UNIT 1

ACCOUNTING FOR NOT FOR PROFIT ORGANISATION

Meaning and Characteristics of Not-for- Profit Organisation

Not-for -Profit Organisations refer to the organisations that are for used for the welfare of the society and are set up as charitable which function without any profit motive. Their main aim is to provide service to a specific group or the public at large. Normally, they do not manufacture, purchase or sell goods and may not have credit transactions. They also have to prepare the financial statements at the end of each accounting period (usually a financial year) and ascertain their income and expenditure and the financial position, and submit them to the statutory authority called Registrar of Societies.

The main characteristics of such organisations are*:*

1. Such organisations are formed for providing service to a specific group or public at large such as education, health care, and recreation, sports and so on without any consideration of caste, creed and colour. Its sole aim is to provide service either free of cost or at nominal cost, and not to earn profit.

2. These are organised as charitable trusts/societies and subscribers to such organisation are called members.

3. Their affairs are usually managed by a managing/executive committee elected by its members.

4. The main sources of income of such organisations are:

(i) Subscriptions from members

(ii) Donations (general)

(iii) Legacies (general)

(iv)Grant in-aid

(v) Income from investments, etc.

5. The funds raised by such organisations through various sources are credited to capital fund or general fund.

6. The surplus generated in the form of excess of income over expenditure is not distributed amongst the members. It is simply added in the capital fund.

7. The Not-for-Profit Organisations earn their reputation on the basis of their contributions to the welfare of the society rather than on the customers' or owners' satisfaction.

8. The accounting information provided by such organisations is meant for the present and potential contributors and to meet the statutory requirement.

Final Accounts or Financial Statements:

The Not-for-Profit Organisations are also required to prepare financial statements at the end of the each accounting period. they have to provide the necessary financial information to members, donors, and contributors and also to the Registrar of Societies. For this purpose, they have to Prepare their final accounts at the end of the accounting period and the general principles of accounting are fully applicable in their preparation as stated earlier, the final accounts of a 'not-for-profit organisation' consist of the following:

(i) Receipt and Payment Account

(ii) Income and Expenditure Account, and

(iii) Balance Sheet.

Receipt and Payment Account

It is prepared at the end of the accounting year on the basis of cash receipts and cash payments recorded in the cash book.

FEATURES:

1. It is a summary of cash and bank transactions under various heads.
2. Receipt and Payment Account gives summarised picture of various receipts and payments, irrespective of whether they pertain to the current period, previous period or succeeding period
3. It shows all receipts and payments whether they are of capital or revenue nature.
4. It does not show any non cash item like depreciation.
5. The opening balance in Receipt and Payment Account represents cash in hand/cash at bank which is shown on its receipts side and the closing balance of this account represents cash in hand and bank balance as at the end of the year, which appear on the credit side of the Receipt and Payment Account. However, if it is bank overdraft at the end it shall be shown on its debit side as the last item.
6. it is a legal requirement as the Receipts and Payments Account has also to be submitted to the Registrar of Societies along with the Income and Expenditure Account, and the Balance Sheet.

Format of receipt and payment account

Receipt and Payment Account is given below:

Receipt and Payment Account for the year ending ————

Receipts	*Amount (Rs.)*	*Payments*	*Amount (Rs.)*
Balance b/d		Balance b/d (Bank overdraft)	xxx
Cash in Hand	xxx	Wages and Salaries	xxx
Cash at Bank	xxx	Rent	xxx
Subscriptions	xxx	Rates and Taxes	xxx
General Donations	xxx	Insurance	xxx
Sale of newspaper/ periodicals/waste paper	xxx	Printing and Stationery	xxx
		Postage and courier	xxx
Sale of old sports materials	xxx	Advertisement	xxx
Interest on fixed deposits		Sundry expenses	xxx
Interest/Dividend on general investments	xxx	Telephone charges	xxx
		Entertainment expenses	xxx
Locker Rent	xxx	Audit fees	xxx
Sale of scraps	xxx	Honorarium	xxx
Proceeds from charity show	xxx	Repair and Renewals	xxx
Miscellaneous receipts	xxx	Upkeep of ground	xxx
Grant-in-aid	xxx	Conveyance	xxx
Legacies	xxx	Newspapers and Periodicals	xxx
Specific Donations	xxx	Purchases of Assets	xxx
Sale of Investments	xxx	Purchase of Investments	xxx
Sale of Fixed Assets	xxx	Balance c/d	xxx
Life membership fees	xxx	Cash in hand	xxx
Entrance fees	xxx	Cash at Bank*	xxx
Receipts on account of specific purpose funds	xxx		
Interest on specific funds' investments	xxx		
Balance b/d (Bank Overdraft)*	xxx		
	xxxxx		xxxxx

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Income and Expenditure Account

It is the summary of income and expenditure for the accounting year. It is just like a profit and loss account prepared on accrual basis in case of the business organisations.

1. It includes only revenue items and the balance at the end represents surplus or deficit. The Income and Expenditure Account serves the same purpose as the profit and loss account of a business organisation does.
2. All the revenue items relating to the current period are shown in this account, the expenses and losses on the expenditure side and incomes and gains on the income side of the account.
3. It shows the net operating result in the form of surplus (i.e. excess of income over expenditure) or deficit (i.e. excess of expenditure over income), which is transferred to the capital fund shown in the balance sheet.
4. The Income and Expenditure Account is prepared on accrual basis with the help of Receipts and Payments Account along with additional information regarding outstanding and prepaid expenses and depreciation etc. Hence, many items appearing in the Receipts and Payments need to be adjusted.

Steps in the Preparation of Income and Expenditure Account

Following steps may be helpful in preparing an Income and Expenditure Account from a given Receipt and Payment Account:

1. Persue the Receipt and Payment Account thoroughly.
2. Exclude the opening and closing balances of cash and bank as they are not an income.
3. Exclude the capital receipts and capital payments as these are to be shown in the Balance Sheet.
4. Consider only the revenue receipts to be shown on the income side of Income and Expenditure Account. Some of these need to be adjusted by excluding the amounts relating to the preceding and the succeeding periods and including the amounts relating to the current year not yet received.
5. Take the revenue expenses to the expenditure side of the Income and Expenditure Account with due adjustments as per the additional information provided relating to the amounts received in advance and those not yet received.
6. Consider the following items not appearing in the Receipt and Payment Account that need to be taken into account for determining the surplus/ deficit for the current year :

(a) Depreciation of fixed assets.
(b) Provision for doubtful debts, if required.
(c) Profit or loss on sale of fixed assets.

Distinction between Income and Expenditure Account and Receipt and Payment Account

Basis of Distinction	Not-for-Profit Organisation	Profit Earning Organisations
1. Primary Motive	To provide service to a specific group or the public at large	To earn profit
2. Capital Vs. Capital Fund	They maintain Capital Fund comprising life membership fees, legacies, surpluses etc.	They maintain a Capital Account.

3. Financial Statements	Financial Statements: 1. Receipts and Payments 2. Income and Expenditure Account 3. Balance Sheet	Financial Statements: 1. Trading Account 2. Profit and Loss Account 3. Balance Sheet
4. Surplus Vs. Profit	The net result shown by Income and Expenditure Account is either Surplus or Deficit.	The net result shown by Profit and Loss Account is either Net Profit or Net Loss.
5. Distribution of Profit	Surplus or Deficiency is not distributed among its members. It is adjusted in Capital Fund.	Profit or Loss is distributed among the owners of business.

QUESTIONS

As per Receipt and Payment Account for the year ended on March 31, 2017, the subscriptions received were Rs. 2,50,000. Additional Information given is as follows:

1. Subscriptions Outstanding on 1.4.2016 Rs. 50,000
2. Subscriptions Outstanding on 31.3.2017 Rs.35,000
3. Subscriptions Received in Advance as on 1.4.2016 Rs.25,000
4. Subscriptions Received in Advance as on 31.3.2017 Rs.30,000

Ascertain the amount of income from subscriptions for the year 2016–17

Ans:

Income from subscription for the year 2016–17 =230000

Extracts of Receipt and Payment Account for the year ended March 31, 2017 are given below:

Receipt

Subscriptions	*(Rs.)*
2015-16	2,500
2016-17	26,750
2017-18	1,000
	30,250

Additional Information:

Total number of members: 230.

Annual membership fee: Rs. 125.

Subscriptions outstandings on April 1, 2016: Rs. 2,750.

Prepare a statement showing all relevant items of subscriptions viz., income, advance, outstandings,etc.

Ans:

Amount of subscription due for the year 2016-17 irrespective of cash Rs. 28,750 (i.e. Rs. 125 × Rs. 230).

Details Amount *(Rs.)*

Subscriptions received as per Receipts and Payments Account	30,250
Add: Subscriptions outstanding on March 31, 2016	2,250
Add: Subscriptions received in advance on April 1, 2016	NIL
	32,500
Less: Subscriptions outstanding on April 1, 2016	2,750
	29,750
Less: Subscriptions received in advance on March 31, 2017	1,000
Income from Subscription for the year 2016-17. (125×230)	28,750

From the following extract of Receipt and Payment Account and the additional information, compute the amount of income from subscriptions and show as how they would appear in the Income and Expenditure Account for the year ending March 31, 2015 and the Balance Sheet.

Receipt and Payment Account for the year ending March 31, 2015

Receipts	*Amount (Rs.)*	
Subscriptions:		
2013-14	7,000	
2014-15	30,000	
2015-16	5,000	42,000

Additional Information: Rs.

1. Subscriptions outstanding March 31, 2014 8,500
2. Total Subscriptions outstanding March 31, 2015 18,500
3. Subscriptions received in advance 4,000
as on March 31, 2014

Ans:

Income and Expenditure Account
for the year ending on March 31, 2015

Subscriptions Received for 2014-15	30,000
Add: Outstanding for 2014-15	17,000
Add: Received in advance for 2014-15	4,000
	51,000

Note: Total amount of subscriptions outstanding as on 31-3-2015 are Rs. 18,500. This,includes Rs. 1,500 (Rs. 8,500 – Rs. 7,000) for subscriptions still outstanding for 2013–14. Hence, the subscriptions outstanding for 2014–15 are Rs. 17,000(Rs. 18,500 – Rs. 1,500).

Balance Sheet (Relevant Data) as on March 31, 2015

LIABILITIES	RS	ASSETS	Rs
Subscription Received in Advance for 2014-15	5000	Subscription Outstanding: 2013-14 1,500 2014-15 1,7000	18500

Subscriptions received by the health club during the year 2015 were as under:

Rs.	
2014	3,000
2015	96,000
2016	2,000
	1,01,000

Subscriptions Outstanding as on 31.12.14 5,000
Subscriptions Outstanding as on 31.12.15 1 2,000
Subscriptions received in advance in 2014 for 2015 5,000
Calculate the amount of subscriptions to be shown on the income side of Incomeand ependiture A/c.

