Chapter 9 : Accounts from Incomplete Records

Question 1

What is meant by Single entry System? What are the types of procedures adopted for this system?

[SM]

Solution

Single entry system is an inaccurate and unsystematic method of recording business transactions. The procedures adopted are: Pure single entry; Simple entry and Queasy single entry.

(i) Pure single entry: In this, only personal accounts are maintained with the result that no information is available in respect of cash and bank balances, sales and purchases, etc. In view of its failure to provide even the basic information regarding cash etc., this method exists only on paper and has no practical application.

(ii) Simple single entry: In this, only: (a) personal accounts, and (b) cash book are maintained. Although these accounts are kept on the basis of double entry system, postings from cash book are made only to personal accounts with no other account to be found in the ledger. Cash received from debtors or cash paid to creditors is simply noted on the bills issued or received as the case may be.

(iii) Quasi single entry: In this: (a) personal accounts, (b) cash book, and (c) some subsidiary books are maintained. The main subsidiary books kept under this system are Sales book, Purchases book and Bills book. No separate record is maintained for discounts, which are entered into the personal accounts. In addition, some scattered information is also available in respect of few important items of expenses like wages, rent, rates, etc. In fact, this is the method which is generally adopted as a substitute for double entry system.

Question 2

Differentiate between Statement of Affairs and Balance Sheet.

[SM]

Solution

Basis	Statement of affairs	Balance sheet
Source	It is prepared on the basis of transactions partly recorded under the double entry book keeping and partly under the single entry. Most of the assets are recorded based on the estimates, assumptions, information gathered from memory rather from the records.	It is based on transactions recorded strictly on the basis of double entry book keeping; each item in the balance sheet can be verified from the relevant subsidiary books, ledger and documentary evidences.
Capital	In this statement, capital is merely a balancing figure being excess of assets over liabilities. Hence assets need not be equal to liabilities.	Capital is derived from the capital account in the ledger and therefore the total of assets side will always be equal to the total of liabilities side.
Omission	Since this statement is prepared from incomplete records, it is very difficult, to identify and record those assets and liabilities, if omitted from the books.	There is no possibility of omission of any item of asset and liability since all items are properly recorded. Moreover, it is easy to locate the missing items since the balance sheet will not agree.
Basis of Valuation	The valuation of assets is generally done in an arbitrary manner; therefore, no method of valuation is disclosed.	The valuation of assets is done on scientific basis, fixed assets are shown at the original costs less depreciation till date. Any change in the method of valuation is properly disclosed.

Objective	The objective of preparing this statement is to identify the capital figures in the beginning and at the end of the accounting period respectively.	The objective of preparing the balance sheet is to ascertain the financial position on a particular date.

Question 3

Raju does not maintain proper records of his business. However, he provides the following information:

	Rs.
Opening Capital	10,000
Closing Capital	12,500
Drawings during the year	3,000
Capital added during the year	3,750

You are required to calculate the profit or loss for the year.

[SM]

Solution

Computation of Profit or Loss during the year

	Rs.
Closing Capital	12,500
Add: Drawings during the year	3,000
	15,500
Less: Additional capital during the year	(3,750)
Less: opening capital	(10,000)
Net Profit for the year	1,750
ALTERNATIVELY	

Profit/Loss can also be ascertained as balancing figure by preparing capital account as follows:

Particulars	Rs.	Particulars	Rs.
To drawings	3,000	By Balance b/d	10,000
To Balance c/d	12,500	By additional capital	3,750
		By Net Profit (Bal Fig)	1,750
	15,500		15,500

Question 4

Rakesh started his business on 1st of April 2021. He invested a capital of Rs 1,00,000. On 31st March 2022, he has the following information available as per the Single-entry system maintained by him.

	Rs.
Cash balance (counted)	3,200
Inventory (physically verified)	34,800
Receivable from Ajay against credit sales	31,000
Machine	85,000
Payable to Vinod towards credit purchase	12,000
Loan taken from Bank	10,000
Drawings made during the year	24,000

You are required to calculate the profit or loss earned by Rakesh for the year ended 31st March 2022.

[SM]

Solution

Statement of Affairs
as on 31st March, 2022

Liabilities	Amount	Assets	Amount
Sundry Creditors	12,000	Cash balance	3,200
Loan from bank	10,000	Inventory	34,800
Capital (Bal fig)	1,32,000	Sundry Debtors	31,000
		Machine	85,000
	1,54,000		1,54,000

Statement of profit or loss
for the year ended 31st March, 2022

Capital as at 31st March 2022	1,32,000
Add: Drawings made during the year	24,000
Total	1,56,000
Less: Opening Capital as at 1st April 2021	(1,00,000)
Profit for the year ended 31st March 2022	56,000

Question 5

Assets and Liabilities of Mr. X as on 31-03-2021 and 31-03-2022 are as follows:

	31-03-2021	31-03-2022
	Rs.	Rs.
Assets		
Building	1,00,000	?
Furniture	50,000	?
Inventory	1,20,000	2,70,000
Sundry debtors	40,000	90,000
Cash at bank	70,000	85,000
Cash in hand	1,200	3,200
Liabilities		
Loans	1,00,000	80,000
Sundry creditors	40,000	70,000

Decided to depreciate building by 2.5%p.a. and furniture by 10% p.a. One Life Insurance Policy of the Proprietor was matured during the period and the amount Rs. 40,000 is retained in the business. Proprietor took @ Rs. 2,000 p.m. for meeting family expenses.
Prepare Statement of Affairs as on 31-03-2021 and 31-03-2022.
Also Find out profit of Mr. X for the year ended 31-03-2022

[SM]

Solution

Mr. X
Statement of Affairs
as on 31-03-2021 & 31-03-2022

Liabilities	31-03-2021 Rs.	31-03-2022 Rs.	Assets	31-03-2021 Rs.	31-03-2022 Rs.
Capital	2,41,200	4,40,700	Building	1,00,000	97,500
Loans	1,00,000	80,000	Furniture	50,000	45,000
Sundry creditors	40,000	70,000	Inventory	1,20,000	2,70,000
			Sundry debtors	40,000	90,000
			Cash at bank	70,000	85,000
			Cash in hand	1,200	3,200
	3,81,200	5,90,700		3,81,200	5,90,700

Determination of Profit by applying the method of the capital comparison

	Rs.
Capital Balance as on 31-03-2022	4,40,700
Less: Fresh capital introduced	(40,000)
	4,00,700
Add: Drawings (Rs. 2000 × 12)	24,000
	4,24,700
Less: Capital Balance as on 31-03-2021	(2,41,200)
	1,83,500

Note:

- Closing capital is increased due to fresh capital introduction, so it is deducted.
- Closing capital was reduced due to withdrawal by proprietor; so it is added back.

ALTERNATIVELY

Capital account can be prepared as follows:

Particulars	Rs.	Particulars	Rs.
To drawings	24,000	By Balance b/d	2,41,200
To Balance c/d	4,40,700	By additional capital	40,000
		By Net Profit (Bal Fig)	1,83,500
	4,64,700		4,64,700

Question 6

The Income Tax Officer, on assessing the income of Shri Moti for the financial years 2020-2021 and 2021-2022 feels that Shri Moti has not disclosed the full income. He gives you the following particulars of assets and liabilities of Shri Moti as on 1st April, 2020 and 1st April, 2022.

Rs.				
1-4-2020	Assets	:	Cash in hand	25,500
			Inventory	56,000
			Sundry debtors	41,500
			Land and Building	1,90,000
			Wife's Jewellery	75,000
	Liabilities	:	Owing to Moti's Brother	40,000
			Sundry creditors	35,000
1-4-2022	Assets	:	Cash in hand	16,000
			Inventory	91,500
			Sundry debtors	52,500

	Land and Building	1,90,000
	Motor Car	1,25,000
	Wife's Jewellery	1,25,000
	Loan to Moti's Brother	20,000
Liabilities :	Sundry creditors	55,000

During the two years the domestic expenditure was Rs. 4,000 p.m. The declared incomes of the financial years were Rs. 1,05,000 for 2020-2021 and Rs. 1,23,000 for 2021-2022 respectively.
State whether the Income-tax Officer's contention is correct. Explain by giving your workings.

[SM, MTP July 24]

Solution
Calculation of Capital of Shri Moti

		1-4-2020		1-4-2022
Assets				
Cash in hand		25,500		16,000
Inventory		56,000		91,500
Sundry debtors		41,500		52,500
Land & Building		1,90,000		1,90,000
Wife's Jewellery		75,000		1,25,000
Motor Car		—		1,25,000
Loan to Moti's Brother		—		20,000
		3,88,000		6,20,000
Liabilities:				
Owing to Moti's Brother	40,000		—	
Sundry creditors	35,000	75,000	55,000	55,000
Capital		3,13,000		5,65,000
Income during the two years:				
Capital as on 1-4-2022				5,65,000
Add: Drawings – Domestic Expenses for the two years (₹ 4,000 × 24 months)				96,000
				6,61,000
Less: Capital as on 1-4-2020				(3,13,000)
				3,48,000
Income earned in 2020-2021 and 2021-2022 Income declared (₹ 1,05,000 + ₹ 1,23,000)				2,28,000
Suppressed Income				1,20,000

The Income-tax officer's contention that Shri Moti has not declared his true income is correct. Shri Moti's true income is in excess of the disclosed income by ₹ 1,20,000 based on the information available

Question 7
Calculate the bad debts from the below information:

Opening balance of Debtors	Rs.	5,00,000
Closing balance of Debtors	Rs.	7,00,000
Amount received in Cash	Rs.	6,00,000
Discount allowed	Rs.	10,000
Credit Sales	Rs.	11,40,000

Bills Receivables	Rs.	3,00,000
Bad Debts		????

[SM]

Solution

Debtors Account

Particulars	Amount	Particulars	Amount
Balance b/f Credit Sales	5,00,000	Cash A/c	6,00,000
	11,40,000	Discount allowed	10,000
		Bills Receivable	3,00,000
		Bad Debts (Bal fig)	30,000
		Balance c/f	7,00,000
	16,40,000		16,40,000

Question 8

Calculate the credit purchases from the below information:

Opening balance of creditors Rs. 4,00,000
Closing balance of creditors Rs. 5,00,000
Payments made in Cash Rs. 8,50,000
Discount received Rs. 20,000

[SM]

Solution

Total Creditors Account

Particulars	Amount	Particulars	Amount
Cash paid	8,50,000	Balance b/d	4,00,000
Discount received	20,000	Credit Purchases (Bal. fig)	
Balance c/d	5,00,000		9,70,000
	13,70,000		13,70,000

Question 9

A. Adamjee keeps his books on single entry basis. The analysis of the cash book for the year ended on 31st March, 2022 is given below:

Receipts	Rs.	Payments	Rs.
Bank Balance as on 1st April, 2021	2,800	Payments to Sundry creditors	35,000
Received from Sundry Debtors	48,000	Salaries	6,500
Cash Sales	11,000	General expenses	2,500
Capital brought during the year	6,000	Rent and Taxes	1,500
Interest on Investments	200	Drawings	3,600
		Cash purchases	12,000
		Balance at Bank on 31st March, 2022	6,400
		Cash in hand on 31st March, 2022	500
	68,000		68,000

Particulars of other assets and liabilities are as follows:

	1st April, 2021	31st March, 2022

Sundry debtors	14,500	17,600
Sundry creditors	5,800	7,900
Machinery	7,500	7,500
Furniture	1,200	1,200
Inventory	3,900	5,700
Investments	5,000	5,000

Prepare final accounts for the year ending 31st March, 2022 after providing depreciation at 10 per cent on machinery and furniture and Rs. 800 against doubtful debts.

[SM]

Solution

A. Adamjee
Trading Account
for the year ended 31st March 2022

	Rs.	Rs.		Rs.
To Opening Inventory		3,900	By Sales	62,100
To Purchases		49,100	By Closing Inventory	5,700
To Gross profit c/d (b.f.)		14,800		
		67,800		67,800

Profit & Loss Account
for the year ended 31st March 2022

	Rs.	Rs.		Rs.
To Salaries		6,500	By Gross Profit b/d	14,800
To Rent and Taxes		1,500	By Interest on investment	200
To General expenses		2,500		
To Dep:				
Machinery@ 10%	750			
Furniture @ 10%	120	870		
To Provision for doubtful debts		800		
To Net profit carried to Capital A/c (b.f.)		2,830		
		15,000		15,000

Balance Sheet
as on 31st March 2022

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
A. Adamjee's Capital			Machinery	7,500	
on 1st April, 2021	29,100		Less : Depreciation	(750)	6,750
Add: Fresh Capital	6,000		Furniture	1,200	
Add: Profit for the year	2,830		Less : Depreciation	(120)	1,080
	37,930				
Less: Drawings	(3,600)	34,330	Inventory-in-trade		5,700
			Sundry debtors	17,600	
Sundry creditors		7,900	Less : Provision for Doubtful debts	(800)	16,800
			Investment		5,000

			Cash at bank		6,400
			Cash in hand		500
		42,230			42,230

Working Notes:

1. Balance sheet of A. Adamjee as on 1st April 2021

Liabilities	Rs.	Assets	Rs.
Sundry creditors	5,800	Machinery	7,500
A. Adamjee's capital (balancing figure)	29,100	Furniture	1,200
		Inventory	3,900
		Sundry debtors	14,500
		Investments	5,000
		Bank balance (from Cash Statement)	2,800
	34,900		34,900

2. Ledger Accounts

A. Adamjee's Capital Account

		Rs.			Rs.
31.03.22	To Drawings	3,600	01.04. 21	By Balance b/d	29,100
			31.03.22	By Net Profit	2,830
31.03.22	To Balance c/d (b.f.)	34,330	31.03.22	By Cash	6,000
		37,930			37,930

Sales Account

		Rs.			Rs.
31.03.22	To Trading A/c (b.f.)	62,100	31.03.22	By Cash	11,000
			31.03.22	By Total Debtors Account (Credit Sales)	51,100
		62,100			62,100

Total Debtors Account

		Rs.			Rs.
01.04.21	To Balance b/d	14,500	31.03.22	By Cash	48,000
31.03.22	To Credit sales (Balancing figure)	51,100	31.03.22	By Balance c/d	17,600
		65,600			65,600

Purchases Account

		Rs.			Rs.
31.03.22	To Cash A/c	12,000	31.03.22	By Trading Account (b.f.)	49,100
	To total Creditors A/c (credit Purchases)	37,100			
		49,100			49,100

Total Creditors Account

		Rs.			Rs.
31.03.22	To Cash	35,000	01.04.21	By Balance b/d	5,800
31.03.22	To Balance b/d	7,900	31.03.22	By Credit Purchases (Balancing figure)	37,100
		42,900			42,900

Question 10

From the following data furnished by Mr. Manoj, you are required to prepare a Trading and Profit and Loss Account for the year ended 31st March, 2022 and Balance Sheet as at that date. All workings should form part of your answer.

Assets and Liabilities	As on 1st April 2021	As on 31st March 2022
	Rs.	Rs.
Creditors	15,770	12,400
Sundry expenses outstanding	600	330
Sundry Assets	11,610	12,040
Inventory in trade	8,040	11,120
Cash in hand and at bank	6,960	8,080
Trade debtors	?	17,870
Details relating to transactions in the year:		
Cash and discount credited to debtors		64,000
Sales return		1,450
Bad debts		420
Sales (cash and credit)		71,810
Discount allowed by trade creditors		700
Purchase returns		400
Additional capital-paid into Bank		8,500
Realisations from debtors-paid into Bank		62,500
Cash purchases		1,030
Cash expenses		9,570
Paid by cheque for machinery purchased		430
Household expenses drawn from Bank		3,180
Cash paid into Bank		5,000
Cash drawn from Bank		9,240
Cash in hand on 31-3-2022		1,200
Cheques issued to trade creditors		60,270

[SM]

Solution

In the books of Mr. Manoj
Trading Account for the year ending 31st March, 2022

	Rs.	Rs.		Rs.	Rs.
To Opening Inventory		8,040	By Sales		
To Purchases	59,030		Cash	4,600	
(58,000 + 1,030)			Credit	67,210	
Less: Returns	(400)	58,630		71,810	
To Gross profit c/d		14,810	*Less:* Returns	(1,450)	70,360
			By Closing inventory		11,120

		81,480			81,480

Profit & Loss Account
for the year ending 31st March, 2022

	Rs.		Rs.
To Sundry expenses (W.N.(v))	9,300	By Gross profit b/d	14,810
To Discount	1,500	By Discount	700
To Bad Debts	420		
To Net Profit transfer to Capital	4,290		
	15,510		15,510

Balance Sheet of Mr. Manoj
as on 31st March, 2022

Liabilities	Rs.	Rs.	Assets	Rs.
Capital			Sundry assets	12,040
Opening balance	26,770		Inventory in trade	11,120
Add: Addition	8,500		Sundry debtors	17,870
Net Profit	4,290		Cash in hand & at bank	8,080
	39,560			
Less: Drawings	(3,180)	36,380		
Sundry creditors		12,400		
Outstanding expenses		330		
		49,110		49,110

Working Notes:

(i) Cash sales

Combined Cash & Bank Account

	Rs.		Rs.
To Balance b/d	6,960	By Sundry creditors	60,270
To Sundries (Contra)	5,000	By Sundries (Contra)	5,000
To Sundries (Contra)	9,240	By Sundries (Contra)	9,240
To Sundry debtors	62,500	By Drawings	3,180
To Capital A/c	8,500	By Machinery	430
To Sales (Cash Sales-Balancing Figure)	4,600	By Sundry expenses	9,570
		By Purchases	1,030
		By Balance c/d	8,080
	96,800		96,800

(ii) Total Debtors Account

	Rs.		Rs.
To Balance b/d (bal. fig.)	16,530	By Bank	62,500
To Sales (71,810–4,6001)	67,210	By Discount(64,000 – 62,500)	1,500
		By Return Inward	1,450
		By Bad Debts	420
		By Balance c/d	17,870
	83,740		83,740

(iii) Total Creditors Account

	Rs.		Rs.
To Bank	60,270	By Balance b/d (bal. fig.)	15,770
To Discount	700	By Purchases	58,000
To Return Outward	400		
To Balance c/d	12,400		
	73,770		73,770

(iv) Balance Sheet as on 1st April, 2021

Liabilities	Rs.	Assets	Rs.
Capital (bal. fig.)	26,770	Sundry Assets	11,610
Sundry Creditors	15,770	Inventory in Trade	8,040
Outstanding Expenses	600	Sundry Debtors (from total debtors A/c)	16,530
		Cash in hand & at bank	6,960
	43,140		43,140

(v)

Expenses paid in Cash	9,570
Add: Outstanding on 31-3-2022	330
	9,900
Less: Outstanding on 1-4-2021	(600)
	9,300

(vi) Due to lack of information, depreciation has not been provided on fixed assets.

Question 11

Mr. Anup runs a wholesale business where in all purchases and sales are made on credit. He furnishes the following closing balances:

	31st March 2021	31st March 2022
Sundry debtors	70,000	92,000
Bills receivable	15,000	6,000
Bills payable	12,000	14,000
Sundry creditors	40,000	56,000
Inventory	1,10,000	1,90,000
Bank	90,000	87,000
Cash	5,200	5,300

Summary of cash transactions during the year 2021- 2022:

(i) Deposited to bank after payment of shop expenses @ Rs. 600 p.m., salary @ Rs. 9,200 p.m. and personal expenses @ Rs. 1,400 p.m. Rs. 7,62,750.
(ii) Cash Withdrawn from bank Rs. 1,21,000.
(iii) Cash payment to suppliers Rs. 77,200 for supplies and Rs. 25,000 for furniture.
(iv) Cheques collected from customers but dishonoured Rs. 5,700.
(v) Bills accepted by customers Rs. 40,000.
(vi) Bills endorsed Rs. 10,000.
(vii) Bills discounted Rs. 20,000, discount Rs. 750.

(viii) Bills matured and duly collected Rs. 16,000.
(ix) Bills accepted Rs. 24,000.
(x) Paid suppliers by cheque Rs. 3,20,000.
(xi) Received Rs. 20,000 on maturity of one LIC policy of the proprietor by cheque.
(xii) Rent received Rs. 14,000 by cheque for the premises owned by proprietor.
(xiii) A building was purchased on 30-11-2021 for opening a branch for Rs. 3,50,000 and some expenses were incurred on this building, details of which are not maintained.
(xiv) Electricity and telephone bills paid by cash Rs. 18,700, due Rs. 2,200.

Other transactions:
(i) Claim against the firm for damage Rs. 1,55,000 is under legal dispute. Legal expenses Rs. 17,000. The firm anticipates defeat in the suit.
(ii) Goods returned to suppliers Rs. 4,200.
(iii) Goods returned by customers Rs. 1,200.
(iv) Discount offered by suppliers Rs. 2,700.
(v) Discount offered to the customers Rs. 2,400.
(vi) The business is carried on at the rented premises for an annual rent of Rs. 20,000 which is outstanding at the year end.

Prepare Trading and Profit & Loss Account of Mr. Anup for the year ended 31st March 2022 and Balance Sheet as on that date.

[SM]

Solution

Trading Account of Mr. Anup
for the year ended 31st March 2022

	Rs.	Rs.		Rs.	Rs.
To Opening Inventory		1,10,000	By Sales	9,59,750	
To Purchases	4,54,100		Less: Sales Return	(1,200)	9,58,550
Less: Purchases Return			By Closing Inventory		1,90,000
	(4,200)	4,49,900			
To Gross Profit (b.f.)		5,88,650			
		11,48,550			11,48,550

Profit & Loss Account of Mr. Anup
for the year ended 31st March 2022

	Rs.		Rs.
To salary (9,200 x 12)	1,10,400	By Gross Profit	5,88,650
To Electricity & Tel. Charges (18,700 + 2,200)	20,900	By Discount	2,700
To Legal expenses	17,000		
To Discount (2,400 + 750)	3,150		
To Shop exp. (600 x 12)	7,200		
To Provision for claims for damages	1,55,000		
To Shop Rent	20,000		
To Net Profit (b.f.)	2,57,700		
	5,91,350		5,91,350

Balance Sheet
as on 31st March 2022

Liabilities	Rs.		Assets	Rs.
Capital A/c (W.N.vi)	2,38,200		Building (from summary cash	3,72,000
Add : Fresh capital introduced			and bank A/c)	
Maturity value from LIC	20,000		Furniture	25,000
Rent	14,000		Inventory	1,90,000
Add : Net Profit	2,57,700		Sundry debtors	92,000
	5,29,900		Bills receivable	6,000
Less : Drawing(14,00 x12)	(16,800)	5,13,100	Cash at Bank	87,000
Rent outstanding		20,000	Cash in Hand	5,300
Sundry creditors		56,000		
Bills Payable		14,000		
Outstanding expenses				
Legal Exp.	17,000			
Electricity &				
Telephone charges	2,200	19,200		
Provision for claims for				
damages		1,55,000		
		7,77,300		7,77,300

Working Notes :

(i) Sundry Debtors Account

	Rs.		Rs.
To Balance b/d	70,000	By Bill Receivable A/c	
To Bill receivable A/c-Bills dishonoured	3,000	Bills accepted by customers	40,000
To Bank A/c-Cheque dishonoured	5,700	By Bank A/c - Cheque received	5,700
To Credit sales (Balancing Figure)	9,59,750	By Cash (from summary cash and bank account)	8,97,150
		By Return inward A/c	1,200
		By Discount A/c	2,400
		By Balance c/d	92,000
	10,38,450		10,38,450

(ii) Bills Receivable Account

	Rs.		Rs.
To Balance b/d	15,000	By Sundry creditors A/c	
To Sundry Debtors A/c	40,000	(Bills endorsed)	10,000
(Bills accepted)		By Bank A/c (20,000 – 750)	19,250
		By Discount A/c	750
		(Bills discounted)	
		By Bank	
		Bills collected on maturity	16,000
		By Sundry debtors	
		Bills dishonoured (Bal. Fig)	3,000
		By Balance c/d	6,000
	55,000		55,000

(iii) Sundry Creditors Account

	Rs.		Rs.
To Bank	3,20,000	By Balance c/d	40,000
To Cash	77,200	By Credit purchase (Balancing figure)	4,54,100
To Bill Payable A/c	24,000		
To Bill Receivable A/c	10,000		
To Return Outward A/c	4,200		
To Discount Received A/c	2,700		
To Balance b/d	56,000		
	4,94,100		4,94,100

(iv) Bills Payable A/c

	Rs.		Rs.
To Bank A/c (Balance figure)	22,000	By Balance b/d	12,000
To Balance c/d	14,000	By Sundry creditors A/c Bills accepted	24,000
	36,000		36,000

(v) Summary Cash and Bank A/c

	Cash	Bank		Cash	Bank
	Rs.	Rs.		Rs.	Rs.
To Balance b/d	5,200	90,000	By Bank By Cash	7,62,750	
To Sundry debtors (Bal. Fig)	8,97,150		By Shop exp. (600 x 12)		1,21,000
To Cash		7,62,750	By Salary (9,200 x 12)	7,200	
To Bank	1,21,000			1,10,400	
To Sundry Debtors		5,700	By Drawing A/c (1,400 x 12)	16,800	
To Bills receivable		19,250			
To Bills receivable		16,000	By Bills Payable		22,000
To Capital (maturity value of LIC policy)		20,000	By Sundry creditors By Furniture	77,200 25,000	3,20,000
To Capital (Rent received)		14,000	By Sundry Debtors		5,700
			By Electricity & Tel. Charges	18,700	
					3,72,000
			By Building (Bal. fig) By Balance c/d	5,300	87,000
	10,23,350	9,27,700		10,23,350	9,27,700

(vi) Statement of Affairs as on 31st March 2021

Liabilities	Rs.	Assets	Rs.
Sundry Creditors	40,000	Inventory	1,10,000
Bills Payable	12,000	Debtors	70,000
Capital (Balancing figure)	2,38,200	Bills receivable	15,000
		Cash at Bank	90,000
		Cash in Hand	5,200
	2,90,200		2,90,200

Question 12

A Firm sold 20% of the goods on cash basis and the balance on credit basis. Debtors are allowed 1½ month's credit and their balance as on 31.03.2021 is Rs. 1,25,000. Assume that the sale is uniform throughout the year.

Calculate the credit sales and total sales of the company for the year ended 31.03.2022.

[SM]

Solution

Calculation of Credit Sales and Total sales

Credit Sales for the year ended 2021-22 = (Debtors x 12 months) / 1.5 months
= (Rs.1,25,000 x 12 months) / 1.5 months
= Rs. 10,00,000

Total sales for the year ended 2021-22 = Credit sales x 100% / 80%
= Rs. 10,00,000 x 100% / 80%
= Rs. 12,50,000

Question 13

Mr. A runs a business of readymade garments. He closes the books of accounts on 31st March. The Balance Sheet as on 31st March, 2021 was as follows:

Liabilities	Rs.	Assets	Rs.
A's capital a/c	4,04,000	Furniture	40,000
Creditors	82,000	Stock	2,80,000
		Debtors	1,00,000
		Cash in hand	28,000
		Cash at bank	38,000
	4,86,000		4,86,000

You are furnished with the following information:

(1) His sales, for the year ended 31st March, 2022 were 20% higher than the sales of previous year, out of which 20% sales was cash sales.
Total sales during the year 2020-21 were Rs. 5,00,000.

(2) Payments for all the purchases were made by cheques only.

(3) Goods were sold for cash and credit both. Credit customers pay be cheques only.

(4) Deprecation on furniture is to be charged 10% p.a.

(5) Mr. A sent to the bank the collection of the month at the last date of the each month after paying salary of Rs. 2,000 to the clerk, office expenses Rs. 1,200 and personal expenses Rs. 500.

Analysis of bank pass book for the year ending 31st March 2022 disclosed the following:

	Rs.
Payment to creditors	3,00,000
Payment of rent up to 31st March, 2022	16,000
Cash deposited into the bank during the year	80,000

The following are the balances on 31st March, 2022:

	Rs.
Stock	1,60,000
Debtors	1,20,000
Creditors for goods	1,46,000

On the evening of 31st March 2022, the cashier absconded with the available cash in the cash book.
You are required to prepare Trading and Profit and Loss A/c for the year ended 31st March, 2022 and Balance Sheet as on that date. All the workings should form part of the answer.

[SM]

Solution

In the books of Mr. A
Trading Account
for the year ending 31st March, 2022

Particulars	Rs.	Particulars		Rs.
To Opening stock	2,80,000	By Sales (W.N. 3)		
To Purchases (W.N. 1)	3,64,000	Credit	4,80,000	
.To Gross profit (b.f.)	1,16,000	Cash	1,20,000	6,00,000
		By Closing stock		1,60,000
	7,60,000			7,60,000

Profit and Loss Account
for the year ending 31st March, 2022

Particulars	Rs.	Particulars	Rs.
To Salary (2,000 x 12)	24,000	By Gross profit	1,16,000
To Rent	16,000		
To Office expenses (1,200 x 12)	14,400		
To Loss of cash (W.N. 6)	23,600		
To Depreciation on furniture	4,000		
To Net Profit (b.f.)	34,000		
	1,16,000		1,16,000

Balance Sheet
as on 31st March, 2022

Liabilities		Rs.	Assets		Rs.
A's Capital	4,04,000		Furniture	40,000	
Add: Net Profit	34,000		Less: Depreciation	(4,000)	36,000
Less: Drawings			Stock		1,60,000
(500 x 12)	(6,000)	4,32,000	Debtors		1,20,000
Creditors		1,46,000	Cash at bank		2,62,000
		5,78,000			5,78,000

Working Notes:

(1) Calculation of purchases

Creditors Account

Particulars	Rs.	Particulars	Rs.
To Bank A/c	3,00,000	By Balance b/d	82,000
To Balance c/d	1,46,000	By Purchases (Bal. fig.)	3,64,000
	4,46,000		4,46,000

(2) Calculation of total sales

	Rs.
Sales for the year 2020-21	5,00,000
Add: 20% increase	1,00,000

Total sales for the year 2021-22	6,00,000

(3) Calculation of credit sales

	Rs.
Total sales	6,00,000
Less: Cash sales (20% of total sales)	(1,20,000)
	4,80,000

(4) Calculation of cash collected from debtors

Debtors Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	1,00,000	By Bank A/c (Bal. fig.)	4,60,000
To Sales A/c	4,80,000	By Balance c/d	1,20,000
	5,80,000		5,80,000

(5) Calculation of closing balance of cash at bank

Bank Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	38,000	By Creditors A/c	3,00,000
To Debtors A/c	4,60,000	By Rent A/c	16,000
To Cash A/c	80,000	By Balance c/d (b.f.)	2,62,000
	5,78,000		5,78,000

(6) Calculation of the amount of cash defalcated by the cashier

		Rs.
Cash balance as on 1st April 2021		28,000
Add: Cash sales during the year		1,20,000
		1,48,000
Less: Salary (Rs. 2,000 x 12)	24,000	
Office expenses (Rs. 1,200 x 12)	14,400	
Drawings of A (Rs. 500 x 12)	6,000	
Cash deposited into bank during the year	80,000	(1,24,400)
Cash balance as on 31st March 2022 (defalcated by the cashier)		23,600

Question 14

Ram carried on business as retail merchant. He has not maintained regular account books. However, he always maintained Rs. 10,000 in cash and deposited the balance into the bank account. He informs you that he has sold goods at profit of 25% on sales.

Following information is given to you:

Assets and Liabilities	As on 1.4.2021	As on 31.3.2022
Cash in Hand	10,000	10,000
Sundry Creditors	40,000	90,000
Cash at Bank	50,000 (Cr.)	80,000 (Dr.)
Sundry Debtors	1,00,000	3,50,000
Stock in Trade	2,80,000	?

Ram's capital	3,00,000	?

Analysis of his bank pass book reveals the following information:
(a) Payment to creditors Rs. 7,00,000
(b) Payment for business expenses Rs. 1,20,000
(c) Receipts from debtors Rs. 7,50,000
(d) Loan Rs. 1,00,000 taken on 1.10.2021 at 10% per annum
(e) Cash deposited in the bank Rs. 1,00,000

He informs you that he paid creditors for goods Rs. 20,000 in cash and salaries Rs. 40,000 in cash. He has drawn Rs. 80,000 in cash for personal expenses. During the year Ram had not introduced any additional capital. Surplus cash if any, to be taken as cash sales. All purchases are on credit basis.

