

Definition

Partnership is defined by the Indian Partnership Act, 1932, Section 4 as follows:

“Partnership is the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all.”

Here are the key characteristics:

1. **Number of Partners:** A minimum of two partners is required, and the maximum is capped at 50. For a Limited Liability Partnership (LLP), there is a requirement of at least two partners, but there is no upper limit on the number of partners.
2. **Partnership Agreement:** A formal document, known as a Partnership Deed, outlines the terms and conditions of the partnership.
3. **Lawful Business Purpose:** The partnership must be established to conduct lawful business activities, excluding non-profit or charitable operations.
4. **Profit Sharing:** The Partnership Deed must specify how to distribute profits and losses among the partners.
5. **Management:** Any or all partners can manage the business, acting on behalf of each other and the partnership.

Every Partner has the right:

- a. to participate in the management of the business.
- b. to be consulted about the affairs of the business.
- c. to inspect the books of account and have a copy of it.
- d. to share profits and losses with others in the agreed ratio.
- e. to receive interest on the loan advanced by him to the firm at an agreed rate of interest. Where the rate is not agreed upon, interest is paid at the rate of 6% p.a. as per the provisions of the Indian Partnership Act, of 1932.
- f. to act according to his best judgment in case of emergency and be indemnified for the expenses incurred by him.
- g. not to allow the admission of a new partner (Unanimous consent).
- h. to retire from the firm after giving proper notice for the same.
- i. to get indemnified against the expenses incurred by him on the business or incurred by him on behalf of the firm.

Importance of Partnership Deed:

- a. An important legal document.
- b. Defines the relationship between the partners.
- c. Governs the rights, duties, and liabilities of each partner and therefore, avoids and settles possible disputes among the partners.
- d. In case of any dispute among partners, a partnership deed is considered as the basis for settlement of such dispute.

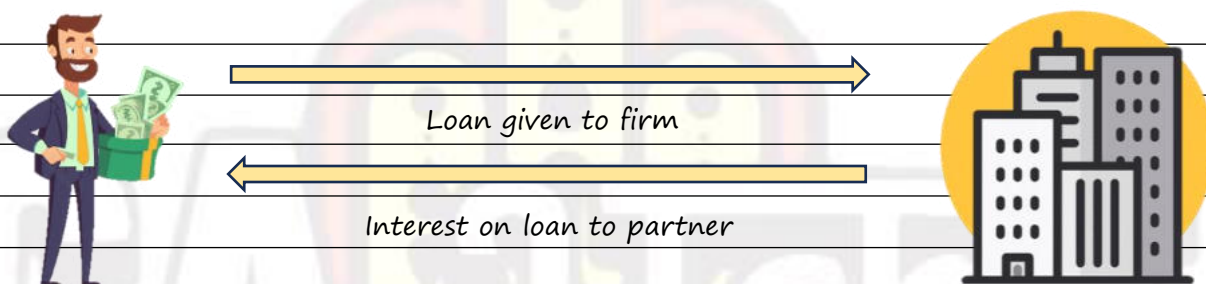
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- e. Not essential but desirable to have a Partnership Deed
- f. Where there is no partnership deed, provisions of the Indian Partnership Act, 1932 will be applied.

Rules applicable in the absence of a partnership deed or specific clause

Profit sharing ratio	Equal
Interest on capital	Not Allowed
Interest on Drawings	Not charged
Salary and commission	Not Allowed
Interest on Partner's Loan	6% p.a.

Interest on Partner's Loan to the firm:



The rate of interest on partners' loan is specified in the Partnership Deed and If the Partnership Deed is silent, interest shall be paid @6%p.a. on loan.

Journal Entries passed are as follows:

1. To provide Interest on Partners' Loan:
 Interest on Partner's Loan A/c ...Dr.
 To Partners' Loan A/c
2. To close the Interest on Partners' Loan A/c:
 Profit and Loss A/c ...Dr. (Because it is a charge against profit)
 To Interest on Partners' Loan A/c

Profit and loss Appropriation A/c

For the Year Ended.....

Particulars	Amount	Particulars	Amount
To Profit and loss A/c (loss from P&L A/c)		By Profit and loss, A/c (Profit from P&L A/c)	
To Interest on capitals			
To partners salaries			
To partners Commission		By Interest on Drawings	
To Reserves			
To Profit T/s to Partners capital A/c			

In case where the total amount of appropriations is more than the amount of profit available

Partners: A and B

Profit Available for Distribution: ₹40,000

Partnership Deed Stipulations:

Partner A: Salary ₹20,000; Interest on Capital ₹10,000

Partner B: Salary ₹15,000; Interest on Capital ₹5,000

Steps to Determine Profit Distribution

Step 1: Calculate Individual Appropriations

Partner A's Total Appropriation = 20000 + 10000 = 30000

Partner B's Total Appropriation = 15000 + 5000 = 20000

Step 2: Calculate Total Appropriation for All Partners

Total Appropriation = Partner A's Total + Partner B's Total = 30000 + 20000 = 50000

Step 3: Calculate the Ratio of Appropriations

Partner A's Ratio = ₹30,000 / ₹50,000 = 0.6

Partner B's Ratio = ₹20,000 / ₹50,000 = 0.4

Step 4: Distribute Available Profits Based on Calculated Ratios

Partner A = 0.6 × ₹40,000 = ₹24,000

Partner B = 0.4 × ₹40,000 = ₹16,000

Partners' Capital Accounts

In a partnership firm, separate Capital Accounts are maintained for each partner as each of the partners is the owner and has separate transactions with the firm.

In a partnership firm, Partners' Capital Accounts can be maintained using one of two methods:

Fixed Capital Accounts Method: Under this method, each partner has two separate accounts:

Capital Account: Shows the fixed amount of capital invested by the partner. It only changes when additional capital is introduced or capital is withdrawn by the partner.

Current Account: Records all other transactions related to the partner, such as drawings, interest on capital, salary, commission, and share of profit or loss.

Fluctuating Capital Accounts Method: Only a single Capital Account is maintained for each partner. This account reflects all transactions including the partner's capital contributions and withdrawals, as well as drawings, interest, salaries, commissions, and share of profits or losses. The balance of this account increases or decreases over time based on these transactions.