Following is the information given in respect of certain items of a Sports Club.Show these items in the Income and Expenditure Account and the BalanceSheet of the Club:

Sports Fund as on 1.4.2015	35,000
Sports Fund Investments	35,000
Interest on Sports Fund	4,000
Donations for Sports Fund	15,000
Sports Prizes awarded	10,000
Expenses on Sports Events	4,000
General Fund	80,000
General Fund Investments	80,000
Interest on General Fund Investments	8,000

Ans:
Balance of Sports Fund Rs. 40,000

How would you treat the following items in the case of a 'not-for-profit' organisation?
1. Tournament Fund Rs. 40,000. Tournament Expenses Rs. 14,000. Receipts from Tournament Rs. 16,000.
2. Table Tennis match expenses Rs. 4,000.
3. Prize Fund Rs. 22,000. Interest on Prize fund Investments Rs. 3,000. Prizes given Rs. 5,000. Prize fund investments Rs. 18,000.
4. Receipts from Charity Show Rs. 7,000. Expenses on Charity Show Rs. 3,000.
Ans :
1. There is a specific tournament fund. The accounting treatment is asunder:

Liabilities side of the Balance Sheet	*Amount (Rs.)*
Tournament fund	40,000
Add: Receipts from tournament	16,000
	56,000
Less: Tournament Expenses	14,000
Balance to remain on the Liabilities side of the balance sheet	**42,000**

2. There is no specific fund. So the amount incurred on Table Tennis matchexpenses Rs. 4,000 would be shown on the debit side of Income andExpenditure Account. It is the case of expenses independent of any specific fund.
3. There is a specific fund. The accounting treatment is as under:

Liabilities side of the Balance Sheet	*(Rs.)*
Prize Fund	22,000
Add: Interest	3,000
	25,000
Less: Prizes Paid	5,000
Balance to remain on the Liabilities side of theBalance Sheet	**20,000**

Prize fund Investments would appear on the AssetsSide of the Balance Sheet 18,000
4. There is no specific fund. Receipts from Charity Show would be shownon the credit side and expenses on charity show are deducted from thereceipts and the net amount would be shown on the credit side of Income and Expenditure Account.

Prepare Income and Expenditure Account from the following particulars of Youth Clul for the year ended on 31st March,2018:

Receipts and Payments A/c
for the year ended on 31st March, 2018

Receipts	Amount (₹)	Payments	Amount (₹)
To Balance b/d	32,500	By Salaries	31,500
To Subscription		By Postage	1,250
2016-17 1,500		By Rent	9,000
2017-18 60,000		By Printing and	
2018-19 1,800	63,300	Stationery	14,000
To Donations		By Sports Material	11,500
(Billiards table)	90,000	By Miscellaneous	
		Expenses	3,100
To Entrance Fees	1,100	By Furniture (1.10.2017)	20,000
To Sale of old		By 10% investment	
magazines	450	(1.10.2017)	70,000
		By Balance c/d (31.3.18)	27,000
	1,87,350		**1,87,350**

Additional Information:

i. Subscription outstanding as at March 31st 2018 ₹ 16,200
ii. ₹ 1200 is still in arrears for the year 2016-17 for subscription
iii. Value of sports material at the beginning and at the end of the year was ₹ 3,000 and ₹ 4,500 respectively.
iv. Depreciation to be provided @ 10% p.a. on furniture.

Income And Expenditure A/c
For the year ended 31st March, 2018

Dr **Cr**

Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
To Salaries	31,500	By Subscription 60,000	
To Postage	1,250	Add Outstanding Subscription	75,000
		15,000	
To Rent	9,000	By Entrance Fees	1,100
To Printing and Stationery	14,000	By Sale of old magazines	450
To Miscellaneous Expenses		By Interest on Investment	3,500
	3,100		
To Consumption of Sports			
Material	10,000		
To Depreciation on Furniture	1,000		
To Surplus	10,200		
	80,050		**80,050**

Working Notes:-

i) Consumption of Sports Material = Opening stock of sports material+ Purchases of sports material during the year – Closing stock of sports material
= ₹ 3,000 + ₹ 11,500 – ₹4,500= ₹ 10,000

ii) Depreciation of Furniture = ₹ 20,000 X (6/12) X (10/100) = ₹ 1,000

iii) Interest on Investment = ₹ 70,000 X (10/100) X (6/12) = ₹ 3,500

RETIREMENT AND DEATH OF A PARTNER

A partner has right to retire from the firm after giving due notice in advance. After retirement a new partnership comes into existence between the remaining partners. Partner can retire from the firm in the following circumstances.

- With the consent of the all the partners
- As per the terms of the partnership agreement
- By giving a notice in writing to all other partners, if the partnership is at will.

Following accounting treatments are done while retiring a partner.

1) Calculation of a new ration and gaining/sacrificing ration (in some cases) ration.
2) Treatment of goodwill.
3) Adjustment of revaluation of assets and liabilities.
4) Adjustment of undistributed reserves and profits and losses A/c.
5) Capital adjustments and preparing opening balance sheet.

CALCULATION OF NEW RATIO AND GAINING RATIO: -

New ratio = Old share + Acquired share

Gaining ratio = New ratio- Old ratio

Gaining ratio is calculated to ascertain the amount of goodwill payable to retiring or deceased partner by the remaining partners.

TREATMENT OF GOODWILL:-

The retiring partner share of goodwill is credited to capital account of respective partner and debited to remaining partners' capital in gaining ratio.

JOURNAL ENTRY:-

Gaining partner's Capital A/c --Dr (With the share of Goodwill)

To Retiring or Deceased Partner's Capital A/c (in gaining ratio)

The existing goodwill (if any) will be written off by debiting all partners' capital account in their old ratio and crediting the goodwill account.

Old partners' Capital A/c--Dr (in old ratio)

To Goodwill A/c (Goodwill existing goodwill)

Distribution of profit and loss on revaluation at the time of retirement/ Death of partner

Profit/Loss on revaluation will be shared between all the partners in their old profit sharing ratio.

(Journal entries for the revaluation of assets and liabilities and finding out profits or losses are same like the previous topic admission of partner)

Journal entry for the transfer of profit and loss on revaluation at the time of retirement/ death of a partner.

For Profits:

Revaluation A/C Dr.

To All Partner's Capital A/C (in old ratio)

(Being profit on revaluation transferred to all partners' capital account in old profit sharing ratio) **For Losses:**

All Partners' capital A/C Dr. (in old ratio)

To Revaluation A/c

(Being loss on revaluation transferred to all partners' capital account in old profit sharing ratio**)**

Treatment of undistributed profit at the time of retirement/death of the partner.

Special Note: - Reserves are always undistributed profits whereas P&L A/c may be profits or losses. If P&L A/c is having credit balance or given on liability side it is profit andif P&L A/c is having debit balance or given on assets side it is loss.

The undistributed **profits** are transferred to all partners' capital account in the old profit sharing ratio.

General Reserve A/c Dr.

Profit & Loss A/c Dr.

To All partners' capital account (in old ratio)

(Being undistributed profits transferred to all partners' capital accounts in old ratio)

Treatment of undistributed losses at the time of retirement/death of a partner

The **undistributed losses** are transferred to all partners' capital accounts in their old profit sharing ratio.

All partners' Capital A/c Dr. (in old ratio)

To profit & loss A/c

(Being undistributed losses are transferred to all partners' capital account in old profit ratio)

Calculation of share of profit of the deceased partner

In case of death of a partner during the accounting year the executor of the deceased partner is entitled to a share of profit earned by the firm from the date of last balance sheet to the date of the death. The following two methods are used for ascertaining the profit of that period:

(a) On the basis of time:-

Deceased partner's share = Last year profit/Average profits x period(in months/days)/12/365 X Deceased partner's share of profits

Note: Period here means from the period from the beginning of the financial year to the date of death.

(b) On the basis of sales :First of all find out the %age of Net Profit to sales on the basis of profits and sales of previous year and apply the same %age of Net Profit on Current Year's Sales.

Net profit for Current Year = Sales for the period * Rate of Net Profit /100

Journal entry

Profit & Loss Suspense A/c Dr. (with the share of profit for the period)
To Deceased Partner's Capital A/c

Calculation of the amount payable to the representative of deceased partner The representative of the deceased partner is entitled to the following.

i. The balance standing on the credit of the deceased partner capital and current account ii. His share of profit in the goodwill of the firm.
iii. His share of profit in the revaluation of assets and liabilities
iv. His share of reserve and accumulated profits
v. His share of profit upto the date of death vi. Interest on capital if provided in the partnership agreement

The following amount will be debited to the account of the deceased partner for ascertaining the amount due to his representative.

i. His drawings
ii. Interest on drawings, if provided in the partnership deed
iii. His share of losses on revaluation of assets and liabilities
iv. His share of losses upto the date of his death
v. Loan to deceased partner.

The whole Accounting treatment / entries are passed in the same way as in case of Retirement of a Partner i.e. the Goodwill is to be given to deceased partner by the Gaining Partners in Gaining Ratio ; Accumulated Profits & Reserves are to be given in the old ratio itself. Accumulated Losses are to be charged in the old ratio. After preparing the Deceased Partners' Capital Account , the balance in his capital account will be transferred to Deceased Partners' Executors Account.

From Deceased Partners' Executors Account, Amount may be paid in cash or transferred to Executors' Loan Account

QUESTIONS
What is meant by Gaining ratio? Ans: **Gaining ratio**- it is the ratio in which the continuing/remaining partners gain or take over the profit share of the retiring or deceased partner Gaining ratio= New ratio- Old ratio
Mention the circumstances in which gaining ratio is applied Ans: i) To calculate new profit sharing ratio ii) To divide the retiring/deceased partner's share of g/w among the remaining/continuing partner.
Explain the treatment of goodwill at the time of retirement of a partner. ANS:TREATMENT OF GOODWILL:- The retiring partner share of goodwill is credited to capital account of respective partner and debited to remaining partners' capital in gaining ratio. JOURNAL ENTRY:- Gaining partner capital a/c/Current A/c Dr (With the share of Goodwill)

To Retiring or Deceased partner capital a/c (in gaining ratio)

The existing goodwill (if any) will be written off by debiting all partners' capital account in their old ratio and crediting the goodwill account.

JOURNAL ENTRY:-

Old partners' capital a/c/ current a/c Dr (in old ratio)

To Goodwill a/c (Goodwill existing goodwill)

Special Note: - Goodwill cannot be shown in books unless and until it is purchased by paying some consideration. (AS-26)

A, B, & C are partners with ratio 4:5:6. Find out new ratio if:
i) A retires ii). B retires iii) C retires.

Ans: Old ration between partners A, B, & C is 4:5:6. So new ration i). 5:6, ii) 4:6, iii) 4:5

Calculation of deceased partner's share of profit

on the basis of time: in this method profits are assumed to have accrued on uniform basis over the year.

deceased partner's share of profit=

time from the beginning of the year *profit of the year to the date of death_* deceased partner's share in profit * no. of months/weeks/days in a yr.

A, B and C are partners in the ratio of 3:2:2 A died on 30th June 2016. His share of profits upto the date of death are:

12000 *3/12* 3/7= Rs. 1286/-

on the basis of sales or turnover: under this method deceased partner's share of profit is calculated on the basis of sales from the beginning of the year to the date of death. Sales are treated to be occurred in the same ratio as in the last year.

Example: A,B and C are partners in the ratio of 3:3:2.

Last year sale 100000

Last year profit 15000.

A died 01-04-2009 sales from 1-1-09 to 31-03-09 20000

%age of profits 15000/100000*100= 15%

His share of profits= 20000*15%*3/8

Last year profits 15000

A died 01-04-2009 It is assumed that sales has been occurred on the same scale as in the last Year.

15000/12 *3*3/8

A, B and C are partners in a firm sharing profits in the ratio of 5:3:2. A retires and his share is taken up by B and C equally. Goodwill of the firm is Rs. 60000. Pass necessary journal entry.

Sol:- B's Capital a/c Dr 15000.00

C's Capital a/c Dr 15000.00

To A's Capital/c 30000.00

(Being adjustment of goodwill done on retirement of A)

Working Note: - Old Ratio is 5:3:2, New Ratio 11:9 and gaining ratio is 1:1. A's share of goodwill =60000*5/10=30000.

1. **What is the journal entry for the transfer of profit and loss on revaluation at the time of retirement/ death of a partner.**

   For Profits:

   Revaluation A/C Dr.