You are required to prepare Trading and Profit and Loss Account for the year ended 31.3.2022 and Balance Sheet as at 31st March, 2022.

[SM]

Solution

Trading Account of Ram
for the year ended 31st March, 2022

	Rs.		Rs.
To Opening stock	2,80,000	By Sales	
To Purchases	7,70,000	Cash 2,40,000	
To Gross Profit @ 25%	3,10,000	Credit 10,00,000	12,40,000
		By Closing Stock (bal. fig.)	1,20,000
	13,60,000		13,60,000

Profit and Loss Account of Ram
for the year ended 31st March, 2022

	Rs.		Rs.
To Salaries	40,000	By Gross Profit	3,10,000
To Business expenses	1,20,000		
To Interest on loan (10% of 1,00,000 x 6/12)	5,000		
To Net Profit	1,45,000		
	3,10,000		3,10,000

Balance Sheet of Ram
as at 31st March, 2022

Liabilities	Rs.	Rs.	Assets	Rs.
Ram's capital:			Cash in hand	10,000
Opening	3,00,000		Cash at Bank	80,000
Add: Net Profit	1,45,000		Sundry Debtors	3,50,000
	4,45,000		Stock in trade	1,20,000
Less: Drawings	(80,000)	3,65,000		
Loan (including interest due)		1,05,000		
Sundry Creditors		90,000		

		5,60,000		5,60,000

Working Notes:

1. Sundry Debtors Account

	Rs.		Rs.
To Balance b/d	1,00,000	By Bank A/c	7,50,000
To Credit sales (Bal. fig)	10,00,000	By Balance c/d	3,50,000
	11,00,000		11,00,000

2. Sundry Creditors Account

	Rs.		Rs.
To Bank A/c	7,00,000	By Balance b/d	40,000
To Cash A/c	20,000	By Purchases (Bal. fig.)	7,70,000
To Balance c/d	90,000		
	8,10,000		8,10,000

3. Cash and Bank Account

	Cash Rs.	Bank Rs.		Cash Rs.	Bank Rs.
To Balance b/d	10,000		By Balance b/d		50,000
To Sales (bal. fig)	2,40,000		By Bank A/c (C) .	1,00,000	
To Cash (C)		1,00,000	By Salaries	40,000	
To Debtors		7,50,000	By Creditors	20,000	7,00,000
To Loan		1,00,000	By Drawings	80,000	
			By Business expenses		1,20,000
			By Balance c/d	10,000	80,000
	2,50,000	9,50,000		2,50,000	9,50,000

Question 15

Following is the incomplete information of Moonlight Traders:

The following balances are available as on 31.03.2023 and 31.03.2024.

Balances	31.03.2023	31.03.2024
Land	5,00,000	5,00,000
Plant and Machinery	2,20,000	3,30,000
Office equipment	1,05,000	85,000
Debtors	?	2,25,000
Creditors for purchases	95,000	?
Creditors for office expenses	20,000	15,000
Stock	?	65,000
Long term loan from FBI @ 12%.	1,60,000	100,000
Bank	25,000	?

Other Information	In Rs.
Collection from debtors	9,25,000
Payment to creditors for purchases	5,25,000
Payment of office expenses (excluding interest on loan)	42,000
Salary paid	32,000
Selling expenses	15,000
Cash sales	2,50,000

Credit sales (80% of total sales)	
Credit purchases	5,40,000
Cash purchases (40% of total purchases)	
GP Margin at cost plus 25%	
Discount Allowed	5,500
Discount Received	4,500
Depreciation to be provided as follows:	
Plant and Machinery	10%
Office Equipment	15%

Other adjustments:

(i) On 01.10.23 they sold machine having Book Value Rs. 40,000 (as on 31.03.2023) at a loss of Rs. 15,000. New machine was purchased on 01.01.2024.

(ii) Office equipment was sold at its book value on 01.04.2023.

(iii) Loan was partly repaid on 31.03.24 together with interest for the year.

You are required to prepare Trading, Profit & Loss Account and Balance Sheet as on 31.03.2024.

[RTP Jan 25]

Solution

In the Books of Moonlight Traders
Trading Account
for the year ended 31.03.2024

Particulars	Rs.	Particulars	Rs.
To Opening Stock A/c (Bal. fig.)	1,65,000	By Sales (W.N.1)	12,50,000
To Purchases (W.N.2)	9,00,000	By Closing Stock	65,000
To Gross profit (12,50,000x25/125)	2,50,000		
	13,15,000		13,15,000

Profit and Loss Account
for the year ended 31.03.2024

Particulars	Rs.	Particulars	Rs.
To Discount	5,500	By Gross profit	2,50,000
To Salaries Expenses 32,000		By Discount	4,500
To Office expenses (W.N.3) 37,000			
To Selling expenses 15,000	84,000		
To Interest on loan (12% on Rs.1,60,000)	19,200		
To Loss on sale of Machinery (WN4(c)	15,000		
To Depreciation:			
Plant & Machinery (W.N 4b) 23,750			
Office Equipment (W.N. 5) 12,750	36,500		
To Net profit after tax	94,300		
	2,54,500		2,54,500

Balance sheet as at 31.3.2024

Liabilities	Rs.	Rs.	Assets	Rs.
Capital (W.N. 6)	8,95,500		Land	5,00,000
Add: Net Profit	94,300	9,89,800	Plant and Machinery (W.N.4a) (3,30,000-21,750)	3,08,250

Creditors for Purchases (W.N. 8)		1,05,500	Office Equipment (85,000-12,750)	72,250
Outstanding expenses		15,000	Debtors (W.N. 7)	2,25,000
Loan from FBI		1,00,000	Stock	65,000
			Bank Balance (W.N. 9)	39,800
		12,10,300		12,10,300

Working Notes:

1. Calculation of Total Sales

	Rs.
Cash Sales	2,50,000
Credit Sales (80% of total sales)	
Cash Sales (20% of total sales)	
Thus, total Sales (2,50,000 x 100/20)	12,50,000
Credit Sales (12,50,000 x 80/100)	10,00,000

2. Calculation of Total Purchases

	Rs.
Credit Purchases	5,40,000
Cash Purchases (40% of total purchases)	
Credit Purchases (60% of total purchases)	
Thus total Purchases (5,40,000 x 100/60)	9,00,000
Cash Purchases (9,00,000 x 40/100)	3,60,000

3. Office Expenses Account

		Rs.			Rs.
To	Bank A/c	42,000	By	Balance b/d	20,000
To	Balance c/d	15,000	By	Profit & loss A/c (bal fig)	37,000
		57,000			57,000

4. (a) Plant and Machinery Account

		Rs.			Rs.
To	Bal b/d	2,20,000	By	Sale	40,000
To	Purchases (bal fig)	1,50,000	By	Bal c/d	3,30,000
		3,70,000			3,70,000

(b) Depreciation calculations on Plant & Machinery

		Rs.
Depreciation on	1,80,000 x 10% (for full year)	18,000
	1,50,000 x 10% x 3/12 (for 3 months)	3,750
	40,000 x 10% x 6/12 (for 6 months)	2,000
		23,750

(c) Sale of Machinery Account

	Amount (Rs.)		Amount (Rs.)
To Plant & Machinery	40,000	By Depreciation	2,000
		By Profit and Loss A/c	15,000
		By Bank	23,000
	40,000		40,000

5. Depreciation calculations on Office Equipments

	Rs.
Opening Balance	1,05,000
Less: Closing Balance	(85,000)
Sale of Office Equipments	20,000
Balance of Office Equipments after sale	85,000
Depreciation @15%	12,750

6. Balance Sheet as on 31.03.2023

	Rs.		Rs.
Creditors	95,000	Land	5,00,000
Creditor for Exp.	20,000	Plant & Machinery	2,20,000
Loan	1,60,000	Office Equipment	1,05,000
Capital (Bal. fig.)	8,95,500	Debtors	1,55,500
		Stock	1,65,000
		Bank	25,000
	11,70,500		11,70,500

7. Sundry Debtors A/c

	Rs.		Rs.
To Balance b/d	1,55,500	By Bank	9,25,000
To Sales	10,00,000	By Discount	5,500
		By Bal. c/d	2,25,000
	11,55,500		11,55,500

8. Sundry Creditors A/c

	Rs.		Rs.
To Bank	5,25,000	By Balance b/d	95,000
To Discount	4,500	By Purchases	5,40,000
To Balance c/d	1,05,500		
	6,35,000		6,35,000

9. Bank Account

	Rs.		Rs.
To Balance b/d	25,000	By Creditors	5,25,000
To Debtors	9,25,000	By Office Expenses	42,000
To Cash Sales	2,50,000	By Salary Expense	32,000
To Sale of Machinery (W.N. 4c)	23,000	By Selling Expenses	15,000

To	Sale of equipment	20,000	By	Purchases (cash)	3,60,000
			By	Purchase of Machinery	1,50,000
			By	Bank Loan & Interest (60,000+19,200)	79,200
			By	Balance c/d	39,800
		12,43,000			12,43,000

Question 16

Shivam Enterprises maintain their books of accounts under single entry system. The Balance-Sheet as on 31st March, 2023 was as follows :

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Capital A/c	6,75,000	Furniture & fixtures	1,50,000
Trade creditors	7,57,500	Stock	9,15,000
Outstanding expenses	67,500	Trade debtors	3,12,000
		Prepaid insurance	3,000
		Cash in hand & at bank	1,20,000
	15,00,000		15,00,000

The following was the summary of cash and bank book for the year ended 31st March, 2024:

Receipts	Amount (Rs.)	Payments	Amount (Rs.)
Cash in hand & at Bank on 1st April, 2023	1,20,000	Payment to trade creditors	1,24,83,000
Cash sales	1,10,70,000	Sundry expenses paid	9,31,050
Receipts from trade debtors	27,75,000	Drawings	3,60,000
		Cash in hand & at Bank on 31st March, 2024	1,90,950
	1,39,65,000		1,39,65,000

Additional Information:

(i) Discount allowed to trade debtors and received from trade creditors amounted to Rs. 54,000 and Rs. 42,500 respectively (for the year ended 31st March, 2024).

(ii) Annual fire insurance premium of Rs. 9,000 was paid every year on 1st August for the renewal of the policy.

(iii) Furniture & fixtures were subject to depreciation @ 15% p.a. on diminishing balance method.

(iv) The following are the balances as on 31st March, 2024:
Stock Rs. 9,75,000
Trade debtors Rs. 3,43,000
Outstanding expenses Rs. 55,200

(v) Gross profit is to be maintained at 10% on total sales.

You are required to prepare Trading and Profit & Loss account for the year ended 31st March, 2024, and Balance Sheet as on that date.

[RTP Sep 24]

Solution

Trading and Profit and Loss Account of Shivam Enterprises
for the year ended 31st March, 2024.

	Rs.			Rs.
To Opening Stock	9,15,000	By Sales Cash		
To Purchases (W.N. 2)	125,97,000	Credit (W.N. 1) By	110,70,000	
To Gross profit c/d	13,93,000	Closing stock	28,60,000	139,30,000
(10% of 139,30,000)				9,75,000
	149,05,000			149,05,000
To Sundry expenses (W.N. 4)	9,18,750	By Gross profit b/d		13,93,000
To Discount allowed	54,000	By Discount received		42,500
To Depreciation (15% Rs. 1,50,000)	22,500			
To Net Profit (b.f.)	4,40,250			
	14,35,500			14,35,500

Balance Sheet of Shivam Enterprises
as at 31st March, 2024

Liabilities	Amount Rs.	Assets	Amount Rs.
Capital		Furniture & 1,50,000 Fittings	
		Less: Depreciation (22,500)	
Opening balance 6,75,000			1,27,500
Less: Drawing (3,60,000)		Stock	9,75,000
3,15,000		Trade Debtors	3,43,000
Add: Net profit for		Unexpired insurance	3,000
the years 4,40,250	7,55,250		
Trade creditors (W.N. 3)	8,29,000	Cash in hand & at bank	1,90,950
Outstanding expenses	55,200		
	16,39,450		16,39,450

Working Notes:

1. Trade Debtors Account

	Rs.		Rs.
To Balance b/d	3,12,000	By Cash/Bank	27,75,000
To Credit sales	28,60,000	By Discount allowed	54,000
(Bal. fig.)		By Balance c/d	3,43,000
	31,72,000		31,72,000

2. Memorandum Trading Account

	Rs.		Rs.
To Opening stock	9,15,000	By Sales	139,30,000
To Purchases (Balancing figure)	125,97,000	By Closing stock	9,75,000
To Gross Profit (10% on sales)	13,93,000		
	149,05,000		149,05,000

3. Trade Creditors Account

	Rs.		Rs.
To Cash/Bank	124,83,000	By Balance b/d	7,57,500
To Discount received	42,500	By Purchases (as calculated	125,97,000
To Balance c/d	8,29,000	in W.N. 2)	
(balancing figure)			
	133,54,500		133,54,500

4. Computation of sundry expenses to be charged to Profit & Loss A/c

	Rs.
Sundry expenses paid (as per cash and Bank book)	9,31,050
Add: Prepaid expenses as on 31-3-2023	3,000
	9,34,050
Less: Outstanding expenses as on 31-3-2023	(67,500)
	8,66,550
Add: Outstanding expenses as on 31-3-2024	55,200
	9,21,750
Less: Prepaid expenses as on 31-3-2024 (Insurance paid till July, 2024) (9,000 x 4/12)	(3,000)
	9,18,750

Question 17

Ankur keeps his books of accounts by single entry system. However, he is able to give you the following lists of his assets and liabilities in the beginning as well as at the end of the year ended 31st March, 2024:

	On 1st April, 2023	On 31st March, 2024
	Rs.	Rs.
Cash in hand	1,750	1,400
Cash at bank	20,000	-
Bank Overdraft	-	1,800
Bills Receivable	15,000	25,000
Stock	93,500	98,700
Debtors	60,000	70,000
Furniture and Fittings	65,000	65,000
Creditors	45,000	31,000
Bills Payable	5,000	Nil

Ankur introduced Rs. 10,000 as fresh capital on 1st October, 2023. He also withdrew Rs. 5,000 every month for his household expenses.

During the year, there was no sale or fresh purchase of furniture and fittings. Ascertain the profit earned by Ankur during the year ended 31st March, 2024 after depreciating furniture and fittings @ 10% per annum and creating a provision for bad debts @ 5% on debtors.

[RTP June 24]

Solution

Statement of Profit

	Rs.
Capital as on 31st March, 2024 (W.N. 2)	2,17,300

Add: Drawings (Rs. 5,000 x 12)	60,000
	2,77,300
Less: Additional capital	(10,000)
	2,67,300
Less: Capital as on 1st April, 2023 (W.N. 1)	(2,05,250)
Profits during the year	62,050

Working Note 1
Statement of Affairs as on 1st April, 2023

	Rs.		Rs.
Creditors	45,000	Cash in Hand	1,750
Bills Payable	5,000	Cash at Bank	20,000
Capital (bal. fig.)	2,05,250	Bills Receivable	15,000
		Stock	93,500
		Debtors	60,000
		Furniture and Fittings	65,000
	2,55,250		2,55,250

Working Note 2
Statement of Affairs as on 31st March, 2024

Liabilities	Rs.	Assets	Rs.	Rs.
Creditors	31,000	Cash in Hand Bills Receivable		1,400
Bank Overdraft	1,800	Stock		25,000
Capital (bal. fig.)	2,17,300	Debtors		98,700
		Less: Provision for doubtful debts	70,000 (3,500)	66,500
		Furniture and fittings	65,000	
		Less: Depreciation	(6,500)	58,500
	2,50,100			2,50,100

Question 18
Following are the details of Assets and Liabilities of Mr. Sarthak for the year ended 31st March, 2023 and 31 March, 2024:

	31st March, 2023 (Rs.)	**31st March, 2023 (Rs.)**
Assets:		
Building	2,00,000	?
Furniture	75,000	?
Inventory	1,05,000	1,95,000
Sundry Debtors	68,000	94,000
Cash at Bank	72,500	86,800
Cash in hand	2,400	3,800
Liabilities:		
Loans	1,50,000	1,25,000
Sundry Creditors	58,400	79,500

It was decided to depreciate Building by 5% p.a. and Furniture by 10% p.a. On 1st June, 2023 an additional capital of Rs. 40,000 was brought in the business. Proprietor has withdrawn @ Rs. 2,500 p.m. for meeting the family expenses.
Prepare Statement of Affairs as on 31stMarch, 2023 and 31st March, 2024. Find the profit or loss earned by Mr. Sarthak for the year ended 31stMarch, 2024.

[PYQ Jan 25]

Answer

Mr. Sarthak
Statement of Affairs as on 31-03-2023 & 31-03-2024

Liabilities	Amount 31-03-2023 (Rs.)	Amount 31-03-2024 (Rs.)	Assets	Amount 31-03-2023 (Rs.)	Amount 31-03-2024 (Rs.)
Capital (Bal. Fig.)	3,14,500	4,32,600	Building	2,00,000	1,90,000
Loans	1,50,000	1,25,000	Furniture	75,000	67,500
Sundry creditors	58,400	79,500	Inventory	1,05,000	1,95,000
			Sundry debtors	68,000	94,000
			Cash at bank	72,500	86,800
			Cash in hand	2,400	3,800
	5,22,900	6,37,100		5,22,900	6,37,100

Determination of profit by applying the method of the capital comparison

	Amount (Rs.)
Capital Balance as on 31-03-2024	4,32,600
Less: Fresh capital introduced	(40,000)
	3,92,600
Add: Drawings (Rs. 2500 × 12)	30,000
	4,22,600
Less: Capital Balance as on 31-03-2023	(3,14,500)
Profit for the year ended 31st March,2024	1,08,100

Alternatively capital account can also be prepared as follows:

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Drawings	30,000	By Balance b/d	3,14,500
To Balance c/d	4,32,600	By Additional capital	40,000
		By Net Profit (Bal Fig)	1,08,100
	4,62,600		4,62,600

Question 19
Varun does not maintain proper books of accounts. However, he maintains a record of his bank transactions and also is able to give the following information from which you are requested to prepare trading and profit and loss account for the year 2024:

	1.1.2024	31.12.2024
	Rs.	Rs.
Stock	50,000	62,500
Fixed Assets	7,500	9,000

Details of his bank transactions were as follows:

	Rs.
Sale of fixed assets (book value Rs. 2,500)	1,750
Expenses paid	49,250
Purchase of fixed assets	5,000

No cash transactions took place during the year. Goods are sold at cost plus 25%. Cost of goods sold was Rs. 2,60,000.

[MTP Dec 24]

Answer

Trading and Profit and Loss Account for the year ended 31st December, 2024

Particulars	Amount	Particulars	Amount
To Opening Stock	50,000	By Sales (Rs. 2,60,000 × 125/100)	3,25,500
To Purchases (Balancing Figure)	2,72,500	By Closing Stock	62,500
To Gross Profit c/d	65,000		
	3,87,500		3,87,500
To Expenses	49,250	By Gross Profit b/d	65,000
To Loss on Sale of Fixed Assets (WN1)	750		
To Depreciation on Fixed Assets (WN1)	1,000		
To Net Profit	14,000		
	65,000		65,000

Working Note:

1. Fixed Assets A/c

Particulars	Amount	Particulars	Amount
To Balance B/d	7,500	By Bank (Sale)	1,750
To Bank (Purchases)	5,000	By Loss on sale of Fixed Asset (2,500-1,750)	750
		By Depreciation (Bal. Fig)	1,000
		By Balance c/d	9,000
	12,500		12,500

PRABJOT SINGH

CHAPTER 10: PARTNERSHIP AND LLP ACCOUNTS

Question 1

A and B start business on 1st January, 2022, with capitals of Rs. 30,000 and Rs. 20,000. According to the Partnership Deed, B is entitled to a salary of Rs. 500 per month and interest is to be allowed on capitals at 6% per annum. The remaining profits are to be distributed amongst the partners in the ratio of 5:3. During 2022 the firm earned a profit, before charging salary to B and interest on capital amounting to Rs. 25,000. During the year A withdrew Rs. 8,000 and B withdrew Rs. 10,000 for domestic purposes. Give journal entries relating to division of profit.

[SM]

Answer

Journal Entries

2022	Particulars		Dr. (Rs.)	Cr. (Rs.)
Dec. 31	Profit and Loss Appropriation Account	Dr.	6,000	
	To B's Capital Account			6,000
	(Salary due to B @ Rs. 500 per month)			
	Profit and Loss Appropriation Account	Dr.	3,000	
	To A's Capital Account			1,800
	To B's Capital Account			1,200
	(Interest due on Capital @ 6% per month)			
	Profit and Loss Appropriation Account	Dr.	16,000	
	To A's Capital Account			10,000
	To B's Capital Account			6,000
	(Remaining profit of Rs. 16,000 divide between A and B in the ratio of 5:3)			

Question 2

Ram, Rahim and Karim are partners in a firm. They have no agreement in respect of profit- sharing ratio, interest on capital, interest on loan advanced by partners and remuneration payable to partners. In the matter of distribution of profits they have put forward the following claims:

(i) Ram, who has contributed maximum capital demands interest on capital at 10% p.a. and share of profit in the capital ratio. But Rahim and Karim do not agree.

(ii) Rahim has devoted full time for running the business and demands salary at the rate of Rs. 500 p.m. But Ram and Karim do not agree.

(iii) Karim demands interest on loan of Rs. 2,000 advanced by him at the market rate of interest which is 12% p.a.

How shall you settle the dispute and prepare Profit and Loss Appropriation Account after transferring 10% of the divisible profit to Reserve. Net profit before taking into account any of the above claims amounted to Rs. 45,000 at the end of the first year of their business

[SM]

Answer

There is no partnership deed. Therefore, the following provisions of the Indian Partnership Act are to be applied for settling the dispute.

(i) No interest on capital is payable to any partner. Therefore, Ram is not entitled to interest on capital.

(ii) No remuneration is payable to any partner. Therefore, Rahim is not entitled to any salary.

(iii) Since interest on loan payable to partner is not an appropriation of profit. It will be charged to Profit and Loss Account.

(iv) The profits should be distributed equally.

Profit and Loss Appropriation Account for the year ended…

	Particulars		Rs.	Particulars	Rs.
To	Reserve A/c – 10% of Rs. 44,880		4,488	By Profit and Loss A/c - Rs. (45,000-120) (Net profit)	44,880
To	Share of Profit A/c:				
	Ram capital A/c	Rs. 13,464			
	Rahim capital A/c	Rs. 13, 464			
	Karim capital A/c	Rs. 13, 464	40,404		
			44,880		445,880

Question 3

A and B start business on 1st January, 2022, with capitals of Rs. 30,000 and Rs. 20,000. According to the Partnership Deed, B is entitled to a salary of Rs. 500 per month and interest is to be allowed on opening capitals at 6% per annum. The remaining profits are to be distributed amongst the partners in the ratio of 5:3. During 2022 the firm earned a profit, before charging salary to B and interest on capital amounting to Rs. 25,000. During the year A withdrew Rs. 8,000 and B withdrew Rs. 10,000 for domestic purposes.
Prepare Profit and Loss Appropriation Account.

[SM]

Answer

Profit and Loss Appropriation Account
for the year ended 31-Dec-22

Particulars	Rs.	Particulars	Rs.
To B's Capital Account-Salary	6,000	By Net Profit	25,000
To A's Capital Account-interest	1,800		
To B's Capital Account-interest	1,200		
To Profit transferred to:			
A's Capital Account (5/8)	10,000		
B's Capital Account (3/8)	6,000		
	25,000		25,000

NOTE: Since date of drawing & rate of interest on drawing is not given, it is assumed drawings are made on last day of year.

Question 4

(b) P. Q and R are the 3 partners in partnership firm Partnership deed includes the following:

(i) R is entitled to get salary of Rs. 10,000 p.a.

(ii) P, Q and R are to get interest @ 6% on their respective capital of Rs. 2,50,000; Rs. 1,50,000 and Rs. 1,00,000.

(iii) R is to get extra benefit of 10% of profit in excess of Rs. 50,000 after providing for para (i) and (ii) mentioned above.

(iv) Q is entitled to 10% of profits after providing all the amounts in para (i), (ii) and (iii) mentioned above.

(v) The balance of profits will be shared by P, Q and R in the ratio of 5:3:2. The profits for the year before providing above items are Rs. 3,50,000.
You are required to prepare Profit and Loss Appropriation Account.

[PYQ Dec 23]

Answer

Dr. Profit & Loss Appropriation Account Cr.

Particulars		Rs.	Particular	Rs.
To Salary to Partner R		10,000	By Profit and Loss A/c	3,50.000
To Interest on Capital				
P	15,000			
Q	9,000			
R	6,000	30,000		
To Profit transferred to Capital A/cs:				
P	1,27,800			
Q	1,05,080			
R	77,120	3,10,000		
		3,50,000		3,50,000

Working Notes:

(i) Profit available for distribution (after interest on Capital & R's salary
= Rs. 3,50,000 – Rs. 40,000 = Rs. 3,10,000.

(ii) Excess Profits of R = (3,10,000- 50,000) × 10% = Rs. 26,000

(iii) Excess profit of Q = 3,10,000- 26,000 = 2,84,000 × 10% = Rs. 28,400

(iv) Profit available for distribution = 3,10,000 - 26,000 - 28,400 = Rs. 2,55,600
P = 2,55,600 *5/10 = Rs. 1,27,800
Q = 2,55,600 *3/10 = 76,680 + 28,400 = Rs. 1,05,080
R = 2,55,600 * 2/10 = 51,120 +26,000 = Rs. 77,120

Question 5

A and B start business on 1st January, 2022, with capitals of Rs. 30,000 and Rs. 20,000. According to the Partnership Deed, B is entitled to a salary of Rs. 500 per month and interest is to be allowed on opening capitals at 6% per annum. The remaining profits are to be distributed amongst the partners in the ratio of 5:3. During 2022, the firm earned a profit, before charging salary to B and interest on capital amounting to Rs. 25,000. During the year A withdrew Rs. 8,000 and B withdrew Rs. 10,000 for domestic purposes.
Prepare Capital Accounts of Partners A and B.

[SM]

Answer

Dr. A's Capital Account Cr.

2022	Particulars	Rs.	2022	Particulars	Rs.
Dec. 31	To Bank A/c-(Drawings)	8,000	Jan. 1	By Bank A/c	30,000
	To Balance c/d	33,800	Dec. 31	By Profit and Loss appropriation A/c Interest	1,800
				By Profit and Loss appropriation A/c-(5/8 Profit)	10,000
		41,800			41,800

			2023 Jan. 1	By Balance b/d	33,800

Dr. B's Capital Account Cr.

2022	Particulars	Rs.	2022	Particulars	Rs.
Dec. 31	To Bank A/c (Drawings)	10,000	Jan. 1	By Bank A/c	20,000
Dec. 31	To Balance c/d	23,200	Dec. 31	By Profit and Loss appropriation A/c	6,000
				Salary	1,200
				-Interest	6,000
				By Profit and Loss appropriation A/c (3/8 Profit)	33,200
		33,200			
			2023 Jan. 1	By Balance b/d	23,200

Question 6

A and B are partners sharing profits and losses in the ratio of their effective capital. They had Rs. 1,00,000 and Rs. 60,000 respectively in their Capital Accounts as on 1st January, 2022. A introduced a further capital of Rs. 10,000 on 1st April, 2022 and another Rs. 5,000 on 1st July, 2022. On 30th September, 2022 A withdrew Rs. 40,000. On 1st July, 2022, B introduced further capital of Rs. 30,000. The partners drew the following amounts in anticipation of profit.

A drew Rs. 1,000 per month at the end of each month beginning from January, 2022. B drew Rs. 1,000 on 30th June, and Rs. 5,000 on 30th September, 2022.

12% p.a. interest on capital is allowable and 10% p.a. interest on drawings is chargeable. Date of closing 31.12.2022. Calculate: (a) Profit-sharing ratio; (b) Interest on capital; and (c) Interest on drawings.

[SM, PYQ Jan 25(Similar question, different Figures)]

Answer

(a) Calculation of Effective Capital

A		B	
Rs. 1,00,000 invested for 3 months i.e.,		Rs. 60,000 invested for 6 months i.e.,	
Rs. 3,00,000 invested for 1 month	3,00,000	Rs. 3,60,000 invested for 1 month	3,60,000
Rs. 1,10,000 invested for 3 months		Rs. 90,000 invested for 6 months, i.e.,	
i.e., Rs. 3,30,000 invested for 1 month.	3,30,000	Rs. 5,40,000 invested for 1 month	5,40,000
			9,00,000
Rs. 1,15,000 invested for 3 months			
i.e.,Rs. 3,45,000 invested for 1 month.	3,45,000		
Rs. 75,000 invested for 3 months, i.e.,			
Rs. 2,25,000 invested for 1 month.	2,25,000		
	12,00,000		

(b) Calculation of Interest on Capital

A = Rs. 12,00,000 x 12/100 x 1/12 = Rs. 12,000

B = Rs. 9,00,000 x 12/100 x 1/12 = Rs. 9,000

(c) Calculation of Interest on Drawings
A = Rs. 12,000 x 10/100 x 5.5/12 = Rs. 550
B = Rs. 1,000 x 10/100 x 6/12 = Rs. 50
Rs. 5,000 x 10/100 x 3/12 = Rs. 125
Effective capital is in the ratio 12 : 9 therefore profit sharing ratio is 12 : 9 i.e. 4 : 3.

Question 7
Ram and Rahim start business with capital of Rs. 50,000 and Rs. 30,000 on 1st January, 2022. Rahim is entitled to a salary of Rs. 400 per month. Interest is allowed on capitals and is charged on drawings at 6% per annum. Profits are to be distributed equally after the above noted adjustments. During the year, Ram withdrew Rs. 8,000 and Rahim withdrew Rs. 10,000. The profit for the year before allowing for the terms of the Partnership Deed came to Rs. 30,000. Assuming the capitals to be fixed, prepare the Profit and Loss Appropriation Account and the Capital and Current Accounts relating to the partners.

Answer

Profit & Loss (Appropriation) Account

2022	Particulars	Rs.	2022	Particulars	Rs.
Dec. 31	To Rahim's Current A/c		Dec. 31	By Net Profit	30,000
	Salary	4,800		By Sundries-Interest on	
	To Sundries - Interest on			Drawings:	
	Capitals :			Ram's Current A/c	
	Ram's Current A/c	3,000		(6% on Rs. 8,000 for	
	Rahim's Current A/c	1,800		6 months)	240
	To Profit transferred to			Rahim's Current A/c	
	Ram's Current A/c (1/2)	10,470		(6% on Rs. 10,000 for	
	Rahim's Current A/c (1/2)	10,470		6 months)	300
		30,540			30,540

With the help of same information given in illustration 6, let us prepare the Capital and Current Accounts of Ram and Rahim.

Ram's Capital Account

2022	Particulars	Rs.	2022	Particulars	Rs.
Dec. 31	To Balance c/d	50,000	Jan. 1	By Bank A/c	50,000
			2023		
			Jan. 1	By Balance b/d	50,000

Rahim's Capital Account

2022	Particulars	Rs.	2022	Particulars	Rs.
Dec. 31	To Balance c/d	30,000	Jan. 1	By Bank A/c	30,000
			2023		
			Jan. 1	By Balance b/d	30,000

Ram's Current Account

2022	Particulars	Rs.	2022	Particulars	Rs.

Dec. 31	To Cash Bank A/C (Drawings)	8,000	Dec. 31	By Profit and Loss appropriation A/c - Interest	3,000
	To Profit and Loss appropriation A/c - Interest on Drawings	240		By Profit and Loss appropriation A/c -1/2 profit	10,470
	To Balance c/d	5,230			
		13,470			13,470
			2023		
			Jan. 1	By Balance b/d	5,230

Rahim's Current Account

2022	Particulars	Rs.	2022	Particulars	Rs.
	To Cash Bank A/c (Drawings)	10,000	Dec. 31	By Profit and Loss appropriation A/c Salary	4,800
Dec. 31					1,800
	To Profit and Loss appropriation A/c Interest on Drawings	300		Interest	10,470
		6,770		By Profit and Loss appropriation	
	To Balance c/d	17,070		A/c Profit	17,070
			2023	By Balance b/d	
			Jan. 1		6,770

Question 8

A and B were partners in a firm sharing profits and losses in the ratio of 3:2. They admit C for 1/6th share in profits and guaranteed that his share of profits will not be less than Rs. 250,00,000. Total profits of the firm for the year ended 31st March, 2022 were Rs. 900,00,000. Calculate share of profits for each partner when:

1. Guarantee is given by firm.
2. Guarantee is given by A
3. Guarantee is given by A and B equally.

[SM, PYQ June 23, MTP Aug 24]

Answer

Case 1.When Guarantee is given by firm.