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Format of partner's capital accounts under fixed capital method (Personal Account)

Particulars	X	Y	Particulars	X	Y
To cash/bank A/c (Capital withdrawn)			By balance b/d		
To balance c/d			By cash/bank A/c (Additional capital)		

Partner's current accounts

Particulars	X	Y	Particulars	X	Y
To balance b/d (in case of debit balance)			By balance b/d (in case of credit balance)		
To drawings (drawings against profit)			By interest on capital		
To interest on drawings			By commission		
To profit and loss (loss)			By salaries		
To balance c/d (credit)			By profit and loss appropriation A/c (share of profit)		
			By balance c/d (debit)		

Format of partners' capital account under fluctuating capital method

Particulars	X	Y	Particulars	X	Y
To balance b/d (in case of debit balance)			By balance b/d (in case of credit balance)		
To cash/bank (capital withdrawn)			By cash/bank (capital introduced)		
To drawings (drawings against profit)			By interest on capital		
To interest on drawings			By commission		
To profit and loss (loss)			By salaries		
To balance c/d (credit)			By profit and loss appropriation A/c (share of profit)		
			By balance c/d (debit)		

Calculation of commission payable to partners

a. Percentage of net profit before charging such commission

$$\frac{\text{Net Profit (before commission)} \times \text{Rate of Commission}}{100}$$

100

b. Percentage of net profit after charging such commission

$$\frac{\text{Net Profit (before commission)} \times \text{Rate of Commission}}{100 + \text{Rate of commission}}$$

100 + Rate of commission

Salary or Commission, is an appropriation of profit, therefore, accounting treatment will be as follows:

1. On allowing Salaries/Commissions to Partners:

Partners' Salaries/Commissions A/c ...Dr.

To Partners' Current A/cs (when capitals are fixed)

To Partners' Capital A/cs (when capitals are fluctuating)

2. On closure of Salaries/Commissions A/cs:

Profit and Loss Appropriation A/c ...Dr.

To Partners' Salaries/ Commissions A/c

Interest on partners' drawings

Interest on drawings is charged from partner only when drawings are made out of profits not out of capitals.

How to calculate interest on drawings

Case 1: When rate of interest is given as flat rate (%)

$$\text{Interest on drawings} = \text{Amount of drawings} \times \text{rate of interest}$$

Note: Don't consider time factor in this case

Case 2: when the rate of interest is given as % p.a.

$$\text{Interest on drawings} = \text{amount of drawings} \times \text{rate of interest} \times \text{time factor}$$

Note: If Time of drawings not given, take it as 6 months

Case 3: when equal amounts of drawings are made at equal interval.

$$\text{Interest on drawings} = \text{amount of drawings} \times \text{rate of interest} \times \text{average time factor}$$

Note: average time factor = month left after first drawings + months left after last drawings

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Case 4: when a different amount is withdrawn at different intervals.

$$\text{Interest on drawings} = \text{calculate interest on drawings for each amount withdrawn as}$$

case 2

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Journal Entries to record interest on drawings are as follows:

1. In case of Fixed Capital Accounts:

a. Partners' Current A/cs ...Dr.

To Interest on Drawings A/c

(Being the interest charged on partners' drawings)

b. Interest on Drawings A/c ...Dr.

To Profit and Loss Appropriation A/c

(Being the interest on drawings transferred to Profit and Loss Appropriation A/c)

2. In case of Fluctuating Capital Accounts:

a. Partners' Capital A/cs ...Dr.

To Interest on Drawings A/c

(Being interest charged on partners' drawings)

b. Interest on Drawings A/c ...Dr.

To Profit and Loss Appropriation A/c

(Being the interest on drawings transferred to Profit and Loss Appropriation A/c)

Interest on capital

Interest on capital is an amount paid by the partnership firm to each partner based on the capital they have contributed to the firm. It is typically agreed upon in the partnership deed (the formal agreement between partners).

Interest on capital can be treated as appropriation of profits or charge against profit.

Appropriation of profits

In case of losses: Not allowed.

In case of profits: Allowed

Charge against profits

In case of losses: Allowed.

In case of profits: Allowed

Journal Entries for recording Interest on Capital in case of appropriation of profits:

i. In case of Fixed Capital Accounts:

a. Interest on Capital A/c ...Dr.

To Partners' Current A/cs

(Being the interest on capital allowed to partners)

b. Profit and Loss Appropriation A/c ...Dr.

To Interest on Capital A/cs

(Being the interest on capital transferred to Profit and Loss Appropriation Account)

ii. In case of Fluctuating Capital Accounts:

a. Interest on Capital A/c ...Dr.

To Partners' Capital A/cs

(Being the interest allowed on partners' capitals)

b. Profit and Loss Appropriation A/c ...Dr.

To Interest on Capital A/cs

(Being the interest on capital transferred to Profit and Loss Appropriation Account)

Journal entries for interest on capital in case of charge against profits:

Interest on partner's capital A/c Dr.

To partner's capital A/c

(Being interest on partner's capital provided)

P&L A/c Dr.

To Interest on partner's capital A/c

(Being interest on partner's capital transferred P&L A/c)

Interest on partner's capital is calculated on opening capital

In case of fixed capital

Calculation of opening capital

Capital at the end of the year	
(+) withdrawal of capital	
(-) additional capital introduced during the year	
Capital at the beginning of the year	

In case of fluctuating capital

Calculation of opening capital

Capital at the end of the year
(+) drawings against capital
(+) drawings against profits
(+) interest on drawings
(+) share of loss for the year if already debited
(-) additional capital introduced during the year
(-) partner's salary/ Remuneration
(-) interest on capital
(-) share of profit for the year if already credited

Past adjustments

Past adjustments refer to corrections or alterations that need to be made to the accounts due to errors or omissions in the recording of transactions in previous accounting periods. These adjustments might also be required when new agreements are reached regarding the interpretation or implementation of terms in the partnership deed that were not previously applied or misunderstood.

Steps to do past adjustments

Step 1: reverse the entry which was previously passed through profit and loss adjustment account.

Step 2: after all corrections the balance in profit and loss adjustment account is distributed between the partners in their PSR.

Guarantee of profits

When a partnership firm guarantees a minimum profit to an existing or incoming partner, it generally serves as an incentive or a means to attract and retain talent or capital. This guarantee can be structured in two primary ways:

1. Guarantee by the Firm

In this arrangement, the partnership firm as a whole guarantees a minimum amount of profit to the guaranteed partner. This means that if the partner's actual share of profit (based on the profit-sharing ratio) falls short of the guaranteed amount, the firm is responsible for compensating for the shortfall. Firm means that all the remaining partners shall compensate for the shortfall in their PSR.

Example:

Suppose a new partner, C, is admitted to a firm with a guarantee of a minimum profit of ₹20,000 annually. If C's share of the firm's profit based on the agreed profit-sharing ratio amounts to only ₹15,000, the firm will contribute the additional ₹5,000 to ensure C receives the guaranteed ₹20,000 i.e. 5000 shortfall will be borne by A and B in their PSR.

2. Guarantee by One or More Existing Partners

In this scenario, one or more of the existing partners agree to ensure that the new or existing guaranteed partner receives a certain minimum amount of profit. If the profits allocated to the guaranteed partner according to the profit-sharing ratio are insufficient, the guarantor(s) will make up the difference in their agreed ratio.