   To All Partner's Capital A/C (in old ratio)

   (Being profit on revaluation transferred to all partners' capital account in old profit sharing ratio)

For losses:
All the partners' capital A/C Dr. (in old ratio)
To Revaluation A/c
(Being loss on revaluation transferred to all partners' capital account in old profit sharing ratio)

2. **What is the treatment of undistributed profit at the time of retirement/death of the partner.**

Ans: Special Note: - Reserves are always undistributed profits whereas P&L a/c may be profits or losses.
If P&L a/c is having credit balance or given on liability side it is profit and if P&L a/c is having debit balance or given on assets side it is loss.
The undistributed profits are transferred to all partners' capital account in the old profit sharing ratio.
General Reserve a/c Dr.
Profit & Loss a/c Dr.
To All partners' capital account (in old ratio)
(Being undistributed profits transferred to all partners' capital accounts in old ratio)
Treatment of undistributed losses at the time of retirement/death of a partner The undistributed losses are transferred to all partners' capital accounts in their old profit sharing ratio.
All partners' Capital a/c Dr. (in old ratio)
To profit & loss a/c
(Being undistributed losses are transferred to all partners' capital account in old profit ratio)

At the time of death of a partner what his/her representative will get?

Ans: The representative of the deceased partner is entitled to the following.

i. The balance standing on the credit of the deceased partner capital and current account
ii. His share of profit in the goodwill of the firm.
iii. His share of profit in the revaluation of assets and liabilities
iv. His share of reserve and accumulated profit
v. His share of profit up to the date of death
vi. Interest on capital if provided in the partnership agreement

What are the ways in which a partner can retire from a firm?

Ans:

i) With the consent of all other partners.
ii) With an express agreement by all other partners.
iii) By giving a written notice.

Write the various matters that need adjustment at the time of retirement of a partner:

Ans:
Calculation of new and gaining ratio
Calculation of goodwill and its accounting treatment
Revaluation of assets and liabilities
Settlement of amount due to the partner.
Adjustments of capital accounts of remaining partners in their new profit-sharing ratio.

A, B and C are partners sharing profits in the ratio of 2:2:1. A retires and after all adjustment relating to revaluation, goodwill and accumulated profits the capital account of B showed a credit balance of Rs. 140000, and that of C 100000, it was decided to adjust the capitals of B and C in their profit sharing ratio. Calculate the new capitals of the partners and record necessary entry for bringing in or withdrawing cash. Show calculation work clearly.

Journal entries :-

Bank a/c Dr, To B's capital a/c 20000 each side

C's capital a/c Dr, To bank a/c 20000 each side

Necessary working note also required

Naresh, David and Aslam are partners sharing profits in the ratio of 5:3:7 on april 1st 2012, Naresh gave a notice to retire from the firm. David and aslam decided to share future profits in the ratio of 2:3. The adjusted capital accounts of david and aslam show a balance of Rs. 33000, and Rs.70500 respectively. The total amount to be paid to Naresh is Rs. 90500, This amount is to be paid by David and Aslam in such a way that their capital become proportionate to their new profit sharing Ratio. Pass necessary journal entries for the above transactions in the books of the firm. Show your working clearly.

Necessary journal entries and relevant working note (total capital of new firm 194000,amount to be brought in by David44600, Aslam45900)

A ,B and C are partners in a firm sharing profits in the ratio of 5:3:2 on 1st april 2016, the capitals of the partners were Rs.500000, Rs.300000, and 200000, respectively. The firm closes its books on 31st march every year, C dies on 5 april 2016, On this that :

a. **goodwill of the firm was valued at Rs.30000, and**
b. **gain on Revaluation was calculated at Rs.8000**
c. **Advertisement Suspense Account appearing in the books was Rs.10000**
d. **C's share of profit till the date of his death was calculated as Rs.200. Prepare C's capital a/c to be rendered to his executors.**

Amount due to C's Executors Rs2,05,800 (4 marks for C's Executor a/c)

DISSOLUTION OF PARTNERSHIP FIRM

Meaning of dissolution of partnership firm

Dissolution of partnership firm means that the firm closes down its business and comes to an end. On the dissolution of partnership firm, assets of the firm are sold and liabilities are paid off and out of remaining amount the accounts of partners are settled.

Thus, in case of dissolution of partnership, the firm may continue i.e. it does not mean the dissolution of firm. But in case of dissolution of the firm, the partnership is automatically dissolved.

Modes of dissolution of partnership firm:-

1) By mutual Agreement (Sec. 40)

2) Compulsory Dissolution (Sec. 41)

3) On Happening of an event (Sec. 42)

4) By Notice (Sec. 43)

5) By order of the Court (Sec. 44)

Difference between Realisation Account and Revaluation Account.

Realisation A/c is prepared at the time of dissolution of firm and Revaluation A/c is prepared at the time of admission/retirement or death of a partner.

Dr. **FORMAT OF REALISATION A/C** **Cr.**

PARTICULARS	AMOUNT	PARTICULARS	AMOUNT
To Sundry assets	XXXXX	By Sundry liabilities	xxxxx
To Bank:	Xxxxx	By Prov. for d.debts	xxxxx
(Liabilities Paid)		By Bank:	xxxxx
To Bank:	XXXXX	(sundry Assets Realized)	
(Unrecorded liabilities		By Bank:	xxxxx
paid)		(unrecorded assets	
To Partners cap. A/c	XXXX	realized)	
(liab. Paid by partners)		By Partners cap. A/c	xxxxx
To profit transferred to		(Assets taken by	
Partners cap. A/C:		partners)	
A XX		By Loss transferred to	

B XX C XX	xxxxx	Partners cap. A/C: A XX B XX C XX	Xxxxx
TOTAL	xxxxxx	TOTAL	xxxxxx

Journal entries:-

For closing of various asset accounts on the dissolution of partnership firm

Realization A/c Dr.

To Sundry Asset A/c (By Name)

(Except cash, bank balance and fictitious assets)

For closing various liabilities accounts on the dissolution of partnership firm

Sundry Liabilities A/c Dr (By name)

To Realisation A/c

(Except partner's loan, capital and accumulated profits)

(Only those liabilities which relate to third party are transferred to Realization A/c.)

For payment of liability (Whether recorded or unrecorded)

Realisation A/c Dr

To Cash or Bank A/c

(For liability paid)

For assuming of liability by partner (Whether recorded or unrecorded)

Realisation A/c Dr

To Partner capital A/c

(For liability paid)

For sale of asset (Whether recorded or unrecorded)

Cash or Bank A/c Dr

To Realisation A/c

(For cash realized from sale of asset)

For asset taken over by partner (Whether recorded or unrecorded)

Partner Capital A/c Dr

To Realisation A/c

(For cash realized from sale of asset

For payment of realization expenses by firm

Realisation A/c Dr

To Cash or Bank A/c

(For realization expenses paid)

For payment of realization expenses by Partner

Realisation A/c Dr

To Partner capital A/c

(For realization expenses paid)

For payment of partner's loan by firm

Partner's Loan A/c Dr

To Cash or Bank A/c

(For partner's loan paid)

The undistributed **profits** are transferred to all partners' capital account in their sharing ratio.

General Reserve A/c Dr

Profit & Loss A/c Dr

To All partners' capital account (in their ratio)

(Being undistributed profits transferred to all partners' capital accounts)

The **undistributed losses** are charged from all partners' in their profit sharing ratio.

All partners' Capital A/c Dr. (in their ratio)

To profit & loss A/c

(Being undistributed losses are transferred to all partners' capital account)

Accounts prepared at the time of dissolution of partnership firm

1. Realisation A/c
2. Partner's Loan A/c
3. Partners' capital A/c
4. Cash or Bank A/c

Q.No	Questions
1	**Explain the accounting treatment of assets and liabilities not recorded in the books of accounts at the time of dissolution of firm.** For assets: Cash A/C dr. To Realization A/C For liabilities: Realization A/C dr To cash A/C
2	**State any two objectives of preparing realization account?** Ans : 1. To know the profit or loss on realization 2. to close the balance sheet in the books
3	**State any two differences between dissolution of partnership and dissolution of partnership firm.** Differences:- 1. Dissolution of partnership means to change in the existing agreement between the partnership whereas dissolution of firm means the dissolution of partnership between all partners of the firm. 2. In dissolution of partnership business of the firm is continued and in dissolution of firm the business is closed down.
4	**What is the accounting treatment if firm pays dissolution expenses on behalf of partner?** Partners Capital account is debited and cash/bank account is credited.
5	**What is the treatment of goodwill if it is given in the balance sheet?** Goodwill is treated just like any other asset and is written in the debit side of the Reaslisation account and whatever amount is realized , it is written in the credit side of Realisation account .
6	**State any two cases where court orders the dissolution of firm.** a) When a partner becomes insane. b) When a partner becomes permanently incapable of performing his duties as a partner.
7	**State the provisions of section 48 regarding settlement of accounts** Section 48: - a) Treatment of losses:- Losses, including deficiencies of capital, shall be paid: i) first out of profits, ii) next out of capital of partners and iii) lastly, if necessary, by the partners individually in their profit sharing ratio. b) Application of assets:- The assets of the firm, including any sum contributed by the partners to make up deficiencies of capital, shall be applied in the following manner and order: i) in paying the debts of the firm to the third parties. ii) in paying the partners loan. iii) in paying the partners capital. iv) the balance, if any, shall be divided among the partners in their profit sharing ratio.

8	**Journalise the following transactions assuming that the assets (except cash) and outside liabilities are transferred to Realisation account:-** **i) X, a partner agrees to pay the loan taken from his wife Rs. 5000.** **ii) Unrecorded typewriter realized Rs. 8000.** **iii) Y, a partner agrees to take over investment at Rs. 6000.** **iv) Realisation expenses paid by partner privately.** i) Realisation a/c Dr. 5000 To X's capital a/c 5000 ii) Cash a/c Dr. 8000 To Realisation a/c 8000 iii) Y's capital a/c 6000 To Realisation a/c 6000 iv) No entry since it is paid privately
9	**How are the accumulated profits and general reserve treated on the dissolution of the firm?** Accumulated profits /gen reserve A/C dr. To all partner capital A/C
10	**state which of the following statements is true or false** a) Provident fund is paid to the employees at the time of dissolution of the firm b) Insolvency of a partner will always lead to the dissolution of the firm c) Goodwill is sold like other assets d) A loan from a partner and a loan from his wife will be treated in the same way e) Partners capital are paid before paying the partners loan f) All accounts are closed when dissolution process is completed g) Realization expenses are always paid by the firm h) On dissolution of the firm, all partners will be paid interest on capital i) Creditors like wages outstanding have to be paid first j) Realization account and the revaluation account mean the same thing. ANS: F,F,F,F,F,T,F,F,T,F
11	**Pass necessary journal entries for the following transaction.** **a. Realisation expenses Rs 1350.** **b. Sale of an unrecorded asset for- Rs 5,200.** **c. Stock of Rs 12,000 taken over by a partner.** **d. Loss of Rs 15,000 on realisation.** **e. Payment of the Rs 4,500 to the creditors.**

S.NO	PARTICULARS	DR. AMOUNT	CR AMOUNT
1	REALISATION A/C DR TO CASH A/C	1350	 1350

	2	CASH A/C TO REALISATION	DR	5200	 5200
	3	PARTNER'S CAP. A/C TO REALISATION	DR	12000	 12000
	4	PARTNER'S CAP. A/C TO REALISATION	DR	15000	 15000
	5	REALISATION A/C TO CASH A/C	DR	4500	 4500

12 **Ram and Rahim were partners sharing profits as 3:2. They dissolved their firm on December 31, 2016. On that date their capitals were Rs 1, 50,000 and Rs 2, 00,000respectively. Creditors were Rs 50,000, General reserve of Rs 30,000 and cash at bank 80000. All the assets realized Rs 2, 20,000. The expenses of realisation came to be Rs 500. Close the books of the firm.**

REALISATION A/C

Particulars	Amount	Particulars	Amount
TO SUNDRY ASSETS	350000		
TO CASH	50000	BY CREDITORS	50000
TO CASH	500	BY CASH	220000
		BY RAM'S CAPITAL A/C RAHIM,S CAPITAL A/C	78300 52200
	400500		400500

PARTNERS CAPITAL A/C

PARTICULARS	RAM	RAHIM	PARTICULARS	RAM	RAHIM
TO REALISATION	78300	52200	BY BAL B/D	150000	200000
TO CASH A/C	89700	159800	BYGENERAL RES.	18000	12000
	168000	212000		168000	212000

CASH A/C

Particulars	Amount	Particulars	Amount
TO BAL B/D	80000	BY CREDITORS	50000
TO REALISATION	220000	BY REALISATION	500
		BY RAM'S CAP RAHIM'S CAP	89700 159800
	300000		300000

13 **Ajit and Bljit were partners sharing profits equally. They decided to dissolve their firm on March 31, 2016. The assets (other than cash of Rs 5,000) realized Rs 3, 30,000. The liabilities and other assets on that date were as follows:**

Ajit and Baljit's Capitals-Rs 2,50,000 and Rs 1,50,000 respectively; Creditors- Rs

40,000.Assets other than cash were Rs 4,35,000.