Profit and Loss Appropriation Account
For the year ending on 31st March, 2022

Particulars	Rs.	Particulars	Rs.
To A's Capital A/c (3/5 of Rs. 650,00,000)	3,90,00,000	By Profit and Loss, A/c	9,00,00,000
To B's Capital A/c (2/5 of Rs. 650,00,000)	2,60,00,000		
To C's Capital A/c (1/6 of Rs. 9,00,00,000 or Rs. 25,000,000 which ever is more	2,50,00,000		
	9,00,00,000		9,00,00,000

Case2. When Guarantee is given by A

Profit and Loss Appropriation Account

For the year ending on 31st March, 2022

Particulars		Rs.	Particulars	Rs.
To A's Capital A/c (3/6 of Rs. 9,00,00,000)	4,50,00,000		By Profit and Loss, A/c (net profits)	9,00,00,000
Less: Deficiency borne for C	(1,00,00,000)	3,50,00,000		
To B's Capital A/c (2/6 of Rs. 9,00,00,000)		3,00,00,000		
To C's Capital A/c (1/6 of Rs. 9,00,00,000)	1,50,00,000			
Add: Deficiency Recovery from A	1,00,00,000	2,50,00,000		
		9,00,00,000		9,00,00,000

Case3. When Guarantee is given by A and B equally.

Profit and Loss Appropriation Account

For the year ending on 31st March, 2022

Particulars		Rs.	Particulars	Rs.
To A's Capital A/c (3/6 of Rs. 9,00,00,000)	4,50,00,000		By Profit and Loss, A/c (net profits)	9,00,00,000
Less: Deficiency borne for C (1/2 of 1,00,00,000)	(50,00,000)	4,00,00,000		
To B's Capital A/c (2/6 of Rs. 9,00,00,000)	3,00,00,000	2,50,00,000		
Less: Deficiency borne for C (1/2 of 1,00,00,000)	(50,00,000)			
To C's Capital A/c (1/6 of Rs. 9,00,00,000)	1,50,00,000			
Add: Deficiency Recovery from A	50,00,000			
Add: Deficiency Recovery from B	50,00,000	2,50,00,000		
		9,00,00,000		9,00,00,000

Question 9

Write short notes on:

(a) Features of Partnership

(b) Powers of Partners

[SM]

Answer

The following four essential features of a partnership, namely:

(i) Partnership is the result of an agreement: It means that the relation of partnership arises from contract and not from status.

(ii) Business: A partnership can exist only in business.

(iii) Sharing of profit: The persons concerned must agree to share the profits of the business.

(iv) Mutual agency: It means that the business is to be carried on by all or any of them acting for all. Thus, if the person carrying on the business acts not only for himself but for others also so that they stand in the positions of principals and agents, they are partners.

(b) Powers of partners are the following:
(i) Buying and selling of goods;
(ii) Receiving payments on behalf of the firm and giving valid receipt;
(iii) Drawing cheques and drawing, accepting and endorsing bills of exchange and promissory notes in the name of the firm;
(iv) Borrowing money on behalf of the firm with or without pledging the inventories-in-trade;
(v) Engaging servants for the business of the firm.

Question 10
Distinguish between fixed capital and fluctuating capital.

[SM]

Answer
In fixed capital method, generally initial capital contributions by the partners are credited to partners' capital accounts and all subsequent transactions and events are dealt with through current accounts, Unless a decision is taken to change it, initial capital account balance is not changed.
In fluctuating capital method, no current account is maintained. All such transactions and events are passed through capital accounts. Naturally, capital account balance of the partners fluctuates every time. So in fixed capital method a fixed capital balance is maintained over a period of time while in fluctuating capital method capital account balances fluctuate all the time.

Question 11
Write short notes on the following: "Liability of LLP and its Partners."

[RTP June 24]

Answer
Extent of Liability of LLP and its partners
Every partner of an LLP for the purpose of its business is an agent of the LLP but is not an agent of other partners. Obligations of LLP are solely its obligations and liabilities of LLP are to be met out of properties of LLP. The partners of an LLP in the normal course of business are not liable for the debts of the LLP. The LLP is liable if a partner of LLP is liable to any person as a result of wrongful or omission on his part in the course of business of the LLP or with his authority. However, a partner will be liable for his own wrongful acts or commissions, but will not be liable for the wrongful acts or commissions of other partners of the LLP. Thus a partner may be called to pay the liability of an LLP under exceptional circumstances.
If an LLP or any of its partners act with the intent to defraud creditors of the LLP or any other person or for any fraudulent purpose, then the liability of the LLP and the concerned partners is unlimited. However, where the fraudulent act is carried out by a partner, the LLP is not liable if it is established by the LLP that the act was without the knowledge or authority of the LLP. Where the business is carried out with fraudulent intent or for fraudulent purpose, every person who was knowingly a party is punishable with imprisonment and fine.

Question 12
What are the liabilities of designated partners in case of LLP.

[SM]

Answer
As per LLP Act, unless expressly provided otherwise in this Act, a designated partner should be-

(a) responsible for the doing of all acts, matters, and things as are required to be done by the limited liability partnership in respect of compliance of the provisions of this Act including filing of any document, return, statement, and the like report pursuant to the provisions of this Act and as may be specified in the limited liability partnership agreement; and.

(b) liable to all penalties imposed on the limited liability partnership for any contravention of those provisions.

Question 13

Discuss the rules if there is no Partnership Agreement

[PYQ Jan 21]

Answer

As per the Indian Partnership Act, 1932, in the absence of any agreement among the partners,

1. No partner has the right to a salary,
2. No interest is to be allowed on capital,
3. No interest is to be charged on the drawings,
4. Interest at the rate of 6%.p.a is to be allowed on a partner's loan to the firm, and
5. Profits and losses are to be shared equally.

Question 14

Weak, Able and Lazy are in partnership sharing profits and losses in the ratio of 2:1:1. It is agreed that interest on capital will be allowed @ 10% per annum and interest on drawings will be charged @ 8 % per annum. (No interest will be charged/allowed on Current Accounts).

The following are the particulars of the Capital and Drawings Accounts of the partners:

	Weak	Able	Lazy
	Rs.	Rs.	Rs.
Capital (1.1.2022)	75,000	40,000	30,000
Current Account (1.1.2022)	10,000	5,000	(Dr.) 5,000
Drawings	15,000	10,000	10,000

The draft accounts for 2022 showed a net profit of Rs. 60,000 before taking into account interest on capitals and drawings and subject to following rectification of errors:

(a) Life Insurance premium of Weak amounting to Rs. 750 paid by the firm on 30th June, 2022 has been charged to Miscellaneous Expenditure A/c.

(b) Repairs of Machinery amounting to Rs. 10,000 has been debited to Plant Account and depreciation thereon charged @ 20%.

(c) Travelling expenses of Rs. 3,000 of Able for a pleasure trip to U.K. paid by the firm on 30th June, 2022 has been debited to Travelling Expenses Account.

You are required to prepare the Profit and Loss Appropriation Account, Current Accounts of partners Weak, Able and Lazy for the year ended 31st December, 2022.

[SM]

Answer

Weak, Able & Lazy
Profit and Loss Appropriation Account
for the year ended 31st December, 2022

	Rs.	Rs.		Rs.	Rs.
To Interest on Capital: Weak			By Net Profit (Adjusted)		55,750

	7,500		By Interest on Drawings:		
Able	4,000		Weak	630	
Lazy	3,000	14,500	Able	520	
			Lazy	400	1,550
To Partner's Current A/cs-					
Share of profit :					
Weak	21,400				
Able	10,700				
Lazy	10,700	42,800			
		57,300			57,300

Working Notes:

(i) Adjusted Profit

	Rs.	Rs.
Net Profit as per Profit & Loss A/c	60,000	
Add : Drawings by Weak : Life Insurance Premium of Weak charged to Miscellaneous Expenditure A/c of the Firm	750	
Drawings by Able : Travelling expenses of Able in connection with pleasure trip to U.K. charged to travelling expenses A/c of the firm	3,000	63,750
Less: Repairs to Machinery wrongly capitalised	10,000	
Less : Depreciation charged @ 20%	(2,000)	(8,000)
		55,750

(ii) Interest on Drawings :

	Weak	Able	Lazy
	Rs.	Rs.	Rs.
Drawings	15,000	10,000	10,000
Add : Rectification adjustments	750	3,000	-
	15,750	13,000	10,000
Interest @ 8% p.a. for 6 months	630	520	400

Partners' Current Accounts

	Weak	Able	Lazy		Weak	Able	Lazy
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To Balance b/d	- 15,000	- 10,000	5,000	By Balance b/d	10,000	5,000	-
To Drawings	750	- 3,000	10,000	By Profit & Loss App. A/c (Int. on capital)	7,500	4,000	3,000
To Life Insurance Premium	-	520	-	By Profit & Loss App. A/c (Share of profit)	21,400	10,700	10,700
To Travelling Expenses.		6,180	-				
To Profit & Loss App.	630						

A/c (Int. on drawings)			400				
To Balance c/d	22,520		-	By Balance c/d	-	-	1,700
	38,900	19,700	15,400		38,900	19,700	15,400

Question 15

Ram and Rahim are in partnership sharing profits and losses in the ratio of 3:2. As Ram, on account of his advancing years, feels he cannot work as hard as before, the chief clerk of the firm, Ratan, is admitted as a partner with effect from 1st January, 2022, and becomes entitled to 1/10th of the net profits and nothing else, the mutual ratio between Ram and Rahim remaining unaltered.

Before becoming a partner, Ratan was getting a salary of Rs. 500 p.m. together with a commission of 4% on the net profits after deducting his salary and commission.

It is provided in the partnership deed that the share of Ratan's profits as a partner in excess of the amount to which he would have been entitled if he had continued as the chief clerk, should be taken out of Ram's share of profits.

The net profit for the year ended December 31, 2022 is Rs. 1,10,000. Show the distribution of net profit amongst the partners.

[SM]

Answer

Amount due to Ratan as a Chief Clerk

	Rs.
Salary	6,000
Add: Commission 4/104 (Rs. 1,10,000 - Rs. 6,000)	4,000
	10,000
Less: Share of Profit as a partner (1/10th of 1,10,000)	(11,000)
Excess chargeable to Ram	(1,000)

Profit and Loss Appropriation Account
for the year ended December 31,2022

	Particulars	Rs.	Particulars	Rs.
To	Share of Profit A/c		By Profit and Loss A/c (Net profit)	1,10,000
	Ram [3/5 of (Rs. 1,10,000 – Rs. 10,000) – Rs. 1,000]	59,000		
	Rahim [2/5 of (Rs. 1,10,000 – Rs. 10,000)]	40,000		
	Ratan [1/10 of Rs. 1,10,000]	11,000		
		1,10,000		1,10,000

Question 16

X and Y are partners. As per terms of agreement interest is allowed on capital at 8% p.a. and charged on drawings at 10% p.a. X withdrew Rs. 40,000 pm at the end of each month and Y withdrew Rs. 120,000 at the end of each quarter. You are required to fill the missing figures in following accounts:

Profit and Loss Appropriation Account
for the year ended March 31, 2022

Particulars	Rs.	Particulars	Rs.

To …?		By Profit and Loss A/c (Net profit)	?
To Interest on Capital A/c		By Interest on Drawings A/c	
X 160,000		X ?	?
Y ?	288,000	Y ?	
To profit transferred to Capital A/c			
X (2/3) ?			
Y (1/3) 280,000	?		
	?		?

Partner's Capital Accounts

Particulars	X	Y	Particulars	X	Y
To …?	?	?	By …?	?	?
To …?	?	?	By Salary A/c	3,60,000	?
To …?	?	?	By …?	?	
			By …?	?	?
	?	?		?	?

Answer

Profit and Loss Appropriation Account
for the year ended March 31, 2022

Particulars	Rs.	Particulars	Rs.
To Salary to X	3,60,000	By Profit and Loss A/c (Net profit)	14,48,000
To Interest on Capital A/c		By Interest on Drawings A/c	40,000
X 1,60,000		X 22,000	
Y 1,28,000	2,88,000	Y 18,000	
To profit transferred to Capital A/c			
X (2/3) 5,60,000			
Y (1/3) 2,80,000	8,40,000		
	14,88,000		14,88,000

Partner's Capital Accounts

Particulars	X	Y	Particulars	X	Y
To Drawing A/c	4,80,000	4,80,000	By Balance b/d	20,00,000	16,00,000
To Interest on Drawings A/c	22,000	18,000	By Salary A/c	3,60,000	1,28,000
			By Interest on Capital A/c	1,60,000	
To Balance c/d	25,78,000	15,10,000			
			By Profit and Loss App A/c	5,60,000	2,80,000
	30,80,000	20,08,000		30,80,000	2,008,000

Working Notes:

1. X's Share of Profit 2,80,000 x 3/1 x 2/3 = 5,60,000
2. Interest on Drawings
   X = 4,80,000 x 11/2 x 1/12 x 10/100 = 22,000
   Y = 4,80,000 x 9/2 x 1/12 x 10/100 = 18,000

3. Y's Interest on Capital 2,88,000 – 1,60,000 = 128,000

Question 17

Lee and Lawson are in equal partnership. They agreed to take Hicks as one-fourth partner. For this it was decided to find out the value of goodwill. M/s. Lee and Lawson earned profits during 2019-2022 as follows:

Year	Profits (Rs.)
2019	1,20,000
2020	1,25,000
2021	1,30,000
2022	1,50,000

On 31.12.2022 capital employed by M/s. Lee and Lawson was Rs. 5,00,000. Rate of normal profit is 20%.

Required

Find out the value of goodwill following various methods.

Answer

Average Profit:

Year	Profit	Weight	Weighted Profit Rs.
2019	1,20,000	1	1,20,000
2020	1,25,000	2	2,50,000
2021	1,30,000	3	3,90,000
2022	1,50,000	4	6,00,000
		10	13,60,000

Weighted Average Profit = Rs. 13,60,000 divided by 10 = Rs. 1,36,000

Method (1): Average Profit Basis

Assumption: Goodwill is valued at 3 year's purchase Valuation of Goodwill: Rs. 1,36,000 ×3 = Rs. 4,08,000

Method (2): Super Profit Basis

	Rs.
Average Profit	1,36,000
Less: Normal Profit 20% on Rs. 5,00,000	(1,00,000)
	Rs. 36,000

Assumption: Goodwill is valued at 3 years' purchase. Value of Goodwill = Rs. 36,000 × 3 = Rs. 1,08,000

Method (3): Annuity Basis

Assumptions:

(a) Interest rate is equivalent to normal profit rate i.e. 20%p.a.

(b) Goodwill is valued at 3 years' purchases Valuation of Goodwill: Rs. 36,000 × 2.1065 =Rs. 75,834

Method (4): Capitalisation Basis

Normal Value of business:

(Rs. 1,36,000 × 100) / 20 = Rs. 6,80,000

Less: Capital Employed in M/s. Lee and Lawson = (Rs. 5,00,000)

Goodwill = Rs. 1,80,000

Question 18

The following particulars are available in respect of the business carried on by Rathore

		Rs.
(1)	Capital Invested	1,50,000

(2)	Trading Results:		
	2019	Profit	40,000
	2020	Profit	36,000
	2021	Loss	6,000
	2022	Profit	50,000
(3)	Market Rate of interest on investment	10%	
(4)	Rate of risk return on capital invested in business	2%	
(5)	Remuneration from alternative employment of the proprietor (if not engaged in business).	Rs. 6,000 per annum	

You are required to compute the value of goodwill on the basis of 5 years' purchase of super profit of the business calculated on the average profits of the last four years.

[SM]

Answer

Average maintainable profits:		Rs.
Trading profit during	2019	40,000
	2020	36,000
	2021	50,000
		1,26,000
Less: Loss during	2022	(6,000)
Total		1,20,000
Average Profits		30,000
Less: Remuneration for the proprietor		(6,000)
Average maintainable Profit		24,000
Less: Normal Profit (12% on capital employed of Rs. 1,50,000)		(18,000)
Super Profit		6,000
Goodwill at 5 year's purchase of super Profit		30,000

Question 19

The following is the Balance Sheet of Yellow and Green as at 31st December, 2022:

Liabilities	Rs.	Assets	Rs.
Trade payables	20,000	Cash at Bank	10,000
Capital:		Sundry Assets	55,000
Yellow	25,000		
Green	20,000		
	65,000		65,000

The partners shared profits and losses in the ratio 3:2. On the above date, Black was admitted as partner on the condition that he would pay Rs. 20,000 as Capital. Goodwill was to be valued at 3 years' purchase of the average of four years' profits which were:

	Rs.		Rs.
2019	9,000	2021	12,000
2020	14,000	2022	13,000

The new profit sharing ratio is 6:5:5.

Give journal entries and Balance Sheet if goodwill is adjusted through partners' capital accounts.

[SM]

Answer

		Rs.	Rs.
(i)	Bank Account Dr.	20,000	
	To Black's Capital Account (Amount brought in by Black as capital)		20,000
(ii)	Black's Capital Account Dr.	11,250	
	To Yellow's Capital Account		8,100
	To Green's Capital Account		3,150
	(Black's share of goodwill adjusted through old partners' capital accounts in the profit sacrificing ratio 18:7)		

Balance Sheet
as on.31st December, 2022

Liabilities	Rs.	Rs.	Assets	Rs.
Trade payables		20,000	Cash at Bank	30,000
Capital:			Sundry Assets	55,000
Yellow	33,100			
Green	23,150			
Black	8,750	65,000		
		85,000		85,000

Note: Calculation of Profit Sacrificing Ratio
Old Share – New Share = Share Sacrificed
Yellow = 3/5 – 6/16 = 18/80
Green = 2/5 – 5 /16 = 7/80

Calculation of Goodwill
Average profit = (9,000 + 14,000 + 12,000 + 13,000) / 4
Goodwill of the firm = 3 × 12,000 = 36,000

Black share = 36,000 / 16 × 5 = 11,250

Question 20
With the information given in Question 19, let us give journal entries and prepare balance sheet assuming that goodwill is brought in cash.

[SM]

Answer
Goodwill brought in cash

Bank Account	Dr.	31,250	
To Black's Capital Account			20,000
To Yellow's Capital Account			8,100
To Green's Capital Account			3,150
(Amount brought in by Black as capital and as goodwill; goodwill credited to Yellow and Green's Capital accounts in the profit sacrificing ratio)			

Balance Sheet
as on 31st December, 2022

Liabilities	Rs.	Rs.	Assets	Rs.

Trade payables		20,000	Cash at Bank	41,250
Capital:			Sundry Assets	55,000
Yellow	33,100			
Green	23,150			
Black	20,000	76,250		
		96,250		96,250

Question 21

Continuing with the same Question 19, let us give journal entries and prepare balance sheet assuming that goodwill is brought in cash, but withdrawn.

[SM]

Answer

Goodwill brought in cash, but withdrawn

In addition to the treatment under Question 19 the following additional entry will be made:

Yellow's Capital Account	Dr.	8,100	
Green's Capital Account	Dr.	3,150	
To Bank Account			11,250
(Amount withdrawn by Yellow and Green in respect of goodwill credited to them)			

Balance Sheet
as on 31st December, 2022

Liabilities	Rs.	Rs.	Assets	Rs.
Trade payables		20,000	Cash at Bank	30,000
Capital:			Sundry Assets	55,000
Yellow	25,000			
Green	20,000			
Black	20,000	65,000		
		85,000		85,000

Question 22

On the basis of information given in Question 19, let us give journal entries and prepare balance sheet assuming that goodwill is paid privately.

[SM]

Answer

There will be no entry for goodwill but Black will pay Rs. 8,100 to Yellow and Rs. 3,150 to Green. For capital brought in by Black, the entry is:

Bank Account Dr.	20,000	
To Black's Capital Account (Amount brought in by Black as capital)		20,000

Balance Sheet as on.....

Liabilities	Rs.	Rs.	Assets	Rs.
Trade payables		20,000	Cash at Bank	30,000
Capital:			Sundry Assets	55,000
Yellow	25,000			
Green	20,000			
Black	20,000	65,000		

		85,000		85,000

Question 23

A, B & C are equal partners. They wanted to change the profit sharing ratio into 4:3:2. Make the necessary journal entries. Goodwill of the firm is valued at Rs. 90,000.

[SM]

Answer

Journal Entry

		Rs.	Rs.
A's Capital	Dr.	10,000	
To C's Capital A/c			10,000

In this case due to change in profit sharing ratio A's gain is = 4/9 less 1/3 = 1/9
B's gain is = 1/3 less 1/3 = 0
C's loss is = 1/3 less 2/9 = 1/9
So, A should compensate C to the extent of 1/9th of goodwill i.e. Rs. 90,000 × 1/9 = Rs. 10,000

Question 24

A, B and C are in partnership sharing profits and losses in the ratio of 4:3:3. They decided to change the profit sharing ratio to 7:7:6. Goodwill of the firm is valued at Rs. 20,000. Calculate the sacrifice / gain by the partners and make the necessary journal entry.

[SM]

Answer

Partner	New Share	Old Share	Difference
A	7/20	4/10	-(1/20)
B	7/20	3/10	1/20
C	6/20	3/10	0

Thus, B gained 1/20th share while A sacrificed 1/20th share i.e. (Rs. 20,000 x 1) /20 = Rs. 1,000.
For C, there was no loss no gain.

Journal Entry

		Rs.	Rs.
B's Capital A/c	Dr.	1,000	
To A's Capital A/c			1,000
(Being goodwill adjusted through partners' capital accounts in sacrificing/gaining ratio)			

Question 25

A, B, C and D are in partnership sharing profits and losses equally. They mutually agreed to change the profit sharing ratio to 3:3:2:2. Goodwill of the firm is valued at Rs. 20,000. Give necessary journal entry.

Answer

A gains by 3/10 – 1/4 = 1/20
B gains by 3/10 – 1/4 = 1/20
C loses by 1/4 – 2/10 = 1/20
D loses by 1/4 – 2/10 = 1/20
A and B should pay @Rs. 1,000 each (i.e., Rs. 20,000×1/20) as compensation to C and D respectively for their sacrifice.

Journal Entry

A's Capital Account	Dr.	1,000	
B's Capital Account	Dr.	1,000	
To C's Capital Account			1,000
To D's Capital Account			1,000
(Being goodwill adjusted through partners' capital A/cs at sacrificing/gaining ratio)			

Question 26

Antoo, Bantoo and Chintoo were in partnership sharing profits and losses 3:4:3 respectively. The accounts of the firm are made up to 31st March every year. The partnership provided, interalia, that: On the retirement of a partner the goodwill was to be valued at three years' purchase of average profits of the past four years up to the date of the retirement after deducting interest @12%p.a. on capital employed and remuneration of Rs. 2,000 p.m.to each partner. On 1st April 2022, Antoo retired and it was agreed on his retirement to adjust goodwill in the capital accounts without showing any amount of goodwill in the Balance Sheet. It was agreed that the capital employed would be Rs. 6,50,000. Bantoo and Chintoo were to continue the partnership, sharing profits and losses equally after the retirement of Antoo. The following were the amounts of profits of earlier years before charging salary to partners and interest on capital employed.

Year	Profit
2018-19	2,60,000
2019-20	2,75,000
2020-21	2,65,000
2021-22	2,80,000

You are required to compute the value of goodwill and show the adjustment there of in the books of the firm.

[SM]

Answer

Valuation of Goodwill		
Calculation of Average Profit		
2018-19	2,60,000	
2019-20	2,75,000	
2020-21	2,65,000	
2021-22	2,80,000	
Total	10,80,000	
Average Profit (10,80,000/4)		2,70,000
Less: Interest on capital @ 12%p.a.		78,000
Less: Salaries of partners'(3 x 12 x 2,000)		72,000
Adjusted Average profit		1,20,000
Goodwill (3 years purchase =3 x 1,20,000)		3,60,000
Antoo's Share of Goodwill (3/10) *i.e.*		1,08,000

Adjustment Journal entry for Goodwill

Particulars		Dr. Rs.	Cr. Rs.
Bantoo's Capital Account	Dr.	36,000	
Chintoo's Capital Account	Dr.	72,000	
To Antoo's Capital Account			1,08,000
(Adjusting entry passed for share of goodwill of Antoo through remaining			

partners' capital accounts in gaining ratio)		

Working Note:

Partner	New Share	Old Share	Difference (New – Old)
Antoo	0	3/10	-3/10
Bantoo	1/2	4/10	1/10
Chintoo	1/2	3/10	2/10

Question 27

Cu and Au were in partnership sharing profits and losses in the ratio 5:3. On 1st April 2022, they decided to admit Ag the partnership on the following terms:

1. Ag will bring Rs. 2,00,000/- as capital for $\frac{1}{4}$ share.
2. New profit sharing ratio shall be 2:1:1 among Cu, Au and Ag.
3. Cu was entitled to salary of Rs. 2,000/- p.m., it was revised to Rs. 3,000 p.m. from 1st October 2020.
4. Interest on capital was paid at 8% p.a.
5. Capitals as on 31st March 2022 were Cu Rs. 4,00,000 Au Rs. 3,00,000, which had remained unchanged since last four years.
6. Goodwill was to be valued on the basis of 3 years purchase of average adjusted weighted average profits of past 4 years. The profits of previous four years, before charging interest on capital and salary to Cu were as follows:

Year	Profit
2018-19	2,10,000
2019-20	2,60,000
2020-21	2,10,000
2021-22	3,05,000

These profits were subject to following rectification

(a) A machine costing Rs. 40,000 purchased on 1st October, 2020 was wrongly charged to revenue. The machinery was depreciated at 20% p.a. on written down value method

(b) Stock on 31st March 2020 was over valued by Rs. 20,000/-

(c) There was a loss by fire amounting to Rs. 10,000/- in the year 2018-19 which was not considered in trading account but correctly debited in the Profit & Loss a/c for that year.

(d) Debtors as on 31st March 2022 included bad debts of Rs. 5 ,800/-

7. Ag shall bring his share of goodwill in cash.

You are required to calculate amount of goodwill Ag is supposed to bring and journal entry for the same.

[SM]

Answer

Valuation of goodwill

Particulars	2018-19	2019-20	2020-21	2021-22
Profits	2,10,000	2,60,000	2,10,000	3,05,000
Less: Salary to Cu	(24,000)	(24,000)	(30,000)	(36,000)
Less: Interest on Capital of Partners	(56,000)	(56,000)	(56,000)	(56,000)
Add: Machine to be capitalized			40,000	
Less: Depreciation on above			(4,000)	(7,200)
Less: Over valuation of closing stock		(20,000)		
Add: Over valuation of opening stock			20,000	
Add: Loss by fire	10,000			
Less: Bad debts to be written off				(5,800)
Adjusted profits	1,40,000	1,60,000	1,80,000	2,00,000

Weights	1	2	3	4
Product	1,40,000	3,20,000	5,40,000	8,00,000

Weighted Average profit = total product/ total weights = 18,00,000/10 = 1,80,000
Goodwill (3 years purchase) = 3 x 1,80,000 = 5,40,000 Ag's share $\frac{1}{4}$th = 5,40,000/4 = 1,35,000

Adjustment Journal entry for Goodwill

Particulars	Dr. Rs.	Cr. Rs.
Bank A/c Dr.	1,35,000	
To Cu's Capital Account		67,500
To Au's Capital Account		67,500
(Adjusting amount brought in by Ag towards goodwill credited to remaining partners' capital accounts in sacrifice ratio)		

Working Note:

Partner	New Share		Old Share		Difference
Cu	2/4	-	5/8	=	1/8
Au	1/4	-	3/8	=	1/8
Ag	1/ 4	-		=	1/4

Question 28
Write short note on methods for valuation of goodwill.

[SM]

Answer
There are three methods for valuation of goodwill
(i) Average profit basis - Simple and Weighted
(ii) Super profit basis - Number of Year Purchase, Annuity basis, and Capitalization of Super Profit
(iii) Capitalization basis

Question 29
Explain Accounting treatment of goodwill in case of change in profit sharing ratio.

[SM]

Answer
In case of change in profit sharing ratio, the value of goodwill should be determined and preferably adjusted through capital accounts of the partners on the basis of profit sacrificing ratio.

Question 30
Distinguish between Super profit basis and Capitalisation Basis.

[SM]

Answer
Super Profit Basis: In case of average profit basis, goodwill is calculated on the basis of average profit multiplied by certain number of years.
Super Profit=Actual Profit-Normal Profit
Actual Profit is average profit and Normal Profit = Normal rate of Return (NRR)
Capitalization Basis: Under this basis, value of whole business is determined applying normal rate of return. If such value (arrived at by applying normal rate of return) is higher than the capital employed in the business, then the difference is goodwill.

Question 31

Wise, Clever and Dull were trading in partnership sharing profits and losses 4:3:3 respectively. The accounts of the firm are made upto 31st December every year.

The partnership provided, interalia, that:

On the death of a partner the goodwill was to be valued at three years' purchase of average profits of the three years upto the date of the death after deducting interest @8 percent on capital employed and a fair remuneration of each partner. The profits are assumed to be earned evenly throughout the year.

On 30th June, 2022, Wise died and it was agreed on his death to adjust goodwill in the capital accounts without showing any amount of goodwill in the Balance Sheet.

It was agreed for the purpose of valuation of goodwill that the fair remuneration for work done by each partner would be Rs. 15,000 per annum and that the capital employed would be Rs. 1,56,000. Clever and Dull were to continue the partnership, sharing profits and losses equally after the death of Wise.

The following were the amounts of profits of earlier years before charging interest on capital employed.

	Rs.
2019	67,200
2020	75,600
2021	72,000
2022	62,400

You are required to compute the value of goodwill and show the adjustment there of in the books of the firm.

[SM]

Answer

Computation of the value of goodwill:

(i)	Average Profit for three years, ending 30th June; before death:		
	Year ending 30th June, 2020:	Rs.	Rs.
	1/2 of 2019 profits	33,600	
	1/2 of 2020 Profits	37,800	71,400
	Year ending 30th June, 2021:		
	1/2 of 2020	37,800	
	1/2 of 2021 Profits	36,000	73,800
	Year ending 30th June, 2022:		
	1/2 of 2021	36,000	
	1/2 of 2022	31,200	67,200
	Profits Total		2,12,400
	Average Profits		
	Alternatively it can be calculated as below :		
	1/2 profit of 2019 + profit of 2020 + profit of 2021 + profit of 2022 =		70,800
	(33,600+75,600+72,000+31,200)/ 3 = 70,800		
	Average future maintainable profit :		70,800
	Average profits earned		
	Less : Partner's remuneration	45,000	
	Less: 8% on capital employed	12,480	(57,480)
(ii)			13,320
(iii)	Goodwill of the firm @ three years' purchase		39,960
(iv)	Wise's share of Goodwill = 4/10 of 39,960 =15,984		

Adjustment entry for Goodwill

Journal Entry

		Dr. Rs.	Cr. Rs.
Clever's Capital Account	Dr.	7,992	
Dull's Capital Account	Dr.	7,992	
To Wise's Capital Account			15,984
(Adjusting entry passed for share of goodwill of Wise through remaining partners' capital accounts in gaining ratio)			

Working Note:

Partner	New Share	Old Share	Difference
Wise	-	4/10	4/10
Clever	1/2	3/10	2/10
Dull	1/2	3/10	2/10

There is no change in profit sharing ratio of containing partners therefore gain ratio will be same as profit sharing ratio.