Example:

Partner A and Partner B are in a firm, and they admit Partner C with a profit guarantee. They agree that if C's share of profit doesn't reach ₹20,000, B will make up for the shortfall. If C's share ends up being ₹15,000, B could agree to contribute ₹5,000 to make up the additional ₹5,000 needed.

Meaning of Goodwill

Goodwill is good name or the reputation of the business, which is earned by a firm through the hard work and honesty of its owners. If a firm renders good service to the customers, the customers who feel satisfied will come again and again and the firm will be able to earn more profits in future.

In Accounting we can say goodwill is the future earning capacity of the business.

Features of Goodwill

1. It is an intangible asset.
2. It is helpful in earning excess profits.
3. Its value is liable to constant fluctuations.
4. It is valuable only when entire business is sold: Goodwill cannot be sold in part. It can be sold with the entire business only. The only exception is at the time of admission or retirement of the partner.
5. It is difficult to place an exact value on goodwill: This is because its value may fluctuate from time to time due to changing circumstances which are internal and external to business.

Goodwill is divided into two categories.

I. Purchased Goodwill: Purchased goodwill means goodwill for which a consideration has been paid e.g. when business is purchased the excess of purchase consideration of its net assets i.e. (Assets – Liabilities) is the Purchased Goodwill. It is separately recorded in the books because as it is purchased by paying in form of cash or kind.

Characteristics

- (i) It arises on purchase of a business or brand.
- (ii) Consideration is paid for it so it is recorded in books.
- (iii) Shown in balance sheet as an asset.
- (iv) It is amortised (depreciated).
- (v) Value is a subjective judgment & ascertained by agreement of seller & purchaser. It is approximate value and cannot be sold separately in the market or in parts.

II. Self-generated Goodwill also called as inherent goodwill. It is an internally generated goodwill which arises from a number of factors that a running business possesses due to which it is able to earn more profits in the future.

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Features

- (i) It is generated internally over the years.
- (ii) A true cost cannot be placed on this type of goodwill.
- (iii) Value depends on subjective judgment of the value.
- (iv) As per Accounting Standard 26 (Intangible Asset), it is not recorded in the books of accounts because consideration in money or money's worth has not be paid for it.

Factors Affecting the Value of Goodwill

1. Efficient management.
2. Quality of products.
3. Location of business.
4. The Longevity of the business.
5. Monopolistic and other Rights.
6. Other factors:
 - (i) Good industrial relations.
 - (ii) Favourable Government regulations
 - (iii) Stable political conditions
 - (iv) Research and development efforts
 - (v) Effective advertising to establish brand popularity
 - (vi) Popularity of product in terms of quality.

Situation where goodwill valuation is Required: -

1. When profit sharing ratio changes
2. On admission of a partner
3. On Retirement or death of a partner
4. When amalgamation of two firms taken place
5. when partnership firm is sold.

Method of valuation of goodwill:

It is very difficult to assess the value of goodwill, as it is an intangible asset. In case of sale of a business, its value depends on the mutual agreement between the seller and the purchaser of the business. Usually, there are three methods of valuing goodwill:

1. Average profit method
2. Super profit method
3. Capitalization method

Average Profit Method

Goodwill = Average Profits x Number of years of purchase

Number of years of purchase means for how many years the firm will earn the same amount of profits in future.

Average Profits = $\frac{\text{Total Profits}}{\text{Number of years}}$

Number of years

Adjustments while calculation of goodwill: -

(i) Abnormal income of a year should be deducted out of the net profit of that year.

(ii) Abnormal loss of a year should be added back to the net profit of that year.

(iii) Income from investments should be deducted out of the net profits of that year because this income is not earned from business operations.

Weighted Average Profit Method: This method is a modified version of average profit method. In this Method each year's profit is assigned a weight. The highest weight is attached to profit of most recent year.

Eg: 2011-1, 2012-2, 2013-3, 2014-4.

Each year profits are multiplied by assigned weights. Products are added & divided by total number of weights.

Weighted Average Profit: = $\frac{\text{Total Product of Profits}}{\text{Total of Weights}}$

Total of Weights

Goodwill = Weighted Average Profit x No. of years of purchase.

Weighted average profit method is considered better than the simple average profit method because it assigns more weightage to the profits of the latest year which is more likely to be earned in future. This method is preferred when profits over the past years have been continuously rising or falling.

Super profit Method: In this method goodwill is calculated on the basis of surplus (excess) profits earned by a firm in comparison to average profits earned by other firms. Super Profit are the excess of actual profit over normal profits. Where Normal profits are profits earned by similar business.

Goodwill = Super Profit x Number of years of purchase

Super Profit = Average profit - Normal profits

Normal Profit = $\frac{\text{Investment (Capital Employed)} \times \text{Normal Rate of return}}{100}$

100

Capital Employed = Capital + Free Reserves - fictitious Assets (if any),

or

All Assets - (Goodwill, fictitious assets, and non-trade Investment) - Outsider's Liabilities

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Capitalised Method Under this method, goodwill can be calculated in two ways:

(A) Capitalisation of Average Profit Method:

1. Calculate capitalized value of the firm

$$\text{Capitalised value of the firm} = \frac{\text{Average Profits} * 100}{\text{Normal rate of return}}$$

2. Calculate the value of capital employed

$$\text{Net Assets or Capital employed} = \text{Total assets} - \text{Outside liabilities}$$

3. Calculate Goodwill

$$\text{Goodwill} = \text{Capitalized value of average profits} - \text{Capital Employed}$$

(B) Capitalisation of Super Profit Method:

1. Calculate Super Profit

$$\text{Super Profit} = \text{Average profit} - \text{Normal Profit}$$

2. Calculate Goodwill

$$\text{Goodwill of the firm} = \frac{\text{Super Profits} * 100}{\text{Normal rate of return.}}$$

Calculation of gaining/sacrificing ratio

$$\text{Gaining/sacrificing ratio} = \text{New PSR} - \text{old PSR} = (+) \text{Gain} / (-) \text{Sacrifice}$$

Goodwill adjustment (self generated goodwill)

In the following cases goodwill adjustment is required

1. Change in PSR
2. Admission
3. Retirement
4. Death

Case 1: Entry for goodwill adjustment in case of change in PSR

Gaining partner A/c Dr.

To sacrificing partner A/c

(being adjustment for goodwill made)

Case 2: Entry for goodwill adjustment in case of admission

Cash/bank A/c Dr. (if incoming partner brings his share of goodwill in cash)

Incoming partner A/c Dr. (if incoming partner does not bring G/w in cash)

(G/w x Gain) Gaining partner A/c Dr. (if any old partner gain due to change in PSR)

To Sacrificing partner's A/c

(Being goodwill adjustment made at the time of admission of partner)

Case 3: Retirement/death of a partner

Gaining partner's A/c Dr

To retiring partner/deceased partner A/c

(being goodwill adjustment made at the time of retirement/death of a partner)

Reconstitution of partnership firm

Any change in agreement of partnership or profit-sharing ratio is called reconstitution of partnership firm.

