrears A/C Dr To share Final call A/C (Being arrears on Final call amount received) Share capital A/C Dr To share Allotment A/C To share First call A/C To share Final call A/C To share Forfeiture A/C (Being the forfeiture of 1500 shares on which less than Rs. 8 per share has been received.)	 32,000 3,000 32,000 8,000 15,000	1000 32,000 3,000 32,000 8,000 1,000 3,000 3,000 8,000

11.

X ltd.

Journal

Bank A/C Dr To share Application A/C (Being Application money received on 3000 share @ Rs. 2 each) Share Application A/C Dr To share Capital A/C To share Allotment A/C To Bank A/C (Being the transfer of application money on allotment) Share allotment A/C Dr To share Capital A/C To share Premium A/C (Being Allotment amount due) Bank A/C	6,000 6,000 10,000 9,016	 6000 4,000 800 1,200 6,000 4,000

Calls-in-arrears A/C	184	
To share allotment		9,200
(Being amount received)		
Share First Call A/C Dr	6,000	
To share Capital A/C		6,000
(being amount due on First call)		
Bank A/C Dr	5,700	
Calls-in-arrears A/C	300	
To share First call A/C		6,000
(Being amount received on First call of Rs. 3)		
Share Final call A/C Dr	4,000	
To share capital A/c		4,000
(Being amount due on Final call)		
Bank A/C Dr	3,800	
Calls-in-arrears A/C Dr	200	
To share Final Call A/C		4,000
(Being amount received on final call @ Rs. 2)		
Working Notes:		
Applies for 3000 shares		
Alloted to 2400 applicants		
2400:2,000		
Pro-vata 6:5		
Ramesh:- Allotted 40 share.		
Therefore, Applied 40/5*6=48 shares.		
Application money =48*2=Rs 96		
Less: To share capital =40*2=Rs 80		
Surplus = 16		
Allotment due=40*5=200		
Therefore arrears on allotment=Rs 184		
Arrars on 1st call		
40+60=100*3=Rs. 300		
Arrears on inal call		
40+60=100*2=Rs 200		

12 JOURNAL

a) Share Capital A/C Dr	1600	
To share application & allotment a/C		600

To share forfeited A/c		1000
(Being 200 shares forfeited)		
Bank A/c Dr	400	
Share Forfeited A/C Dr	100	
To share capital A/C		500
(Being reissue of 50 shares)		
Share Foreited A/c Dr	150	
To capital Reserve		150
(Being gain on reissue of 50 shares)		
b) Share Capital A/C Dr	2400	
To share First call A/C		900
To share Forfeiture A/C		
(Being forfeiture of 300 shares of Rs. 10 each (Rs. 8 called up)		
Bank A/C Dr	600	
To share capital A/C		600
(being reissue of 75 shares @ Rs. 8 each)		
Share forfeiture A/C Dr	375	
To capital Reserve		
(Being gain on reissue of 75 shares)		375
c) Share Capital A/C Dr 20,000	20,000	5,000
To share Final call A/C		15,000
To share forfeiture A/C		
(Being forfeiture of 2000 shares of Rs. 10 each)		
Bank A/C Dr	10800	
Share Foreiture A/C Dr	7,200	
To share capital A/C		
(Being reissue of 1800 shares @ Rs. 6 each)		18,000
Share Forfeiture A/C Dr		
To Capital Reserve	6,300	
(Being gain on reissue)		
		6,300
d) Share Capital A/C Dr		
To share first cal A/C	10,000	
To share final call A/C		3,000
To share forfeiture A/C		2,000
(Being 100 shares forfeited for non payment of first call Rs. 30 and final call of Rs. 20)		5,000
Bank A/C Dr	3600	
Share forfeiture A/C Dr	400	
To share capital A/C		4,000
(Being reissue of 40 shares @ Rs. 90 each)		
Share forfeiture A/C Dr	1600	
To capital Reserve		1600
(Being gain on reissue)		

e) Share Capital A/C Dr To Discount A/C To share allotment A/C To share forfeiture A/C (Being forfeiture of 10 shares on which Rs. 2 are paid Rs 6 called-up)	60	 10 30 20
Bank A/C Dr To share capital A/C To share premium A/C (Being 8 shares reissued @ Rs. 9 each)	72	 64 8
Share forfeiture A/C Dr To capital Reserve (Being gain on reissue)	16	 16