Question 32

(b) The following information given below:
(i) Total Assets Rs.10,00,000
(ii) External Liabilities Rs.1,80,000
(iii) Normal Rate of Return 10%
(iv) Average Net Profit of last five years Rs.1,00,000 .
You are required to calculate goodwill by applying:
(i) Capitalization Method and
(ii) 3 year's purchase of super profits.

[RTP Jan 25]

Answer

Goodwill as per Capitalization Method:

(i) Capital Employed (Net Assets)
= Total Assets – External Liabilities
= Rs. 10,00,000 – Rs. 1,80,000 = Rs. 8,20,000
Normal Profit = 10% of Rs. 8,20,000 = Rs. 82,000 Super Profit = Average Profit – Normal Profit
= Rs. 1,00,000 – Rs. 82,000
= Rs. 18,000
Goodwill = Super Profit x 100/Normal rate of Return
= 18,000 X 100/10= Rs.1,80,000

(ii) Goodwill as per 3 year's purchase of super profits: Goodwill = Super Profit x Number of Year's purchased
= Rs. 18,000 x 3 = Rs. 54,000.

Question 33

A and B are partners in a firm. Their capitals are: A Rs. 6,00,000 and B Rs. 4,00,000. During the year ended 31st March, 2024 the firm earned a profit of Rs. 3,00,000. Assuming that the normal rate of return is 20%, calculate the value of goodwill on the firm:
(i) By Capitalization Method; and
(ii) By Super Profit Method if the goodwill is valued at 2 years' purchase of Super Profit.

[RTP Sep 24, Nov 22, 20, 19, May 22, 18,20, PYQ Nov 22]

Answer

(i) Capitalisation Method:

Total Capitalised Value of the firm

= (Average Profit x 100) / Normal Rateof Return

= (Rs. 3,00,000 x 100) / 20

= Rs. 15,00,000

Goodwill = Total Capitalised Value of Business – Capital Employed

= Rs. 15,00,000 – Rs. 10,00,000 [i.e., Rs. 6,00,000 (A) + Rs. 4,00,000 (B)]

Goodwill = Rs. 5,00,000

(ii) Super Profit Method:

Normal Profit = Capital Employed x 20/100 = Rs. 2,00,000 Average Profit = Rs. 3,00,000

Super Profit = Average profit – Normal Profit = Rs. 3,00,000 – Rs. 2,00,000 = Rs. 1,00,000

Goodwill = Super Profit x Number of years' purchase

= Rs. 1,00,000 x 2 = Rs. 2,00,000.

Question 34

Ved, Jain and Agrawal are in partnership sharing profit and losses at the ratio of 2:5:3. The Balance Sheet of the partnership as on 31.12.2022 was as follows:

Balance Sheet of M/s Ved, Jain & Agrawal

Liabilities	Rs.	Assets	Rs.
Capital A/cs		Sundry fixed assets	15,00,000
Ved	2,55,000	Inventory	3,00,000
Jain	9,45,000	Trade receivables	1,50,000
Agrawal	6,75,000	Bank	15,000
Trade payables	90,000		
	19,65,000		19,65,000

The partnership earned profit Rs. 6,00,000 in 2022 and the partners withdrew Rs. 4,50,000 during the year. Normal rate of return 30%.

You are required to calculate the value of goodwill on the basis of 5 years' purchase of super profit. For this purpose, calculate super profit using average capital employed.

[RTP Nov 23, 21, 18, 19]

Answer

Valuation of Goodwill:		Rs.
(1)	Average Capital Employed	
	Total Assets less Trade payables as on 31.12.2022	18,75,000
	Add: 1/2 of the amount withdrawn by partners	2,25,000
		21,00,000
	Less: 1/2 of the profit earned in 2022	(3,00,000)
(2)	Super Profit:	18,00,000
	Profit of M/s Ved, Jain & Agrawal	6,00,000
	Normal profit @ 30% on Rs. 18,00,000	5,40,000
	Super Profit	60,000
(3)	Value of Goodwill	
	5 Years' Purchase of Super profit (Rs. 60,000 × 5)	Rs. 3,00,000

Question 35

The profits and losses for the previous years are: 2019 Profit Rs. 15,000, 2020 Loss Rs. 25,500, 2021 Profit Rs. 75,000, 2022 Profit Rs. 1,12,500. The average Capital employed in the business is Rs. 3,00,000. The rate of interest expected from capital invested is 10%. The remuneration from alternative employment of the proprietor Rs. 9,000 p.a. Calculate the value of goodwill on the basis of 3 years' purchases of Super Profits based on the average of 4 years.

[RTP June 23, May 19,21, MTP May 24]

Answer

Total Profit for 4 years = Rs. 15,000+ Rs. (25,500) +Rs. 75,000+Rs. 1,12,500= Rs. 1,77,000.

Average profits = Total Profit/No. of Years
= Rs.1,77,000 / 4
= Rs.44,250

Average Profits for Goodwill = Rs. 44,250 – Proprietor Remuneration
= Rs. 44,250 – Rs. 9,000 = Rs. 35,250
Normal Profit = Interest on Capital employed
= Rs. 30,000 (i.e. Rs. 3,00,000 x10/100) = Rs. 30,000
Super Profit = Average Profit-Normal Profit = Rs. 35,250 – Rs. 30,000 = Rs. 5,250 Goodwill = Super Profit x No of years purchases = Rs. 5,250 x 3 =Rs. 15,750

Question 36

Mr. X gives the following particulars in respect of business carried on by him:

Particulars	Amount (Rs.)
Capital Invested in business	9,00,000
Market rate of interest on investment	8%
Rate of risk return on capital invested in business	3%
Remuneration per annum from alternative employment of proprietor if he was not engaged in business	36,000

The business earned profits of Rs. 2,40,000, Rs. 2,16,000 and Rs. 3,00,000 in the years 2018, 2019 and 2021 respectively but made a loss of Rs. 36,000 in the year 2020.
Compute the value of Goodwill on the basis of 6 years' purchase of super profits of the business, calculated on the basis of average profit of last four years.

[PYQ May 22]

Answer

Computation of Goodwill of Mr. X

Average maintainable profits:		Rs.
Trading profit during	2018	2,40,000
	2019	2,16,000
	2021	3,00,000
		7,56,000
Less: Loss during	2020	(36,000)
Total		7,20,000
Average Profits (Rs. 7,20,000 / 4)		1,80,000
Less: Remuneration for the proprietor		(36,000)

Average maintainable Profit		1,44,000
Less: Normal Profit (11% on capital employed of Rs. 9,00,000)		(99,000)
Super Profit		45,000
Goodwill at 6 year's purchase of Super Profit		2,70,000

Alternative:

Total profit (Rs. 2,40,000 + Rs. 2,16,000 + Rs. 3,00,000 - Rs. 36,000)	=	Rs. 7,20,000
Normal Profit (11% on capital employed of Rs. 9,00,000)	=	(99,000)
Remuneration for the proprietor	=	(36,000)
		(1,35,000)
Average Profits (Rs. 7,20,000 / 4)		1,80,000
Super Profit		45,000
Goodwill at 6 year's purchase of Super Profit	=	2,70,000

Question 37

The following is the Balance Sheet of Ram and Mohan, who share profits in the ratio of 3:2 as on 1st January, 2022:

Liabilities	Rs.	Assets	Rs.
Trade payables	15,000	Buildings	18,000
Ram's Capital	20,000	Plant and Machinery	15,000
Mohan's Capital	25,000	Inventories	12,000
		Trade receivables	10,000
		Bank	5,000
	60,000		60,000

On this date Shyam was admitted on the following:

1. He is to pay Rs. 25,000 as his capital and Rs. 10,000 as his share of goodwill for one fifth share in profits.
2. The new profits sharing ratio will be 5:3:2.
3. The assets are to be revalued as under:

	Rs.
Building	25,000
Plant and Machinery	12,000
Inventories	12,000
Trade receivables (because of doubtful debts)	9,500

4. It was found that there was a liability for Rs. 1,500 for goods received but not recorded in books.

Give journal entries to record the above. Also, give the Balance Sheet of the partnership firm after Shyam's admission.

[SM]

Answer

Journal Entries

2022			Dr. (Rs.)	Cr. (Rs.)
Jan. 1	Bank Account	Dr.	35,000	
	To Shyam's Capital Account			35,000
	(Being amount brought in by Shyam for capital and goodwill)			
	Shyam's Capital Account	Dr.	10,000	
	To Ram's Capital Account To Mohan's Capital Account			5,000

	(Being Shyam's share of goodwill adjusted to existing partners' capital accounts in the profit sacrificing ratio 1:1)			5,000
	Revaluation Account	Dr.	5,000	
	To Plant and Machinery Account			3,000
	To Provisions for Doubtful Debts Account To Trade payables Account			500
	(Being recording of the reduction in the value of assets and the liability which had been previously omitted)			1,500
	Building Account	Dr.	7,000	
	To Revaluation Account			7,000
	(Being increase in the value of building brought into account)			
	Revaluation Account	Dr.	2,000	
	To Ram's Capital Account To Mohan's Capital Account			1,200
	(Being profit on revaluation credited to Ram and Mohan in the old profit sharing ratio)			800

Working Note:
Profit sacrificing ratio:
Ram = 3/5 - 1/2 = 1/10
Mohan = 2/5 - 3/10 = 1/10

Balance Sheet of Ram, Mohan and Shyam
as at January 1, 2022

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Trade payables		16,500	Buildings		25,000
Capital Accounts :			Plant and Machinery		12,000
Ram	26,200		Inventories		12,000
Mohan	30,800		Trade receivables	10,000	
Shyam	25,000	82,000	Less : Provision for Doubtful Debts	(500)	9,500
			Bank		40,000
		98,500			98,500

Question 38

A and B are partners sharing profits and losses in the ratio of 3:2. Their Balance Sheet as on 31.3.2022 is given below:

Liabilities	Rs.	Assets	Rs.
Trade payables	50,000	Freehold premises	2,00,000
Capital Accounts:		Plant	40,000
A	2,00,000	Furniture	20,000
B	1,00,000	Office equipment	25,000
		Inventories	30,000
		Trade receivables	25,000
		Bank	10,000
	3,50,000		3,50,000

On 1.4.2022 they admit C on the following terms:
(1) C will bring Rs. 50,000 as a capital and Rs. 10,000 for goodwill for 1/5 share;
(2) Provision for doubtful debts is to be made on Trade receivables @ 2%
(3) Inventory to be written down by 10%.
(4) Freehold premises is to be revalued at Rs. 2,40,000, plant at Rs. 35,000, furniture Rs. 25,000 and office

equipment Rs. 27,500.

(5) Partners agreed that the values of the assets and liabilities remain the same and, as such, there should not be any change in their book values as a result of the above mentioned adjustments.

You are required to make necessary adjustment in the Capital Accounts of the partners and show the Balance Sheet of the New Firm.

Answer

Memorandum Revaluation Account

	Particulars	Rs.		Particulars	Rs.
To	Provision for Bad Debts A/c	500	By	Freehold premises A/c	40,000
To	Inventory A/c	3,000	By	Furniture A/c	5,000
To	Plant A/c	5,000	By	Office equipment A/c	2,500
To	Profit on Revaluation A/c				
	A's Capital-3/5	23,400			
	B's Capital-2/5	15,600			
		47,500			47,500
To	Freehold premises A/c	40,000	By	Provision for Bad Debts A/c	500
To	Furniture A/c	5,000	By	Inventory A/c	3,000
To	Office equipment A/c	2,500	By	Plant A/c	5,000
				Loss on Revaluation A/c	
				A's Capital -12/25	18,720
				B's Capital-8/25	12,480
				C's Capital-5/25	7,800
		47,500			47,500

Partners' Capital Accounts

Particulars	A Rs.	B Rs.	C Rs.	Particulars	A Rs.	B Rs.	C Rs.
To A's Capital A/c			6,000	By Balance b/d	2,00,000	1,00,000	-
To B's Capital A/c			4,000				
To Loss on				By Bank A/c			60,000
revaluation A/c	18,720	12,480	7,800	By C's Capital			
To Balance c/d	2,10,680	1,07,120	42,200	A/c	6,000	4,000	-
				By Profit on			
				revaluation A/c	23,400	15,600	-
	2,29,400	1,19,600	60,000		2,29,400	1,19,600	60,000

Note: Amount brought in by new partner shall be distributed among the old partner's in their profit sacrificing ratio, which is same as old profit sharing ratio in this case.

Balance Sheet as at April 1,2022

Liabilities	Rs.	Assets	Rs.
Trade payables	50,000	Freehold premises	2,00,000
		Plant	40,000
Capital A/c:		Furniture	20,000
A	2,10,680	Office equipment	25,000
B	1,07,120	Inventories	30,000

C	42,200	Trade receivables	25,000
		Bank	70,000
	4,10,000		4,10,000

Question 39

A and B are partners in a firm, sharing profits and losses in the ratio of 3:2. The Balance Sheet of A and B as on 1.1.2022 was as follows:

Liabilities	Rs.	Amount Rs.	Assets	Rs.	Amount Rs.
Trade payables		17,000	Building		26,000
			Furniture		5,800
Bank overdraft		9,000	Inventories		21,400
Capital accounts:			Trade receivables	35,000	
A	44,000		Less: Provision	(200)	34,800
B	36,000	80,000	Investment		2,500
			Cash		15,500
		1,06,000			1,06,000

'C' was admitted to the firm on the above date on the following terms:

(i) C is admitted for 1/6 share in the future profits and to introduce a capital of Rs. 25,000.

(ii) The new profit sharing ratio of A, B and C will be 3:2:1 respectively.

(iii) 'C' is unable to bring in cash for his share of goodwill, they decide to calculate goodwill on the basis of C's share in the profits and the capital contribution made by him to the firm.

(iv) Furniture is to be written down by Rs. 870 and Inventory to be depreciated by 5%. A provision is required for trade receivables @ 5% for bad debts. A provision would also be made for outstanding wages for Rs. 1,560. The value of buildings having appreciated be brought uptoRs. 29,200. The value of investments is increased by Rs. 450.

(v) It is found that the trade payables included a sum of Rs. 1,400, which is not to be paid off. Prepare the following:

(i) Revaluation account.

(ii) Partners' capital accounts.

[SM, RTP May 19, Oct 20]

Answer

Revaluation Account

		Rs.			Rs.
To	Furniture	870	By	Building	3,200
To	Inventory	1,070	By	Trade payables	1,400
To	Provision for doubtful debts		By	Investment	450
	(Rs. 1,750 – Rs. 200)	1,550			
To	Outstanding wages	1,560			
		5,050			5,050

Partners' Capital Accounts

	A	B	C		A	B	C
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To A			4,500	By Balance b/d	44,000	36,000	-

To B			3,000	By Cash A/c	-	-	25,000
To Balance c/d	48,500	39,000	17,500	By C (working note 2)	4,500	3,000	-
	48,500	39,000	25,000		48,500	39,000	25,000

Working Notes:

1. Calculation of goodwill:

C's contribution of Rs. 25,000 consists of only 1/6th of capital. Therefore, total capital of firm should be Rs. 25,000 x 6 = Rs. 1,50,000

But combined capital of A, B and C amounts Rs. 44,000 + 36,000 + 25,000 = Rs. 1,05,000 Thus, the hidden goodwill of the firm is Rs. 45,000 (Rs. 1,50,000- Rs. 1,05,000).

C's share 1/6th = 7,500

Goodwill will be shared by A & B in their sacrificing ratio.

2. Calculation of sacrificing ratio

Partners	New share	Old share	Sacrifice	Gain
A	3/6	3/5	-3/30	-
B	2/6	2/5	-2/30	-
C	1/6	-	-	1/6

Therefore, A will get = Rs. 45,000 × 3/30 = Rs. 4,500

B will get = Rs. 45,000 × 2/30 = Rs. 3,000; and

C will be debited on account of goodwill = Rs. 45,000 × 1/6 = Rs. 7,500

Question 40

A and B are partners in a firm, sharing Profits and Losses in the ratio of 3 : 2. The Balance Sheet of A and B as on 31.3.2024 was as follow:

Liabilities	Amount Rs.	Assets		Amount Rs.
Sundry Creditors	25,800	Building		52,000
Bill Payable	8,200	Furniture		11,600
Bank Overdraft	18,000	Stock-in-Trade		42,800
Capital Accounts:		Debtors	70,000	
A 88,000		Less: Provision	400	69,600
B 72,000	1,60,000	Investment		5,000
		Cash		31,000
	2,12,000			2,12,000

'C' was admitted to the firm on the above date on the following terms:

(i) He is admitted for 1/6th share in future profits and to introduce a Capital of Rs. 50,000.

(ii) The new profit sharing ratio of A, B and C will be 3 : 2 : 1 respectively.

(iii) 'C' is unable to bring in cash for his share of goodwill, they decide to calculate goodwill on the basis of C's share in the profits and the capital contribution made by him to the firm.

(iv) Furniture is to be written down by Rs. 1,740 and Stock to be depreciated by 5%. A provision is required for Debtors @ 5% for Bad Debts. A provision would also be made for outstanding wages for Rs. 3,120. The value of Buildings having appreciated be brought upto Rs. 58,400. The value of investment is increased by Rs. 900.

(v) It is found that the creditors included a sum of Rs. 2,800, which is not to be paid off.

Prepare the following:

(i) Revaluation Account.

(ii) Partners' Capital Accounts.

(iii) Balance Sheet of New Partnership firm after admission of 'C'.

[SM, RTP May 19, Oct 20, MTP Oct 20, April 21, May 22, May 23, July 24]

Answer

(i) Revaluation Account

		Rs.			Rs.
To	Furniture	1,740	By	Building	6,400
To	Stock	2,140	By	Sundry creditors	2,800
To	Provision of doubtful debts (Rs. 3,500 – Rs. 400)	3,100	By	Investment	900
To	Outstanding wages	3,120			
		10,100			10,100

(ii) Partners' Capital Accounts

		A	B	C			A	B	C
		Rs.	Rs.	Rs.			Rs.	Rs.	Rs.
To	A's Capital			9,000	By	Balance b/d	88,000	72,000	-
To	B's Capital			6,000	By	Cash A/c	-	-	50,000
To	Balance c/d			35,000	By	C's Capital A/c (Working Note)	9,000	6,000	
		97,000	78,000						
		97,000	78,000	50,000			97,000	78,000	50,000

(iii) Balance Sheet of New Partnership Firm (after admission of C) as on 31.3.2024

Liabilities	Rs.	Assets	Rs.
Capital Accounts:		Building (52,000 + 6,400)	58,400
A 97,000		Furniture (11,600 – 1,740)	9,860
B 78,000		Stock-in-trade (42,800 – 2,140)	40,660
C 35,000	2,10,000	Debtors 70,000	
Bills Payable	8,200	Less: Provision for bad Debts (3,500)	66,500
Bank Overdraft	18,000	Investment (5,000 + 900)	5,900
Sundry creditors (25,800-2,800)	23,000	Cash (31,000 + 50,000)	81,000
Outstanding wages	3,120		
	2,62,320		2,62,320

Working Note:

1. Calculation of goodwill

C's contribution of Rs. 50,000 consists only 1/6th of capital. Therefore, total capital of firm should be Rs. 50,000 × 6 = Rs. 3,00,000.

But combined capital of A, B and C amounts Rs. 88,000 + 72,000 + 50,000 = Rs. 2,10,000.

Thus Hidden goodwill is Rs. 90,000 (Rs. 3,00,000 – Rs. 2,10,000). C's share 1/6th = 15,000

Goodwill will be shared by A & B in their sacrificing ratio.

2. Calculation of sacrificing ratio

Partners	New share	Old share	Sacrifice	Gain
A	3/6	3/5	-3/30	-

B	2/6	2/5	-2/30	-
C	1/6	-	-	1/6

Therefore,
A will get = Rs. 90,000 × 3 / 30 = Rs. 9,000
B will get = Rs. 90,000 × 2 / 30 = Rs. 6,000 and
C will be debited on account of goodwill = Rs.90,000 × 1 / 6 = Rs. 15,000

Question 41

Dalal, Banerji and Mallick are partners in a firm sharing profits and losses in the ratio 2:2:1. Their Balance Sheet as on 31st March, 2022 is as below:

Liabilities		Rs.	Assets	Rs.
Trade payables		12,850	Land and Buildings	25,000
Outstanding Liabilities		1,500	Furniture	6,500
General Reserve		6,500	Inventory of goods	11,750
Capital Account :			Trade receivables	5,500
Mr. Dalal	12,000		Cash in hand	140
Mr. Banerji	12,000		Cash at Bank	960
Mr. Mallick	5,000	29,000		
		49,850		49,850

The partners have agreed to take Mr. Mistri as a partner with effect from 1st April, 2022 on the following terms:
(1) Mr. Mistri shall bring Rs. 5,000 towards his capital.
(2) The value of Inventory should be increased by Rs. 2,500 and Furniture should be depreciated by 10%.
(3) Reserve for bad and doubtful debts should be provided at 10% of the Trade receivables.
(4) The value of land and buildings should be enhanced by 20%.
(5) The value of the goodwill be fixed at Rs. 15,000.
(6) General Reserve will be transferred to the Partners' Capital Accounts.
(7) The new profit sharing ratio shall be: Mr. Dalal 5/15, Mr. Banerji 5/15, Mr. Mallick 3/15 and Mr. Mistri 2/15.

The outstanding liabilities include Rs. 1,000 due to Mr. Sen which has been paid by Mr. Dalal. Necessary entries were not made in the books.
Prepare (i) Revaluation Account, (ii) The Capital Accounts of the partners, (iii) Balance Sheet of the firm after admission of Mr. Mistri.

[SM, RTP June 23, May 20]

Answer

Revaluation Account

2022			Rs.	2022		Rs.
April 1	To Provision for bad and doubtful debts		550	April 1	By Inventory in trade	2,500
	To Furniture and fittings		650		By Land and Building	5,000
	To Capital A/cs: (Profit on revaluation transferred)					
	Dalal	2,520				
	Banerji	2,520				

	Mallick	1,260	6,300			
			7,500			7,500

Partners' Capital Accounts

Particulars	Dalal	Banerji	Mallick	Mistri	Particulars	Dalal	Benerji	Mallick	Mistri
	Rs.	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.	Rs.
To Dalal				1,000	By Balance b/d	12,000	12,000	5,000	-
To Banerji				1,000	By General Reserve	2,600	2,600	1,300	
To Balance c/d	19,120	18,120	7,560	3,000	By Cash	-	-	-	5,000
					By Mistri	1,000	1,000	-	-
					By Outstanding Liabilities	1,000	-	-	
					By Revaluation A/c	2,520	2,520	1,260	-
	19,120	18,120	7,560	5,000		19,120	18,120	7,560	5,000

Working Note:
Calculation of sacrificing ratio

Partners	New share	Old share	Sacrifice	Gain
Dalal	5/15	2/5	1/15	
Banerji	5/15	2/5	1/15	
Mallick	3/15	1/5	No gain No loss	—
Mistri	2/15			2/15

Sacrifice by Mr. Dalal and Mr. Banerji= (Rs. 15,000 × 1)/15 = Rs. 1,000 each

Balance Sheet of M/s. Dalal, Banerji, Mallick and Mistri
as on April 1, 2022

Liabilities		Rs.	Assets		Rs.
Trade payables		12,850	Land and Buildings		30,000
Outstanding Liabilities		500	Furniture		5,850
Capital Accounts of Partners :			Inventory of goods		14,250
Mr. Dalal	19,120		Trade receivables	5,500	
Mr. Banerji	18,120		*Less* : Provisions	(550)	4,950
Mr. Mallick	7,560		Cash in hand		140
Mr. Mistri	3,000	47,800	Cash at Bank		5,960
		61,150			61,150

Question 42

A and B are in partnership sharing profits and losses at the ratio 3:2. They take C as a new partner. Calculate the new profit sharing ratio if -

(i) C purchases 1/10 share from A

(ii) A and B agree to sacrifice 1/10th share to C in the ratio of 2: 3

(iii) Simply gets 1/10th share of profit.

[SM]

Answer

(i) New profit sharing ratio:
A = 3/5 – 1/10 = 5/10
B = 2/5 i.e. 4/10
C = 1/10
i.e. 5:4: 1

(ii) A's sacrifice 1/10× 2/5 = 2/50 B's sacrifice 1/10 × 3/5 = 3/50 New profit sharing ratio
A = 3/5 – 2/50 = 28/50
B = 2/5 – 3/50 = 17/50
C = 1/10 i.e. 5/50
i.e. 28:17: 5

(iii) Let total share be 1 C's share=1/10
Remaining share=1-1/10=9/10 Distribution:
A = 9/10 × 3/5 = 27/50
B = 9/10 × 2/5 = 18/50
C = 1/10. i.e. = 5/50
i.e. 27:18: 5

Question 43

A and B are in the partnership sharing profits and losses in the proportion of three-fourth and one-fourth respectively. Their balance sheet as on 31st March, 2022 was as follows:

Cash Rs. 1,000; trade receivables Rs. 25,000; Inventory Rs. 22,000; plant and machinery Rs. 4,000; trade payables Rs. 12,000; bank overdraft Rs. 15,000; A's capital Rs. 15,000; B's capital Rs. 10,000.

On 1st April, 2022, they admitted C into partnership on the following terms:

(i) C to purchase one-third of the goodwill for Rs. 2,000 and provide Rs. 10,000 as capital. Goodwill not to appear in books.

(ii) Further profits and losses are to be shared by A, B and C equally.

(iii) Plant and machinery is to be reduced by 10% and Rs. 500 is to be provided for estimated bad debts. Inventory is to be taken at a valuation of Rs. 24,940.

(iv) By bringing in or withdrawing cash, the capitals of A and B are to be made proportionate to that of C on their profit-sharing basis.

Set out entries to the above arrangement in the firm's journal and give the partners' capital accounts in tabular form.

[SM]

Answer

Journal Entries
as on 1st April, 2022

		Dr. (Rs.)	Cr. (Rs.)
Revaluation Account	Dr.	900	
To Plant and machinery Account			400
To Provision for bad debts Account			500
(Plant & machinery reduced by 10% and Rs. 500 provided for bad debts)			
Inventory Account	Dr.	2,940	
To Revaluation Account			2,940
(Value of inventory increased by Rs. 2,940)			
Revaluation Account	Dr.	2,040	

To A's capital Account			1,530
To B's capital Account			510
(Profit on revaluation transferred)			
Cash Account	Dr.	12,000	
To C's capital Account			12,000
(Cash brought in by C as his capital)			
C's Capital Account	Dr.	2,000	
B's capital Account	Dr.	500	
To A's capital Account			2,500
(Entry for goodwill purchased by B and C)			
A's capital Account	Dr.	9,030	
B's capital Account	Dr.	10	
To Cash Account			9,040
(Excess amount of capital withdrawn)			

Partners' Capital Accounts

	A	B	C		A	B	C
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To A's capital A/c	-	500	2,000	By Balance b/d	15,000	10,000	-
To Cash	9,030	10		By Revaluation A/c	1,530	510	-
To Balance c/d	10,000	10,000	10,000	By Cash		-	12,000
				By C's Capital A/c	2,000		
				By B's Capital A/c	500		
	19,030	10,510	12,000		19,030	10,510	12,000

Working Note:
Calculation of goodwill
C pays Rs. 2,000 on account of goodwill for 1/3rd share of profit/loss. Total goodwill is Rs. 2,000 x 3 = Rs. 6,000.
Gaining ratio:
B: 1/3-1/4 = 1/12 C: 1/3
Goodwill to be paid to A:
By B Rs. 6,000 x 1/12 = Rs. 500
By C Rs. 6,000 x 1/3 = Rs. 2,000
Total Rs. 2,500

Question 44

A and B are partners of X llp. sharing profits and losses in 3:2 ratio between themselves. On 31st March, 2022, the balance sheet of the firm was as follows:

Balance Sheet of X llp as at 31.3.2022

Liabilities	Rs.	Rs.	Assets	Rs.
Capital accounts:			Plant and machinery	20,000
A	37,000		Furniture and fittings	5,000
B	28,000		Inventories	15,000
		65,000	Trade receivables	20,000
Trade payables		5,000	Cash in hand	10,000
		70,000		70,000

X agrees to join the business on the following conditions as and from 1.4.2022:

(a) He will introduce Rs. 25,000 as his capital and pay Rs. 15,000 to the partners as premium for goodwill for 1/3rd share of the future profits of the firm.

(b) A revaluation of assets of the firm will be made by reducing the value of plant and machinery to Rs. 15,000, Inventory by 10%, furniture and fitting by Rs. 1,000 and by making a provision of bad and doubtful debts at Rs. 750 on trade receivables.

Prepare profit and loss adjustment account, capital accounts of partners including the incoming partner X assuming that the relative ratios of the old partners will be in equal proportion after admission.

Answer

Profit and Loss Adjustment Account

2022, April 1	Rs.	2022, April 1	Rs.
To Plant and machinery A/c	5,000	By Partners' capital accounts	
To Inventory A/c	1,500	- Loss on revaluation	
To Furniture and fitting A/c	1,000	(3/5) A 4,950	
To Provision for bad and doubtful debts	750	(2/5) B 3,300	8,250
	8,250		8,250

Partners' Capital Accounts

	A	B	X		A	B	X
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To Profit & loss adjustment A/c	4,950	3,300	-	By Balance b/d By Cash A/c	37,000 -	28,000 -	- 40,000
To A's & B's capital A/cs	-	-	15,000	By X's capital A/c	12,000	3,000	-
To Balance c/d	44,050	27,700	25,000	[W. N. (ii)]			
	49,000	31,000	40,000		49,000	31,000	40,000

Working Notes:

(i) New profit sharing ratio:

On admission of X who will be entitled to 1/3rd share of the future profits of the firm. A and B would share the remaining 2/3rd share in equal proportion i.e. 1:1.

A: 2/3 x 1/2 = 1/3 B: 2/3 x 1/2 = 1/3 X:1/3

A, B and X would share profits and losses in equal ratio.

(ii) Adjustment of goodwill:

X pays Rs. 15,000 as premium for goodwill for 1/3rd share of the future profits. Thus, total value of goodwill is Rs. 15,000 x 3 i.e. Rs. 45,000

Sacrificing ratio:

A: 3/5 - 1/3 = 4/15 A: 2/5 - 1/3 = 1/15

Hence, sacrificing ratio is 4:1

Adjustment of X's share of goodwill through existing partners' capital accounts in the profit sacrificing ratio:

	Rs.
A: 15,000 x 4/5 =	12,000
B: 15,000 x 1/5 =	3,000
	15,000

Question 45

A and B are partners with capitals of Rs. 7,000 each. They admit C as a partner with 1/4th share in the profits

of the firm. C brings Rs. 8,000 as his share of capital. Give the necessary journal entry to record goodwill.

[SM]

Answer

Journal Entry

Particulars	Dr. (Rs.)	Cr. (Rs.)
C's Capital A/c [Rs. 10,000 x 1/4] Dr.	2,500	
To A's Capital A/c		1,250
To B's Capital A/c		1,250
(Being the share of C in the hidden goodwill adjusted through capital accounts by crediting sacrificing partners in their sacrificing ratio)		

Note: Hidden Goodwill= (8,000 × 4/1) - (Rs. 7,000 + Rs. 7,000+8,000) = Rs. 10,000

Question 46

A and B are in partnership sharing profits and losses equally. The Balance Sheet M/s. A and B as on 31.12.2022, was as follows:

Liabilities	Rs.	Assets	Rs.
Capital A/cs		Sundry Fixed Assets	60,000
A	45,000	Inventories	30,000
B	45,000	Bank	20,000
Trade payables	20,000		
	1,10,000		1,10,000

On 1.1.2023 they agreed to take C as 1/3rd partner to increase the capital base to Rs. 1,35,000. C agrees to pay Rs. 60,000. Show the necessary journal entries and prepare partners' capital accounts.