Apart from adjustment for goodwill, following Adjustments at the time of reconstitution of partnership firm are also needed to be done

1. Revaluation of assets and reassessment of liabilities
2. Distribution of free reserves and surplus
3. Writing of goodwill/fictitious assets (ex: advertisement suspense) appeared in the books

Revaluation of assets and reassessment of liabilities

(i) Increase in the value of an Asset and decrease in the value of a liability result in profit.

Assets A/c Dr. /unrecorded asset A/c Dr.

To Revaluation

(ii) Decrease in the value of any asset and increase in the value of a liability gives loss.

Revaluation A/c Dr.

To Assets A/c

(iii) For increase in the value of liabilities.

Revaluation A/c Dr.

To Liabilities A/c /unrecorded liabilities A/c

(iv) For decrease in the value of Liabilities

Liabilities A/c Dr.

To Revaluation A/c

(v) For revaluation expenses

Revaluation A/c Dr.

To cash (paid by firm) /partner's capital A/c (paid by partner)

(vi) When Revaluation account shows profit

Revaluation A/c Dr.

To Partner's Capital A/c

(Profit credited to old Partner's Capital A/c in old ratio)

(vii) In case of Revaluation Loss

Partner's Capital A/c's Dr.

To Revaluation A/c

(Loss debited to old Partner's Capital A/cs in old ratio)

Distribution of free reserves and surplus

Free reserves/surplus A/c Dr.

To Partner's capital A/c

(Being distribution of free reserves in old PSR to old Partner's)

Writing off goodwill/fictitious assets

Partner's capital A/c Dr.

To Goodwill A/c

To Fictitious Assets A/c

(Being goodwill/fictitious assets appeared in the books written off)

Workmen compensation reserve

The Workmen Compensation Reserve is a specific financial provision made by businesses, including partnership firms, to cover potential future liabilities arising from compensation claims made by employees under the Workmen's Compensation Act or similar labour laws.

Example:

Workmen compensation reserve as appeared in balance sheet = 100000

Pass journal entry in following cases

Case 1: workmen compensation is nil or no information regarding workmen compensation

Workmen compensation A/c Dr.	100000	
To partner's capital A/c (Old partners Old PSR)		100000

(Being workmen compensation reserve is distributed)

Case 2: workmen compensation is 80000

Workmen compensation A/c Dr.	100000	
To partner's capital A/c (Old partners Old PSR)		20000
To workmen compensation liability A/c		80000

(Being workmen compensation reserve is distributed)

Case 3: workmen compensation is 130000

Workmen compensation A/c Dr.	100000	
Revaluation A/c Dr.	30000	
To workmen compensation liability A/c		130000

(Being workmen compensation reserve is distributed)

Investment fluctuation reserve

The Investment Fluctuations Reserve is a specific accounting provision used by businesses, including partnership firms, to manage the impact of fluctuations in the market values of their investment portfolios.

Example:

Investment fluctuations reserves 60,000

Investment at cost 4,00,000

Pass journal entry in following cases

Case 1: When investment's market value is not given

Investment fluctuations reserve A/c Dr. 60000

To Partner's capital A/c 60000

(being IFR distributed to old partners in old psr)

Case 2: when investment's market value is 4,00,000

Investment fluctuations reserve A/c Dr. 60000

To Partner's capital A/c 60000

(being IFR distributed to old partners in old psr)

Case 3: when investment's market value is 4,24,000

Investment fluctuations reserve A/c Dr. 60000

To Partner's capital A/c 60000

(being IFR distributed to old partners in old psr)

Case 4: when investment's market value is 3,70,000

Investment fluctuations reserve A/c Dr. 60000

To Investments A/c 30000

To Partner's capital A/c 30000

(being IFR is utilised for reduction in value of investment)

Case 5: when investment's market value is 3,10,000

Investment fluctuations reserve A/c Dr. 60000

Revaluation A/c Dr. 30000

To Investments A/c 90000

(being IFR is utilised for reduction in value of investment)

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Reconstitution adjustments without affecting the book value of assets and liabilities

Step 1: prepare revaluation account to find out profit and loss on revaluation.

Step 2: find out amount to be adjusted = profit and loss on revaluation + free reserves and surplus – goodwill/fictitious assets

step 3: now adjust the amount calculated in step 2 in gaining/sacrificing of partner's.

Admission of a partner

Sometimes for the requirement of additional capital, technical support or to improve managerial efficiency, a continuing partnership firm, in consensus with all the partners, decides to admit a new partner in their business.

Section 31(1) of the Indian Partnership Act, 1932 provides that a person can be admitted as a new partner only with the consent of all the existing partners, unless otherwise agreed upon.

This is a form of reconstruction of partnership, as because whenever a new partner is admitted to a firm, the partnership between/among the existing partners comes to an end which begins a new partnership.

Usually the following accounting adjustments are required at the time of such admission:

1. Computation of New Profit-Sharing Ratio
2. Revaluation of Assets and Liabilities
3. Distribution of Reserves, Accumulated Profits and Losses
4. Adjustment for Goodwill
5. Adjustments regarding Capital Contribution of new partner and the Capitals of the existing partners
6. Adjustment for Life Policy: **Adjust surrender value in gaining /sacrificing ratio**

Adjustment of capital

When the new partner's capital is not given (he has to bring in the proportionate capital/according to his share of profit).

Following steps are taken:

1. Calculate the capitals of old partners after making all the adjustments.
2. Calculate the total capital of the new firm as follows:

Total capital = Combined capitals of old partners after making all the adjustments x Reciprocal of combined share of old partners in the new firm.

3. Calculate the Capital of new partner as follows:

New Partner's Capital = Total capital (as per step 2 above) x share of new partner

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When new partner's capital is given (the capitals of old partners are adjusted on the basis of new partner's capital).

Following steps are taken:

1. Calculate Total Capital of the New Firm:

Total capital of the new firm = New Partner's capital \times reciprocal of new partner's share

2. Calculate the new capitals of old partners by dividing the total capital of the new firm in the new profit sharing ratio.

3. Show these capitals as closing capitals in the capital accounts and calculate the surplus or deficiency, as the case may be. (As given in the question.)

Note: In case of the absence of any specific instruction the deficiency /surplus is adjusted by bringing in or withdrawing cash and not through current account.

Retirement of a partner

After retirement of a partner, the other partners may continue the business. For paying off the retiring partner(s), some specific adjustments are required to be done in the books of the firm. These are discussed as follows:

1. Calculation of new profit-sharing ratio and gaining ratio,
2. Distribution of reserves and accumulated profits and losses,
3. Revaluation of assets and liabilities,
4. Adjustment for goodwill,
5. Adjustment for JLP: *Adjust surrender value in gaining /sacrificing ratio.*
6. Settlement of final balance of the retiring partner,
7. Adjustment of existing partners' capital accounts.