13. Shashi Ltd.

Journal

Bank A/C Dr To share Application A/C (Being application money received on 1,25,000 shares @ Rs. 4.50 each)	5,62,500	 5,62,500
Share application A/C Dr To share capital A/C To share allotment A/C To Bank A/c (Being transfer of application money on allotment)	5,62,500	 4,50,000 90,000 22,500
Share allotment A/c Dr. 7,50,00 To share capital A/C To share premium A/C (Being allotment amount Rs 750 On 1,00,000 shares due)	7,50,000	 2,50,000 5,00,000
Bank a/c Calls-in-arrears A/C To share Allotment A/C (Being amount received on allotment)	6,46,800 13,200	 6,60,000
Share First call A/C Dr To share Capital A/C (Being Rs. 2 on 1,00,000 shares due)	2,00,000	 2,00,000
Bank A/C Dr Calls in arrears A/C Dr To share First Call A/C (Being amount receive)	1,90,000 10,000	 2,00,000
Share Capital A/C Dr Share Premium A/C To share allotment A/C To share first call A/C To share forfeited A/c (Being 2000 shares forfeited on non payment)	18,000 10,000	 13,200 4,000 10,800
Share final call A/C Dr To share capital A/C (Being final call @ rs. 1 due On 98,000 shares)	98,000	 98,000
Bank A/C Dr Calls-in-arrears A/C Dr To share final call A/c (Being amount received)	95,000 3,000	
Share capital A/C Dr To share first call A/c To share final call A/c	30,000	 6,000 3,000

To share forfeiture A/C (Being forfeiture of 3000 shares) Bank A/c Dr Share forfeiture A/C Dr To share capital A/C (Being reissue of 5,000 shares @ Rs. 8 per share) Share forfeiture A/C Dr To capital reserve (Being gain on reissue of share transferred to capital reserve)	 40,000 10,000 Dr 21,800	21,000 50,000 21,800

Accounting for Share Capital and Debenture
Issue of Shares

1. What is ESOP?

2. What is issued capital? How does it differ from Authorized capital?

3. Differentiate between Reserve capital and Capital Reserve on the basis of time when it can be used.

4. What do you mean by private placement of shares? What are the options for a company?

5. At what rate interest on Calls –in-Arrears can be charged by a company according to table A.

6. Amex Ltd. Forfeited 10 shares of Re. 10 each (Re. 6 called up) issued at a discount of 10 % to Mr. Y on which he has paid an application money of Re. 3 per share.

Out of these, 8 shares were re-issued to Z as Re. 8 called up for Re. 9 per share. Journalize.

7. Rohit Ltd. Purchased assets worth Re. 41,80,000 from Bhuvnesh Industrial Corporation and issued equity shares of Re. 100 each, fully paid , in satisfaction of the purchase consideration. Pass necessary Journal entries in the books of Rohit Ltd. Assuming that shares were issued:
a.) at par; b.) at a premium of 10%;
c.) at a discount of 5%

8. A limited company has been in corporate with an authorized capital of RS 10,00,000 divided into 1,00,000 shares of Rs 10 each. It offended 90,000 shares for subscription by the public and out of these 85,000 shares were subscribed for. The director called for an amount of rs.6 per share and received the entire amount except a call for rs.2 per share on 500 share. Calculate the amount of different categories of share capital.