[SM]

Answer

In the Books of M/s. A, B and C

Journal Entries

		Rs.	Rs.
Bank A/c	Dr.	60,000	
To C's Capital A/c			60,000
(Cash brought in by C for 1/3rd share)			
C's Capital A/c	Dr.	15,000	
To A's Capital A/c			7,500
To B's Capital A/c			7,500
A's Capital A/c	Dr.	7,500	
B's Capital A/c	Dr.	7,500	
To Bank A/c			15,000
(Amount of goodwill due to A and B withdrawn)			

Workings:

(1) Old Profit Sharing Ratio:1: 1

(2) New Profit Sharing Ratio: 1:1:1

(3) C's share of capital Rs. 1,35,000 × 1/3 = Rs. 45,000

(4) Goodwill Rs. 60,000 – Rs. 45,000 = Rs. 15,000 for 1/3rd share.
Total Goodwill: Rs. 15,000 × 3 = Rs. 45,000

Partners' Capital A/cs

Particulars	A	B	C	Particulars	A	B	C
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To A			7,500	By Balance b/d	45,000	45,000	-
To B			7,500	By Bank	-	-	60,000
To Bank	7,500	7,500	-	By C	7,500	7,500	-
To Balance c/d	45,000	45,000	45,000				
	52,500	52,500	60,000		52,500	52,500	60,000

Note : In this problem it is mentioned that total capital should be at Rs. 1,35,000 hence excess capital is to be withdrawn by partners hence third entry is passed.

Question 47

Leena and Meena were in business sharing profits and losses in the ratio of 2:3 Their Balance Sheet as on 31st March, 2022 was as follows:

Liabilities	Rs.	Assets	Rs.
Capital Accounts:		Building	60,000
Leena	60,000	Plant	45,000
Meena	1,40,000	Furniture	23,500
General Reserve	40,000	Debtors	38,400
Creditors	42,600	Bills Receivable	12,500
Bills Payable	17,400	Stock	42,600
		Bank	78,000
	3,00,000		3,00,000

On 1st April, 2022, they decided to admit Neena into the partnership giving her a 1/5th share in future profits. She brings in Rs. 80,000 as her share of capital. Goodwill was valued at Rs. 1,00,000 at the time of admission of Neena. The partners decided to revalue the Assets as follows:
Plant Rs. 40,000, Debtors Rs. 38,000, Stock Rs. 42,000, Building Rs. 90,000, Furniture Rs. 20,000, Bills Receivable Rs. 12,000.
You are required to show the following accounts in the books of the firm:-
(a) Profit & Loss Adjustment Account
(b) Partners' Capital Accounts
(c) The Balance Sheet of the new firm.

[SM]

Answer

In the books of Leena, Meena and Neena

(a) Profit & Loss Adjustment Account

Particulars	Rs.	Particulars	Rs.
To Plant	5,000	By Building	30,000
To Debtors	400		
To Stock	600		
To Furniture	3,500		
To Bills receivable	500		

To Profit on revaluation			
Leena	8,000		
Meena	12,000		
	30,000		30,000

Partners' Capital A/c

Particulars	Leena	Meena	Neena	Particulars	Leena	Meena	Neena
To Leena, Meena Goodwil adjustment entry			20,000	By Balance b/d	60,000	1,40,000	
To Balance c/d	92,000	1,88,000	60,000	By Bank			80,000
				By Neena	8,000	12,000	
				By General Reserve	16,000	24,000	
				By Revaluation	8,000	12,000	
	92,000	1,88,000	80,000		92,000	1,88,000	80,000

Balance Sheet as on 1st April, 2022 (after admission)

Liabilities	Rs.	Assets	Rs.
Capital Accounts:		Building	90,000
Leena	92,000	Plant	40,000
Meena	188,000	Furniture	20,000
Neena	60,000	Debtors	38,000
Creditors	42,600	Bills Receivable	12,000
Bills Payable	17,400	Stock	42,000
		Bank	1,58,000
	4,00,000		4,00,000

Question 48

Alpha and Beeta were partners in a LLP namely Meta-Chem LLP sharing profits and losses equally.

Balance Sheet of Meta-Chem LLP as on 31st March, 2022

Liabilities	Rs.	Assets	Rs.
Capital :		Factory Building	4,78,000
Alpha 3,00,000		Plant & Machinery	3,41,000
Beeta 2,00,000	5,00,000	Office Furniture	55,850
General Reserve	1,80,000	Inventory	77,740
Workmen compensation fund	60,000	Trade Receivables	1,43,210
Term loan from IDFC bank	2,78,000	Bank	44,200
Trade payables	1,22,000		
	11,40,000		11,40,000

They agreed to admit Gyama as partner from 1st April 2022 on the following terms:

1. He shall have one-sixth share in future profits.
2. New profit sharing ratio would be 3:2:1
3. He shall bring Rs. 2,50,000 as his capital.
4. Goodwill of the firm is valued at Rs. 3,00,000
5. Factory Building is to be appreciated by 20% and inventory is revalued at Rs. 70,000.

6. Machinery to be appreciated by 20%.and Office furniture to be revalued at Rs. 50,000
7. Of the trade receivables Rs. 3,210 are bad and 5% be provided for bad & doubtful debts.
8. There is no actual liability towards workman. You are required to prepare:
1. Revaluation account
2. Partners' capital accounts.
3. Bank account.
4. Balance Sheet after admission.

[SM]

Answer

In the books of Meta-Chem LLP
Revaluation A/c

Liabilities	Rs.	Assets	Rs.
To Bad debts	3,210	By Factory Building	95,600
To Provision for Doubtful Debts	7,000	By Plant and Machinery	68,200
To Office Furniture	5,850		
To Inventory	7,740		
To Profit on revaluation			
Alpha 70,000			
Beeta 70,000	1,40,000		
	1,63,800		1,63,800

Partners' Capital A/c

Particulars	Alpha	Beeta	Gyama	Particulars	Alpha	Beeta	Gyama
To Beeta			50,000	By balance b/d	3,00,000	2,00,000	
To Balance c/d	4,90,000	4,40,000	2,00,000	By Bank			2,50,000
				By Gyama		50,000	
				By General Reserve	90,000	90,000	
				By Workman comp. fund	30,000	30,000	
				By Revaluation A/c	70,000	70,000	
	4,90,000	4,40,000	2,50,000		4,90,000	4,40,000	2,50,000

Bank A/c

Particulars	Rs.	Particulars	Rs.
To balance b/d	44,200	By Balance c/d	2,94,200
To Gyama's capital	2,50,000		
	2,94,200		2,94,200

Balance Sheet of Meta-Chem LLP
as on 1st April 2022 (after admission)

Liabilities		Rs.	Assets	Rs.
Capital Accounts:			Factory Building	5,73,600
Alpha 4,90,000			Plant & Machinery	4,09,200
Beeta 4,40,000			Office Furniture	50,000
Gyama	2,00,000	11,30,000	Inventory	70,000

Term Loan from IDFC bank	2,78,000	Trade Receivables	1,40,000		
Trade Payables	1,22,000	Less: Provision for Doubtful Debts	7,000		1,33,000
		Bank			2,94,200
	15,30,000				15,30,000

Working Note:

Partner	New Share		Old Share		Difference
Alpha	1/2	-	3/6	=	0
Beeta	1/2	-	2/6	=	1/6
Gyama		-	1/6 (gain)	=	1/6 (gain)

Question 49

Write short note on Revaluation account.

[SM]

Answer

When a new partner is admitted into the partnership, assets are revalued and liabilities are reassessed. A Revaluation Account (or Profit and Loss Adjustment Account) is opened for the purpose. This account is debited with all reduction in the value of assets and increase in liabilities and credited with increase in the value of assets and decrease in the value of liabilities. The difference in two sides of the account will show profit or loss. This is transferred to the Capital Accounts of old partners in the old profit sharing ratio.

Question 50

What is the difference between revaluation account and memorandum revaluation account?

[SM]

Answer

Difference between revaluation account and memorandum revaluation account

(i) Revaluation account is prepared to find out the profit or loss on revaluation of assets and liabilities which appear in the new balance sheet at the new or revalued figures. Memorandum revaluation account is also prepared to record the effect of revaluation of assets and liabilities which of course are recorded at their old figures in the new balance sheet.

(ii) Revaluation account is not divided into two parts. But the memorandum revaluation account has two parts: first part for old partners and second part for all partners including the new partner.

Question 51

The following was the balance sheet of A, B and C who were equal partners on January 1, 2022

Liabilities	Rs.	Assets	Rs.
Bills Payable	3,000	Cash	1,000
Creditors	6,000	Debtors	10,000
Capital Accounts :		Stock	12,000
A	20,000	Furniture	5,000
B	15,000	Buildings	25,000
C	10,000	Bills Receivable	1,000
	54,000		54,000

They agree to take D into partnership and give him a 1/4 share in the profits on the following terms:

(1) D should bring in Rs. 6,000 for goodwill and Rs. 10,000 as capital;
(2) one-half of the goodwill shall be withdrawn by old partners;
(3) stock and furniture be depreciated by 10%.
(4) a liability of Rs. 1,300 be created against bills discounted;
(5) the building be valued at Rs. 40,000;
(6) the values of liabilities and assets other than cash are not to be altered.

Give the necessary entries to give effect to the above arrangement; prepare revaluation account and opening balance sheet of the firm as newly constituted.

[SM]

Answer

		Rs.	Rs.
Cash Account	Dr.	16,000	
To D's Capital Account			16,000
(Amount of goodwill and capital brought in by D)			
D's Capital Account	Dr.	6,000	
To A's Capital Account			2,000
To B's Capital Account			2,000
To C's Capital Account			2,000
(Goodwill brought in by D credited to old partners in sacrifice ratio)			
A's Capital Account	Dr.	1,000	
B's Capital Account	Dr.	1,000	
C's Capital Account	Dr.	1,000	
To Cash Account			3,000
(Half the amount of goodwill withdrawn by existing partners)			
Memorandum Revaluation Account	Dr.	12,000	
To A's Capital Account			4,000
To B's Capital Account			4,000
To C's Capital Account			4,000
(Profit on revaluation credited to old partners)			
A's Capital Account	Dr.	3,000	
B's Capital Account	Dr.	3,000	
C's Capital Account	Dr.	3,000	
D's Capital Account	Dr.	3,000	
To Memorandum Revaluation Account			12,000
(The profit credited previously to old partners written off to all partners including D in the new profit-sharing ratio)			

Memorandum Revaluation Account

Stock	1,200	Buildings	15,000
Furniture	500		
Liability for bills discounted	1,300		
Profit transferred to capital accounts:			
A	4,000		
B	4,000		

C	4,000		
	15,000		15,000
Buildings	15,000		1,200
		Stock	500
		Furniture	1,300
		Liability for bills discounted	
		Loss transferred to capital accounts:	
		A	3,000
		B	3,000
		C	3,000
		D	3,000
	15,000		15,000

Balance Sheet of M/s. A, B, C and D
As on 1st January, 2022

Liabilities		Rs.	Assets	Rs.
Bills Payable		3,000	Cash	14,000
Creditors		6,000	Debtors	10,000
Capital Accounts:			Stock	12,000
A	22,000		Furniture	5,000
B	17,000		Buildings	25,000
C	12,000		Bills Receivable	1,000
D	7,000	58,000		
		67,000		67,000

Question 52

Gopal and Govind are partners sharing profits and losses in the ratio 60:40. The firms' balance sheet as on 31.03.2022 was as follows:

Liabilities	Rs.	Assets	Rs.
Capital accounts:		Fixed assets	3,00,000
Gopal	1,20,000	Investments	50,000
Govind	80,000	Current assets	2,00,000
Long term loan	2,00,000	Loans and advances	1,00,000
Current liabilities	2,50,000		
	6,50,000		6,50,000

Due to financial difficulties, they have decided to admit Guru as partner in the firm from 01.04.2022 on the following terms:

(a) Guru will be paid 40% of the profits.

(b) Guru will bring in cash Rs. 1,00,000 as capital. It is agreed that goodwill of the firm will be valued at 2 years' purchase of 3 years' normal average profits of the firm and Guru will bring in cash his share of goodwill. It was also decided that the partners will not withdraw their share of goodwill nor will the goodwill appear in the books of account.

The profits of the previous three years were as follows:

(a) For the year ended 31.3.2020: profit Rs. 20,000 (includes insurance claim received of Rs. 40,000).

(b) For the year ended 31.3.2021: loss Rs. 80,000 (includes voluntary retirement compensation paid Rs. 1,10,000).

(c) For the year ended 31.3.2022: profit of Rs. 1,05,000 (includes a profit of Rs. 25,000 on the sale of assets).

It was decided to revalue the assets on 31.03.2022 as follows:

	Rs.
Fixed assets (net)	4,00,000
Investments	Nil
Current assets	1,80,000
Loans and advances	1,00,000

The new profit sharing ratio after the admission of Guru was 35:25:40.
Pass journal entries on admission, show goodwill calculation and prepare revaluation account, partners' capital accounts and balance sheet as on 01.04.2022 after the admission of Guru.

[SM]

Answer

(i) Calculation of Profit/ Loss for the year ended

	31.3.2020	31.3.2021	31.3.2022
Profit/(loss) for the year	20,000	(80,000)	1,05,000
Add/(less): Abnormal items	(40,000)	1,10,000	(25,000)
Net Profit/(loss)	(20,000)	30,000	80,000

Average profit = [(20,000)+30,000+80,000] / 3 = Rs. 30,000

Two years' purchase of average profits= 30,000 x 2= Rs. 60,000
Goodwill to be brought in by Guru = Rs. 60,000 x 40% = Rs. 24,000
Goodwill brought in by Guru shared (at the profit sacrificing ratio) by:

	Rs.
Gopal (Rs. 24,000 x 5/8)	15,000
Govind (Rs. 24,000 x 3/8)	9,000
	24,000

(ii) Journal Entries

Date	Particulars		Dr. Rs.	Cr. Rs.
1.4.2022	Bank A/c	Dr.	1,24,000	
	To Guru's capital A/c			1,24,000
	(Amount of capital and goodwill brought in by Guru)			
1.4.2022	Guru's capital A/c	Dr.	24,000	
	To Gopal's capital A/c			15,000
	To Govind's capital A/c			9,000
	(Amount of goodwill brought in by Guru credited to capital accounts of the old partners in the profit sacrificing ratio 5:3)			
1.4.2022	Revaluation A/c	Dr.	70,000	
	To Investment A/c			50,000
	To Current assets A/c			20,000
	(Writing down the value of investments to nil and current assets from Rs. 2,00,000 to Rs. 1,80,000 on the occasion of admission of Guru)			

1.4.2022	Fixed assets A/c Dr. To Revaluation A/c (Writing up the value of fixed assets from Rs. 3,00,000 to Rs. 4,00,000 on the occasion of admission of Guru)		1,00,000	 1,00,000
1.4.2022	Revaluation A/c Dr. To Guru's capital A/c To Govind's capital A/c (Net revaluation profit credited to the capital accounts of the old partner in the old profit sharing ratio of 60:40)		30,000	 18,000 12,000

(iii) Revaluation Account

Particulars	Rs.	Particulars	Rs.
To Investments A/c	50,000	By Fixed assets A/c	1,00,000
To Current assets A/c	20,000		
To Partner's capital A/c:			
(Profit on revaluation)			
Gopal (60%)	18,000		
Govind (40%)	12,000		
	1,00,000		1,00,000

(iv) Partner's Capital Accounts:

Gopal's Capital Account

Particulars	Rs.	Particulars	Rs.
To Balance c/d	1,53,000	By Balance b/d	1,20,000
		By Bank A/c	15,000
		By Revaluation A/c	18,000
	1,53,000		1,53,000

Govind's Capital Account

Particulars	Rs.	Particulars	Rs.
To Balance c/d	1,01,000	By Balance b/d	80,000
		By Bank A/c	9,000
		By Revaluation A/c	12,000
	1,01,000		1,01,000

Guru's Capital Account

Particulars	Rs.	Particulars	Rs.
To Balance c/d	1,00,000	By Bank b/d	1,00,000
	1,00,000		1,00,000

Balance Sheet (after admission of Guru)
as on 1st April, 2022

Liabilities		Rs.	Assets	Rs.
Capital accounts:			Fixed assets	4,00,000

Gopal	1,53,000		Current assets	3,04,000
Govind Guru	1,01,000		(including bank balance of Rs.	
	1,00,000	3,54,000	1,24,000)	
Long term loan		2,00,000	Loans & advances	1,00,000
Current liabilities		2,50,000		
		8,04,000		8,04,000

Working Notes:

1. Calculation of profit sacrificing ratio
   Profit sacrificed by Gopal=60%-35%=25%
   Profit sacrificed by Govind =40%-25%=15%
   Sacrificing ratio =25%: 15% or 5:3
2. Bank balance after admission of Guru:

Bank Account

Particulars	Rs.	Particulars	Rs.
To Guru's capital A/c	1,24,000	By Balance c/d	1,24,000
	1,24,000		1,24,000

Question 53

P and Q are partners, sharing profits and losses in the ratio of 3:1. As at 31st March, 2024, following is the Balance Sheet of P and Q.

Balance Sheet as at 31st March, 2024

Liabilities		(Rs.)	Assets	(Rs.)
Capital accounts			Cash in hand	1,15,000
P	2,85,000		Cash at bank	1,10,000
Q	1,55,000	4,40,000	Sundry Debtors	1,60,000
Creditors		3,75,000	Stock	2,00,000
General reserve		60,000	Bills receivable	30,000
			Land and building	2,50,000
			Office furniture	10,000
		8,75,000		8,75,000

They agreed to take R into Partnership on 1st April, 2024 on the following terms:

(i) Goodwill is to be valued at Rs. 2,00,000. R is unable to bring cash for his share of goodwill. So, it was decided that due credit for goodwill be given to P and Q for their sacrifice in favour of R through R's current account.
(ii) R pays Rs. 1,40,000 as his capital for 1/5th share in the future profits.
(iii) Stock and Furniture to be reduced by 10%.
(iv) A provision @ 5% for doubtful debts to be created on debtors.
(v) Land and building to be appreciated by 20%.
(vi) Capital Accounts of the partners be readjusted on the basis of their profit sharing arrangement and any excess or deficiency is to be transferred to their Current Accounts.

Prepare Revaluation Account and Partners Capital Accounts.

[RTP Sep 24, PYQ Dec 21, MTP April 25]

Answer

Revaluation Account

Particulars		Amount Rs.	Particulars	Amount Rs.
To Furniture		1,000	By Land and Building	50,000
To Stock		20,000		
To Provision for doubtful debts		8,000		
To Revaluation Profit		21,000		
P (21,000 x ¾)	15,750			
Q (21,000 x ¼)	5,250			
		50,000		50,000

Partners' Capital Accounts

	P Rs.	Q Rs.	R Rs.		P Rs.	Q Rs.	R Rs.
To 'Q's Current A/c (bal fig)	-	45,250	-	By Balance b/d	2,85,000	1,55,000	-
To Balance c/d	4,20,000	1,40,000	1,40,000	By General reserve	45,000	15,000	-
				By Revaluation Profit	15,750	5,250	
				By Bank A/c	-	-	1,40,000
				By R's Current A/c (Goodwill)	30,000	10,000	-
				By P's Current A/c (bal fig)	44,250	-	-
	4,20,000	1,85,250	1,40,000		4,20,000	1,85,250	1,40,000

Working Notes:

1. Calculation of total capital
   R's capital contribution of Rs. 1,40,000 consists of 1/5th of capital.
   Therefore, total capital of firm should be Rs. 1,40,000 x 5 = Rs. 7,00,000
   Hence, Rs. 5,60,000 (7,00,000 -1,40,000) will be shared by P and Q in the ratio of 3:1 i.e., P's capital Rs. 4,20,000 and Q's capital Rs. 1,40,000
2. Calculation of New Profit Sharing ratio
   P = ¾ x 4/5 = 12/20 = 3/5
   Q = 1 /4 X 4/ 5 = 4/20 = 1/5
   R = 1/5= 4/20 = 1/5 or 3 : 1 : 1

OR

Calculation of sacrificing ratio

Partners	New share	Old share	Sacrifice	Gain
P	3/5	¾	-3/20	-
Q	1/5	¼	-1/20	-
R	1/5	-	-	1/5

3. Goodwill

R's share in Goodwill = 40,000 (2,00,000x1/5) is adjusted through R's Current Account because capitals of old partners are also adjusted on the basis of R's Capital.
Therefore, Journal entry for goodwill will be

R's Current A/c	Dr.	40,000	
To P's Capital A/c			30,000
To Q's Capital A/c			10,000

Question 54

Anu and Manu are carrying on business in partnership and sharing profits & losses in the ratio of 5:3. The firm's Balance Sheet as on 31st March, 2024 was as follows:

Balance Sheet as on 31st March,2024

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Capital Accounts:		Building	3,80,000
Anu	2,80,000	Machinery	1,43,000
Manu	2,50,000	Furniture	85,000
Long Term Loan	2,00,000	Trade Receivables	1,64,000
Trade Payables	1,19,500	Inventories	48,400
Outstanding liabilities	16,200	Investments	15,200
		Cash & Bank	30,100
	8,65,700		8,65,700

They decided to admit Ranu as a partner with effect from 1st April, 2024 on the following terms:

(i) Ranu will be paid 1/5 share in the future profits and new profit sharing ratio would be 5:3:2.

(ii) Ranu will bring Rs. 1,00,000 as his capital.

(iii) Goodwill of firms is to be valued at 2 years' purchase of average profit of past 3 years and Ranu will bring his share of goodwill in cash. The profits of past 3 years ending on 31st March were as under:

31st March,2022	Rs. 87,000
31st March,2023	Rs. 1,06,000
31st March,2024	Rs. 1,22,000

(iv) It was also agreed that the partners will not withdraw their share of goodwill nor will the goodwill appear in the books of account.

(v) It was also decided to value the assets:

Building is to be appreciated by Rs. 50,000 and Machinery is to be depreciated by 10%. Furniture is revalued at Rs. 80,000. Investments at Rs. 16,000 and Inventories at Rs. 47,500.

Provision for doubtful debts is to be created on debtors @ 5%.

You are required to prepare Revaluation Account, Partners' Capital Accounts and Balance Sheet of the reconstituted firm as on 1stApril, 2024.

[PYQ June 24]

Answer

Revaluation Account

Particulars	Rs.	Particulars	Rs.
To Machinery A/c	14,300	By Building A/c	50,000
To Furniture A/c	5,000	By Investments	800
To Provision for Doubtful Debts	8,200		
To Inventories	900		
To Partner's capital A/c:			
(Profit on revaluation)			
Anu (5/8) 14,000			
Manu (3/8) 8,400	22,400		
	50,800		50,800

Partner's Capital Accounts

Particulars	Anu (Rs.)	Manu (Rs.)	Ranu (Rs.)	Particulars	Anu (Rs.)	Manu (Rs.)	Ranu (Rs.)
				By Bal. b/d	2,80,000	2,50,000	
To Bal c/d.	3,20,250	2,74,150	1,00,000	By Profit on revaluation	14,000	8,400	
				By Bank (Capital)	-	-	1,00,000
				By Bank (Goodwill)	26,250	15,750	-
	3,20,250	2,74,150	1,00,000		3,20,250	2,74,150	1,00,000

Balance Sheet (after admission of Ranu)
as on 1st April, 2024

Liabilities	Rs.	Rs.	Assets	Rs.
Capital accounts:			Building	4,30,000
Anu	3,20,250		Machinery	1,28,700
Manu Ranu	2,74,150		Furniture	80,000
	1,00,000	6,94,400	Trade Receivable	1,55,800
Long term loan		2,00,000	Inventories	47,500
Trade Payable Outstanding liabilities		1,19,500	Investments Cash and Bank	16,000
		16,200		1,72,100
		10,30,100		10,30,100

Working Notes:

1. Calculation of Goodwill:

Average profit = (87,000+1,06,000+1,22,000) / 3

Two years' purchase of average profits= 1,05,000 x 2= Rs. 2,10,000 Goodwill to be brought in by Ranu=Rs. 2,10,000 x 2/10=Rs. 42,000

2. Calculation of Sacrificing Ratio = Old- New Ratio

Anu = 5/8-5/10 = 5/40

Manu = 3/8-3/10 = 3/40

Goodwill brought in by Ranu shared (at the profit sacrificing ratio) by:

	Rs.
Anu (Rs. 42,000 x 5/8)	26,250
Manu (Rs. 42,000 x 3/8)	15,750
	42,000

3. Bank balance after admission of Ranu:

Bank Account

Particulars	Rs.	Particulars	Rs.
To bal b/d	30,100	By Balance c/d	1,72,100
To Anu's Capital A/c	26,250		
To Manu's Capital A/c	15,750		
To Ranu's capital A/c	1,00,000		
	1,72,100		1,72,100

Alternatively, goodwill can also be calculated on the basis of weighted average profit, since the profit of the firm

is on increasing trend.

Question 55

X and Y are in partnership business sharing profits and losses in the ratio of 2:3. Their Balance Sheet as at 31st March, 2022 is as follows:

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Capital Accounts:		Building	60,000
X	60,000	Plant	45,000
Y	1,40,000	Furniture	23,500
General Reserve	40,000	Debtors	38,400
Creditors	42,600	Bills receivable	12,500
Bills payable	15,400	Stock	42,600
Salary payable	2,000	Bank	78,000
	3,00,000		3,00,000

On 1st April, 2022 they decided to admit Z into the partnership giving him 1/5th share in the future profits. He brings in Rs. 1,00,000 as his share of capital. Goodwill was valued at Rs. 1,20,000 at the time of admission of Z. The partners decided to revalue the assets and liabilities as follows:

(i) Plant Rs. 40,000, Stock Rs. 42,000, Furniture Rs. 20,000 and Bills Receivable Rs. 12,000.
(ii) Out of total Debtors, Rs. 2400 is bad and 5% provision is to be provided for bad and doubtful debts.
(iii) Building is to be appreciated by 75%.
(iv) Actual liability towards salary payable is Rs. 1200 only.

You are required to show the following accounts in the books Of the firm:

(1) Revaluation Account
(2) Partner's Capital Accounts
(3) Balance sheet of the Firm after Admission of Z.

[PYQ Nov 22]

Answer

In the books of X, Y and Z
Revaluation Account

Particulars	Rs.	Particulars	Rs.
To Plant	5,000	By Building	45,000
To Bad Debts	2,400	By Salary Payable	800
To Provision for Doubtful Debts	1,800		
To Stock	600		
To Furniture	3,500		
To Bills receivable	500		
To Profit on revaluation			
X	12,800		
Y	19,200		
	45,800		45,800

Partners' Capital A/c's

Particulars	X	Y	Z	Particulars	X	Y	Z
To X and Y (Goodwill adjustment)	-	-	24,000	By Balance b/d	60,000	1,40,000	-
To Balance c/d	98,400	1,97,600	76,000	By Bank	-	-	1,00,000

				By Z	9,600	14,400	-
				By General Reserve	16,000	24,000	-
				By Revaluation	12,800	19,200	-
	98,400	1,97,600	1,00,000		98,400	1,97,600	1,00,000

Balance Sheet
as on 1st April, 2022 (after admission)

Liabilities	Rs.	Assets	Rs.
Capital Accounts:		Building	1,05,000
X	98,400	Plant	40,000
Y	1,97,600	Furniture	20,000
Z	76,000	Debtors*	34,200
Creditors	42,600	Bills Receivable	12,000
Bills Payable	15,400	Stock	42,000
Salary Payable	1,200	Bank	1,78,000
	4,31,200		4,31,200

* Debtors: (38,400 – 2,400 – 1,800) = Rs. 34,200

Question 56

The Balance Sheet of a Partnership Firm M/s Alpha and Associates consisted of two partners X and Y who were sharing Profits and Losses in the ratio of 5 : 3 respectively. The position as on 31-03-2024 was as follows:

Liabilities	Rs.	Assets	Rs.
X's Capital	4,10,000	Land & Building	3,80,000
Y's Capital	3,30,000	Plant & Machinery	1,70,000
Profit & Loss A/c	1,12,000	Furniture	1,09,480
Trade Creditors	54,800	Stock	1,45,260
		Sundry debtors	60,000
		Cash at Bank.	42,060
	9,06,800		9,06,800

On the above date, Z was admitted as a partner on the following terms:

(a) Z should get 1/5th of share of profits.

(b) Z brought Rs. 2,40,000 as his capital and Rs. 32,000 for his share of Goodwill.

(c) Plant and Machinery would be depreciated by 15% and Land & Buildings would be appreciated by 40%.
A provision for doubtful debts to be created at 5% on sundry debtors.
An unrecorded liability of Rs. 6,000 for repairs to Buildings would be recorded in the books of accounts.

(d) Immediately after Z's admission, Goodwill brought by him would be adjusted among old partners. Thereafter, the capital accounts of old partners would be adjusted through the current accounts of partners in such a manner that the capital accounts of all the partners would be in their profit sharing ratio.

Prepare Revaluation A/c, Capital Accounts of the partners, New profit sharing ratio and Balance Sheet of the Firm after the admission of Z.

[MTP March 19, Nov 22, Nov 23, May 24, Aug 24, Jan 25]

Answer

Revaluation A/c

	Rs.		Rs.
To Plant & Machinery (1,70,000 x 15%)	25,500	By Land & Building A/c	1,52,000
To Provision for Bad & Doubtful Debts (60,000 x 5%)	3,000		
To Outstanding Repairs to Building	6,000		
To X's Capital A/c (5/8)	73,438		
To Y's Capital A/c (3/8)	44,062		
	1,52,000		1,52,000

Partners Capital A/c

	X	Y	Z		X	Y	Z
To X's Capital A/c	-	-	20,000	By Balance b/d	4,10,000	3,30,000	-
To Y's Capital A/c			12,000	By Revaluation A/c	73,438	44,062	-
To Y's Current A/c	-	68,062		By Profit & Loss A/c	70,000	42,000	-
To Balance c/d	6,00,000	3,60,000	2,40,000	By Bank	-	-	2,72,000
				By Z's Capital A/c	20,000	12,000	-
				By X's Current A/c	26,562	-	-
	6,00,000	4,28,062	2,72,000		6,00,000	4,28,062	2,72,000

Calculation of New Profit Sharing Ratio and gaining ratio: Z's Share of Profit = 1/5 = 2/10
Remaining Share = 1 – 1/5 = 4/5 X's Share = 5/8 x 4/5 = 20/40 = 5/10 Ys Share = 3/8 x 4/5 = 12/40 = 3/10 New Profit sharing Ratio = 5:3:2
Gaining ratio = 5:3 (same as old profit sharing ratio among old partners)

Balance sheet of Alpha and Associates
as on 31.3.2024

Liabilities		Rs.	Assets		
Capital Accounts:			Land & Buildings		5,32,000
X	6,00,000		Plant & Machinery	1,70,000	
Y	3,60,000		Less: Depreciation	25,500	1,44,500
Z	2,40,000	12,00,000	Furniture		1,09,480
Y's Current A/c		68,062	Stock		1,45,260
Trade Creditors		54,800	Sundry Debtors	60,000	
Outstanding Repairs to Building		6,000	Less: Provision	3,000	57,000
			Cash at Bank		3,14,060
			X's current A/c		26,562
		13,28,862			13,28,862

Working Note:
Required Balance of Capital Accounts
Z's Capital after writing off Goodwill = 2,72,000 – 32,000 = 2,40,000 Z's Share of Profit = 1/5

Thus Capital of the firm shall be = 2,40,000 x 5 = 12,00,000 X's Capital = 12,00,000 x 5/10 = 6,00,000 and

Y's Capital = 12,00,000 x 3/10 = 3,60,000

Question 57

A and B are partners in a business sharing profit and losses as A-3/5th and B-2/5th. Their balance sheet as on 1st January, 2022 is given below:

Liabilities		Rs.	Assets	Rs.
Capital Accounts			Plant and Machinery	20,000
A	20,000		Inventories	16,000
B	15,000	35,000	Trade receivables	15,000
Reserve Account		15,000	Balance at Bank	6,000
Trade payables		7,500	Cash in hand	500
		57,500		57,500

B retires from the business owing to illness and A takes it over. The following revaluation was made:

(1) The goodwill of the firm is valued at Rs. 25,000.