Adjustment of capital

Three cases regarding adjustment of capital accounts

(a) When total capital of the new firm is given.

Following steps are to be taken in this case:

1. Calculate the proportionate capital of each of the remaining partners by multiplying the total capital of new firm with the share of the remaining partners.
2. Calculate actual capitals of partners after all adjustments relating to goodwill, revaluation, accumulated profits/losses etc.
3. Calculate the surplus or deficiency of actual capital over proportionate capital by comparing the capitals calculated in step 1 and step 2 above.

4. Adjust the surplus/deficiency through cash or partner's current account as per the instruction given in the question otherwise to bring cash in case of deficiency and to return cash in case of surplus.

(b) When total capital of the new firm is not given:

Following steps are to be taken in this case:

1. Calculate total capital of new firm by taking the actual combined capitals of continuing partners after all the adjustments relating to goodwill, revaluation, accumulated profits/losses etc.
2. Calculate the proportionate capital of each of the remaining partners by multiplying the total capital of new firm with the share of the remaining partners.
3. Calculate the surplus or deficiency of actual capital over proportionate capital by comparing the capitals calculated in step 1 and step 2 above.
4. Adjust the surplus/deficiency through cash or partner's current account as per the instruction given in the question otherwise to bring cash in case of deficiency and to return cash in case of surplus.

(c) When retiring partner is to be paid through cash brought in by the continuing partners in such a way as to make their capitals proportionate to the new profit-sharing ratio:

Following steps are to be taken in this case:

1. Calculate actual capitals of remaining partners after all adjustments relating to goodwill, revaluation, accumulated profits/losses etc.
2. Add to above combined capitals, the capital of retiring partner after all adjustments mentioned above.
3. Deduct the bank balance which is allowed to be utilised/ Add the bank balance which is required to be maintained.
4. Calculate the proportionate capital of the remaining partners separately by multiplying the total capital with their new share.
5. Calculate the surplus or deficiency of actual capital over proportionate capital by comparing the capitals calculated in step 1 and step 6 above.
6. Adjust the surplus/deficiency through cash or partner's current account as per the instruction given in the question otherwise to bring cash in case of deficiency and to return cash in case of surplus.

Death of a partner

If a continuing partner dies, then it leads to reconstitution of partnership firm.

In the event of death of a partner, the other partners may decide to continue the business which requires certain adjustments to be made in the books of accounts of the existing partnership firm which are as follows:

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1. Calculation of new profit-sharing ratio and gaining ratio,
2. Distribution of reserves and accumulated profits and losses,
3. Revaluation of assets and liabilities,
4. Adjustment for goodwill,
5. Adjustment for Joint Life Policy (JLP),
6. Adjustment for interim period's profit/loss,
7. Settlement of final balance of the deceased partner to his Executor.

Adjustment for interim period's profit/loss:

Unlike Admission and Retirement, the date of which are generally pre-planned, the death of a partner can take place anytime during the Accounting Period. In such case, the amount of profit or loss, starting from the opening date of the accounting period ending up to the date of death, is to be determined (which is called as the interim period's profit or loss) and the share of the deceased partner in such Profit/Loss is to be duly accounted for. *For this purpose, generally a temporary account is opened in the books of the firm called P/L Suspense A/c when PSR of partners is not changing and if PSR changes then gaining/sacrificing ratio is used.*

Normally two approaches are there to estimate the profit or loss for the interim period:

- (i) **On Time Basis:** Here the average profit of last periods is considered, which is apportioned between the pre-death period and the post-death period.
- (ii) **On Sales Basis:** Under this approach, the rate of profit on sales earned in the last year is computed and is applied to the interim period's sales.

Joint life policy

In a partnership business, the sudden death of a partner can financially strain the firm due to the need to immediately settle any amounts owed to the deceased's estate. To mitigate this risk, firms often take out life insurance policies on their partners, either individually or jointly. These policies, especially joint life policies (JLPs), cover all partners under a single plan and pay out upon the death of any one partner or at the policy's maturity.

The insurance premiums paid by the firm for JLP are considered an asset in which all partners have a proportionate stake. This asset is particularly relevant during changes in the firm's constitution (e.g., admission of a new partner, retirement, etc.) and upon a partner's death. The policy's maturity value (or sum assured) is what the firm receives upon a partner's death or at the end of the policy period. Alternatively, a firm may choose to surrender the policy before maturity, receiving the policy's surrender value, which increases over time and represents its fair value.

There are two main accounting approaches for JLPs:

Method A: The JLP is not treated as an asset in the firm's books.

Method B: The JLP is recognized as an asset in the firm's books.

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Case 2: When JLP Surrender value is treated as asset

Year 1

Joint life insurance premium A/c Dr.	20000	
To bank A/c		20000
(Being JLP Premium paid)		

P&L A/c Dr.	20000	
To Joint life insurance premium		20000
(Being JLP Premium transferred to p&l)		

Year 2

Joint life insurance premium A/c Dr.	20000	
To bank A/c		20000
(Being JLP Premium paid)		

P&L A/c Dr.	5000	
JLP A/c Dr.	15000	(Because it is certain to be received)
To Joint life insurance premium		20000
(Being JLP Premium transferred to p&l)		

Year 3

Joint life insurance premium A/c Dr.	20000	
To bank A/c		20000
(Being JLP Premium paid)		

P&L A/c Dr.	5000	
JLP A/c Dr.	15000	
To Joint life insurance premium		20000
(Being JLP Premium transferred to p&l)		

Policy surrendered

Bank A/c Dr.	30000	
To JLP A/c		30000
(Being policy surrender value received)		

Note: In this case due to creation of JLP(asset A/c) the amount of premium which needed to be debited to p&l A/c is reduced and because of that the profit is increased by the amount debited to JLP A/c and ultimately credited to partner's capital A/c through p&l.

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Case 3: When JLP Asset A/c and JLP Reserve A/c is created

Year 1

Joint life insurance premium A/c Dr. 20000
 To bank A/c 20000
 (Being JLP Premium paid)

P&L A/c Dr. 20000
 To Joint life insurance premium 20000
 (Being JLP Premium transferred to p&l)

Year 2

Joint life insurance premium A/c Dr. 20000
 To bank A/c 20000
 (Being JLP Premium paid)

P&L A/c Dr. 5000
 JLP A/c Dr. 15000 (Because it is certain to be received)
 To Joint life insurance premium 20000
 (Being JLP Premium transferred to p&l)

P&l Appropriation A/c Dr. 15000
 To JLP Reserve A/c 15000
 (Being JLP reserve created equivalent to surrender value)

Policy surrendered

Bank A/c Dr. 15000
 To JLP A/c 15000
 (Being surrender value received)

JLP Reserve A/c Dr. 15000
 To Partner's capital A/c 15000
 (Being JLP Reserve distributed to old partners in old psr)

Note: JLP Reserve is created to postpone the distribution of the surrender value amount until the JLP surrenders or matures.