9. Apex co. ltd. is registered with an authorized capital of rs5,00000 divided into shares of Rs10 each . the company purchased various assets of kailash for Rs 200000 & payment is made by the issue of 15000 n shares at a premium of 10% & the balance in cash 20000 shares were issued to the public at per & full amount received on application. The company issued 400 shares at a discount of 5% to its promoters against there services. Record Journal entries for the above transaction .

10. Gautam plastics ltd had an authorized capital of Rs 500000 divided into shares of Rs20 of these 8000 shares were issued as fully paid in payment of building purchased .
16000 shares were subscribed for by the public &during the year Rs 10 per share was called up, payable Rs4 on application,Rs2 on allotment , Rs2 on first call &Rs 2 on second call .
the amount received in respect of these shares were as follows –

On 12000 shares full amount called ,
On 2500 shares Rs 8 per share
On 1000 shares Rs 6 per shares
On 500 shares Rs 4 per shares .

The directors forfeited 1500 shares on which less than Rs 8 per shares has been paid .give journal &cash book entries recording the capital transactions of the company.

11. X Ltd issued a prospectus inviting application for 2000 shares of Rs 10 each at a premium of Rs 2 per shares payable as follows;
on application of Rs 2 , on allotment ,RS 5 on first call , Rs 3 on second call & final call of Rs 2
application were received for 3000 shares & pro-rate allotment was made on the application for 2400 shares . Money over paid on application was employed on account of sum due on allotment.
Ramesh to whom 40 shares were allotted failed to pay anything after application & Mohan ,the holder of 60 shares failed to pay the two calls , show journal entries .

12 a.) Eee ltd. forfeited 200 shares of Rs 10 (Re 8 called up) on which the holder had paid application and allotment money of Re. 5 per share. Out of which 50 shares were re-issued to F Ltd. As fully paid for Re. 8 per share. Journalize.

b.) Aptech Ltd. Forfeited 300 shares of Re. 10 each , on which first call of Re. 3 per share was not received, the second and final call of Rs. 2 per share has not yet been called. Out of these 75 shares were reissued to G as Rs. 8 paid up for each share. Journalize.

c.) The directors of M Ltd. Resolved that 2000 equity shares of Rs 10 each on which Rs. 7.50 was paid be forfeited for non payment of final call of Rs 2.50 of these 1800 shares were reissued as fully paid for Rs 6 per share. Journalize.

d.) Y Ltd. Forfeited 100 shares of Rs 100 each issued at 20% premium for non payment of first call of Rs30 per share & second call of Rs 20 per share. Out of these 40 shares were reissued as fully paid up for Rs90 per share. Journalize.

e.) HI Ltd. Forfeited 10 shares of Rs 10 each (Rs.6 called up) issued at a discount of 10% to Mr. Y on which he had paid an application money of Rs. 2 per share. Out of these, 8 shares were reissued to Z as Rs.8 called up for Rs.9 per share. Journalize.

(a. Rs.150; b. Rs375; c. Rs.6300; d. Rs.1600; e. Rs16).

f.) Sakshi Ltd. Issued a prospectus ,inviting application for 100000 shares of Rs.10 each at a premium of Rs.5 per share , payable as follows:

On application Rs.4.50; on allotment Rs.7.50(including premium); on first call Rs.2 and on final call Re.1.00.

Application were received for 125000 shares and allotment was made pro-rated to the applicants of 120000 shares, remaining application being refused. Money received in excess on the application was adjusted towards the amount due to allotment.

D, to whom 2000 shares were allotted, failed to pay allotment money and on his failure to pay the first call, is shares were forfeited.

M, the holder of 3000 shares, failed to pay the calls, and so is shares were also forfeited. All these shares were sold to R, credited as fully paid for Rs.8 per share. Pass necessary journal entries to record the above issue of shares by the company.