(2) Depreciate Plant & Machinery by 7.5% and Inventories by 15%.

(3) Doubtful debts provision is raised against trade receivables at 5% and a discount reserve against trade payables at 2%.

Required:

Journalize the above transactions in the books of the firm and close the Partners' Accounts as on 1st January 2022. Give also the opening Balance Sheet of A.

[SM]

Answer

Journal Entries

2022			Dr. (Rs.)	Cr. (Rs.)
Jan 1.	A's Capital Account	Dr.	10,000	
	To B's Capital Account			10,000
	(The amount of share of goodwill adjusted on B's retirement)			
	Reserve Account	Dr.	15,000	
	To A's Capital Account			9,000
	To B's Capital Account			6,000
	(Transfer of reserve to A's Capital Account and B's Capital Account in the profit sharing ratio)			
	Profit and Loss Adjustment Account	Dr.	4,650	
	To Plant and Machinery Account			1,500
	To Inventory Account			2,400
	To Provision for Doubtful Debts Account			750
	(Reduction in the values, assets and creation of provision for doubtful debts as per agreement with B)			
	Reserve for Discount on Trade payables A/c	Dr.	150	
	To Profit and Loss Adjustment Account			150
	(Creation of reserve for discount on trade payables at 2%)			
	A's Capital Account	Dr.	2,700	
	B's Capital Account	Dr.	1,800	

	To Profit and Loss Adjustment Account (Transfer of loss on revaluation of assets and liabilities to Capital Accounts of A and B in the profit sharing ratio)			4,500
	B's Capital Account To B's Loan Account (Transfer of B's Capital Account to his Loan A/c)	Dr.	29,200	29,200

Note: Here it is assumed that amount payable to B is transferred to his loan a/c.

Balance Sheet of A
as on 1st January, 2022

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
A's Capital Account		16,300	Plant and Machinery		18,500
B's Loan Account		29,200	Inventories		13,600
Trade payables	7,500		Trade receivables	15,000	
Less: Reserve for Discount	(150)	7,350	Less: Prov. for Bad Debts	(750)	14,250
			Balance at Bank		6,000
			Cash		500
		52,850			52,850

Question 58

F, G and K were partners in LLP sharing profits and losses at the 2:2: 1. K wants to retire on 31.12.2022. Given below is the Balance Sheet of the partnership as well as other information:

Balance Sheet as on 31.12.2022

Liabilities	Rs.	Assets	Rs.
Capital A/cs		Sundry Fixed Assets	1,50,000
F	1,20,000	Inventories	50,000
G	80,000	Trade receivables	70,000
K	60,000	(Including Bills Receivable 20,000)	
Reserve	10,000	Bank	50,000
Trade payables	50,000		
	3,20,000		3,20,000

F and G agree to share profits and losses at the ratio of 3: 2 in future. Value of Goodwill is taken to be Rs. 50,000. Sundry Fixed Assets are revalued upward by Rs. 30,000 and Inventories by Rs. 10,000. Bills Receivable dishonoured Rs. 5,000 on 31.12.2022 but not recorded in the books. Dishonour of bill was due to insolvency of the customer. F and G agree to bring sufficient cash to discharge claim of K and to make their capital proportionate. Also they wanted to maintain Rs. 75,000 bank balance for working capital.

Required:

Pass necessary journal entries and draft the Balance Sheet of M/s F & G LLP. Also prepare capital accounts of partners and draft the Balance Sheet of Ms/ F & G after K's retirement.

[SM]

Answer

Journal Entries

			Rs.	Rs.
(1)	F's Capital A/c	Dr.	10,000	

	To K's Capital A/c		10,000
	(Being the adjustment for goodwill on K's retirement) - Refer W.N.		
(2)	Reserve A/c Dr.	10,000	
	To F's Capital A/c		4,000
	To G's Capital A/c		4,000
	To K's Capital A/c		2,000
	(Transfer of Reserve to Partners' Capital A/cs on K's retirement)		
(3)	Sundry Fixed Assets A/c Dr.	30,000	
	Inventory A/c Dr.	10,000	
	To Profit and Loss Adjustment A/c		40,000
	(Increase in the value of Sundry Fixed Assets and inventory recorded)		
(4)	Profit and Loss Adjustment A/c Dr.	5,000	
	To Trade Receivable A/c		5,000
	(Loss arising out of dishonoured bill recorded)		
(5)	Profit and Loss Adjustment A/c Dr.	35,000	
	To F's Capital A/c		14,000
	To G's Capital A/c		14,000
	To K's Capital A/c		7,000
	(Profit on revaluation transferred to Partners' Capital A/cs on K's retirement)		
(6)	Bank A/c Dr.	1,04,000	
	To F's Capital A/c		70,000
	To G's Capital A/c		34,000
	(Cash brought in by F and G as per agreement)		
(7)	K's Capital A/c Dr.	79,000	
	To Bank A/c		79,000
	(Payment made to K on retirement)		

Working Note:

Adjusting entry for goodwill

Partner	Old Share	New Share	Gain	Sacrifice
F	2/5	3/5	1/5	-
G	2/5	2/5	-	-
K	1/5	-	-	1/5

Adjusting entry:

		Rs.	Rs.
F's Capital A/c (50,000 x 1/5)	Dr.	10,000	
To K's Capital A/c			10,000

Balance Sheet (after K's retirement)

Liabilities	Rs.	Assets	Rs.
Capital A/cs:		Sundry Fixed Assets	1,80,000
F	1,98,000	Inventories	60,000
G	1,32,000	Trade receivables	65,000
Trade payables	50,000	Bank	75,000
	3,80,000		3,80,000

Partners' Capital Accounts

	F	G	K		F	G	K
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To K's Capital A/c	10,000	-	-	By Balance b/d	1,20,000	80,000	60,000
To Balance c/d	1,28,000	98,000	79,000	By F's Capital A/c			10,000
				By P & L Adj. A/c	14,000	14,000	7,000
				By Reserve	4,000	4,000	2,000
	1,38,000	98,000	79,000		1,38,000	98,000	79,000
To Bank	-	-	79,000	By Balance b/d	1,28,000	98,000	79,000
To Balance c/d	1,98,000	1,32,000	-	By Bank	70,000	34,000	-
	1,98,000	1,32,000	79,000		1,98,000	1,32,000	79,000

Working Notes:

1.	Total Capital	Rs.
	Sundry Fixed Assets (Rs. 1,50,000 + Rs. 30,000)	1,80,000
	Inventory (Rs. 50,000 + Rs. 10,000)	60,000
	Trade receivables	65,000
	(Including Bill Receivable of Rs. 15,000)	
	Bank	75,000
		3,80,000
	Less: Sundry Creditors	(50,000)
		3,30,000
	F's share (3,30,000 × 3/5)	1,98,000
	G's share (3,30,000 × 2/5)	1,32,000

2. Bank Account

	Rs.		Rs.
To Balance b/d	50,000	By K's Capital A/c	79,000
To F's Capital A/c	70,000	By Balance c/d	75,000
To G's Capital A/c	34,000		
	1,54,000		1,54,000

Question 59

A, B & C were in partnership sharing profits in the proportions of 5:4:3. The balance sheet of the firm as on 31st March, 2022 was as under:

Liabilities	Rs.	Assets	Rs.
Capital accounts:		Fixtures	8,200
A	1,35,930	Inventories	1,57,300
B	95,120	Trade receivables	93,500
C	61,170	Cash	74,910
Trade payables	41,690		
	3,33,910		3,33,910

A had been suffering from ill-health and gave notice that he wished to retire. An agreement was, therefore, entered into as on 31st March, 2022, the terms of which were as follows:

(i) The profit and loss account for the year ended 31st March, 2022 which showed a net profit of Rs. 48,000 was to be re-opened. B was to be credited with Rs. 4,000 as bonus, in consideration of the extra work which had devolved upon him during the year. The profit sharing was to be revised from 1st April, 2021, as 3:4:4.

(ii) Goodwill was to be valued at two years' purchase of the average profits of the preceding five years. The fixtures were to be valued by an independent valuer. The valuations arising out of the above agreement were goodwill Rs. 56,800 and fixtures Rs. 10,980. A provision of 2% was to be made for doubtful debts and the remaining assets were to be taken at their book values.

B and C agreed, as between themselves, to continue the business, sharing profits in the ratio of 3:2 and decided to retain the fixtures on the books at the revised value, and to increase the provision for doubtful debts to 6%.
Required:
Submit the journal entries necessary to give effect to the above arrangements and to draw up the capital account of the partners after carrying out all adjusting entries as stated above.

[SM]

Answer

Journal Entries

Particulars		Dr. (Rs.)	Cr. (Rs.)
A's Capital Account	Dr.	20,000	
B's Capital Account	Dr.	16,000	
C's Capital Account	Dr.	12,000	
To Profit and Loss Adjustment Account			48,000
(Profit written back for making adjustments)			
Profit and Loss Adjustment Account	Dr.	4,000	
To B's Capital account			4,000
(Bonus Credited to B's Capital Account)			
Profit and Loss Adjustment Account	Dr.	44,000	
To A's Capital Account			12,000
To B's Capital Account			16,000
To C's Capital Account			16,000
(Distribution of profits in the new ratio)			
Fixtures Account	Dr.	2,780	
To Provision for Doubtful debts Account @ 2%			1,870
To A's Capital Account			248
To B's Capital Account			331
To C's Capital Account			331
(Revaluation of assets on A's retirement)			
A's Capital Account	Dr.	1,43,669	
To A's Loan Account			1,43,669
(Transfer of A's Capital Account to his Loan Account)			
B's Capital Account	Dr.	2,244	
C's Capital Account	Dr.	1,496	
To Provision for Doubtful Debts Account (Raising provision for bad debts)			3,740
B's Capital Account	Dr.	13,425	
C's Capital Account	Dr.	2,066	
To A's Capital Account			15,491
(Adjusting entry of goodwill passed through partners' capital accounts in gaining/sacrificing ratio)			

Partners' Capital Accounts

	A	B	C		A	B	C
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To Profit and Loss Adjustment A/c	20,000	16,000	12,000	By Balance b/d	1,35,930	95,120	61,170
				By Profit and Loss Adjustment A/c	-	4,000	-
To A's Loan A/c	1,43,669	-	-				
To Provision for Doubtful Debts A/c	-	2,244	1,496	By Profit and loss Adjustment A/c	12,000	16,000	16,000
To A	-	13,425	2,066	By Fixtures Less provision for			
To Balance c/d	-	83,782	61,939	Doubtful Debts A/c	248	331	331
				By B	13,425		
				By C	2,066		
	1,63,669	1,15,451	77,501		1,63,669	1,15,451	77,501

Note: The balance of A's Capital Account has been transferred to A's Loan Account.

Working Note:
Calculation for adjustment of Amount of Goodwill

Partner	Old Share	New Share	Gain	Sacrifice
A	3/11	-	-	3/11
B	4/11	3/5	13/55	-
C	4/11	2/5	2/55	-

Question 60

K, L & M are partners sharing profits and losses in the ratio 5:3:2. Due to illness, L wanted to retire from the firm on 31.3.2022 and admit his son N in his place.

Balance Sheet of K, L and M
as on 31.3.2022

Liabilities	Rs.	Rs.	Assets	Rs.
Capital:			Furniture	20,000
K	40,000		Trade receivables	50,000
L	60,000		Inventory in Trade	50,000
M	30,000	1,30,000	Cash and Bank balances	80,000
Reserve		50,000		
Trade payables		20,000		
		2,00,000		2,00,000

On retirement of L assets were revalued: Furniture Rs. 10,000 and Inventory in trade Rs. 30,000. 50% of the amount due to L was paid off in cash and the balance was retained in the firm as capital of N. On admission of the new partner, goodwill was valued at Rs. 50,000. Partners are being paid off their extra balances to make capital proportionate by keeping N's capital as base.
You are required to give:
(i) Necessary journal entries; (ii) balance sheet of M/s K, M and N as on 1.4.2022; (iii) capital accounts of partners.
[SM]

Answer

Journal Entries

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)
31.3.2022	Profit and Loss Adjustment A/c	Dr.	30,000	
	To Furniture A/c			10,000
	To Inventory in Trade A/c			20,000
	(Being revaluation of Furniture and inventory in trade recorded)			
	K's Capital A/c	Dr.	15,000	
	L's Capital A/c	Dr.	9,000	
	M's Capital A/c	Dr.	6,000	
	To Profit and Loss Adjustment A/c			30,000
	(Being net revaluation loss debited to capital accounts of K, L and M in the ratio 5 : 3 : 2)			
	Reserve A/c	Dr.	50,000	
	To K's Capital A/c			25,000
	To L's Capital A/c			15,000
	To M's Capital A/c			10,000
	(Beingreserve transferred to capital accounts, K, L and M)			
	N's Capital A/c	Dr.	15,000	
	To L's Capital A/c			15,000
	(Being adjusting entry for goodwill passed in gaining/ sacrificing ratio)			
	L's Capital A/c	Dr.	81,000	
	To Cash and Bank A/c			40,500
	To N's Capital A/c			40,500
	(Being 50% of the amount due to L was paid off in cash and balance was retained in the firm as capital of N)			
	K's Capital A/c	Dr.	7,500	
	M's Capital A/c	Dr.	17,000	
	To Cash and Bank A/c			24,500
	(Being amount paid to K and M to make their capital proportionate)			

Working Note:
Calculation for adjustment of Amount of Goodwill

Partner	Old Share	New Share	Gain	Sacrifice
K	5/10	5/10	-	-
L	3/10	-	-	3/10
M	2/10	2/10	-	-
N	-	3/10	3/10	-

Calculation of excess capital paid off to M to make capital proportionate.

Partner	Capital Balance	P/L Ratio	Excess Capital Paid Off
K	50,000	5	7,500
N	25,500	3	-
M	34,000	2	17,000

Partners' Capital Accounts

	K Rs.	L Rs.	M Rs.	N Rs.		K Rs.	L Rs.	M Rs.	N Rs.
To Profit and Loss Adjustment A/c	15,000	9,000	6,000		By Balance b/d	40,000	60,000	30,000	
					By Reserve	25,000	15,000	10,000	
To Cash & Bank A/c	-	40,500	-	-	By L's Capital A/c	-	-	-	40,500
To N's Capital A/c	-	40,500	-	-	By N's Capital A/c	-	15,000	-	-
To L's Capital A/c	-	-	-	15,000					
To Cash & Bank A/c (Balancing figure)	7,500	-	17,000	-					
To Balance c/d	42,500	-	17,000	25,500					
	65,000	90,000	40,000	40,500		65,000	90,000	40,000	40,500
					By Balance b/d	35,000	-	14,000	25,500

Balance Sheet of M/s K, M & N
as on 1st April, 2022

Liabilities	Rs.	Rs.	Assets	Rs.
Capital Accounts:			Furniture	10,000
K	42,500		Trade receivables	50,000
M	17,000		Inventory in Trade	30,000
N	25,500	85,000	Cash and Bank balance	15,000
Trade payables		20,000		
		1,05,000		1,05,000

Question 61

Dowell llp. with partners Mr. A, Mr. B and Mr., C, are sharing profits and losses in the ratio of 10:6:4. The balance sheet of the firm as at 31st March, 2022 is as under:

Liabilities		Rs.	Assets	Rs.
Capitals :			Land	10,000
Mr. A	80,000		Buildings	2,00,000
Mr. B	20,000		Plant and Machinery	1,30,000
Mr. C	30,000	1,30,000	Furniture	43,000
Reserves			Investments	12,000
(un-appropriated profit)		20,000	Inventories	1,30,000
Long Term Debt		3,00,000	Trade receivables	1,39,000
Bank Overdraft		44,000		
Trade payables		1,70,000		
		6,64,000		6,64,000

It was mutually agreed that Mr. B will retire from partnership and in his place Mr. D will be admitted as a partner with effect from 1st April, 2022. For this purpose, the following adjustments are to be made:

(a) Goodwill is to be valued at Rs. 1 lakh but the same will not appear as an asset in the books of the reconstituted firm.

(b) Buildings and plant and machinery are to be depreciated by 5% and 20% respectively. Investments are to be taken over by the retiring partner at Rs. 15,000. Provision of 20% is to be made on Trade receivables to cover doubtful debts.

(c) In the reconstituted firm, the total capital will be Rs. 2 lakhs which will be contributed by Mr. A, Mr. C

and Mr. D in their new profit sharing ratio, which is 2:2:1.

(i) The surplus funds, if any, will be used for repaying bank overdraft.

(ii) The amount due to retiring partner shall be transferred to his loan account.

Required:

Prepare

(a) Revaluation account;

(b) Partners' capital accounts;

(c) Bank account; and

(d) Balance sheet of the reconstituted firm as on 1st April, 2022.

[SM, RTP Jan 25, May 22, Nov 18, MTP Apr 19, Oct 21]

Answer

Revaluation Account

	Rs.			Rs.
To Buildings A/c	10,000	By Investments A/c		3,000
To Plant and Machinery A/c	26,000	By Loss to Partners:		
To Provision for Doubtful Debts A/c	27,800	A	30,400	
		B	18,240	
		C	12,160	60,800
	63,800			63,800

A's Capital Account

	Rs.		Rs.
To Revaluation A/c	30,400	By Balance b/d	80,000
To Balance c/d	80,000	By Reserves A/c	10,000
		By C and D's Capital A/c	10,000
		By Bank A/c (balancing figure)	10,400
	1,10,400		1,10,400

B's Capital Account

	Rs.		Rs.
To Revaluation A/c	18,240	By Balance b/d	20,000
To Investments A/c	15,000	By Reserves A/c	6,000
To B's Loan A/c	22,760	By C and D's Capital A/c	30,000
	56,000		56,000

C's Capital Account

	Rs.		Rs.
To Revaluation A/c	12,160	By Balance b/d	30,000
To A and B's Capital A/c	20,000	By Reserves A/c	4,000
To Balance c/d	80,000	By Bank A/c (balancing figure)	78,160
	1,12,160		1,12,160

D's Capital Account

	Rs.		Rs.

To A and B's Capital A/cs	20,000	By Bank A/c	60,000
To Balance c/d	40,000		
	60,000		60,000

Bank Account

	Rs.		Rs.
To A's Capital A/c	10,400	By Bank Overdraft A/c	44,000
To C's Capital A/c	78,160	By Balance c/d	1,04,560
To D's Capital A/c	60,000		
	1,48,560		1,48,560

Balance Sheet of Dowell llp.
as at 1st April, 2022

Liabilities		Rs.	Assets		Rs.
Capital Accounts:			Land		10,000
A	80,000		Buildings		1,90,000
C	80,000		Plant and Machinery		1,04,000
D	40,000	2,00,000	Furniture		43,000
Long Term Debts		3,00,000	Inventories		1,30,000
Trade payables		1,70,000	Trade receivables	1,39,000	
B's Loan Account		22,760	Less: Provision for Doubtful Debts)	(27,800)	1,11,200
			Balance at Bank		1,04,560
		6,92,760			6,92,760

Note: Even though the problem says goodwill Rs. 1,00,000 to appear in new Balance Sheet, it is written off so as to company with Accounting Standard. Net entry for goodwill is:

C's capital	Dr.	20,000	
D's capital	Dr.	20,000	
To A's capital			10,000
To B's capital			30,000

Question 62

M/s X is a partnership firm with the partners A, B and C sharing profits and losses in the ratio of 3:2:5. The balance sheet of the firm as on 30th June 2022, was as under:

Balance Sheet of M/s. X
as on 30.06.2022

Liabilities	Rs.	Assets	Rs.
A's Capital A/c	1,04,000	Land	1,00,000
B's Capital A/c	76,000	Building	2,00,000
C's Capital A/c	1,40,000	Plant and Machinery	3,80,000
Long Term Loan	4,00,000	Investments	22,000
Bank Overdraft	44,000	Inventories	1,16,000
Trade payables	1,93,000	Trade receivables	1,39,000

	9,57,000		9,57,000

It was mutually agreed that B will retire from partnership and in his place D will be admitted as a partner with effect from 1st July, 2022. For this purpose, the following adjustments are to be made:

(a) Goodwill of the firm is to be valued at Rs. 2 lakhs due to the firm's locational advantage but the same will not appear as an asset in the books of the reconstituted firm.

(b) Buildings and plant and machinery are to be valued at 90% and 85% of the respective balance sheet values. Investments are to be taken over by the retiring partner at Rs. 25,000. Trade receivables are considered good only upto 90% of balance sheet figure. Balance be considered bad.

(c) In the reconstituted firm, the total capital will be Rs. 3 lakhs, which will be contributed by A, C and D in their new profit sharing ratio, which is 3:4:3.

(d) The amount due to retiring partner shall be transferred to his loan account.

Required:

Prepare Revaluation Account and Partners' Capital Accounts.

[SM, PYQ Nov 20, MTP May 25(Similar)]

Answer

Revaluation Account

2022		Rs.	2022			Rs.
July 1	To Building	20,000	July 1	By Investments		3,000
	To Plant and Machinery	57,000		(25,000 - 22,000)		
	To Bad Debts	13,900		By Partners' Capital A/cs (Loss on revaluation)		
				A (3/10)	26,370	
				B (2/10)	17,580	
				C (5/10)	43,950	87,900
		90,900				90,900

Partners' Capital Accounts

	A	B	C	D		A	B	C	D
	Rs.	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.	Rs.
To Revaluation A/c	26,370	17,580	43,950	-	By Balance b/d	1,04,000	76,000	1,40,000	-
To B's and C's Capital A/cs	-	-	-	60,000	By D's Capital A/c (W.N.1)	-	40,000	20,000	-
To Investments A/c	-	25,000	-	-	By Bank A/c	12,370	-	3,950	1,50,000
To B's Loan A/c	-	73,420	-	-					
To Balance c/d (W.N. 2)	90,000	-	1,20,000	90,000					
	1,16,370	1,16,000	1,63,950	1,50,000		1,16,370	1,16,000	1,63,950	1,50,000

Working Notes:

1. Adjustment of goodwill

Goodwill of the firm is valued at Rs. 2 lakhs Sacrificing ratio:

A 3/10-3/10 = 0

B 2/10-0 = 2/10

C 5/10-4/10 = 1/10

Hence, sacrificing ratio of B and C is 2:1. A has not sacrificed any share in profits after retirement of B and admission of D in his place.

Adjustment of D's share of goodwill through existing partners' capital accounts in the profit sacrificing ratio:

				Rs.
B :	Rs.	60,000 x 2/3	= 40,000	
C :	Rs.	60,000 x 1/3	= 20,000	60,000

2. Capital of partners in the reconstituted firm :

	Rs.
Total capital of the reconstituted firm (given)	3,00,000
A (3/10)	90,000
B (4/10)	1,20,000
C (3/10)	90,000

Question 63

X, Y and Z were partners sharing profit and losses in the ratio of 5: 3: 2. Their Balance Sheet as on 31st March 2023 is as follows:

Balance Sheet as on 31 March, 2023

Liabilities	Amount Rs.	Assets	Amount Rs.
Capital Accounts		Building	2,00,000
X	4,25,000	Machinery	3,50,000
Y	2,55,000	Debtors	1,95,000
Z	1,40,000	Stock	1,05,000
General Reserve	25,000	Bank	25,000
Trade Creditors	30,000		
	8,75,000		8,75,000

Y retired from the business on 1 April, 2023 on the following terms:

(i) To appreciate building by 20% and to depreciate machinery by 5%.

(ii) Provision for debts is to be created at 10%.

(iii) Goodwill of the firm is valued at 1,60,000 and Goodwill is not to be raised in the books of accounts. New profit sharing ratio will be 5:3

(iv) Entire sum payable to Y should be brought by X and Z in such a way to make their capital according to new profit ratio. Balance of Y to be paid immediately.

You are required to prepare Revaluation Account, Partners Capital Accounts and Balance Sheet after retirement.

[PYQ Dec 23]

Answer

Revaluation Account

Particulars	Amount	Particulars	Amount
To Depreciation on machinery	17,500	By Building	40,000
To Provision for Doubtful Debts To Profit	19,500		
X (5/10) = 1,500			
Y (3/10) = 900			
Z (2/10) = 600	3,000		
	40,000		40,000

Partners' Capital Accounts

	X	Y	Z		X	Y	Z
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To Y's Capital A/c (WN. 1)	20,000	-	28,000	By Balance b/d	4,25,000	2,55,000	1,40,000
To Balance c/d	4,19,000	3,11,400	1,17,600	By X s Capital A/c (WN. 1)		20,000	
				By Z's Capital A/c (WN. 1)		28,000	
				By Revaluation A/c	1,500	900	600
				By Reserve	12,500	7,500	5,000
	4,39,000	3,11,400	1,45,600		4,39,000	3,11,400	1,45,600
To Bank	-	3,11,400		By Balance b/d	4,19,000	3,11,400	1,17,600
To Balance c/d	5,30,000		3,18,000	By Bank	1,11,000		2,00,400
	5,30,000	3,11,400	3,18,000		5,30,000	3,11,400	3,18,000

Balance Sheet
(after Y's retirement)

Liabilities	Rs.	Assets	Rs.
Capital A/c's: (Bal fig.)		Building	2,40,000
X (8,48,000 X5/8 = 5,30,000) Z (8,48,000X3/8 = 3,18,000)	8,48,000	Machinery Stock	3,32,500
			1,05,000
		Debtors	1,75,500
Trade payables	30,000	Bank	25,000
	8,78,000		8,78,000

Working Note

1. Calculation of gaining ratio

Partner	Old Share	New Share	Gain
X	4/10	5/8	5/40
Y	3/10	-	-
Z	2/10	3/8	7/40

Adjusting entry:

		Rs.	Rs.
X's Capital A/c	Dr.	20,000	
Z's Capital A/c	Dr.	28,000	
To Y's Capital A/c (1,60,000 x 3/10)			48,000

2. Bank Account

	Rs.		Rs.
To Balance b/d	25,000	By Y's Capital A/c	3,11,400
To X's Capital A/c	1,11,000	By Balance c/d	25,000
To Z's Capital A/c	2,00,400		

	3,36,400		3,36,400

Question 64

Red, White and Black shared profits and losses in the ratio of 5:3:2. They took out a joint life Policy in 2018 for Rs. 50,000, a premium of Rs. 3,000 being paid annually on 10th June. The surrender value of the policy on 31st December of various years was as follows: 2018 nil; 2019
Rs. 900; 2020 Rs. 2,000; 2021 Rs. 3,600. Black retires on 15th April, 2022.
Required
Prepare ledger accounts assuming no Joint Life Policy Account is maintained.

[SM, PYQ July 21]

Answer

Joint Life Policy Premium Account

		Rs.			Rs.
10th June, 2018	To Bank A/c	3,000	31st Dec., 2018	By Profit and Loss A/c	3,000
10th June, 2019	To Bank A/c	3,000	31st Dec., 2019	By Profit and Loss A/c	3,000
10th June, 2020	To Bank A/c	3,000	31st Dec., 2020	By Profit and Loss A/c	3,000
10th June, 2021	To Bank A/c	3,000	31st Dec., 2021	By Profit and Loss A/c	3,000

Profit and Loss Account

		Rs.		Rs.
31st Dec., 2018	To Joint Life Policy Premium A/c	3,000		
31st Dec., 2019	To Joint Life Policy Premium A/c	3,000		
31st Dec., 2020	To Joint Life Policy Premium A/c	3,000		
31st Dec., 2021	To Joint Life Policy Premium A/c	3,000		

Joint Life Policy Account

		Rs.			Rs.
15th April, 2022	To Capital A/cs: (Transfer)		15th April, 2022	By Bank A/c	3,600
	Red 5/10	1,800			
	White 3/10	1,080			
	Black 2/10	720			
		3,600			3,600

Question 65

Red, White and Black shared profits and losses in the ratio of 5: 3: 2. They took out a Joint Life Policy in 2018 for Rs. 50,000, a premium of Rs. 3,000 being paid annually on 10th June. The surrender value of the policy on 31st December of various years was as follows:
2018 nil;
2019 Rs. 900:
2020 Rs. 2,000;
2021 Rs. 3,600.

Black retires on 15th April, 2022.
Required:
Prepare ledger accounts assuming Joint Life Policy Account is maintained on surrender value basis.
[SM, MTP Jan 25, May 25]

Answer

Joint Life Policy Account

		Rs.			Rs.
10th June, 2018	To Bank A/c	3,000	31st Dec., 2018	By Profit and Loss A/c	3,000
10th June, 2019	To Bank A/c	3,000	31st Dec., 2019	By Profit and Loss A/c	2,100
				By Balance c/d	900
		3,000			3,000
1st January, 2020	To Balance b/d	900	31st Dec., 2020	By Profit and Loss A/c	1,900
10th June, 2020	To Bank A/c	3,000		By Balance c/d	2,000
		3,900			3,900
1st January, 2021	To Balance b/d	2,000	31st Dec., 2021	By Profit and Loss A/c	1,400
10th June, 2021	To Bank A/c	3,000		By Balance c/d	3,600
		5,000			5,000
1st January, 2022	To Balance b/d	3,600	15th April, 2022	By Bank	3,600
		3,600			3,600

Profit and Loss Account

		Rs.			Rs.
31st Dec., 2018	To Joint Life Policy A/c	3,000			
31st Dec., 2019	To Joint Life Policy A/c	2,100			
31st Dec., 2020	To Joint Life Policy A/c	1,900			
31st Dec., 2021	To Joint Life Policy A/c	1,400			

Question 66
A, B and C are in partnership sharing profits and losses at the ratio of 5:3: 2. The balance sheet of the firm on 31.12.2021 was as follows:

Balance Sheet

Liabilities	Rs.	Assets	Rs.
Capital A/cs:		Sundry Fixed Assets	80,000
A	50,000	Inventories	50,000
B	40,000	Trade receivables	30,000
C	30,000	Joint Life Policy	20,000
Bank Loan	40,000	Bank	10,000
Trade payables	30,000		
	1,90,000		1,90,000

On 1.1.2022, A wants to retire, B and C agreed to continue at 2:1. Joint Life Policy was taken on 1.1.2017 for Rs. 1,00,000 and its surrender value as on 31.12.2021 was Rs. 25,000. For the purpose of A's retirement goodwill was

raised for Rs. 1,00,000. Sundry Fixed Assets was revalued for Rs. 1,10,000. But B and C did not prefer to show such an increase in assets in the balance sheet. Also they agreed to bring necessary cash to discharge 50% of the A's claim, to make the bank balance Rs. 25,000 and to make their capital proportionate.

Required:

Prepare necessary journal entries to give the effect in capital accounts of partners.

[SM]

Answer

Journal Entries

			Rs.	Rs.
1.	B's Capital A/c	Dr.	49,500	
	C's Capital A/c	Dr.	18,000	
	To A's Capital A/c			67,500
	(Share of memorandum revaluation profit Rs. 67,500 including good will due to A borne by B and C at the gaining ratio 11 : 4)			
2.	A's Capital A/c	Dr.	1,17,500	
	To A's Loan A/c			58,750
	To Bank A/c			58,750
	(Settlement of A's claim on his retirement by payment of 50% in case and transferring the balance to his Loan A/c).			
3.	Bank A/c	Dr.	73,750	
	To B's Capital A/c			60,333
	To C's Capital A/c			13,417
	(Cash brought in by the continuing partners).			

Working Notes:

1. Memorandum Revaluation Profit

	Rs.
Goodwill	1,00,000
Sundry Fixed Assets	30,000
Joint Life Policy	5,000
	1,35,000

A's Share Rs. 1,35,000 × 5/10 = Rs. 67,500.