Prepare necessary ledger accounts on dissolution of firm.

REALISATION A/C

Particulars	**Amount(Rs.)**	**Particulars**	**Amount(Rs.)**
TO SUNDRY ASSETS	435000	BY CREDITORS	40000
TO CASH	40000	BY CASH	330000
		BY AJIT'S CAPITAL A/C BLJIT,S CAPITAL A/C	52500 52500
	475000		475000

PARTNERS CAPITAL A/C

PARTICULARS	**AJIT**	**BALJIT**	**PARTICULARS**	**AJIT**	**BALJIT**
TO REALISATION	52500	52500	BY BAL B/D	250000	150000
TO CASH A/C	197500	97500			
	250000	150000		250000	150000

CASH A/C

Particulars	**Amount(Rs.)**	**Particulars**	**Amount(Rs.)**
TO BAL B/D	5000	BY CREDITORS	40000
TO REALISATION	330000		
		BY AJIT'S CAP BALJIT'S CAP	197500 97500
	335000		335000

14 **Moon and Star shared profits as 3:2 respectively. They dissolved their business on March 31, 2016. On that date their capitals were Rs 2, 00,000 and Rs 1, 00,000 respectively. Star's loan to the firm was Rs 54,000 and there was a loan by the firm to Moon of Rs 64,000. All assets other than Moon's loan realized Rs 2, 40,000. Expenses on realization amounted to Rs 2,100. Close the books of firm and prepare necessary ledger accounts.**

REALISATION A/C

Particulars	Amount(Rs.)	Particulars	Amount(Rs.)
TO SUNDRY ASSETS	290000	BY CASH	240000
TO CASH	2100	BY MOON'S CAPITAL A/C STAR,S CAPITAL A/C	31260 20840
	292100		292100

PARTNERS CAPITAL A/C

PARTICULARS	MOON	STAR	PARTICULARS	MOON	STAR
TO REALISATION	31260	20840	BY BAL B/D	200000	100000
TO MOON LOAN	64000				
TO CASH A/C	104740	79160			
	200000	100000		200000	100000

STAR LOAN A/C

Particulars	Amount(Rs.)	Particulars	Amount(Rs.)
TO BAL B/D	54000	BY CASH	54000
	54000		54000

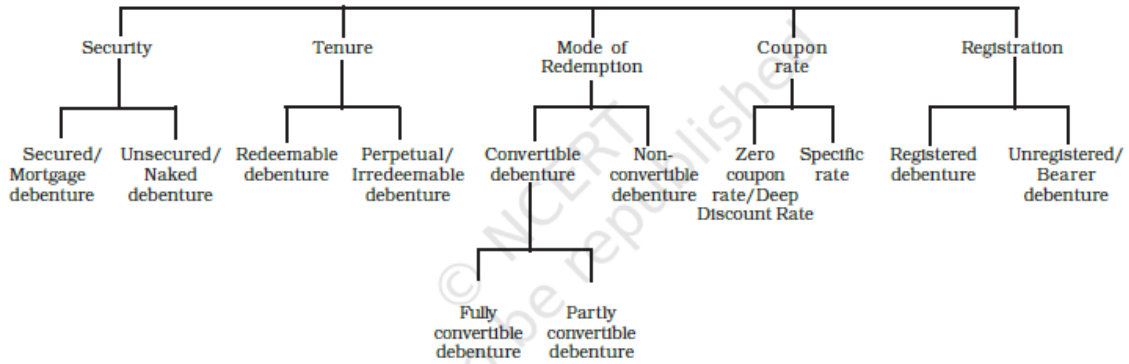
CASH A/C

Particulars	Amount(Rs.)	Particulars	Amount(Rs.)
TO BAL B/D	-------	BY STAR LOAN	54000
TO REALISATION	240000	BY REALISATION	2100
		BY MOON'S CAP STAR'S CAP	104740 79160
	240000		240000

Issue of debentures

Meaning of Debentures: According to section 2(30) of The Companies Act, 2013'Debenture' includes Debenture Inventory, Bonds and any other securities of a company whether constituting a charge on the assets of the company or not.

Types of Debenture/Bond



Issue of Debentures

Debentures can be issued at par, at a premium or at a discount. They can also be issued for consideration other than cash or as a collateral security.

Issue of Debentures for Cash

Debentures are said to be issued at par when their issue price is equal to the face value. The journal entries recorded for such issue are as under:

(a) *If whole amount is received in one instalment:*

(i) On receipt of the application money

Bank A/c Dr.
To Debenture Application & Allotment A/c

(ii) On Allotment of debentures

Debenture Application & Allotment A/c Dr.
To Debentures A/c

(b) *If debenture amount is received in two instalments:*

(i) On receipt of application money

Bank A/c Dr.
To Debenture Application A/c

(ii) For adjustment of applications money on allotment

Debenture Application A/c Dr.
To Debentures A/c

(iii) For allotment money due

Debenture Allotment A/c Dr.
To Debentures A/c

(iv) On receipt of allotment money

Bank A/c Dr.
To Debenture Allotment A/c

(c) *If debenture money is received in more than two instalments*

Additional entries:

(i) On making the first call

Debenture First Call A/c Dr.
To Debentures A/c

(ii) On the receipt of the first call

Bank A/c Dr.

To Debenture First Call A/c

Issue of Debentures at a Discount

When a debenture is issued at a price below its nominal value, it is said to be issued at a discount. The discount on issue of debentures can be written off either by debiting it to or out of Securities Premium Reserve, if any, during the life time of debentures.

Discount on issue of debentures to be written off within 12 months of the balance sheet date or the period of operating cycle is shown under 'Other Current Assets' and the part which is to be written off after 12 months of balance sheet is shown under 'Other Non-Current Assets'. The Companies Act, 2013 does not impose any restrictions upon the issue of debentures at a discount.

Illustration

TV Components Ltd., issued 10,000, 12% debentures of Rs. 100 each at a discount of 5% payable as follows:

On application Rs. 40

On allotment Rs. 55

Show the journal entries including those for cash, assuming that all the instalments were duly collected. Also show the relevant portion of the balance sheet.

Solution:

Books of TV Components Ltd.

Journal

Date	*Particulars*		*L.F.*	*Debit Amount (Rs.)*	*Credit Amount (Rs.)*
	Bank A/c	Dr.		4,00,000	
	To 12% Debenture Application A/c				4,00,000
	(Receipt of application money @ Rs 30 per debenture)				
	12% Debenture Application A/c	Dr.		4,00,000	
	To 12% Debenture A/c				4,00,000
	(Transfer of application money to debenture account)				
	12% Debenture Allotment A/c	Dr.		5,50,000	
	Discount on Issue of Debentures A/c			50,000	
	To 12% Debenture A/c				6,00,000
	(Allotment money due on debentures)				
	Bank A/c	Dr.		5,50,000	
	To 12% Debenture Allotment A/c				5,50,000
	(Receipt of allotment money on debentures)				
	Securities Premium Reserve/Statement of Profit and Loss A/c.	Dr.		50,000	50,000
	To Discount on Issue of Debentures A/c.				
	(Discount on issue of debentures written off)				

TV Components Limited

Balance Sheet as at.....

Particulars	*Note No.*	*Amount (Rs.)*
I. Equity and Liabilities		
1. Shareholders' Funds		
Reserves and Surplus		
2. Non-Current Liabilities		
Long-term borrowings	2	**9,50,000**
II. Assets		
a) Cash and Cash Equivalents	3	9,50,000
		9,50,000

Notes to Accounts

Particulars	*Amount (Rs.)*
1. Reserves and Surplus	
Surplus, i.e., Balance in Statement of Profit and Loss	(50,000)
2. Long-term borrowings	
10,000, 12% secured debentures of Rs. 100 each	10,00,000
3. Cash and Cash Equivalents	9,50,000
Cash at bank	

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Debentures issued at Premium

A debenture is said to be issued at a premium when the price charged is more than its nominal value. The amount of premium is credited to Securities Premium Reserve account and is shown on the liabilities side of the balance sheet under the head "Reserves and Surpluses".

Illustration

XYZ Industries Ltd., issued 2,000, 10% debentures of Rs. 100 each, at a premium of Rs. 10 per debenture payable as follows:

On application Rs. 50

On allotment Rs. 60

The debentures were fully subscribed and all money was duly received.

Record the journal entries in the books of a company. Show how the amounts will appear in the balance sheet.

Books of XYZ Industries Limited
Journal

Date	Particulars	L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
	Bank A/c Dr.		1,00,000	
	To 10% Debenture Application A/c			1,00,000
	(Application money Rs. 50 per debentures received)			
	10% Debenture Application A/c Dr.		1,00,000	
	To 10% Debentures A/c			1,00,000
	(Transfer of application money to debenture account)			
	10% Debenture Allotment A/c Dr.		1,20,000	
	To 10% Debentures A/c			1,00,000
	To Securities Premium Reserve A/c			20,000
	(Allotment money due on debentures including the premium)			
	Bank A/c Dr.		1,20,000	
	To 10% Debenture Allotment A/c			1,20,000
	(Allotment money received)			

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XYZ Industries Limited
Balance Sheet as at ———

Particulars	Note No.	Amount (Rs.)
I. Equity and Liabilities		
1. Shareholders' Funds		
Reserve and Surplus	1	20,000
2. Non-current Liabilities		
Long-term borrowings	2	2,00,000
		2,20,000
II. Assets		
Current Assets		
Cash and cash equivalents		**2,20,000**

Notes to Accounts

Particulars	Amount (Rs.)
1. Reserve and surplus	
Securties Premium Reserve	**20,000**
2. Long-term borrowings	
2,000, 10% debentures of Rs. 100 each	**2,00,000**
3. Cash and cash equivalents	
Cash at bank	**2,20,000**

Issue of Debentures for Consideration other than Cash

Sometimes a company purchased assets from vendors and instead of making payment in cash issues debentures for consideration thereof. Such issue of debentures is called debentures issued for consideration other than cash. In that case also, the debentures may be issued at par, at a premium or at a discount then entries made in such a situation are similar to those of the shares issued for consideration other than cash, which are as follows :

1. On purchase of assets

Sundry Assets A/c Dr.
To Vendor's

2. On issue of debentures

(a) At par

Vendors Dr.
To Debentures A/c

(b) At premium

Vendors Dr.
To Debentures A/c
To Securities Premium Reserve A/c

(c) At a discount

Vendors Dr.
Discount on Issue of Debenture A/c Dr.
To Debentures A/c

Suvidha Ltd. purchased machinery worth Rs.1,98,000 from Suppliers Ltd. The payment was made by issue of 12% debentures of Rs.100 each.