(Capital Reserve: Rs.21,800)

Debentures

Hot question solution

Q1 2005

1.)	March 31	p/e Appropriation A/C	Dr	50000
		To Deb. Red..	Res	50000
		(for D.R.R. created)		
2.)	March 31	8 % Debenture A/C	Dr	400000
		To Debenture holder's A/C	400000	
		(for Amount due to debenture holders)		
3.)	March 31	Debenture holder's A/C	Dr	400000
		To Bank A/C		400000
		(for Amount paid to Debenture holders)		
4.)	March 31	Deb. Red. Reserve A/C	Dr	200000
		To General Reserve A/C	200000	
		(for balance in D.R.R. tras to G.R.)		

Q2 Sol.

1.) Bank A/C Dr 96000

To Debenture App. A/C 96000
(for application money received)

2.) Debenture App. A/C Dr 96000
loss on issue of Deb. A/C Dr 12000
To 12% Debenture A/C 100000
To pre. On red. A/C 8000
(for App money tras to Deb. A/C and premium on red. provided)

Q3 Sol.

Debenture can be issued to vendors against purchase of assets or for purchase of a business. This is called issue of debenture as purchase consideration or for consideration other than cash.

Q4 Sol.

1.) Sundry Assets A/C Dr 4000000
To Sundry Liabilities 400000
To Sunil Enterprises A/C 3600000
(for Assets and liabilities acquired)

2.) Sunil Enterprises A/C Dr 3600000
Dis. On issue of Deb. A/C Dr 400000
To 12% Debenture A/C 40000
(for Debenture issued at 10% discount to Sunil Enterprises)
No. of Dib. = 3600000/(100-10)= 40000

Q5 Sol.

1.) Bank A/C Dr 300000
To 12% Deb. App A/C 300000
(for app. Money rece. On deb. Issued at per)

2.) 12% Debenture App. A/C Dr. 300000
To 12% Debenture A/C 300000
(for Deb. App money tras to debenture A/C)

3.) 12 % Deb. A/C Dr 50000
loss on Red.of Deb A/C Dr 5000
To Bank A/C 55000
(being redeemed under call option at Rs 11/-)

4.) p / e A/C Dr 5000
To loss on Red. Of Deb. A/C 5000
(Being loss on Redemption of debentures transferred to p/e A/C)

Qno.6

Sol Issue of debenture as collateral security means, security provided to the lender Over and above the principal security. The debenture issued as collateral Security does not carry any right as long as the terms of the loan are not Contended.

Qno.7

Sol 1) 1.1.2005
Bank A/c Dr 10, 00, 00000
To 6% DLB App. A/C 10, 00, 00000

(Bring app. Money rec.)

2) 6% Debenture App. A/C Dr 10,00,00000
To 6% Debenture A/C 10, 00, 00000
(Bring app. Money tars. To 6% Deb. A/C)

3) 6% Debenture Allotment A/C Dr. 9, 20, 00000
Loss on issued of DLB A/C Dr. 1, 80, 00000
To 6% DLB A/C 10, 00, 00000
To pre on red A/C 1, 00, 00000
(Bring allo. Money due)

4) Bank A/C Dr. 9, 20, 00000
To 6% DLB Allo. A/C 9, 20, 00000
(Bring allo. Money recc.)

Qno.8

Sol Debenture Trust dead is a document created by the company whereby trusts are appointed to protect the interest of debenture holders before they are offered for public subscription.

Qno.9

Sol

1) Bank A/C Dr. 10,00,00,000
To Bank loan A/C 10, 00, 00,000
(Bring loan taken from bank)

2) Debenture suspense A/C Dr 12,00,00,000
To 9% DLB A/C 12, 00,00,000
(Bring deb. Issued as collateral sec.)