2. Gaining Ratio

B : 2/3 – 3/10 = 11/30

C : 1/3 – 2/10 = 4/30

Gaining Ratio : B : C = 11 : 4

3. Total Capital

		Rs.
Assets as per Balance Sheet		1,90,000
Additional Bank Balance		15,000
		2,05,000
Less : Bank Loan	40,000	
Sundry Creditors	30,000	
A's Loan	58,750	(1,28,750)
		76,250
B's Share		50,833
C's Share		25,417

Question 67

Aarav, Nirav and Purav are partners in LLP sharing profits and losses in the ratio of 3:2:1. Their Balance Sheet as on 31st March, 2022 was as follows:

Balance Sheet
as on 31st March, 2022

Liabilities	Rs.	Assets	Rs.
Capital : Aarav	80,000	Building	50,000
Nirav	50,000	Machinery	67,500
Purav	35,000	Debtors	65,000
General Reserve	60,000	Stock	80,000
Trade Creditors	50,000	Bank	12,500
	2,75,000		2,75,000

Purav retired from the business on 1st April 2022 on the following terms:

1. Goodwill was to be valued at 2 years purchase of average profit of past 3 years.
   31st March, 2020 Rs. 41,000
   31st March, 2021 Rs. 50,000
   31st March, 2022 Rs. 55,000
2. Goodwill was not to be raised in the books of accounts.
3. Provision for Doubtful Debts was to be created on debtors at 5%.
4. Machinery is to be depreciated by 10% and stock is revalued at Rs. 71,000.
5. Building to be appreciated by 20%.
6. Aarav and Nirav to bring in additional capital of Rs. 35,000 and Rs. 25,000 respectively.
7. Balance payable to Purav must be paid immediately.

You are required to prepare:

1. Revaluation account
2. Partners capital accounts.
3. Bank account.
4. Balance Sheet after retirement.

[SM, PYQ May 22]

Answer

In The Books of Aarav Nirav and Purav
Revaluation A/c

Particulars	Rs.	Particulars	Rs.
To Provision for Doubtful Debts	3,250	By Building	10,000
To Machinery	6,750	By Loss on revaluation	
To Stock	9,000	Aarav 4,500	
		Nirav 3,000	
		Purav 1,500	9,000
	19,000		19,000

Partners Capital A/c

Particulars	Aarav	Nirav	Purav	Particulars	Aarav	Nirav	Purav
To Loss on Revaluation	4,500	3,000	1,500	By Balance b/d	80,000	50,000	35,000
To Bank			60,500	By General Reserve	30,000	20,000	10,000

To Purav capital	10,200	6,800		By Aarav, Nirav capital			17,000
To Balance c/d	1,30,300	85,200		By Bank	35,000	25,000	
	1,45,000	95,000	62,000		1,45,000	95,000	62,000

Bank A/c

Particulars	Rs.	Particulars	Rs.
To Balance b/d	12,500	By Purav's Capital	60,500
To Aarav's Capital	35,000	By Balance c/d	12,000
To Nirav's Capital	25,000		
	72,500		72,500

Balance Sheet
as on April 1st, 2022

Liabilities			Rs.	Assets		Rs.
Capital :	Aarav	1,30,300		Building		60,000
	Nirav	85,200	2,15,500	Machinery		60,750
Trade Creditors			50,000	Debtors	65,000	
				Less: Provision for doubtful Debts	3,250	61,750
				Stock		71,000
				Bank		12,000
			2,65,500			2,65,500

Working note :
Valuation of Goodwill (as per weight average method)
31st March 2020 Rs. 41,000 X 1= 41,000
31st March 2021 Rs. 50,000 X 2 = 1,00,000
31st March 2022 Rs. 55,000 X 3 = 1,65,000
Total Rs. 3,06,000
Weighted average profit (3,06,000/6) = 51,000 Goodwill (2 years purchase) = 2 x 51,000 = Rs. 1,02,000 Purav's share = 1/6th = 1,02,000/6 = 17,000
Journal entry for adjustment of goodwill

Aarav capital A/c	Dr.	10,200	
Nirav capital	Dr.	6,800	
To Purav capital			17,000

Question 68
Satyam, Shivam & Sundaram are partners of M/s. Great Stationers sharing profits and losses in the ratio of 1:1:2. On 31st March, 2022 their Balance Sheet was as under :

Liabilities		Rs.	Assets	Rs.
Capitals :			Building	2,50,000
Satyam	1,95,000		Plant	1,60,000
Shivam	1,48,000		Investments	85,000
Sunderam	1,12,000	4,55,000	Stock	45,280
General Reserve		80,000	Trade Receivable	68,000
Loan from Satyam		94,000	Bank	95,720

Sundry Creditors	75,000		
	7,04,000		7,04,000

On 1st April 2022 Shivam retired on the following terms:

1. Goodwill is to be valued at Rs. 1,20,000 but the same will not appear as an asset in the books of the reconstituted firm.
2. Buildings is to be appreciated by 20% and Plant is to be depreciated by 10 %.
3. Investments are to be taken over by the Satyam in full settlement of his loan.
4. Provision of 5% is to be made on trade receivables to cover doubtful debts.
5. In the reconstituted firm, the total capital will be Rs. 3,00,000/- which will be contributed by Satyam and Sunderam in their new profit sharing ratio, which is 2:3.
6. The amount due to retiring partner shall be transferred to his loan account.

You are required to give journal entries to record above adjustments and also prepare Balance Sheet thereafter.

[SM]

Answer

In the books of Satyam Shivam & Sundaram
Journal entries

Sr No	Particulars	Dr. Rs.	Cr. Rs.
1	General Reserve A/c Dr.	80,000	
	To Satyam Capital A/c		20,000
	To Shivam Capital A/c		20,000
	To Sunderam Capital A/c		40,000
	(Being General reserve distributed among old partners)		
2.	Satyam Capital A/c Dr.	18,000	
	Sunderam Capital A/c Dr.	12,000	
	To Shivam Capital A/c		30,000
	(Being adjustment entry for goodwill passed)		
3.	Building A/c Dr.	50,000	
	To Revaluation A/c		50,000
	(Being Building appreciated)		
4.	Satyam loan A/c Dr.	94,000	
	To Revaluation A/c		9,000
	To Investments A/c		85,000
	(Being investments taken over by Satyam)		
5.	Revaluation A/c Dr.	19,400	
	To Plant		16,000
	To Provision for Doubtful Debts		3,400
	(Being Assets revalued)		
6.	Revaluation A/c Dr.	39,600	
	To Satyam Capital A/c		9,900
	To Shivam capital A/c		9,900
	To Sundaram Capital A/c		19,800
	(Being profit on Revaluation distributed)		
7	Shivam Capital A/c Dr.	2,07,900	
	To Shivam loan a/c		2,07,900
	(Being amount payable to Shivam transferred to his Loan A/c)		
8.	Satyam Capital A/c Dr.	86,900	
	To Bank A/c		86,900

	(Being Capital accounts adjusted in Profit sharing ratio)		
9.	Bank A/c	20,200	
	To Sunderam Capital A/c		20,200
	(Being Capital accounts adjusted in Profit sharing ratio)		

Balance Sheet
as on April 1st, 2022

Liabilities	Rs.	Assets	Rs.
Capitals :		Building	3,00,000
Satyam 1,20,000		Plant	1,44,000
Sunderam 1,80,000	3,00,000	Stock	45,280
Shivam loan A/c	2,07,900	Trade Receivable 68,000	
Sundry Creditors	75,000	Less: Provision for Doubtful Debts	
		3,400	64,600
		Bank	29,020
	5,82,900		5,82,900

Working Note:

Revaluation A/c

Particulars	Rs.	Particulars	Rs.
To Provision for Doubtful Debts	3,400	By building	50,000
To Plant	16,000	By Investments	9,000
To Revaluation profit			
Satyam 9,900			
Shivam 9,900			
Sunderam 19,800	39,600		
	59,000		59,000

Bank A/c

Particulars	Rs.	Particulars	Rs.
To Balance b/d	95,720	By Satyam Capital	86,900
To Sundaram Capital	20,200	By Balance c/d	29,020
	1,15,920		1,15,920

Partners Capital A/c

Particulars	Satyam	Shivam	Sundaram	Particulars	Satyam	Shivam	Sundaram
				By Balance b/d	1,95,000	1,48,000	1,12,000
To Shivam	18,000		12,000	By Satyamand Sunderam		30,000	
To Shivam loan A/c		2,07,900					
				By General Reserve	20,000	20,000	40,000
				By Revaluation	9,900	9,900	19,800
To bank	86,900			By bank			20,200
To balance c/d	1,20,000		1,80,000				

	2,24,900	2,07,900	1,92,000	2,24,900	2,07,900	1,92,000

Partner	Old Share		New share		Gain Share
Satyam	1/4	-	2/5	=	3/20
Shivam	1/4	-	-	=	(5/20)
Sunderam	2/4	-	3/5	=	2/20

Question 69

Write short notes on:

(i) Calculation of gaining ratio.

(ii) Final payment of a retiring partner.

[SM]

Answer

(a) On retirement of a partner, the continuing partners will gain in terms of profit sharing ratio. For example, if A, B and C were sharing profits and losses in the ratio of 5:3: 2 and B retires, then A and C have to decide at which ratio they will share profits and losses in future. If it is decided that the continuing partners will share profits and losses in future at the ratio of 3:2, then A gains 1/10th [(3/5)-(5/10)] and C gains 2/10 [(2/5)-(2/10)]. So the gaining ratio between A and C is 1:2. If A and C decide to continue at the ratio 5:2, this indicates that they are dividing the gained share in the previous profit sharing ratio.

(b) The following adjustments are necessary in the Capital A/c: (i) Transfer of reserve, (ii) Transfer of goodwill, (iii)Transfer of profit/loss on revaluation. After adjustment of these items, the Capital Account balance standing to the credit of the retiring partner represents amount to be paid to him. The continuing partners may discharge the whole claim at the time of retirement.

Question 70

What is joint life policy? What is the objective of taking such a policy?

[SM]

Answer

A partnership firm may decide to take a Joint Life Insurance Policy on the lives of all partners. The firm pays the premium and the amount of policy is payable to the firm on the death of any partner or on the maturity of policy whichever is earlier. The objective of taking such a policy is to minimize the financial hardships to the event of payment of a large sum to the legal representatives of a deceased partner or to the retiring partner.

Question 71

On 31st March, 2022, the balance sheet of M/s Ram, Rahul and Rohit sharing profits and losses in proportion to their capital, stood as follows:

Liabilities	Rs.	Rs.	Asset	Rs.
Capital accounts:			Land & building	2,00,000
Ram	3,00,000		Machinery	2,00,000
Rahul	2,00,000		Closing stock	1,00,000
Rohit	1,00,000	6,00,000	Sundry debtors	2,00,000
Sundry creditors		2,00,000	Cash and bank balances	1,00,000
		8,00,000		8,00,000

On 31st March, 2022, Ram desired to retire from the firm and the remaining partners decided to carry on. It was agreed to revalue the assets and liabilities on that date on the following basis:-

1. Land and buildings be appreciated by 30%.
2. Machinery be depreciated by 20%.
3. Closing stock to be valued at Rs. 80,000.
4. Provision for bad debts be made at 5%.
5. Old credit balances of sundry creditors Rs. 10,000 be written off.
6. Joint life policy of the partners surrendered and cash obtained Rs. 60,000.
7. Goodwill of the entire firm be valued at Rs. 1,80,000 and Ram's share of the goodwill be adjusted in the accounts of Rahul and Rohit who share the future profits equally. No goodwill account being raised.
8. The total capital of the firm is to be the same as before retirement. Individual capital be in their profit sharing ratio.
9. Amount due to Ram is to be settled as 50% on retirement and the balance 50% within one year.

Prepare revaluation account, capital account of partners: Rahul & Rohit, loan account of Ram, cash account and balance sheet as on 1.4.2022 of M/s Rahul and Rohit.

[SM]

Answer

Revaluation Account

		Rs.		Rs.
To Machinery A/c		40,000	By Land and Buildings A/c	60,000
To Closing Stock A/c		20,000	By Sundry Creditors A/c	10,000
To Provision for Bad Debts A/c		10,000	By Cash and Bank A/c– Joint Life	60,000
To Partners' Capital A/cs:			policy surrendered	
Ram	30,000			
Rahul	20,000			
Rohit	10,000	60,000		
		1,30,000		1,30,000

Partners' Capital Accounts

			Rahul	Rohit				Rahul	Rohit
			Rs.	Rs.				Rs.	Rs.
31.3.2022	To	Ram's Capital A/c	30,000	60,000	31-3-2022	By	Balance b/d	2,00,000	1,00,000
	To	Balance c/d	3,00,000	3,00,000		By	Revaluation A/c	20,000	10,000
						By	Cash & bank A/c – cash brought in by Rahul and Rohit	1,10,000	2,50,000
			3,30,000	3,60,000				3,30,000	3,60,000
					1-4-2022	By	Balance b/d	3,00,000	3,00,000

Ram's Loan Account

		Rs.			Rs.
31-3-2022	To Balance c/d	2,10,000	31-3-2022	By Ram's Capital A/c	2,10,000

		2,10,000			2,10,000
			1-4-2022	By Balance b/d	2,10,000

Cash and Bank Account

		Rs.			Rs.
31-3 2022	To Balance b/d	1,00,000	31-3-2022	By Ram's capital A/c	2,10,000
	To Revaluation A/c- joint life policy surrendered	60,000		By Balance c/d	3,10,000
	To Rahul's Capital A/c	1,10,000			
	To Rohit's Capital A/c	2,50,000			
		5,20,000			5,20,000
1-4-2022	To Balance b/d	3,10,000			

M/s Rahul & Rohit Balance Sheet
as on 1stApril, 2022

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital accounts:			Land and buildings		2,60,000
Rahul	3,00,000		Machinery		1,60,000
Rohit	3,00,000	6,00,000	Closing stock		80,000
Ram's loan account		2,10,000	Sundry debtors	2,00,000	
Sundry creditors		1,90,000	Less: Provision for bad debts	(10,000)	1,90,000
			Cash and bank balances		3,10,000
		10,00,000			10,00,000

Working Notes:

1. Gaining ratio of existing partners:

Rahul 1/2-1/3=1/6 Rohit 1/2-1/6=2/6

2. Total goodwill of firm is Rs. 1,80,000

Ram's share (1/2 x Rs. 1,80,000)=Rs. 90,000

Ram's share of goodwill is to be borne by Rahul and Rohit in their gaining ratios i.e. Rahul=1/3 x Rs. 90,000= Rs. 30,000

Rohit = 2/3 x Rs. 90,000=Rs. 60,000

3. Ram's Capital Account

		Rs.			Rs.
31-3-2022	To Cash and Bank A/c	2,10,000	31-3-2022	By Balance b/d	3,00,000
	To Ram's Loan A/c -Transfer	2,10,000		By Revaluation A/c By Rahul's Capital A/c - Goodwill	30,000 30,000
				By Rohit's Capital A/c- Goodwill	60,000
		4,20,000			4,20,000

Question 72

A, B, C were in partnership sharing profits and losses in the ratio of 3:2:1. The balance sheet of the firm as on 31.2.2022 was as under:

Liabilities		Rs.	Assets	Rs.
Capital accounts:				
A	1,50,000		Fixtures	30,000
B	1,00,000		Stock	1,70,000
C	50,000	3,00,000	Sundry debtors	90,000
Sundry creditors		40,000	Cash	50,000
		3,40,000		3,40,000

A, on account of ill-health, gave notice that he wished to retire from the firm. A retirement agreement was, therefore, entered as on 31.3.2022, the terms of which were as follows:

(a) The profit and loss account for the year ended 31.3.2022, which showed a net profit of Rs. 42,000 was to be re-opened. B was to be credited with Rs. 6,000 as bonus, in consideration of the extra work, which had devolved upon him during the year. The profit sharing basis was to be revised and the revised ratio is to be 2:3:1 as and from 1st April 2021.

(b) Goodwill was to be valued at two years' purchase of the simple average profits of five years. Profits for these five years ending on 31st March were as under:

	Rs.
31.3.2018	15,000
31.3.2019	23,000
31.3.2020	25,000
31.3.2021	35,000
31.3.2022	42,000

(c) Fixtures are to be valued at Rs. 39,800 and a provision of 2% was to be made for doubtful debts and the remaining assets were to be taken at their book value.

(d) That the amount payable to A shall be paid by B.

B and C agreed, as between themselves, to continue the business, sharing profits and losses in the ratio of 3:1 and decided to retain fixtures in the books at the revised value and increase the provision for doubtful debts to 6 %. Total capital of the firm will be Rs. 3 lakhs as before to be maintained in the new ratio as between B and C. You are required to give the necessary entries to give effect to the above arrangements. Prepare capital accounts of partners, cash account and balance sheet of B and C after giving effect to the above arrangements on the retirement of A.

[SM]

Answer

Journal Entries

			Rs.	Rs.
1.	A's Capital account	Dr.	21,000	
	B's Capital account	Dr.	14,000	
	C's Capital account	Dr.	7,000	
	To Profit and loss adjustment account			42,000
	(Profit written back for making adjustments)			
2.	Profit and loss adjustment account	Dr.	6,000	
	To B's Capital account			6,000
	(Bonus credited to B's capital account)			
3.	Profit and loss adjustment account	Dr.	36,000	
	To A's Capital account			12,000
	To B's Capital account			18,000

	To C's Capital account (Distribution of profits in the new ratio)			6,000
4.	Fixtures account	Dr.	9,800	
	To Provision for bad debts account			1,800
	To A's Capital account			2,667
	To B's Capital account			4,000
	To C's Capital account			1,333
	(Revaluation of assets on A's retirement)			
5.	B's capital account	Dr.	2,700	
	C's capital account	Dr.	900	
	To Provision for bad debts account			3,600
	(Raising provision for bad debts)			
6.	A's capital account	Dr.	1,62,334	
	To B's Capital account			1,62,334
	(Amount payable to A paid by B)			
7.	B's Capital account	Dr.	14,000	
	C's Capital account	Dr.	4,667	
	To A's Capital account			18,667
	(Adjusting entry of goodwill passed through partners' capital accounts in gaining/sacrificing ratio)			

Partners' Capital Accounts

	A Rs.	B Rs.	C Rs.		A Rs.	B Rs.	C Rs.
To P & L adjustment A/c	21,000	14,000	7,000	By Balance b/d	1,50,000	1,00,000	50,000
To Provision for bad debts A/c	-	2,700	900	By P & L adjustment account	-	6,000	-
To B's Capital A/c	1,62,334	-	-	By P & L adjustment account	12,000	18,000	6,000
To Cash A/c	-	34,634	-	By Fixtures A/c	2,667	4,000	1,333
To A's Capital A/c		14,000	4,667	By A's capital A/c	- 18,667	1,62,334	-
				By B and C's capital A/c			
To Balance c/d	-	2,25,000	75,000	By Cash A/c			30,234
	1,83,334	2,90,334	87,567		1,83,334	2,90,334	87,567

Cash Account

	Rs.		Rs.
To Balance b/d	50,000	By B's capital A/c	34,634
To C's capital A/c	30,234	By Balance b/d	45,600
	80,234		80,234

Balance Sheet of B and C
as on 31st March, 2022 (after retirement of A)

Liabilities		Rs.	Assets	Rs.	Rs.
Capital accounts:			Fixtures		39,800
B	2,25,000		Stock		1,70,000
C	75,000	3,00,000	Sundry debtors	90,000	
Sundry creditors		40,000	Less: Provision for bad debts	(5,400)	84,600
			Cash		45,600
		3,40,000			3,40,000

Working Notes:

Calculation of goodwill:

1. Average of last five year's profit

Year ended on	Profit Rs.
31.3.2018	15,000
31.3.2019	23,000
31.3.2020	25,000
31.3.2021	35,000
31.3.2022	42,000
	1,40,000

2. Goodwill at two years' purchase = Rs. 28,000 x 2 = Rs. 56,000

3. Calculation for adjustment of Amount of Goodwill

Partner	Old Share	New Share	Gain	Sacrifice
A	2/6	-	-	2/6
B	3/6	$\frac{3}{4}$	3/12	-
C	1/6	$\frac{1}{4}$	1/12	-

Question 73

The following was the Balance Sheet of Om & Co. in which X, Y, Z were partners sharing profits and losses in the ratio of 1:2:2 as on 31.3.2022. Mr. Z died on 31st December, 2022. His account has to be settled under the following terms.

Balance Sheet of Om & Co.
as on 31.3.2022

Liabilities	Rs.	Rs.	Assets	Rs.
Trade payables		20,000	Building	1,20,000
Bank loan		50,000	Computers	80,000
General reserve		30,000	Inventories	20,000
Capital accounts:			Trade receivables	20,000
X	40,000		Cash at bank	50,000
Y	80,000		Investments	10,000
Z	80,000	2,00,000		
		3,00,000		3,00,000

Goodwill is to be calculated at the rate of two years purchase on the basis of average of three years' profits and losses. The profits and losses for the three years were detailed as below:

Year ending on	profit/loss

31.3.2022	30,000
31.3.2021	20,000
31.3.2020	(10,000) Loss

Profit for the period from 1.4.2022 to 31.12.2022 shall be ascertained proportionately on the basis of average profits and losses of the preceding three years.
During the year ending on 31.3.2022 a car costing Rs. 40,000 was purchased on 1.4.2021 and debited to traveling expenses account on which depreciation is to be calculated at 20% p.a. at written down value method. This asset is to be brought into account at the depreciated value.
Other values of assets were agreed as follows:
Inventory at Rs. 16,000, building at Rs. 1,40,000, computers at Rs. 50,000; investments at Rs. 6,000. Trade receivables were considered good.
Required:
(i) Calculate goodwill and Z's share in the profits of the firm for the period 1.4.2022 to 31.12.2022.
(ii) Prepare revaluation account assuming that other items of assets and liabilities remained the same.
(iii) Prepare partners' capital accounts and balance sheet of the firm Om & Co. as on 31.12.2022.

[SM]

Answer

(i) Calculation of goodwill and Z's share of profit

(a)	Adjusted profit for the year ended 31.3.2022:	Rs.	Rs.
	Profit (Given)		30,000
	Add: Cost of car wrongly written off	40,000	
	Less: Depreciation for the year 2021-22 (20% on 40,000)	(8,000)	32,000
			62,000
(b)	Average of last three year's profits and losses	Profit/ (loss)	
	Year ended on	Rs.	
	31.3.2020	(10,000)	
	31.3.2021	20,000	
	31.3.2022	62,000	
		72,000	
	Average profit (72,000/3)	24,000	
(c)	Goodwill at 2 years' purchase		
	Rs. 24,000 x 2 = Rs. 48,000		
(d)	Z's share of profits from the period 1.4.2022 to 31.12.2022		
	Rs. 24,000 x 9/12 x 2/5 = Rs. 7,200		

(ii) Revaluation Account

	Rs.			Rs.
To Inventory account	4,000	By Building account		20,000
To Computers account	30,000	By Loss transferred to		
To Investments account	4,000	X	4,560	
To depreciation on car	4,800	Y	9,120	
		Z	9,120	22,800
	42,800			42,800

Partners' Capital Accounts

	X Rs.	Y Rs.	Z Rs.		X Rs.	Y Rs.	Z Rs.
To Revaluation A/c	4,560	9,120	9,120	By Balance b/d	40,000	80,000	80,000
To Z's Executor's A/c			1,22,080	By General reserve By X and Y	6,000	12,000	12,000
To Z	6,400	12,800	-	By Car A/c	-	-	19,200
To Balance c/d	41,440	82,880		By Profit and Loss suspense A/c	6,400	12,800	12,800
					-	-	7,200
	52,400	1,04,800	1,31,200		52,400	1,04,800	1,31,200

Balance Sheet of Om & Co.
as on 31st December,2022

Liabilities	Rs.	Assets	Rs.
Trade payables	20,000	Building	1,40,000
Bank loan	50,000	Car	27,200
Capital accounts:		Inventories	16,000
X	41,440	Computers	50,000
Y	82,880	Investments	6,000
Z's Executor's account	1,22,080	Trade receivables	20,000
		Cash at bank	50,000
		Profit and Loss suspense Account	7,200
	3,16,400		3,16,400

Working Note:
Goodwill calculated at the time of death of partner Z Rs. 48,000

Partner	Old Share	New Share	Gain	Sacrifice
X	1/5	1/3	2/15	-
Y	2/5	2/3	4/15	-
Z	2/5	-	-	2/5

Adjusting entry:

X's Capital Account	Dr.	6,400	
Y's Capital Account	Dr.	12,800	
To Z's Capital Account			19,200

(Adjustment for goodwill on the death of Z on the basis of gaining ratio)

Question 74

The partnership agreement of a firm consisting of three partners - A, B and C (who share profits in proportion of $\frac{1}{2}$, $\frac{1}{4}$ and $\frac{1}{4}$ and whose fixed capitals are Rs. 10,000; Rs. 6,000 and Rs. 4,000 respectively) provides as follows:

(a) That partners be allowed interest at 10 per cent per annum on their fixed capitals, but no interest be allowed on undrawn profits or charged on drawings.

(b) That upon the death of a partner, the goodwill of the firm be valued at two years' purchase of the average net profits (after charging interest on capital) for the three years to 31st December preceding the death of a partner.

(c) That an insurance policy of Rs. 10,000 each to be taken in individual names of each partner, the premium is to be charged against the profit of the firm.

(d) Upon the death of a partner, he is to be credited with his share of the profits, interest on capitals etc. calculated upon 31st December following his death.

(e) That the share of the partnership policy and goodwill be credited to the deceased partner as on 31st

December following his death.
(f) That the partnership books be closed annually on 31st December.
A died on 30th September 2022, the amount standing to the credit of his current account on 31st December, 2021 was Rs. 450 and from that date to the date of death he had withdrawn Rs. 3,000 from the business.
An unrecorded liability of Rs. 2,000 was discovered on 30th September, 2022. It was decided to record it and be immediately paid off.
The trading result of the firm (before charging interest on capital) had been as follows: 2019 Profit Rs. 9,640; 2020 Profit Rs. 6,720; 2021 Profit Rs. 7,640; 2022 Profit Rs. 3,670.
Assuming the surrender value of the policy to be 20 percent of the sum assured.
Required
Prepare an account showing the amount due to A's legal representative as on 31st December, 2022.

[SM, PYQ Jan 21]

Answer

A's Capital Account

2022		Rs.	2022		Rs.
Sep. 30	To Current A/c (3,000 - 450)	2,550	Jan. 1	By Balance b/d	10,000
			Dec. 31	By Profit and Loss A/c :	
Dec. 31	To Profit and Loss Adjt. (Unrecorded Liability)	1,000		Interest on Capital	1,000
				Share of Profit	835
	To Balance Transferred to			B & C (Goodwill)	6,000
	A's Executor's A/c	21,285		Insurance Policies A/c	7,000
		24,835			24,835

Working Notes:
(i) Valuation of Goodwill

Year	Profit before Interest on fixed capital	Interest	Profit after interest
	Rs.	Rs.	Rs.
2019	9,640	2,000	7,640
2020	6,720	2,000	4,720
2021	7,640	2,000	5,640
	21,000	6,000	18,000

	Rs.
Average	6,000
Goodwill at two years purchase of average net profits	12,000
Share of A in the goodwill	6,000
(ii) Profit on Separate Life Policy	
A's policy	10,000
B and C's policy @ 20%	4,000
	14,000
Share of A (1/2)	7,000
(iii) Share in profit for 2022	
Profit for the year	3,670
Less : Interest on capitals	(2,000)
	1,670
A's share in profit (1/2)	835

(iv) As unrecorded liability of Rs. 2,000 has been charged to Capital Accounts through Profit and Loss Adjustment Account, no further adjustment in current year's profit is required.
(v) Profits for 2019, 2020 and 2021 have not been adjusted (for valuing goodwill) for unrecorded liability for want of precise information.

Question 75
The following is the Balance Sheet of M/s. ABC LLP as at 31st December, 2021.

Balance Sheet
as at 31st December, 2021

Liabilities	Rs.	Assets		Rs.
Capital		Machinery		5,000
A	4,100	Furniture		2,800
B	4,100	Fixture		2,100
C	4,500	Cash		1,500
General Reserve	1,500	Inventories		950
Trade payables	2,350	Trade receivables	4,500	
		Less: Provision for Doubtful debts	300	4,200
	16,550			16,550

C died on 3rd January, 2022 and the following agreement was to be put into effect.
(a) Assets were to be revalued: Machinery to Rs. 5,850; Furniture to Rs. 2,300; Inventory to Rs. 750.
(b) Goodwill was valued at Rs. 3,000 and was to be credited with his share, without using a Goodwill Account
(c) Rs. 1,000 was to be paid away to the executors of the dead partner on 5th January, 2022.
Required
(i) The Journal Entry for Goodwill adjustment.
(ii) The Revaluation Account and Capital Accounts of the partners.
(iii) Which account would be debited and which account credited if the provision for doubtful debts in the Balance Sheet was to be found unnecessary to maintain at the death of C.

[SM]

Answer
(i) Journal Entry in the books of the firm

Date	Particulars		Rs.	Rs.
Jan 3, 2022	A's Capital A/c B's Capital A/c	Dr.	500	
	To C's Capital A/c	Dr.	500	
	(Being the required adjustment for goodwill through the partner's capital accounts)			1,000

(ii) Revaluation Account

Particulars	Rs.	Particulars	Rs.
To Furniture A/c (Rs. 2,800 – 2,300)	500	By Machinery A/c (Rs. 5,850 – 5,000)	850
To Inventory A/c (Rs. 950 – 750)	200		
To Partners' Capital A/cs (A – Rs. 50, B – Rs. 50, C – Rs. 50)	150		
	850		850

Partners' Capital Accounts

Particulars	A Rs.	B Rs.	C Rs.	Particulars	A Rs.	B Rs.	C Rs.
To C (Goodwill)	500	500	-	By Balance b/d	4,100	4,100	4,500
To Cash A/c	-	-	1,000	By General Reserve A/c	500	500	500
To Executors A/c	- 4,150	- 4,150	5,050	By Revaluation A/c (Profit)	50	50	50
To Balance C/d			-	By A (Goodwill) By B (Goodwill)	-	-	500
					-	-	500
	4,650	4,650	6,050		4,650	4,650	6,050

(iii) Provision for Doubtful Debts Account is a credit balance. To close, this account is to be debited. It becomes a gain for the partners. Therefore, either Partners' Capital Accounts (including C) or Revaluation Account is to be credited.

Working Note:
Statement showing the Required Adjustment for Goodwill

Particulars	A	B	C
Right of goodwill before death	1/3	1/3	1/3
Right of goodwill after death	1/2	1/2	-
Gain/(Sacrifice)	(+) 1/6	(+) 1/6	(-) 1/3

Profit sharing ratio is equal before or after the death of C because nothing has been mentioned in respect of profit-sharing ratio.

Question 76

B and N were partners. The partnership deed provides inter alia:

(i) That the accounts be balanced on 31st December each year.

(ii) That the profits be divided as follows:
B: One-half; N: One-third; and carried to Reserve Account: One-sixth

(iii) That in the event of death of a partner, his executor will be entitled to the following:

(a) the capital to his credit at the date of death; (b) his proportion of profit to date of death based on the average profits of the last three completed years; (c) his share of goodwill based on three years' purchases of the average profits for the three preceding completed years.

Trial Balance on 31st December, 2021

Particulars	Dr. (Rs.)	Cr. (Rs.)
B's Capital		90,000
N's Capital		60,000
Reserve		30,000
Bills receivable	50,000	
Investments	40,000	
Cash	1,10,000	
Trade payables		20,000
Total	2,00,000	2,00,000

The profits for the three years were 2019: Rs. 42,000; 2020: Rs. 39,000 and 2021: Rs. 45,000. N died on 1st May, 2022. Show the calculation of N (i) Share of Profits; (ii) Share of Goodwill; (iii) Draw up N's Executors Account as would appear in the firms' ledger transferring the amount to the Loan Account.