Pass the necessary journal entries for the purchase of machinery and issue of debentures when:

(i) Debentures are issued at par;

(ii) Debentures are issued at 10% discount; and

(iii) Debentures are issued at 10% premium

Solution:

Books of Suvidha Ltd.
Journal

Date	*Particulars*	*L.F.*	*Debit Amount (Rs.)*	*Credit Amount (Rs.)*
	Machinery A/c Dr.		1,98,000	
	To Suppliers Ltd.			1,98,000
	(Machinery purchased)			

Case (i)	When debentures are issued at par:				
	Suppliers Ltd.	Dr.		1,98,000	
	To 12% Debentures A/c				1,98,000
	(12% Debentures issued to Suppliers Ltd.)				
Case (ii)	When debentures are issued at 10% discount:				
	Suppliers Ltd.	Dr.		1,98,000	
	Discount on Issue of Debentures A/c	Dr.		22,000	
	To 12% Debentures A/c				2,20,000
	(12% Debentures issued to Suppliers Ltd. at 10% discount)				
Case (iii)	When debentures are issued at 10% premium:				
	Suppliers Ltd.	Dr.		1,98,000	
	To 12% Debentures A/c				1,80,000
	Securities Premium Reserve A/c				18,000
	(12% Debentures issued to Suppliers Ltd. at 10% premium)				

Workings:

(a)

	Rs.
Face value of debenture	100
Less: Discount 10%	10
Value at which debenture issued	90

$$\text{Number of debentures issued in case of 10\% discount} = \frac{\text{Rs. } 1,98,000}{90}$$

$$= 2,200 \text{ debenture}$$

(b)

	Rs.
Face value of debenture	100
Add: Premium 10%	10
Value at which debenture issued	110

$$\text{Number of debentures issued in case of 10\% premium} = \frac{\text{Rs. } 1,98,000}{110}$$

$$= 1,800 \text{ Debentures}$$

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Issue of Debentures as a Collateral Security

A collateral security may be defined as a subsidiary or secondary or additional security besides the primary security when a company obtains a loan or overdraft from a bank or any other financial Institution. It may pledge or mortgage some assets as a secured loan against the said loan.

Debentures issued as collateral security can be dealt with in two ways in the books of the company:

First Method

No entry is made in the books of accounts since no liability is created by such issue. However, on the liability side of the balance sheet, below the item of loan, a note to the effect that it has been secured by issue of debentures as a collateral security is appended.

For example, X Company has issued 9%, 10,000 debentures of Rs.100 each for a loan of Rs.10, 00,000 taken from a bank. This fact may be shown in the balance sheet as under:

X Company
Balance Sheet as at _____

Particulars	*Note No.*	*Amount (Rs.)*
I. Equity and Liabilities		
1. Non-current Liabilities		
Long-term borrowings	1	**10,00,000**

Notes to Accounts

Particulars	*Amount (Rs.)*
1. Long-term borrowings	
Bank Loan	
(Secured by issue of 10,000, 10% debentures	**10,00,000**
of Rs. 10 each as Collatoral Security)	

Second Method

The issue of debentures as a collateral security may be recorded by means of journal entry as follows:

Journal Entries

i. Issue of 10,000, 9% debentures of Rs. 100 each as collateral security for bank loan of Rs. 10,00,000.

Debenture Suspense A/c Dr. 10,00,000
To 9% Debentures A/c 10,00,000

ii. For cancellation of 9% debentures as collateral security on repayment of bank loan.

Debenture Suspense account will appear as a deduction from the debentures in notes to accounts of long-term borrowings. When loan is repaid the above entry will be cancelled by a reverse entry :

9% Debentures A/c Dr. 10,00,000
To Debenture Suspense A/c 10,00,000

Balance Sheet of X Co. _____ (Extract)

Particulars	*Note No.*	*Amount (Rs.)*
I. Equity and Liabilities		
1. Non-current Liabilities		
Long term borrowings	1	**10,00,000**

Notes to Accounts

Particulars	*(Rs.)*	*Amount (Rs.)*
1. Long term borrowings		10,00,000
Bank loan		
10,000, 9% debentures of		
Rs. 100 each	10,00,000	
Less: Debenture suspense	10,00,000	—
		10,00,000

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Terms of Issue of Debentures

When a company issues debenture, it usually mentions the terms on which they will be redeemed on their maturity. Redemption of debentures means discharge of liability on account of debentures by repayment made to the debenture holders. Debentures can be redeemed either at par or at a premium.

Depending upon the terms and conditions of issue and redemption of debentures, the following six situations are commonly found in practice.

(i) Issued at par and redeemable at par
(ii) Issued at discount and redeemable at par
(iii) Issued at a premium and redeemable at par
(iv) Issued at par and redeemable at a premium
(v) Issued at a discount and redeemable at a premium
(vi) Issued at a premium and redeemable at a premium

In all the above six cases, the following journal entries will be passed:

1. Issue at par and redeemable at par

(a) Bank A/c	Dr.	
To Debenture Application & Allotment A/c		
(Receipt of application money)		
(b) Debenture Application & Allotment A/c	Dr.	
To Debentures A/c		
(Allotment of debentures)		

2. Issue at a discount and redeemable at par

(a) Bank A/c	Dr.	
To Debenture Application & Allotment A/c		
(Receipt of application money)		
(b) Debenture Application & Allotment A/c	Dr.	
Discount on Issue of Debentures A/c	Dr.	
To Debentures A/c		
(Allotment of debentures at a discount)		

3. Issue at premium and redemption at par

(a) Bank A/c	Dr.	
To Debenture Application & Allotment A/c		
(Receipt of application money)		
(b) Debenture Application & Allotment A/c	Dr.	
To Debentures A/c		
To Securities Premium Reserve A/c		
(Allotment of debentures at a premium)		

4. Issue at par and redeemable at premium

(a) Bank A/c	Dr.	
To Debenture Application & Allotment A/c		
(Receipt of application money)		
(b) Debenture Application & Allotment A/c	Dr.	
Loss on Issue of Debentures A/c	Dr. (with premium on redemption)	
To Debentures A/c (with nominal value of debenture)		
To Premium on Redemption (with premium on redemption) of Debenture A/c		
(Allotment of debentures at par and redeemed at a premium)		

5. Issue at discount and redemption at premium

Bank A/c	Dr.	
To Debenture Application & Allotment A/c		
(Receipt of application money)		
Debenture Application & Allotment A/c	Dr.	
Loss on Issue of Debentures A/c	Dr. (with discount on issue plus premium on redemption)	
To Debentures A/c (with nominal value of debenture)		
To Premium on Redemption (with premium on redemption) of Debentures A/c		
(Allotment of debentures at a discount and redeemable at premium)		

6. Issued at a premium and redeemable at premium

Bank A/c	Dr.	
To Debenture Application & Allotment A/c		
(Receipt of application money)		
Debenture Application & Allotment A/c	Dr.	
Loss on Issue of Debentures A/c	Dr. (with premium on redemption)	
To Debentures A/c (with nominal value of debenture)		
To Securities Premium Reserve A/c (with premium on issue)		
To Premium on Redemption of (with premium on redemption) Debentures A/c		

Notes: 1. When debentures are redeemable at a premium, the premium payable on redemption is debited to 'Loss on Issue of Debentures A/c'. It may be noted that when debentures are issued at a discount and are redeemable at a premium, the amount of discount on issue is also debited to 'Loss on Issue of Debentures'. It may be noted that when the debentures are issued at a discount and are redeemable at par, the amount debited to 'Discount on Issue of Debentures A/c' as usual.

2. Premium on redemption is a liability of a company payable in future. It is a provision and is shown under the head Non-current liabilities under subhead 'Long-term Borrowings' until debentures are redeemed.

Writing off Discount/Loss on Issue of Debentures

Discount or Loss on issue of debentures is a capital loss and is written-off in the year when debentures are issued. Discount or loss can be written-off from securities premium reserve [section 52(2)]. In case, capital profit do not exist or are inadequate, the amount should be written off against revenue profits of the year. The journal entry passed is—

Securities Premium Reserve A/c	Dr. [If exists to the extent of balance]	
Statement of Profit and Loss	Dr.	
To Discount/Loss on Issue of Debentures A/c		
(Discount/Loss on issue of debentures written-off)		

Q.no	Questions
1.	**What is meant by Debenture?** Ans. A debenture means an acknowledgement of debt which contains a contract for repayment of principal and payment of interest at a fixed rate.

2 **Why would an investor prefer to invest in debentures of a company rather than in its shares?**
Ans. An investor would like to invest in debentures because there is always an assured return and less risk.

3 **Give the meaning of 'Issue of Debentures as a collateral security'.**
Ans. It means issue of debentures to lenders as an additional security over and above the prime security.

4 **Pass the necessary Journal entry when 10,000 debentures of Rs. 100 each are issued as collateral security against a Bank loan of Rs. 8,00,000.**

Journal

Date	Particulars	LF	Dr Amount	Cr Amount
	Debenture Suspense A/c - Dr. To Debenture A/c (Being Issue of 10,000 Debentures of Rs.100 each as collateral security against the bank loan of Rs.8,00,000)		10,00,000	 10,00,000

5 **Give any one point of distinction between a share and a debenture.**
Ans. A share is an ownership security and receives dividend as return.
A Debenture is a creditor ship security and receives interest as return.

6 **What is meant by redemption of debenture?**
Ans. - Redemption refers to discharge of liability on account of debenture by repaying the due amount to debenture holders .

7 **State the meaning of redemption of debenture out of profit?**

Ans. - When profits equal to the amount utilized for repayment to debenture holder is transferred from surplus of statement of profit and loss to a newly opened account titled debenture redemption reserve account, it is called redemption out of profit .

8. **X Ltd. obtained a loan of Rs. 4,00,000 from IDBI Bank. The company issued 5000, 9% Debentures of Rs. 100 each as a collateral security for the same. Show how these items will be presented in the Balance Sheet of the company.**

Balance Sheet as at----------

Particulars	Note No.	Current Year (Rs.)	Previous Year (Rs.)
Equity & Liabilities Non- Current Liabilities Long Term Borrowings	 1	 5,00,000	
		5,00,000	

Note no. 1
Long Term Borrowings

Particulars	Current Year (Rs.)	Previous Year (Rs.)
Loan from State Bank of India (Collateral Security issued 5,000 9% Debentures of Rs.100 each)	5,00,000	
	5,00,000	

9 **Pass journal entries for the issue of debentures in the following cases-**

a) Rs. 40,000; 15% debentures of Rs. 100 each issued at par, redeemable at par.

b) Rs. 40,000; 15% debentures of Rs. 100 each issued at premium of 10% , redeemable at par.