Sec. loan	**B/S**	**MIS exp**	
9% Deb. A/C	12, 00, 00, 000	DLB. Sus A/C	12,00,0000
Bank loan	10, 00, 00, 000	C.A(bank)	10,00,00,000

Q.sol. For issue of debenture

1). Bank A\c Dr 380000
To 8% Deb.App. A/C 380000
(being 4000 deb. Of Rs 100 each at a discount of a 5%

2). 8% deb.App.A/C Dr 380000
loss on issue of Deb.A/C Dr 40000

Discount on issue of to 8% Debenture A/C 400000
To pre. On red .A/C 40000
(being app. Money tras. To deb. A/C and pre. On redemption provided)

for redemption

3). 8% Deb.A/C Dr. 400000
to Dis. On issue of Seb A/C 380000
(being amt due to debentureholders)

CASE I

No. of shares =380000\10 =38000
Debentureholders A/C Dr 380000
To equity share cap. A/C 380000
(being 380000 eq. shares are issued at par)

CASE 2
No. of sh =380000/12.50 = 30400
Debentureholders A/C Dr 380000
To equity Sh. Cap. 30400
To security Pre. A\C 76000
(being 30400 eq. sh. Issued at a premium)

CASE 3

No. of sh. = 38000/9.50 =40000
Debentureholder A/C Dr 380000
Dis. On issued of sh AC/Dr 20000
To eq. sh. Cap A/C 400000
(being 40000 sh @ 10/- issued at a discount of 5%)

Q14Sol- Journal entries
(I) Debenture suspense A/c Dr 200000
To 12% Debenture A/C 200000
(being debenture issued as collateral security)

(II) (a) 12% debenture A/c Dr 100000
To debentureholders A/C 100000
(being amt due to debentureholder)
(b) Debetureholders A/c Dr 100000
To 10% pref. Sh. Cap A/c 80000
To security premium A/c 20000
(being pref. shares issued at 25% premium)
No. of shares = 100000/125=800shares

(III)(a) P/e App. A/C dr 50000
To determine Red. Reserve A/C 50000
(being profit transferred to create debenture redemption Reserve)

(b) 12% debenture A/c Dr 100000
Pre. on red A/c Dr 10000
To debentureholders A/c 110000
(being the amt. due on redemption)
(c) Debentureholders A/c Dr 110000
To bank A/c 110000
(being the amt. due on red. Paid)
(d)deb. Red. Reserve A/c dr 50000
To General reserve A/c 50000
(being DRR tras. To genral reserve)
(IV)(a)Int. on debenture A/c Dr 21600
To Debenture A/c 21600
(being the Int. on debenturemade due)
(b)Debentureholders A/c Dr 21600
To Bank A/c 21600
(being the payment of debenture interest)
(c)P/e A/c Dr 21600
To Int. on Deb. A/c 21600
(being Int on Deb. Tras. To P/e A/c)

Q15 Sol-

1. Sundry Assets A/c Dr 400000
Goodwill A/c Dr 30000
To Sundry liabilities A/c 50000
To Mohan Bros. 380000
(for business purchased from Mohan Bros.)

(a) Mohan Bros. Dr 380000
To Debenture A/c 380000
(being 3800 deb. Issued at par to Mohan Bros)
(b) No. of debenture = 380000/90=4222
Mohan Bros A/c Dr 380000
Dis. On issue of Deb A/c Dr 42220
To Debenture A/c 42220
To Bank A/c 20
(being 4222 deb. Issued at 10% dis. And balance is paid in cash to Mohan Bros)
(c) No. of debenture = 380000/110=3454
Mohan Bros A/c Dr 380000
To Debenture A/c 345400
To Security Premium A/c 34540
To Bank A/c 60
(being 3454 debentures of Rs. 100 each issued at 10% premium and balance is paid in cash to Mohan Bros)

Q16 Sol-

1. Plants and Mac. A/c Dr 800000
Land and Building A/c Dr 7200000
To Y Ltd. 8000000
(being assers parchased from Y Ltd.)
2. Y Ltd. A/c Dr 2000000
To Bank A/c 2000000

(being amt. paid by cheque)

3. No. of Deb. = 6000000/120 = 50000

Y Ltd A/c Dr 6000000

To 6% debenture A/c 5000000

To Security Pre. A/c 1000000

(being 50000 deb. Of Rs. 100 each issued at a pre. of 20 /- to Y Ltd.)

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