Dissolution of partnership firm

Dissolution of Partnership refers to the end of the existing relationship between the partners in a business, but it doesn't necessarily mean the business itself stops operating. The partnership can be reconstituted with remaining or new partners, and the business can continue under a new arrangement.

Dissolution of Partnership Firm means the complete winding-up of the partnership business. This includes settling all debts, distributing assets to partners, and ceasing all business activities, effectively ending the firm as a legal entity. (Current chapter)

Accounts to be prepared

1. Realization A/c
2. Partner's capital A/c
3. Bank A/c

Realization Account

A Realisation Account is used during the dissolution of the partnership firm. It's an account created to handle all transactions related to the closing of the firm.

The Realisation Account is used to:

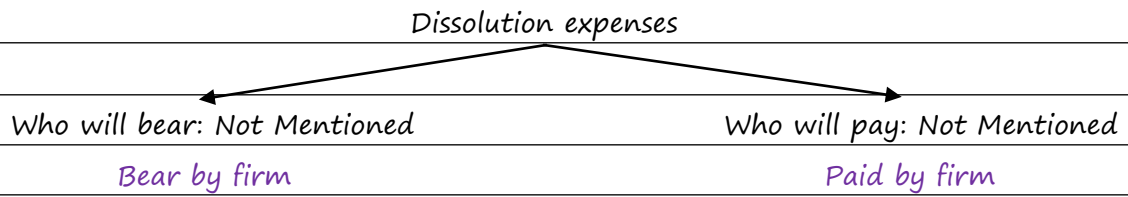
- Consolidate and record the disposal of the firm's assets.
- Pay off the firm's liabilities.
- Determine the gain or loss on the dissolution of the firm's assets and liabilities.

Realization A/c

Particulars	Amount	Particulars	Amount
To fixed Assets (Tangible + Intangible) including goodwill		By investment fluctuation reserve (investment present)	
To debtors		By provision for bad debts	
To current assets (all the other assets of the firm except fictitious assets, loans to partners, and cash or bank balance)		By noncurrent liabilities (all the other liabilities of the firm except partners' loan account & partners' capital account)	
To bank (payment of liabilities)		By current liabilities	
To partner's capital A/c (liability taken over)		By bank (sale of assets)	
To bank (dissolution expenses paid)		By partner's capital A/c (asset taken over)	
To partner's capital A/c (profit on realization) (B/f)		By partner's capital A/c (loss on realization) (B/f)	

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Note: if question is silent about sale of any asset, then assume that the asset is not sold, and its value is zero but if question is silent about any liability, then also you have to pay it.



Note: If any creditor accepts any asset in full settlement of its claim, then no entry is required (profit /loss on settlement is auto adjusted).

Note: partner's wife loan is treated as outsiders' liability.

Note: Workmen compensation reserve is transferred to realization account equivalent to workmen compensation liability and if some amount remaining it will be distributed to partners. Journal entries as follows:

1. Workmen compensation reserve A/c Dr.
 To realization A/c (Amount of WCL or WCR whichever is lower)
 To partner's capital A/c (If Any WCR remaining)

2. Realization A/c Dr. (WCL)
 To bank A/c

Note: Employees provident fund is a liability.

Note: If any Unrecorded asset found then

Bank A/c Dr.
 To realisation A/c

Note: If any unrecorded liability found then

Realization A/c Dr.
 To Bank A/c

Note: If any unrecorded asset set off against unrecorded liability, then no entry is required.

Insolvency of partner

If a partner becomes insolvent and fails to pay his debit balance of Capital A/c either wholly or in part, the unrecoverable portion is a loss to be borne by the solvent partners.

Garner vs murray

Justice Joyee held in the case of Garner vs. Murray that the loss arising due to the insolvency of a partner must be distinguished from an ordinary loss (including realization loss). Unless otherwise agreed, the decision in Garner vs. Murray requires –

- (i) That the solvent partners should bring in cash equal to their respective shares of the loss on realization;
- (ii) That the solvent partners should bear the loss arising due to the insolvency of a partner in the ratio of their Last Agreed Capitals.

Conditions for Applicability of garner vs murray

1. Atleast one partner of the firm **becomes insolvent** at the time of dissolution.
2. Atleast two partners are **solvent with the credit balance** in their capital account.

That means the partner who is solvent but having negative capital balance or nil capital balance not required to contribute any amount.

Last agreed capital

In case of fixed capital method: consider opening balance of capital account.

In case of fluctuating capital method: consider opening capital with all adjustments except realization profit/loss.

If all the partners are insolvent

Since all partners are insolvent, creditors cannot expect to be paid in full. In such a case Sundry Creditors **should not be transferred to Realization Account**. Cash in hand together with the amount realized on sale of assets and surplus from private estate of partners, if any, less expenses will be applied in making payment to the creditors. The balance of Creditors Account represents the deficiency to be borne by them which to be transferred to a Deficiency Account. The balance of Capital Accounts should also be transferred to the Deficiency Account to close the books.

The following entries required to be passed:

- (i) To, pay-off the creditors

Creditors A/c Dr. (Total Creditors)
 To, Bank A/c (Amount paid)
 To, Deficiency A/c (Amount unpaid)

- (ii) When deficiency is transferred

Deficiency A/c Dr.
 To, Partners' Capital A/c (Balancing figure of partner's capital A/c)

Note: If more than 1 liabilities are there in case of all partners becomes insolvent then the deficiency to be borne by liabilities in the ratio of their outstanding amount. (Illustration 29)

Return of Premium to a partner on dissolution before expiry of term (Illustration 30)

Conditions:

- (i) A partner was admitted in the partnership firm for a fixed term period,
- (ii) Such partner had paid a premium for goodwill at the time of admission.
- (iii) The partnership firm has dissolved.

Exceptions: The partner will not be entitled to any claim under any of the following

- (i) the firm is dissolved due to death of a partner
- (ii) the dissolution is due to the misconduct of the partner claiming refund
- (iii) dissolution is in pursuance of an agreement containing no provision for the return of the premium or any part of it.

Amount of Refund: the amount to be repaid will be determined having regard to the terms upon which the admission was made and to the length of the period agreed upon and the period that has expired.

Liability of other partners: the amount of refund payable shall be borne by the other partners in their profit-sharing ratio.