Journal

Date	Particulars	L F	Dr. Amount	Cr. Amount
a)	Bank A/c - Dr. To Debenture Application Allotment A/c (Being application & allotment money recd.) Debenture Application& Allotment A/c - Dr. To 15% Debenture A/c (Being Issue of debentures at par and redeemable at par)		40,000 40,000	40,000 40,000
b)	Bank A/c - Dr. To Debenture Application&Allotment A/c (Being application & allotment money recd.) Debenture Application& Allotment A/c - Dr. To 15% Debenture A/c To Securities Premium A/c (Being Issue of debentures at par and redeemable at par)		44,000 44,000	44,000 40,000 4,000

10 **Sumedha Ltd. purchased Machinery from Hira Ltd. for Rs.8,40,000 . Sumedha Ltd. issued 9% Debentures of Rs.100 each at a premium of 20%. Pass necessary journal entries in the books of Sumedha Ltd.**

Journal Entries

Date	Particulars	LF	Dr. Amount	Cr. Amount
	Machinery A/c- Dr To Hira Ltd. A/c (Being Machinery purchased from Sumedha Ltd.)		8,40,000	8,40,000
	Hira Ltd. A/c –Dr		8,40,000	

		To 9% Debentures A/c To Securities Premium A/c (Being debentures issued to Hira Ltd.)			7,00,000 1,40,000

TOOLS FOR FINANCIAL STATEMENT ANALYSIS

Comparative Statements

Comparative Statements or Comparative Financial Statements mean a comparative study of individual items or components of financial statements, *i.e.*, Balance Sheet and Statement of Profit and Loss of two or more years of the enterprise itself.

Common-size Statements

Common-size Statements or Common-size Financial Statements mean statements in which individual items of financial statements of two or more years are placed side by side and thereafter converted into percentage taking a common base. Common base normally taken is Total Assets or Total of Equity and Liabilities, in the case of Common-size Balance Sheet and Revenue from Operations, in the case of Common-size Statement of Profit and Loss.

Comparative Financial Statement is a tool of financial analysis that shows change in each item of the financial statement in both absolute amount and percentage terms, taking the item in preceding accounting period as base.

• **Objectives or Purposes of Comparative Financial Statements**

1. To know the nature of changes influencing financial position.
2. To know the weaknesses and soundness about liquidity, profitability and solvency of the enterprise.
3. To forecast and plan.
4. To know the movements of key financial statistics.

• **Tools for Comparison of Financial Statements**

1. Comparative Balance Sheet.
2. Comparative Statement of Profit and Loss (Income Statement).
3. Common-size Statement of Profit and Loss.
4. Common-size Balance Sheet.

• **Comparative Balance Sheet**

"*Comparative Balance Sheet analysis is the study of the trend of same items, group of items and computed items in two or more Balance Sheets of the same business enterprise on different dates.*" **—Foulka**

• **Comparative Statement of Profit and Loss (Income Statement)**

Comparative Statement of Profit and Loss shows the operating results for a number of accounting periods so that changes in data in terms of money and percentage from one period to another may be known.

• **Common-size Statement of Profit and Loss (Income Statement)**

Common-size Statement of Profit and Loss is a statement in which amounts of individual items of Statement of Profit and Loss for two or more years are written. These amounts are further converted into percentage of common base which is Revenue from Operations.

• **Common-size Balance Sheet**

Common-size Balance Sheet is a statement in which amounts of individual items of Balance Sheet for two or more years are written. These amounts are further converted

into percentage of a common base, which is Total Assets or Total of Equity and Liabilities of the Balance Sheet.

From the following Balance Sheets of Exe Ltd. As at 31st March, 2017 and 2016, prepare Comparative Balance Sheet:

Balance Sheet as at 31.03.2017 and 2016

Particulars	Note No.	31.03.2017 (Rs.)	31.03.2016 (Rs.)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
Share Capital (Equity)		18,00,000	12,00,000
2. Non-Current Liabilities			
Long-term borrowings : 8% Debentures		6,00,000	6,00,000
3. Current Liabilities			
Trade Payables		6,00,000	3,00,000
Total		30,00,000	21,00,000
II. ASSETS			
1. Non-current Assets			
Fixed Assets : Tangible Assets		18,00,000	15,00,000
2. Current Assets			
(a) Trade Receivables		10,00,000	5,00,000
(b) Cash and Cash Equivalents		2,00,000	1,00,000
Total		30,00,000	21,00,000

SOLUTION:-

Comparative Balance Sheet as at 31.03.2017 and 2016

Particulars	Note No.	31.03.2016 Rs.	31.03.2017 Rs.	Absolute Change	% Change
I. EQUITY AND LIABILITIES					
1. Shareholders' Funds					
Equity Share Capital		12,00,000	18,00,000	6,00,000	50
2. Non-Current Liabilities					
Secured Loan-8% Debentures		6,00,000	6,00,000	------	-----
3. Current Liabilities					

Trade Payables		3,00,000	6,00,000	3,00,000	100
Total		21,00,000	30,00,000	9,00,000	42.86
II. ASSETS 1. Non-Current Assets Fixed Assets : Tangible Assets		15,00,000	18,00,000	3,00,000	20
2. Current Assets (a) Trade Receivables		5,00,000	10,00,000	5,00,000	100
(b) Cash & Cash Equivalents		1,00,000	2,00,000	1,00,000	100
Total		21,00,000	30,00,000	9,00,000	42.86

Following information is extracted from the Statement of Profit & Loss of Gold Star Ltd. For the years ended 31.03.2017 and 2016. Prepare Comparative Statement of Profit & Loss.

Particulars	**Note No.**	**31.03.2017 Rs.**	**31.03.2016 Rs.**
Revenue from operations		40,00,000	32,00,000
Employees benefit expenses		20,00,000	16,00,000
Depreciation and Amortisation Expenses		50,000	40,000
Other Expenses		1,50,000	3,60,000
Tax Rate		30%	30%

SOLUTION:-

Comparative Statement of Profit & Loss

For the years ended 31.03.2016 and 2017

Particulars	**Note No.**	**31.03.2016 Rs.**	**31.03.2017 Rs.**	**Absolute Change**	**% Change**
I. Revenue from operations		32,00,000	40,00,000	8,00,000	25
II. Expenses					
(a) Employees benefit expenses		16,00,000	20,00,000	4,00,000	25
(b) Depreciation & amortization expenses		40,000	50,000	10,000	25
(c) Other Expenses		3,60,000	1,50,000	(2,10,000)	(58.33)
Total Expenses		20,00,000	22,00,000	2,00,000	10

III.	Profit before tax (I-II)		12,00,000	18,00,000	6,00,000	50
IV.	Less: Tax @ 30%		3,60,000	5,40,000	1,80,000	50
V.	Profit after tax (III-IV)		8,40,000	12,60,000	4,20,000	50

From the following Balance Sheets of Exe Ltd. As at 31st March, 2017 and 2016, prepare Common-Size Balance Sheet:

Balance Sheet as at 31.03.2017 and 2016

Particulars	**Note No.**	**31.03.2017 (Rs.)**	**31.03.2016 (Rs.)**
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
Share Capital (Equity)		18,00,000	12,00,000
2. Non-Current Liabilities			
Long-term borrowings: 8% Debentures		6,00,000	6,00,000
3. Current Liabilities			
Trade Payables		6,00,000	3,00,000
Total		30,00,000	21,00,000
II. ASSETS			
1. Non-current Assets			
Fixed Assets: Tangible Assets		18,00,000	15,00,000
2. Current Assets			
(a) Trade Receivables		10,00,000	5,00,000
(b) Cash and Cash Equivalents		2,00,000	1,00,000
Total		30,00,000	21,00,000

SOLUTION:-

Common-size Balance Sheet as at 31.03.2017 and 2016

Particulars	**Note No.**	**Absolute Amounts**		**% of Total**	
		31.03.2016 Rs.	**31.03.2017 Rs.**	**31.03.2016 %**	**31.03.2017 %**
I. EQUITY AND LIABILITIES					
1. Shareholders' Funds					
Equity Share Capital		12,00,000	18,00,000	57.14	60
2. Non-Current Liabilities					

Secured Loan-8% Debentures		6,00,000	6,00,000	28.57	20
3. Current Liabilities Trade Payables		3,00,000	6,00,000	14.29	20
Total		21,00,000	30,00,000	100	100
II. ASSETS 1. Non-Current Assets Fixed Assets : Tangible Assets		15,00,000	18,00,000	71.43	60
2. Current Assets (a) Trade Receivables		5,00,000	10,00,000	23.81	33.33
(b) Cash & Cash Equivalents		1,00,000	2,00,000	4.76	6.67
Total		21,00,000	30,00,000	100	100

Following information is extracted from the Statement of Profit & Loss of Gold Star Ltd. For the years ended 31.03.2017 and 2016. Prepare Comparative Statement of Profit & Loss.

Particulars	**Note No.**	**31.03.2017 Rs.**	**31.03.2016 Rs.**
Revenue from operations		40,00,000	32,00,000
Employees benefit expenses		20,00,000	16,00,000
Depreciation and Amortisation Expenses		50,000	40,000
Other Expenses		1,50,000	3,60,000
Tax Rate		30%	30%

SOLUTION:-

Common-size Statement of Profit & Loss

For the years ended 31.03.2016 and 2017

Particulars	**Note No.**	**Absolute Amounts**		**% of Net Sales**	
		31.03.2016 Rs.	**31.03.2017 Rs.**	**31.03.2016 %**	**31.03.2017 %**
I. Revenue from operations		32,00,000	40,00,000	100	100
II. Expenses (a) Employees benefit					

	expenses		16,00,000	20,00,000	50	50
	(b) Depreciation & amortization expenses		40,000	50,000	1.25	1.25
	(c) Other Expenses		3,60,000	1,50,000	11.25	3.75
Total Expenses			20,00,000	22,00,000	62.5	55
III.	Profit before tax (I-II)		12,00,000	18,00,000	37.5	45
IV.	Less: Tax @ 30%		3,60,000	5,40,000	11.25	13.5
V.	Profit after tax (III-IV)		8,40,000	12,60,000	26.25	31.5

CASH FLOW STATEMENT

• **Cash Flow Statement** is a statement that shows flow of Cash and Cash Equivalents during the period under report. The statement shows net increase or decrease of Cash and Cash Equivalents under each activity separately (operating/investing/financing) and collectively.

OBJECTIVES OF CASH FLOW STATEMENT:-

1. To ascertain the sources of cash and cash equivalents under operating, investing and financing activities by the enterprise.
2. To ascertain the applications of cash and cash equivalents under operating, investing and financing activities by the enterprise.

CLASSIFICATION OF CASH FLOWS:-

1. OPERATING ACTIVITIES:

(A) For non-financial Companies

Inflows

(a) Receipts from sale of goods and services.
(b) Receipts from royalties, fees and commission etc.
(c) Receipts from trade receivables.
(d) Refund of income tax unless it is identified with investing or financing activities.

Outflows

(e) Payment for purchase of goods and services.
(f) Payment to trade payables.
(g) Payment of wages, salaries and other payments to employees.
(h) Payment of income tax unless it is identified with investing or financing activities.

(B) For Financial Companies

Inflows

(a) Receipts from sale of securities.
(b) Interest received on loans granted.
(c) Dividend received on securities.
(d) Refund of income tax unless it is identified with investing or financing activities.

Outflows

(e) Payment for purchase of securities.
(f) Payment of interest on loans.
(g) Payment of salaries etc. to employees.
(h) Payment of income tax unless it is identified with investing or financing activities.

2. INVESTING ACTIVITIES:

Inflows

(a) Receipts from disposal of fixed assets.
(b) Receipts from sale of securities of other enterprises (in case of non-financial companies).
(c) Receipts from repayments of advances and loans made to third parties (other than advances and loans made by financial enterprise).

Outflows

(d) Payments for purchase of fixed assets and also payments for capitalized research and development costs and self constructed fixed assets.

(e) Payments to purchase securities of other enterprises (in case of non-financial companies).
(f) Advances and loans made to third parties (other than advances and loans made by a financial enterprise).