Piecemeal Distribution

The order of the payment will be as follows:

- (i) Realisation expenses
- (ii) For provision for expenses that are to be made: Adjust the balance at the time of last realisation – If actual > Estimated, then deduct the amount
If actual < estimated, then add the amount
- (iii) Preferential creditors (say, Income Tax or any payment made to the Government)
- (iv) Secured creditors – The **amount realized from the disposal of assets by which they are secured**. If surplus realised, then use the funds for other liabilities or, If deficiency arise from sale of asset then remaining secured creditors are treated as unsecured.
- (v) Unsecured creditors – in proportion to the amount of debts, if more than one creditor
- (vi) Partners' loan – if there is more than one partner – in that case, in proportion to the amount of loan
- (vii) Partners' capital – the order of payment may be made by any one of the following two methods:
 - (a) Surplus Capital Method/ Proportionate Capital Method/ Highest Relative Capital Method
 - (b) Maximum Possible Loss Method

Surplus Capital Method/ Proportionate Capital Method/ Highest Relative Capital Method

Particulars	M	N	P
a. Adjusted capital	55000	37500	31500
b. Profit sharing ratio	5	3	2
c. Per Unit Capital (a ÷ b)	11000	12500	15750
d. Capital should be (lowest per unit capital x PSR)	55000	33000	22000
e. Surplus capital (a - d)	0	4500	9500
f. Profit sharing ratio	-	3	2
g. Per unit capital (e ÷ f)	-	1500	4750
h. Capital should be (lowest per unit capital x PSR)	-	4500	3000
i. Surplus capital (e - h)	-	-	6500

Note: After all realisation payments the final balance is realization profit/loss.

Payment Order

Funds Available	50000
(-) Payment to P	6500
Remaining funds	43500
(-) Payment to N & P (4500 + 3000)	7500
Remaining funds	36000
(-) Payment to M, N & P in PSR	36000

Note: If any partner taken over any asset, then deduct the value of asset taken over by the partner from capital balance of that partner and because of such asset taken over the piecemeal distribution got disturbed. so, to correct the same prepare a separate table to show the correct distribution order if asset is not taken over by partner.

Total amount available for distribution assuming asset is not taken over by partner but the same is sold in open market at same value = 90500 (Illustration 31)

Particulars	M	N	P
a. Amount payable in the month of asset taken over	-	4500	3000
b. Remaining [(90500 - 7500) in 5:3:2]	41500	24900	16600
c. Total amount payable (a + b)	41500	29400	19600
d. Amount already paid	-	4000	10000
e. Amount to be paid	41500	25400	9600

Maximum Loss Method

Step 1: All steps are same till payment to outsiders and partner's loans then at the time of distribution to partner's the maximum loss is computed.

Step 2: Maximum loss = All Partner's capital balances - Amount available for payment

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Step 3: Maximum loss shall be shared among the partners in their PSR as if there will be no further realization.

Step 4: If any of the partner capitals, after step (3) is negative, that partner shall be treated like an insolvent partner.

Step 5: The deficiency of the insolvent partner as per step (4) shall be shared by the other solvent partners (i.e. those partners who has positive capital balances) in their capital contribution ratio as per Garner vs. Murray Rule.

Step 6: Repeat the step 4 and 5 until the amount available for distribution becomes equal to positive balance of partners' capital.

Example: Amount available for distribution 4000

Particulars	X	Y	Z
a. Capital balance	55000	37500	31500
b. Maximum loss = $124000 - 4000 = 120000$ in 5:3:2	60000	36000	24000
c. Balance (a - b)	(5000)	1500	7500
d. Distribution of X loss to Y & Z in capital ratio (37500:31500)	5000	(2717)	(2283)
e. Balance (c - d)	-	(1217)	5217
f. Distribution of Y loss to Z	-	1217	(1217)
g. Balance (e - f)	-	-	4000
h. Payment to Z	-	-	(4000)
i. Capital Balance after payment (a - h)	55000	37500	27500

Note: After all realisation payments the final balance is realization profit/loss.

Note: If any contingent liability (Bills discounting) is there then make a provision for the same before making payment for partners' capital.

Amalgamation of partnership firms

It can also be formed in any of the following ways.

- (A) When two or more sole proprietors forms new partnership firm;
- (B) When one existing partnership firm absorbs a sole proprietorship;
- (C) When one existing partnership firm absorbs another partnership firm;
- (D) When two or more partnership firms form new partnership firm.

The amalgamation is used to be done to avoid competition amongst them and to maximize the profit of the firm/firms.

(A) When two or more sole proprietors form a new partnership firm

When two or more sole proprietorship businesses amalgamate to form a new partnership firm, the existing sets of books will be closed and a new set of books of accounts to be opened, recording all assets, liabilities and transactions of the partnership.

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Steps to be taken for the existing books.

Step 1: Prepare the Balance Sheet of the business on the date of dissolution.

Step 2: Open a Realisation Account and transfer all assets and liabilities, except cash in hand and cash at bank, at their book values.

However, cash in hand and cash at bank are transferred to Realisation Account only when they are taken over by the new firm.

Step 3: All undistributed reserves or profits or losses (appearing in the balance sheet) are to be transferred to Proprietor's Capital Accounts.

Step 4: Calculate Purchase Consideration on the basis of terms and conditions agreed upon by the parties.

The purchase consideration is calculated as = Agreed values of assets taken over - Agreed values of liabilities assumed

Step 5: Credit Realisation Account by the amount of Purchase Consideration.

Step 6: If there are any unrecorded assets or liabilities, they are to be recorded.

Step 7: The Profit or loss on realisation (balancing figure of Realisation Account) to be transferred to the Capital Account of the proprietor.

Step 8: To ensure that all the accounts of the Sole Proprietor's business are closed.

Additional Journal entries in realization A/c under amalgamation

For the amount of purchase consideration

New Firm A/c Dr.

To, Realisation A/c

(Purchase consideration due from the new firm)

Unrecorded asset: Taken over by new firm

Asset A/c Dr.

To Proprietor's capital A/c

(Being Unrecorded asset recorded)

Realization A/c Dr.

To Asset A/c

(Being unrecorded asset transferred to realization A/c)

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Unrecorded liability: Taken over by new firm

Proprietor's capital A/c Dr.

To liability A/c

(Being unrecorded liability recorded)

Liability A/c Dr.

To Realization A/c

(Unrecorded liability transferred to realization A/c)

For settlement of purchase consideration by the New firm

Capital in New Firm A/c Dr.

To, New Firm A/c

(Settlement of purchase consideration)

For final adjustment

Proprietor's Capital A/c Dr.

To, Capital in New Firm A/c

To, Bank A/c (if any)

(Final adjustment to close the books of account)

Accounting Entries in the Books of the New Firm

Assets A/c Dr. [Acquired value]

Goodwill A/c Dr. [Purchase consideration > Net assets] (b/f)

To, Liabilities A/c [Assumed value]

To, Partners' Capital A/c [Purchase consideration]

To capital Reserve [Purchase consideration < Net assets] (b/f)

(Being business of proprietor taken over by firm)

(B) When an existing partnership firm absorbs a sole proprietorship

When a sole proprietorship is taken over by an existing firm, the original business of the sole proprietor is dissolved and compensated by a share of the partnership firm which is acquiring it. In this case, assets and liabilities of the sole proprietorship business are taken over by the partnership firm at agreed values. *The procedures for closing the books of account of the sole proprietorship are same as explained earlier.* However, the following points are to be noted:

1. The capital of the new partner (the sole proprietorship) is equal to the purchase consideration agreed upon.
2. Before amalgamation, all the assets and liabilities of the firm may be revalued. Any profit or loss on revaluation is transferred to the Partners' Capital Accounts in the old profit-sharing ratio.

3. Goodwill of the partnership firm is to be adjusted by crediting the Partners' Capital Accounts in their old profit-sharing ratio.

Conversion of Partnership Firm into a Company and Sale of Partnership Firm to a Company

The existing partnership firm is dissolved and all the books of account are closed. Broadly, *the procedure of liquidation of the partnership business is same as what has already been explained in "Amalgamation of Partnership"*

The Purchase Consideration is satisfied by the Company either in the form of cash or shares or debentures or a combination of two or more of these. The shares may be equity or preference shares. The shares may be issued at par, at a premium or at a discount. For the partnership, the issue price is relevant which may form a part of the purchase consideration.

Additional entries in the books of firm apart from already discussed in amalgamation

Purchase consideration due

Purchasing company, A/c Dr.

To realization A/c

(Being PC due)

For Settlement of purchase consideration by the company

Shares in Purchasing Co. Dr.

Debentures in Purchasing Co. Dr.

Cash A/c Dr.

To, Purchasing Company A/c

For final adjustment

Partners' Capital A/cs Dr.

To, Shares in Purchasing Co. A/c

To, Debenture in Purchasing Co. A/c

To, Cash A/c

Accounting Entries in the books of the Purchasing Company

For assets and liabilities taken over:

Assets A/c Dr. (Agreed Value)

Goodwill A/c Dr. (Balancing figure)

To, Liabilities A/c (Agreed Value)

To, Firm A/c (Purchase Consideration)

To Capital Reserve (Balancing figure)

For discharge of Purchase Consideration:

Firm A/c Dr (Purchase Consideration)

To, Share Capital A/c (Face value of shares issued)

To, Securities Premium A/c (if any)

To, Debentures A/c

To, Bank A/c

Accounting of Limited Liability Partnership

Limited Liability Partnership is a specific form of business organisation consisting of partners whose liability is limited to the capital contribution made by them. It is a combination of both partnership and company and has the characteristics of both these forms of organisations. Unlike a partnership, the partners of a limited liability partnership have limited liability (similar to that in the company) which implies that personal assets of the partners will not be used for paying off the debts of the organisation.

In India, all limited liability partnerships are governed by the Limited Liability Partnership Act, 2008 which came into effect from April 1, 2009.

The provisions of Indian Partnership Act, 1932 shall not apply to a limited liability partnership.

Nature of Limited Liability Partnership

The nature of a limited liability partnership can be understood from the following:

- ✚ A limited liability partnership is a body corporate formed and incorporated under a statute.
- ✚ It has a legal entity separate from that of its partners.
- ✚ Any change in the partners of a limited liability partnership would not affect the existence, rights or liabilities of the limited liability partnership.

Features of Limited Liability Partnership

Some of the important features of a limited liability partnership registered in India are:

- ✚ A limited liability partnership is a body corporate.
- ✚ It is formed and incorporated under the Limited Liability Partnership Act, 2008.
- ✚ Any individual or body corporate may be a partner in a limited liability partnership.
- ✚ Every limited liability partnership shall have at least two partners.
- ✚ Every limited liability partnership shall have at least two designated partners who are individuals and at least one of them shall be a resident in India.
- ✚ Every limited liability partnership shall have either the words "limited liability partnership" or the acronym "LLP" as the last words of its name.

Note: every limited liability partnership shall file the Statement of Account and Solvency in Form 8 with the Registrar, within a period of thirty days from the end of the six months of the financial year to which the Statement of Account and Solvency relates.

Note: The books of accounts which a limited liability partnership is required to keep shall be preserved for eight years from the date on which they are made.

format of the Statement of Assets and Liabilities

Particulars	Figures as at the end of the current reporting period (in ₹)	Figures as at the end of the previous reporting period (in ₹)
(I) CONTRIBUTION AND LIABILITIES		
(1) Partner's funds		
Contribution received		
Reserves and surplus (including surplus being the profit/loss made during year)		
(2) Liabilities		
Secured loans		
Unsecured loans		
Short term borrowings		
Creditors/Trade payables - Advance from customers		
Amount of other liabilities		
Other liabilities (to specify)		
Provisions		
For taxation		
For contingencies		
For insurance		
Other provisions (if any)		
Total		
(II) ASSETS		
Gross Fixed assets (including intangible assets)		
Less: depreciation and amortization		
Net fixed assets		
Investments		
Loans and advances		
Inventories		
Debtors/trade receivables		
Cash and cash equivalents		
Amount of other assets		
Other assets (to specify)		
Total		

Note: The details of contingent liabilities are required to disclosed separately under footnote.

4

format of the Statement of Income and Expenditure

Particulars	Figures for the period (Current reporting period)	Figures for the period (Previous reporting period)
Income		
Gross turnover		
Less: Excise duty or service tax		
Net Turnover Details		
(I) Domestic turnover		
(a) Sale of goods manufactured		
(b) Sale of goods traded		
(c) Sale or supply of services		
(II) Export turnover		
(a) Sale of goods manufactured		
(b) Sale of goods traded		
(c) Sale or supply of services		
Other income		
Increase/ (decrease) in stocks including for raw materials, work in progress and finished goods		
Total Income		
Expenses		
Raw material consumed		
Purchases made for re-sale		
Consumption of stores and spare parts		
Power and fuel		
Personnel Expenses		
Administrative expenses		
Payment to auditors		
Selling expenses		
Insurance expenses		
Depreciation and amortization		
Interest		
Other expenses		
Total expenditure		
Net Profit or Net Loss (before taxes)		
Provision for Tax		
Profit after Tax		
Profit transferred to Partners' account		
Profit transferred to Reserves and Surplus		

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Failure to maintain books of accounts, prepare Statement of Account and Solvency, File annual Return, etc

LLP: Punishable with fine of ₹ 25,000 to ₹ 5,00,000

Designated partner: Punishable with fine of ₹ 10,000 to ₹ 1,00,000.

Note: Supplying any material information knowing it to be false or omits any material information while filing return then punishment will be 1,00,000 to 5,00,000 and imprisonment up to 2 years.