3. FINANCING ACTIVITIES:

Inflows

(a) Proceeds from issue of shares or other similar instruments.
(b) Proceeds from issue of debentures, loans, bonds and other short-term borrowings.
(c) Increase in bank overdraft and cash credit.

Outflows

(d) Payment for buy-back of equity shares.
(e) Repayments of the amounts borrowed including redemption of debentures.
(f) Payments of dividends both on equity and preference shares.
(g) Payments for interest on debentures and loans.
(i) Decrease in bank overdraft and cash credit

To ascertain net change in cash and cash equivalents being the difference between receipts and payments under operating, investing and financing activities between the dates of two balance sheets.

- **Preparation of Cash Flow Statement:** Cash Flow Statement is prepared following the steps as:

Step 1: Compute Cash Flow from Operating Activities.

Step 2: Compute Cash Flow from Investing Activities.

Step 3: Compute Cash Flow from Financing Activities.

Step 4: Cash flows under each activity, *i.e.*, Operating Activity, Investing Activity and Financing Activity as computed under Steps 1, 2 and 3 are added in Cash Flow Statement and the resultant amount is Net Increase or Decrease in Cash and Cash Equivalents.

Step 5: Cash and Cash Equivalents balance in the beginning of the period is added to the cash flows as arrived under Step 4. The amount so determined should be equal to Cash and Cash Equivalents balance at the end of the year.

Step 6: Report any significant investing or financing transactions which do not involve Cash or Cash Equivalents in a separate schedule to Cash Flow Statement.

Proposed Dividend, both on Equity Shares and Preference Shares are paid after being declared (approved) by the shareholders in the Annual General Meeting. Annual General Meeting is held after the end of the financial year, *i.e.*, in the next financial year. AS-4 (Revised), Contingencies and Events Occurring After the Balance Sheet Date prescribes that Proposed Dividend is not to be provided in the books of account but is to be disclosed (shown) in the Notes to Accounts as Contingent Liability being payable upon being declared (approved) by the shareholders. Dividend is an appropriation of Profit and is deducted from Surplus, *i.e.*, Balance in Statement of Profit and Loss in the Note to Accounts on Reserves and Surplus in the year in which dividend is paid.

IMPORTANT NOTE

1. Current Investments to be taken as Marketable Securities unless otherwise specified.
2. Bank overdraft and cash credit is shown as part of Financing Activities.

Working Note: *Net Profit before Tax and Extraordinary Items:* `

Net Profit as per Statement of Profit and Loss or Difference between Closing Balance and Opening Balance of Surplus, *i.e.*, Balance in Statement of Profit and Loss ...
Add: Transfer to Reserves ...
Dividend (Proposed Dividend of previous year) paid during the year ...
Interim Dividend paid during the year ...
Provision for Tax for the current year ...
Extraordinary Items, if any, debited to the Statement of Profit and Loss ...
...
Less: Extraordinary Items, if any, credited to the Statement of Profit and Loss ...
Refund of Tax credited to the Statement of Profit and Loss ... ...
Net Profit before Tax and Extraordinary Items ...

FORMAT OF CASH FLOW STATEMENT

(INDIRECT METHOD) FOR THE YEAR ENDED……..

{As per Accounting Standard-3 (Revised)}

Particulars	**Rs.**	**Rs.**
I. CASH FLOW FROM OPERATING ACTIVITIES		
(A) Net profit before tax and extraordinary items (as per working note)		…..
(B) Add : Items to be added		
*Depreciation	…..	
*Goodwill, Patents and Trademarks amortised	…..	
*Interest on bank Overdraft/Cash Credit	…..	
*Interest on Borrowings and Debentures	…..	
*Loss on sale of fixed assets	…..	
*Increase in provision for doubtful debts#	…..	…..
		…..
(C) Less : Items to be deducted		
*Interest income	…..	
*Dividend income	…..	
*Rental income	…..	
*Gain on sale of fixed assets	…..	
*Decrease in provision for doubtful debts#	…..	…..
(D) Operating profit before working capital changes (A+B-C)		…..
(E) Add : Decrease in current assets & increase in current Liabilities	…..	…..

(F) Less : Increase in current assets & decrease in current Liabilities	…..	…..
(G) Cash generated from operations (D+E-F)		…..
(H) Less : Income tax paid (Net of tax refund)		…..
(I) Cash flow before extraordinary items		…..
*Extraordinary items (+/-)		…..
Cash Flow From (or Used in) Operating Activities		**.-.-.-.**
II. CASH FLOW FROM INVESTING ACTIVITIES		
• Proceeds from sale of fixed assets	…..	
• Proceeds from sale of investments (other than current investments (to be included in cash & cash equivalents) and marketable securities)	…..	
• Proceeds from sale of intangible assets	…..	
• Interest and dividend received (for non-financial companies only)	…..	
• Rent received	…..	
• Payment for purchase of fixed assets	(…..)	
• Payment for purchase of investments (other than marketable securities)	(…..)	
• Payment for purchase of intangible assets like goodwill	(…..)	
• Extraordinary items e.g. Insurance Claim on machinery against fire)(+/-)	…..	
Cash Flow From (or used in) Investing Activities		**.-.-.-.**
III. CASH FLOW FROM FINANCING ACTIVITIES		
• Proceeds from issue of shares and debentures	…..	
• Proceeds from other long-term borrowings	…..	
• Increase/decrease in bank overdraft/cash credit	…..	
• Payment of final dividend	(…..)	
• Payment of interim dividend	(…..)	
• Payment of interest on debentures and loans (short term and long term)	(…..)	
• Repayment of loans	(…..)	
	(…..)	

• Redemption of debentures/preference shares • Payment of share issue expenses • Payment for buy-back of shares as extraordinary activities Cash Flow From (or Used in) Financing Activities	(…..) (…..)	-.-.-.-
IV. Net Increase/Decrease in cash & Cash Equivalents (I+II+III)		-.-.-.-
V. Add: Cash & cash Equivalents in the beginning of the year		…..
VI. Cash & Cash Equivalents at the end of the year		…..

WORKING NOTES:

Net Profit Before tax and extraordinary items:

Net Profit as per Statement of Profit & Loss or difference between closing balance & opening balance of surplus i.e., balance in statement of profit & loss

Add : Transfer to reserves

Proposed dividend for current year

Interim dividend paid during the year

Provision for tax for the current year

Extraordinary items, if any, debited to the statement of profit & loss

Less : Extraordinary items, if any, credited to the statement of profit & loss

Refund of tax credited to the statement of profit & loss

Net profit before tax and extraordinary items

NOTES:

1. Amounts in brackets mean amounts that are to be deducted.
2. Increase/Decrease in unpaid interest on debentures/loans affect cash flow from financing activities.
3. Increase/Decrease in unclaimed dividend affects cash flow from financing activities.
4. Increase/Decrease in accrued interest on investments affects cash flow from investing activities.

PROVISION FOR TAX AND PAYMENT OF TAX:-

If the amount of tax paid is not given, it can be calculated by preparing Provision for Tax Account. This account gives information of tax paid during the current year as well as provision made for tax for the current year.

Dr. Provision For Tax Account Cr.

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Bank A/c. (Tax Paid)	…..	By Balance b/d.	…..
To Balance c/d.	…..	By Statement of profit & Loss (Provision for tax)	…..
	…..		……

NOTES:-

1. If only opening and closing amounts of provision for tax are given, provision for tax for previous year is taken as tax paid during the year.
2. If provision for tax made is also given, prepare provision for tax Account to get the figure of tax paid during the year.

ASCERTAINING MISSING AMOUNTS OF FIXED ASSETS OR DEPRECIATION:-

Case 1 : When fixed asset is shown at written down value.

Under this case, depreciation is credited to the Assets Account and balance of the asset account shows the written down value of the asset, which is also called the book value.

Dr. Fixed Asset Account (at written down value) Cr.

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Balance b/d.	…..	By Bank A/c. (sale of Fixed Asset)	…..
To gain on sale of asset a/c (Statement of Profit & Loss)*	…..	By Loss on sale of asset a/c. (Statement of profit & loss)*	…..
To Bank A/c. (Purchase)	…..	By Depreciation A/c.	…..
		By Balance c/d.	…..
	…..		……

- Either of the two will appear.

Case 2 : When fixed assets are shown at original cost and accumulated depreciation account is separately maintained.

Dr. Fixed Asset Account (at cost) Cr.

Particulars	Amount	Particulars	Amount

	(Rs.)		(Rs.)
To Balance b/d.	…..	By Bank A/c. (sale of Fixed Asset)	…..
To gain on sale of asset a/c (Statement of Profit & Loss)*	…..	By Loss on sale of asset a/c. (Statement of profit & loss)*	…..
To Bank A/c. (Purchase)	…..	By Accumulated Depreciation A/c. (accumulated depreciation on fixed asset sold)	…..
		By Balance c/d.	…..
	…..		…..

Note : Purchase of fixed asset is a balancing amount on the debit side of the account and sale of fixed asset on the credit side of the account.

Dr. Accumulated Depreciation Account Cr.

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Fixed Asset A/c. (Accumulated depreciation on fixed asset sold)	…..	By Balance b/d.	…..
To Balance c/d.	…..	By Depreciation a/c. (for current year)	…..
	…..		…..

Note : Accumulated depreciation on the fixed asset sold or depreciation charged for the current accounting year may not be given, which shall be the balancing figure.

ASCERTAINING MISSING FIGURES [E.G. PURCHASE, SALE AND GAIN OR LOSS ON SALE RELATED TO INVESTMENTS]

Dr. Investment Account Cr.

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Balance b/d.	…..	By Bank A/c. (sale of investment)	…..
To gain on sale of		By Loss on sale of	

investment a/c (Statement of Profit & Loss)*	…..	investment a/c. (Statement of profit & loss)*	…..
To Bank A/c. (Purchase)	…..	By Balance c/d.	…..
	…..		…….

Share issue expenses & Underwriting Commission Paid:

These are shown as outflow of cash under financing activities.

From the following balance sheets of a company, prepare cash Flow Statement:

PARTICULARS	31/3/2016	31/3/2017
I. Equity and Liabilities		
Shareholder's Funds		
Equity Share Capital	1,00,000	1,00,000
Reserves and Surplus	30,000	60,000
Non-Current Liabilities		
Debentures	60,000	80,000
Current Liabilities		
Creditors	30,000	35,000
Bills Payable	30,000	10,000
Other Current Liabilities	40,000	45,000
TOTAL	**2,90,000**	**3,30,000**
II Assets		
Non-Current Assets: Fixed Assets	1,50,000	1,90,000
Non-Current Investments	40,000	30,000
Current Assets:		
Stock	40,000	55,000
Debtors	40,000	45,000
Cash	20,000	10,000
TOTAL	**2,90,000**	**3,30,000**

Additional Information:

(i) Depreciation charged during the year amounted to Rs.22,000.

(ii) Dividend paid during the year amounted to Rs.12,000.

SOLUTION:-

Cash Flow Statement

For the year ended 31.03.2016 & 2017

(A)Cash flow from Operating Activities	**Rs.**	**Rs.**
Net Profit before Tax and Extra-ordinary items		**30,000**
Adjustments for:		
Depreciation	**22,000**	
Dividend Paid	**12,000**	**34000**
Operating profit before working capital changes		**64,000**
Add: Increase in Current Liabilities		
Increase in Creditors	**5,000**	
Increase in Other Current Liabilities	**5,000**	**10,000**
Less: Decrease in Current Liabilities		**74,000**
Bills Payable	**20,000**	
Increase in Current Assets		
Stock	**15,000**	
Debtors	**5,000**	**(40,000)**
Net Cash Flow from operating activities		**34,000**
(B)Cash flow from Investing Activities:		
Purchase of fixed assets	**(62,000)**	
Sale of investment	**10,000**	
Net cash used in investing activities		**(52,000)**

(C) Cash flows from financing activities: **Issue of debentures** **Dividend paid**	 **20,000** **(12,000)**		
Net cash flow from financing activities		**8,000**	
Net decrease in cash & cash equivalent **Add : opening balance of cash & cash equivalent**		**(10,000)** **20,000**	
Closing balance of cash & cash equivalents		**10,000**	

QUESTIONS

S.N0		
1	**Classify the 'Purchase of machinery' and Issue of debentures into cash flows from operating, investing or financing activities**. **Ans:** purchase of machinery- investing activity; issue of debentures- financing activity	
2	**Give the meaning of 'Cash Flow Statement'** **Ans:** statement which shows inflows and outflows of cash and cash equivalents.	
3	**State the primary objective of preparing a cash flow statement** Ans: to analyse inflows and outflows of cash from different activities	
4	**Prepare a format for calculation of cash flows from operating activities under indirect method for preparing a cash flow statement.** **Solution: Calculation of cash flows from Operating Activities**	

Particulars	**Details**	**Amount**
Net Profit after tax		
Add: Provision for tax		
Proposed dividend		
Transfer to Reserve		
Profit Before Tax		
Adjust non cash and non operating items:		
Add- Depreciation		
Interest Paid On Borrowing		
Amortization of Intangible Assets		
Loss on sale of Fixed Assets		
Less- Profit on sale of Fixed Assets		
Operating Profit Before Working Capital Changes		
Add- decrease in CA & Increase in CL		
Less- Increase in CA & Decrease in CL		
Cash Generated from operating activities		
Less: Tax Paid		
Cash flows from operating activities		

5 **Prepare provision for income tax account from the following information for preparing cash flow statement.**

Equities and liabilities	31/03/2011 (₹)	31/03/2012 (₹)
Provision for income tax	2,20,000	1,90,000

Additional information: During the year income tax paid was ₹ 2,30,000

Solution:

Provision for income Tax Account

Particulars	Amount	Particulars	Amount
To Bank	230,000	By Balance b/d	220,000
To Balance c/d	190,000	**By Statement of P&L (Provision made during year)**	200,000
	420,000		420,000

6 **Calculate cash from financing activities and also point out one value violated , from the following information:**

Particulars	31/03/2017 (₹)	31/03/2016(₹)
Equity share capital	15,00,000	12,00,000
10% Preference share capital	16,00,000	14,00,000
7% Debentures	2,00,000	5,00,000
General reserve	4,00,000	2,00,000

Additional information:

1. **During the year they transferred 90% of the profit o to reserves instead of declaring dividend.**
2. **Preference shares were issued at 10% premium.**

Solution: Calculation of Cash flows from financing activities

Particulars	Details	Amount
Proceed from issue of shares	300,000	
Add: Proceed from issue of Preference shares	200,000	
Premium on issue of preference shares	20,000	**520,000**
Less: redemption of debentures	(300,000)	
Interest paid on debentures	(35,000)	**(335,000)**
Cash Flows From Financing Activities		**185,000**

7 **Calculate cash flow from operating activities from the following :**

Profit made during the year ₹ 2,50,000 after considering the following items:

a) **Depreciation on fixed assets ₹ 10,000.**
b) **Amortization of goodwill ₹ 5,000**
c) **Loss on sale of machinery ₹ 7,000.**
d) **Profit on sale of land ₹ 3,000.**

Additional information

Particulars	31/03/2013 (₹)	31/03/2012 (₹)
Trade receivables	**23,000**	**22,000**
Trade payables	**10,000**	**15,000**
Prepaid expenses	**4,000**	**6,000**

Solution: Calculation of cash flows from Operating Activities

Particulars	Details	Amount

Net Profit		250,000
Adjust non cash and non operating items:		
Add- Depreciation	10,000	
Amortization of Goodwill	5000	
Loss on sale of machinery	7000	
Less- Profit on sale of land	(3000)	19000
Operating Profit Before Working Capital Changes		269,000
Add- decrease in CA & Increase in CL		
Prepaid Expenses	2000	2000
Less- Increase in CA & Decrease in CL		
Trade Receivables	(1000)	
Trade Payables	(5000)	(6000)
Cash flows from operating activities		**265,000**

8 **From the following information calculate cash flow from investing activities:**

Particulars	31/03/2016 (₹)	31/03/2017 (₹)
Plant and machinery	**12,00,000**	**15,00,000**
Investments	**1,50,000**	**4,20,000**
Land	**5,00,000**	**4,00,000**

Additional information:

1. **Depreciation charged on plant and machinery Rs72,000.**
2. **Plant and machinery with the book value of Rs1,20,000 were sold for Rs75,000.**
3. **Investments were purchased for Rs. 3,00,000 , some investments were sold at a loss of Rs10,000.Interest received on investments during the year Rs15,000.**
4. **Land was sold at a profit of Rs 80,000.**

Ans: Net cash used in investing activities Rs5,02,000.

Solution:

Particulars	Details	Amount
Sale of Plant & Machinery	75,000	
Add- Sale of investment	20,000	
Interest Received on Investment	15,000	
Sale of Land	180,000	**290,000**
Less: Purchase of Plant & Machinery	(492,000)	
Purchase of Investment	(300,000)	**(792,000)**
Cash Flows From Investing Activities		**502,000**

Working Notes:

Plant & Machinery Account

Particulars	Amount	Particulars	Amount
To Balance b/d	12,00,000	By Bank a/c	75,000
To Bank a/c (purchase)	492,000	By Statement of P&L	45,000
		By Depreciation	72,000
		By Balance c/d	15,00,000

	16,92,000		16,92,000

Sale of investment: 150,000 + 300,000 – 420,000 – 10,000= 20,000

9 Following are the Balance Sheets of XYZ Ltd., as on 31st March 2011 and 2012:

Particulars	Note No.	2011-12 (Rs)	2010-11 (Rs)
EQUITY AND LIABILITIES			
(1)Shareholders Funds			
(a) Share capital		14,00,000	10,00,000
(b) Reserves & Surplus		5,00,000	4,00,000
(2) Non Current Liabilities			
Long Term borrowings		6,00,000	2,00,000
(3) Current Liabilities			
Short Term provision(proposed dividend)		80,000	60,000
Total		**16,60,000**	**25,80,000**
ASSETS			
(1)Non Current Assets			
(a) Fixed assets			
(i) Tangible assets		16,00,000	9,00,000
(ii) Intangible assets		1,40,000	2,00,000
(2) Current Assets			
(a) Inventories		2,50,000	2,00,000
(b) Trade Receivables		5,00,000	3,00,000
(c) Cash & Cash equivalents		90,000	60,000
Total		**16,60,000**	**25,80,000**

Prepare a Cash Flow Statement after taking into account the following adjustments:

Depreciation provided on machinery during the year Rs 2,00,000.

(Ans: Cash from operating activity 190,000, Cash used in Investing activity Rs9,00,000 , Cash from Financing activity Rs7,40,000)

Solution:

Cash Flow Statement

A) Cash Flows From Operating Activities		
Particulars	**Details**	**Amount**
Net Profit		100,000
Add: Proposed dividend		80,000
Net Profit Before Tax and Dividend		**180,000**
Adjust non cash and non operating items:		
Add- Depreciation	200,000	
Amortization of Intangible assets	60000	**260,000**
Operating Profit Before Working Capital Changes		440,000
Add- decrease in CA & Increase in CL		

Less- Increase in CA & Decrease in CL		
Inventories	(50,000)	

Trade Receivables	(200,000)	(250,000)
Cash flows from operating activities		**190,000**
B) Cash Flows From Investing Activities		
Purchase of Tangible Assets		(900,000)
Cash Used In Investing Activities		**(900,000)**
C) Cash Flows From Financing Activities		
Proceed from Issue of Shares	400,000	
Add: Proceed From Issue Of Debentures	400,000	800,000
Less: Dividend Paid	(60,000)	(60,000)
Cash Flows From Financing Activities		**740,000**
Net Increase in Cash Flows A+B+C 190,000+ (900,000)+740,000		30,000
Add: Opening Balance Of Cash And Cash Equivalents		60,000
Closing Balance Of Cash And Cash Equivalents		**90,000**

Working note:

Purchase of Tangible Assets:

Tangible Assets Account

Particulars	**Amount**	**Particulars**	**Amount**
To Balance b/d	900,000	By Depreciation	200,000
To Bank a/c (purchase)	900,000		
		By Balance c/d	16,00,000
	18,00,000		**18,00,000**

10 Following are the Balance Sheets of BCR Ltd., as on 31st March 13 and 2014:

Particulars	NoteNo.	2013-14 (Rs)	2012-13(Rs)
EQUITY AND LIABILITIES			
(1)Shareholders Funds			
(a) Share capital		7,00,000	5,00,000
(b) Reserves & Surplus		3,50,000	2,00,000
(2) Non Current Liabilities			
Long Term borrowings		50,000	1,00,000
(3) Current Liabilities			
Trade payables		52,000	55,000
Short Term provision (Provision for Tax)		1,20,000	80,000
Total		12,72,000	9,35,000
ASSETS			
(1)Non Current Assets			
(a) Fixed assets			
(i) Tangible assets		5,00,000	5,00,000
(ii) Intangible assets		95,000	1,00,000
(b) Non current investments		1,00,000	-
(2) Current Assets			
a) Inventories		1,30,000	55,000
(b) Trade Receivables		1,47,000	80,000
(c) Cash & Cash equivalents		3,00,000	2,00,000
Total		12,72,000	9,35,000

Additional information:

During the year equipment costing Rs1,00,000 was purchased , loss on the sale of equipment amounted Rs12,000. Rs18,000 depreciation was charged on equipment.

Solution:

Cash Flow Statement

D) Cash Flows From Operating Activities		
Particulars	**Details**	**Amount**
Net Profit		150,000
Add: Provision for tax		120,000
Net Profit Before Tax and Dividend		**270,000**
Adjust non cash and non operating items:		
Add- Depreciation	18,000	
Loss on sale of assets	12,000	
Amortization of Intangible assets	5000	**35,000**
Operating Profit Before Working Capital Changes		**305,000**
Add- decrease in CA & Increase in CL		

Less- Increase in CA & Decrease in CL		
Trade Payables	(3000)	
Inventories	(75,000)	
Trade Receivables	(67,000)	(145,000)
Cash Generated from operating activities		**160,000**
Less: Income Tax Paid		**80,000**
Cash Flows from operating activities		**80,000**
E) Cash Flows From Investing Activities		
Sale of Equipments		70,000
Less: Purchase of Equipments		(100,000)
Purchase of Non current Investment		(100,000)
Cash Used In Investing Activities		**(130,000)**
F) Cash Flows From Financing Activities		
Proceed from Issue of Shares		200,000
Less: Repayment of Long Term Borrowings		(50,000)
Cash Flows From Financing Activities		**150,000**
Net Increase in Cash Flows A+B+C 80,000+ (130,000)+150,000		**100,000**
Add: Opening Balance Of Cash And Cash Equivalents		**200,000**
Closing Balance Of Cash And Cash Equivalents		**300,000**

Working Note:

Tangible Assets Account

Particulars	**Amount**	**Particulars**	**Amount**
To Balance b/d	500,000	By Depreciation	18,000
To Bank a/c (purchase)	100,000	By Statement of P&L	12,000
		By Bank (Sale)	**70,000**
		By Balance c/d	500,000
	600,000		**600,000**