[SM]

Answer

(i)	Ascertainment of N's Share of Profit		(ii)	Ascertainment of Value of Goodwill	
	2019	42,000		2019	42,000
	2020	39,000		2020	39,000
	2021	45,000		2021	45,000
	Total Profit	1,26,000		Total Profit for 3 years	1,26,000
	Average Profit	42,000		Average Profit	42,000
	4 months' Profit	14,000		Goodwill - 3 years Purchase of Average Profit	1,26,000
	N's Share in Profit (2/5th* of Rs. 14,000)	5,600		N's Share of goodwill (2/5 of Rs. 1,26,000)	50,400

* Profit sharing ratio between B and N = 1/2; 1/3; = 3: 2, Therefore N's share of Profit = 2/5

N's Executors Account

Date	Particulars	Rs.	Date	Particulars	Rs.
2022			2022		
May 1,	To N's Loan A/c	1,28,000	Jan. 1	By Capital A/c By Reserves (2/5th of Rs. 30,000)	60,000
			May 1	By B's Capital A/c (Share of goodwill)	12,000
			May 1	By P/L Suspense A/c (Share of Profit)	50,400
			May 1		5,600
		1,28,000			1,28,000

Question 77

Diya, Riya & Kiya are partners of M/s. DRK Fabrics sharing profits and losses in the ratio of 2:1:2. On 31st March 2022 their Balance Sheet was as under:

Liabilities	Rs.	Assets	Rs.
Capitals :		Land & Building	1,65,000
Diya	1,50,000	Furniture	75,000
Riya	1,80,000	Joint life Policy	60,000
Kiya	70,000	Inventory	88,740
General Reserve	1,40,000	Trade Receivable	96,750
Trade payables	60,000	Bank	1,14,510
	6,00,000		6,00,000

Kiya died on 30th September, 2022.

The partnership deed provides as follows:

(a) That partners be allowed interest at 12% p.a. on their capitals, but no interest be charged on drawings.

(b) Upon the death of a partner, the goodwill of the firm be valued at one years' purchase of the average net profits (after charging interest on capital) for the four years to 31st March preceding the death of a partner. The profits of the firm before charging interest on capitals were

2018-19	1,62,000
2019-20	1,99,000
2020-21	1,87,000
2021-22	1,96,000

Average capital during preceding four years may be assumed as Rs. 3,00,000

(c) Profits till the date of death to be ascertained on the basis of average profit of previous four years

(d) Upon the death of a partner, she is to be credited with her share of the profits, interest on capitals etc. calculated till the date of death

After the death of Kiya

1. Rs. 2,00,000 was received from insurance company against Joint life Policy.
2. Land & Building was appreciated by 20%, Furniture to be depreciated by 10%, inventory to be revalued at Rs. 80,000. Bad debts amounted Rs. 1760.
3. Amount payable to Kiya was paid in cash. You are required to prepare

1. Revaluation A/c
2. Partners' Capital A/c
3. Balance Sheet as on 30th September 2022, assuming other Assets and liabilities remaining the same.

[SM]

Answer

Revaluation A/c

Particulars	Rs.	Particulars	Rs.
To Furniture	7,500	By Land & Building	33,000
To Inventory	8,740		
To Bad Debts	1,760		
To Profit on Revaluation			
Diya 6,000			
Riya 3,000			
Kiya 6,000	15,000		
	33,000		33,000

Partners Capital A/c

Particulars	Diya Rs.	Riya Rs.	Kiya Rs.	Particulars	Diya Rs.	Riya Rs.	Kiya Rs.
To Kiya capital	40,000	20,000		By Balance b/d	1,50,000	1,80,000	70,000
To Bank			2,79,800	By General Reserve	56,000	28,000	56,000
To Balance c/d	2,28,000	2,19,000		By Joint life Policy	56,000	28,000	56,000
				By Interest on Capital			4,200
				By revaluation	6,000	3,000	6,000
				By Diya & Riya capital			60,000
				By Profit & loss suspense A/c			27,600
	2,68,000	2,39,000	2,79,800		2,68,000	2,39,000	2,79,800

Bank A/c

Particulars	Rs.	Particulars	Rs.
To Balance B/d	1,14,510	By Kiya's Capital	2,79,800
To Bank	2,00,000	By Balance c/d	34,710
	3,14,510		3,14,510

Balance Sheet
as on 30th September, 2022

Liabilities	Rs.	Assets	Rs.
Capitals :		Land & Building	1,98,000
Diya	2,28,000	Furniture	67,500
Riya	2,19,000	Inventory	80,000
		Trade Receivable	94,990
Trade payables	60,000	Bank	34,710
		Profit and loss Suspense (27,600+4,200)	31,800
	5,07,000		5,07,000

Working Notes:

1. Goodwill valuation

2018-19	1,62,000
2019-20	1,99,000
2020-21	1,87,000
2021-22	1,96,000
Total	7,44,000
Average	= 7,44,000/4 = 1,86,000

Less: Interest on Capital 3,00,000 X 12% = 36,000
Adjusted Average Profit =1,50,000
Goodwill (1 year's purchase) = 1,50,000
Kiya's share (2/5) = 60,000

2. Journal entry for adjustment of goodwill

Particulars		Rs.	Rs.
Diya's Capital A/c	Dr.	40,000	
Riya's Capital A/c	Dr.	20,000	
To Kiya's Capital A/c			60,000
(Share of goodwill adjusted)			

3. Kiya's share of profit till the date of death

Average profit for full year before interest on capital	=	1,86,000
6 month's profit	=	93,000
Less: interest on capital 4,00,000 X 12% X 6/12	=	24,000
Adjusted profit till the date of death	=	69,000
Kiya's share 2/5th	=	27,600

4. The Joint life policy in this question is based on the surrender value method- where in the amount shown in the balance sheet shall be deducted from the JLP proceeds received from insurance co, on the death of a partner.
Rs. 2,00,000- 60,000 (Balance Sheet value) = Rs. 1,40,000 (divided in profit sharing ratio between the partners.).

Question 78
Explain distinction between retirement and death of a partner as relating to finalisation of amount payable.
[SM]

Answer
The basic distinction between retirement and death of a partner relates to finalisation of amount payable to the Executor of the deceased partner. Although, revaluation of goodwill is done in the same way as it has been done in case of retirement, in addition, the executor of the deceased partner is entitled to share of profit upto the

date of death.

Question 79

What amount is payable to legal representatives of dead partner?

[SM]

Answer

When the partner dies the amount payable to him/her is paid to his/her legal representatives. The representatives are entitled to the followings :

(a) The amount standing to the credit to the capital account of the deceased partner;
(b) Interest on capital, if provided in the partnership deed upto the date of death;
(c) Share of goodwill of the firm;
(d) Share of undistributed profit or reserves;
(e) Share of profit on the revaluation of assets and liabilities;
(f) Share of profit upto the date of death;
(g) Share of Joint Life Policy.

Question 80

The Balance Sheet of Seed, Plant and Flower as at 31st December, 2021 was as under :

Liabilities		Rs.	Assets	Rs.
Trade payables		20,000	Fixed Assets	40,000
General Reserve		5,000	Debtors	10,000
Capital:			Bills Receivable	4,000
Seed	25,000		Inventories	16,000
Plant	15,000		Cash at Bank	10,000
Flower	15,000	55,000		
		80,000		80,000

The profit sharing ratio was: Seed 5/10, Plant 3/10 and Flower 2/10. On 1st May, 2022 Plant died. It was agreed that:

(a) Goodwill should be valued at 3 years purchase of the average profits for 4 years. The profits were:

2018 Rs. 10,000 2020 Rs. 12,000
2019 Rs. 13,000 2021 Rs. 15,000

(b) The deceased partner to be given share of profits upto the date of death on the basis of the previous year.

(c) Fixed Assets were to be depreciated by 10%. A bill for Rs. 1,000 was found to be worthless. These are not to affect goodwill.

(d) A sum of Rs. 7,750 was to be paid immediately, the balance was to remain as a loan with the firm at 9% p.a. as interest.

Seed and Flower agreed to share profits and losses in future in the ratio of 3: 2. Give necessary journal entries.

[SM]

Answer

1. Journal Entries

2022			Rs.	Rs.
May 1	General Reserve Account	Dr.	5,000	
	To Seed's Capital Account To Plant's Capital Account To Flower's Capital Account			2,500 1,500
	(General Reserve transferred to Capital Account on the death of Plant)			1,000

	Seed's Capital Account Flower's Capital Account	Dr.	3,750	
	To Plant's Capital Account	Dr.	7,500	
	(Adjustment for goodwill on the death of Plant on the basis of gaining ratio) (Value = 3 × (10,000 + 13,000 + 12,000 + 15,000)/4)			11,250
	Revaluation Account	Dr.	5,000	
	To Fixed Assets Account			4,000
	To Bills Receivable Account			1,000
	(Depreciation of fixed assets @ 10% and writing off of one bill for Rs.1,000 on Plant's death)			
	Seed's Capital Account Plant's Capital Account Flower's Capital Account	Dr.	2,500	
	To Revaluation Account	Dr.	1,500	
	(Loss on Revaluation transferred to capital accounts)	Dr.	1,000	
				5,000
	Profit and Loss Suspense Account	Dr.	1,500	
	To Plant's Capital Account			1,500
	(Plant's share of four month's profit based on the previous year)			
	Plant's Capital Account	Dr.	27,750	
	To Plant's Executor's Account			27,750
	(Amount standing to the credit of Plant's Capital Account transferred to the credit of his Executor's Account)			
	Plant's Executor's Account To Bank Account	Dr.	7,750	
	(Amount paid to Plant's Executors)			7,750

Question 81

Peter, Paul and Prince were partners sharing profits and losses in the ratio 2:1:1. It was provided in the partnership deed that in the event of retirement /death of a partner he/his legal representatives would be paid:

(i) The balance in the capital Account

(ii) His share of goodwill of the firm valued at two years purchase of normal average profits (after charging interest on fixed capital) for the last three years to 31st December preceding the retirement or death.

(iii) His share of profits from the beginning of the accounting year to the date of retirement or death, which shall be taken on proportionate basis of profits of the previous year as increased by 25%

(iv) Interest on fixed capital at 10% p.a. though payable to the partners will not be payable in the year of death or retirement.

(v) All the asset are to be revalued on the date of retirement or death and the profit and loss be debited/credited to the Capital Accounts in the profit sharing ratio.

Peter died on 30th September, 2022. The books of Account are closed on calendar year basis from 1st January to 31st December.

The balance in the Fixed Capital Accounts as on 1st January, 2022 were Peter Rs. 10,000, Paul Rs. 5,000 and Prince Rs. 5,000. The balance in the Current Account as on 1st January, 2022 were Peter Rs. 20,000, Paul Rs. 10,000 and Prince Rs. 7,000. Drawings of Peter till 30th September, 2022 were Rs. 10,000. The profits of the firm before charging interest on capital for the calendar years 2019, 2020 and 2021 were Rs. 1,00,000, Rs. 1,20,000 and Rs. 1,50,000 respectively. The profits include the following abnormal items of credit:

	2019	2020	2021
	Rs.	Rs.	Rs.
Profit on sale of assets	5,000	7,000	10,000
Insurance claim received	3,000	-	12,000

The firm has taken out a Joint Life Policy for Rs. 1,00,000. Besides the partners had severally insured their lives

for Rs. 50,000 each, the premium in respect thereof being charged to the Profit and Loss account. The surrender value of the Policies were 30% of the face value. On 30th June, 2022 the firm received notice from the insurance company that the insurance premium in respect of fire policy had been undercharged to the extent of Rs. 6,000 in the year 2021 and the firm has to pay immediately. The revaluation of the assets indicates an upward revision in value of assets to the extent of Rs. 20,000. Prepare an account showing the amount due to Peter's Legal representatives as on 30th September, 2022 along with necessary workings.

[SM]

Answer

In the books of M/s Paul and Prince

Executors of Peter Account

	Rs.		Rs.
To Balance c/d	2,91,125	By Peter's capital A/c (W.N.6)	20,000
		By Peter's Current A/c (W.N.7)	2,71,125
	2,91,125		2,91,125

Working Notes:

		2019	2020	2021
		Rs.	Rs.	Rs.
1.	Valuation of Goodwill:			
	Profit as per Profit and loss A/c	1,00,000	1,20,000	1,50,000
	Less: Interest on capital @ 10% Abnormal Items:	2,000	2,000	2,000
	Profit on sale of asset Insurance claim received			
	Insurance premium undercharged	5,000	7,000	10,000
		3,000	-	12,000
		-	-	6,000
	Total profit of three years	90,000	1,11,000	1,20,000
			3,21,000	
	Average profit		1,07,000	
	Goodwill (2 x Average profit)		2,14,000	
	Peter's share of goodwill (2/4)		1,07,000	

2.	Peter's share of profit:	Rs.
	Profit for the year 2021	1,50,000
	Less: Insurance premium undercharged	6,000
		1,44,000
	Add: 25% increase thereof	36,000
	Estimated profit for 2022	1,80,000
	Less: Interest on capital *	1,000
	Estimated profit for 2022	1,79,000
	Estimated profit upto 30.9.22	1,34,250
	Peter's Share (2/4)	67,125

*Since Peter was not entitled to interest on capital in the year of death, interest is payable only to the remaining two partners.

3. Profit on revaluation of assets:

	Rs.
Upward revision in the value of assets	20,000
Peter's share (2/4)	10,000

4. Peter's share in insurance premium undercharged:

Insurance premium undercharged in 2021	6,000
Peter's share	3,000

5. Share of life policy:

Joint life policy	1,00,000
Maturity value of Peter's individual life policy	50,000
Surrender value of individual life policies of Paul & Prince (30 % of face value)	30,000
	1,80,000
Peter's share (2/4)	90,000

6. Peter's Capital Account

		Rs.			Rs.
30.9.22	To Executors of Peter A/c (Transfer)	20,000	1.1.22 30.9.22	By Balance b/d By Profit on revaluation of assets	10,000 10,000*
		20,000			20,000

* This is generally transferred to Peter's current account. But as per the requirement of adjustment No. (v) of question, it is transferred to capital account.

7. Peter's Current Account

		Rs.			Rs.
30.9.22	To Drawings	10,000	1.1.22	By Balance b/d	20,000
	To Insurance premium undercharged	3,000	30.9.22	By Share of goodwill	1,07,000
				By share of profit	67,125
	To Executor's of Peter's Account (balance transferred)	2,71,125		By Share of life policy	75,000
				By Paul & Prince	15,000
		2,84,125			2,84,125

Note: The share of goodwill given to peter would be borne by remaining partners in their gaining ratio, so that goodwill account does not appear in the balance sheet.

Question 82

Monika, Yedhant and Zoya are in partnership, sharing profits and losses equally. Zoya died on 30th June 2018. The Balance Sheet of Firm as at 31st March 2018 stood as

Liabilities	Amount	Assets	Amount
Creditors	20,000	Land and Building	1,50,000
General Reserve	12,000	Investments	65,000
Capital Accounts:		Stock in trade	15,000
Monika	1,00,000	Trade receivables 35,000	
Yedhant	75,000	Less: Provision for doubtful debt (2,000)	33,000
Zoya	75,000	Cash in hand	7,000
		Cash at bank	12,000

	2,82,000		2,82,000

In order to arrive at the balance due to Zoya, it was mutually agreed that:
(i) Land and Building be valued at Rs. 1,75,000
(ii) Debtors were all good, no provision is required
(iii) Stock is valued at Rs. 13,500
(iv) Goodwill will be valued at one Year's purchase of the average profit of the past five years. Zoya's share of goodwill be adjusted in the account of Monika and Yedhant.
(v) Zoya's share of profit from 1st April 2018, to the date of death be calculated on the basis of average profit of preceding three years.
(vi) The profit of the preceding five years ended 1st March were:

2018	2017	2016	2015	2014
25,000	20,000	22,500	35,000	28,750

You are required to prepare:
(1) Revaluation account
(2) Capital accounts of the partners and
(3) Balance sheet of the Firm as at 1st July 2018.

[PYQ May 19, MTP May 20, Dec 23, April 24]

Answer

(a) Revaluation Account

Particulars	Rs.	Particulars	Rs.
To Stock	1,500	By Land & Building	25,000
To Partners: (Revaluation Profit)		By Provision for doubtful debt	2,000
Monika	8,500		
Yedhant	8,500		
Zoya	8,500		
	27,000		27,000

Partners' Capital Accounts

Particular s	Monika	Yedhant	Zoya	Particular s	Monika	Yedhant	Zoya
To Zoya	4,375	4,375	-	By Bal b/d.	1,00,000	75,000	75,000
To Zoya's Executor	-	-	98,125	By General reserve	4,000	4,000	4,000
				By Monika & Yedhant	-	-	8,750
To Bal. c/d	1,08,125	83,125		By Profit and Loss Adjustment* (suspense) A/c	-	-	1,875
				By Revaluation	8,500	8,500	8,500
	1,12,500	87,500	98,125		1,12,500	87,500	98,125

*Profit and Loss Adjustment = [(25,000 + 20,000 + 22,500)/3] x 3/12 x 1/3 = 1,875

Balance Sheet of Firm as on 1.7.2018

Particulars	Rs.	Particulars	Rs.
Monika	1,08,125	Land & Building	1,75,000
Yedhant	83,125	Investment	65,000
Zoya Executor	98,125	Stock	13,500
Creditors	20,000	Trade receivable	35,000

		Profit & Loss Adjustment	1,875
		Cash in hand	7,000
		Cash at bank	12,000
	3,09,375		3,09,375

Calculation of goodwill and Zoya's share
Average of last five year's profits and losses for the year ended on 31st March

31.3.2014	28,750
31.3.2015	35,000
31.3.2016	22,500
31.3.2017	20,000
31.3.2018	25,000
Total	1,31,250
Average profit	26,250

Goodwill at 1 year purchase = Rs. 26,250 x 1 = Rs. 26,250
Zoya's Share of Goodwill = Rs. 26,250X1/3 = Rs. 8,750
Which is contributed by Monika and Yedhant in their gaining Ratio Monika = Rs. 8750X1/2 =Rs. 4375
Yedhant =Rs. 8750X1/2 = Rs. 4375

Question 83
Arup and Swarup were partners. The partnership deed provides inter alia:
(i) That the annual accounts be balanced on 31st December each year;
(ii) That the profits be allocated as follows:
Arup: One-half; Swarup: One-third and -Carried to reserve account: One sixth;
(iii) That in the event of death of a partner, his executor will be entitled to the following:
(1) The capital to his credit at the date of death;
(2) His proportionate share. of profit to date of death based on the average profits of the last three completed years; and
(3) His Share of goodwill based on three years' purchase of the average profits for the three preceding completed years.

Trial Balance as on 31st December, 2018

Particulars	Debit (Rs.)	Credit (Rs.)
Arup's Capital		90,000
Swarup's Capital		60,000
Reserve		45,000
Bills receivable	50,000	
Investment	55,000	
Cash	1,10,000	
Trade payables		20,000
Total	2,15,000	2,15,000

The profits for the three year were 2016: Rs. 51,000; 2017: Rs. 39,000 and 2018: Rs. 45,000. Swarup died on 1st May 2019.
Show the calculation of Swarup (A) Share of profits; (B) Share of Goodwill; (C) Draw up Swarup's Executor Account as would appear in the firms' ledger transferring the amount to the Loan account.

[PYQ Nov 19]

Answer

(i)	Ascertainment of Swarup's Share of Profit		(ii)	Ascertainment of Value of Goodwill	
	2016	51,000		2016	51,000
	2017	39,000		2017	39,000
	2018	45,000		2018	45,000
	Total Profit	1,35,000		Total Profit for 3 years	1,35,000
	Average Profit	45,000		Average Profit	45,000
	4 months' Profit	15,000		Goodwill - 3 years Purchase of Average Profit	1,35,000
	Swarup's Share in Profit (2/5th of Rs.15,000)	6,000		Swarup's Share of goodwill (2/5 of Rs.1,35,000)	54,000

Working Note:
Profit sharing ratio between Arup and Swarup = $\frac{1}{2}$; 1/3; = 3: 2, Therefore Swarup's share of Profit = 2/5

Swarup's Executors Account

Date 2019	Particulars	Rs.	Date 2019	Particulars	Rs.
May 1	To Swarup's Loan A/c	1,38,000	Jan. 1	By Capital A/c	60,000
			May 1	By Reserves (2/5th of Rs.45,000)	18,000
			May 1	By Arup's Capital A/c (Share of goodwill)	54,000
			May 1	By P&L Suspense A/c (Share of Profit)	6,000
		1,38,000			1,38,000

Question 84

It was provided under the Partnership Agreement between Ram, Laxman and Bharat that in the event of death of a partner, the survivors would have to purchase his share in the firm on the following terms:

(i) Goodwill is to be valued at 3 year's purchase of simple average profits of last 4 completed years.

(ii) Outstanding amount due to the representative of a deceased partner shall be paid in 4 equal half yearly installments commencing 6 months after the death plus interest @ 5% p.a. on the outstanding dues.

They shared profit and loss in the ratio 9:4:3.

Ram died on 30th September 2020 and Partner's Capital account balances on that date were: Ram - Rs. 21,600, Laxman - Rs. 12,800 and Bharat - Rs. 7,200. Ram's current account on 30th September, 2020 after crediting his share of profit to that date, however showed a debit balance of Rs. 1,920.

Firm profits were for the year ended

- 31st March, 2017 Rs. 70,400
- 31st March, 2018 Rs. 56,320
- 31st March, 2019 Rs. 48,160
- 31st March, 2020· Rs. 17,408

Show Ram's Capital Account and Executor's Account (of Ram) till full payment is made to Ram's Executor

[PYQ July 21, MTP May 25]

Answer

Ram's Capital Account

Date 2020	Particulars	Rs.	Date 2020	Particulars	Rs.
Sep. 30	To Ram's current Account	1,920	Sep. 30	By bal b/d	21,600
Sep. 30	To Ram's Executor A/c	1,00,802	Sep. 30	By Bharat Capital A/c and Laxman Capital A/c (Share of goodwill)	81,122
		1,02,722			1,02,722

Ram's executor Account

Date 2020	Particulars	Rs.	Date 2020	Particulars	Rs.
31.3.2021	To Bank A/c (25,200.50+2,520)	27,720.50	1.10.2020	By Capital A/c	1,00,802.00
	To Balance c/d	75,601.50	31.3.2021	By Interest (1,00,802 x 2.5%)	2,520.00
		1,03,322.00			1,03,322
30.9.2021	To bank A/c (25,200.50+1,890)	27,090.50	1.4.2021	By Balance b/d	75,601.50
31.3.2022	To bank A/c (25,200.50+1,260)	26,460.50	30.9.2021	By Interest (75,601.50 x 2.5%)	1,890.00
31.3.2022	To balance c/d	25,200.50	30.3.2022	By Interest (25,200.50 x 2) x 2.5%	1,260.00
		78,751.50			78,751.50
30.9.2022	To bank A/c (25,200.50+630)	25,830.50	1.4.2022	By balance b/d	25,200.50
			30.9.22	By Interest (25,200.50 x 2.5%)	630.00
		25,830.50			25,830.50

Working notes

1.	Ascertainment of Value of Goodwill	
	2017	70,400
	2018	56,320
	2019	48,160
	2020	17,408
	Total Profit for 4 years	1,92,288
	Average Profit	48,072
	Goodwill - 3 years	
	Purchase of Average Profit	1,44,216
	Ram's Share of goodwill (9/16 of Rs.1,44,216)	81,122

* Profit sharing ratio between Ram, Laxman and Bharat = 9:4:3, Therefore Ram's share of Profit = 9/16

2. Calculation of amount of each instalment (without interest) = Rs.1,00,802 / 4 = 25,200.50

Question 85

The Balance Sheet of Sam, Saif and Sameer as at 31.12.2021 stood as follows:

Liabilities		Amount (Rs.)	Assets		Amount (Rs.)
Capital:			Land & Buildings		74,000
Sam	60,000		Investments		10,000
Saif	40,000		Advertisement suspense		37,800
Sameer	40,000	1,40,000	Life Policy (at surrender value):		
Creditors		25,800	Sam		2,500
General Reserve		8,000	Saif		2,500
Investment Fluctuation Reserve		2,400	Sameer		1,000
			Stock		20,000
			Debtors	20,000	
			Less: Provision for doubtful debts	(1,600)	18,400
			Cash & bank balance		10,000
		1,76,200			1,76,200

Sameer died on 31st March, 2022, due to this reason the following adjustments were agreed upon:

(i) Land and Buildings to be appreciated by 50%.

(ii) Investment to be valued at 6% less than the cost.

(iii) All debtors (except 20% which are considered as doubtful) were good.

(vi) Stock to be reduced to 94%.

(v) Goodwill to be valued at 1 year's purchase of the average profits of the past five years.

(vi) Sameer's share of profit to the date of death be calculated on the basis of average profits of the three completed years immediately preceding the year of death.

The profits of the last five years are as follows:

Year	Rs.
2017	23,000
2018	28,000
2019	18,000
2020	16,000
2021	20,000
	1,05,000

The life policies have been shown at their surrender values representing 10% of the sum assured in each case. The annual premium of Rs.1,000 is payable every year on 1st August.

You are required to pass necessary Journal Entries in the books of account of the reconstituted firm.

[MTP Nov 22]

Answer

Journal Entries

Particulars		Amount	Amount
1. Insurance Company's A/c	Dr.	10,000	
To Life Policy A/c			10,000
(Being the policy on the life of Sameer matured on his death)			
2. Life Policy A/c	Dr.	9,000	

To Sam's Capital A/c			3,000
To Saif's Capital A/c			3,000
To Sameer's Capital A/c			3,000
(Being the transfer of balance in life policy account to all partners' capital accounts)			
3. Sam's Capital A/c	Dr.	12,600	
Saif's Capital A/c	Dr.	12,600	
Sameer's Capital A/c	Dr.	12,600	
To Advertisement suspense A/c			
(Being Advertisement suspense standing in the books written off fully)			37,800
4. Land & Buildings A/c	Dr.	37,000	
To Revaluation A/c			37,000
(Being an increase in the value of assets recorded)			
5. Investment Fluctuation Reserve A/c	Dr.	600	
To Investment A/c			600
(Being reduction in the cost of investment adjusted through Investment Fluctuation Reserve)			
6. Revaluation A/c	Dr.	3,600	
To Stock A/c			1,200
To Provision for Doubtful Debts A/c (Being the fall in value of assets recorded)			2,400
7. Sam's Capital A/c	Dr.	3,500	
Saif's Capital A/c	Dr.	3,500	
To Sameer's Capital A/c			
(Being the share of Sameer's revalued goodwill adjusted through capital accounts of the remaining partners)			7,000
8. Profit & Loss Suspense A/c	Dr.	1,500	
To Sameer's Capital A/c			1,500
(Being Sameer's Share of profit to date of death credited to his account)			
9. Revaluation A/c	Dr.	33,400	
To Sam's Capital A/c			11,133
To Saif's Capital A/c			11,133
To Sameer's Capital A/c			11,134
(Being the transfer of profit on revaluation)			
10. General Reserve A/c	Dr.	8,000	
Investment Fluctuation Reserve A/c (Rs. 2,400 - Rs. 600)	Dr.	1,800	
To Sam's Capital A/c			3,267
To Saif's Capital A/c			3,267
To Sameer's Capital A/c			3,266
(Being the transfer of accumulated profits to capital accounts)			
11. Sameer's Capital A/c	Dr.	53,300	
To Sameer's Executor's A/c			53,300
(Being the transfer of Sameer's Capital A/c to his Executor's A/c)			

Working Notes:
Calculation of Sameer's Share of Profits
Total profit for last three years Rs. 18,000 + Rs. 16,000 + Rs. 20,000 = Rs. 54,000 Average profit 54,000/3 = Rs. 18,000
Profit for 3 months = 18,000 x 3/12 = Rs. 4,500 Sameer's share of Profit = 4,500 x 1/3 = Rs. 1,500 Calculation

of Goodwill
Total profits for last five years Rs. 1,05,000
Average profit 1,05,000/5 = Rs. 21,000
Goodwill at one year's purchase Rs. 21,000 x 1 =Rs. 21,000

Question 86

X, Y, and Z are partners of the firm XYZ and Co., sharing Profits and Losses in the ratio of 4: 3: 2. Following is the Balance Sheet of the firm as on 31st March, 2022:

Balance Sheet as on 31st March, 2022

Liabilities	Rs.	Assets	Rs.
Partners' Capitals:		Fixed Assets	5,00,000
X	4,00,000	Stock in trade	3,00,000
Y	3,00,000	Sundry debtors	5,00,000
Z	2,00,000	Cash in hand	10,000
General Reserve	90,000		
Sundry Creditors	3,20,000		
	13,10,000		13,10,000

(a) Partners of the firm decided to dissolve the firm on the above-said date. Fixed assets realized Rs. 5,20,000 and book debts Rs. 4,40,000.
(b) Stocks were valued at Rs. 2,50,000 and it was taken over by partner Y.
(c) Creditors allowed discount of 5% and the expenses of realization amounted to Rs. 6,000. You are required to prepare:

(i) Realization account;
(ii) Partners capital account; and
(iii) Cash account.

[SM]

Answer

(i) Realization Account

Particulars	Rs.	Particulars	Rs.
To Fixed assets	5,00,000	By Creditors	3,20,000
To Stock in trade	3,00,000	By Cash (5,20,000+4,40,000)	9,60,000
To Debtors	5,00,000	By Y (Stock taken over)	2,50,000
To Cash – Expenses	6,000	By Loss transferred to partners' capital accounts	
To Cash -Creditors (3,20,000 x 95%)	3,04,000	X	35,555
		y	26,667
		Z	17,778
	16,10,000		16,10,000

(ii) Partners' Capital Accounts

Particulars	X	Y	Z	Particulars	X	Y	Z
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To Realization Account	35,555	26,667	17,778	By Balance b/d	4,00,000	3,00,000	2,00,000

To Realization Account	-	2,50,000	-	By General reserve	40,000	30,000	20,000
To Cash	4,04,445	53,333	2,02,222				
	4,40,000	3,30,000	2,20,000		4,40,000	3,30,000	2,20,000

(iii) Cash Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	10,000	By Realization A/c (Expenses)	6,000
To Realization A/c (Fixed assets and book debts realized)	9,60,000	By Realization A/c (Creditors)	3,04,000
		By X	4,04,445
		By Y	53,333
		By Z	2,02,222
	9,70,000		9,70,000

Question 87

P, Q, and R were partners sharing profits and losses in the ratio of 3: 2: 1, no partnership salary or interest on capital being allowed. Their balance sheet on 30th June, 2022 is as follows:

Liabilities		Rs.	Assets		Rs.
Fixed Capital			Fixed Assets:		
P	20,000		Trademark		40,000
Q	20,000		Freehold Property		8,000
R	10,000	50,000	Plant and Equipment		12,800
Current Accounts:			Motor Vehicle		700
P	500		Current Assets		
Q	9,000	9,500	Stock		3,900
Loan from P		8,000	Trade Debtors	2,000	
Trade Creditors		12,400	Less: Provision	(100)	1,900
			Cash at Bank		200
			Miscellaneous losses		
			R's Current Account		400
			Profit and Loss Account		12,000
		79,900			79,900

On 1st July, 2022 the partnership was dissolved. Motor Vehicle was taken over by Q at a value of Rs. 500 but no cash passed specifically in respect of this transaction. Sale of other assets realized the following amounts:

	Rs.
Trademark	Nil
Freehold Property	7,000
Plant and Equipment	5,000
Stock	3,000
Trade Debtors	1,600

Trade Creditors were paid Rs. 11,700 in full settlement of their debts. The costs of dissolution amounted to Rs.

1,500. The loan from P was repaid, P and Q were both fully solvent and able to bring in any cash required but R was forced into bankruptcy and was only able to bring 1/3 of the amount due.

Required

(a) Cash and Bank Account,

(b) Realization Account, and

(c) Partners Fixed Capital Accounts (after transferring Current Accounts' balances).

[SM]

Answer

Cash / Bank Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	200	By Realization A/c- Creditors	11,700
To Realization A/c-		By Realization A/c- Expenses	1,500
Freehold property	7,000	By P's Loan A/c	8,000
Plant and Equipment	5,000	By P's Capital A/c	14,200
Stock	3,000	By Q's Capital A/c	24,200
Trade Debtors	1,600		
To Capital Accounts:			
P 25,500			
Q 17,000	42,800		
R 300			
	59,600		59,600

Realization Account

Particulars	Rs.	Particulars		Rs.
To Trademark	40,000	By Trade Creditors		12,400
To Freehold Property	8,000	By Provision for Bad Debts		100
To Plant and Equipment	12,800	By Bank:		
To Motor Vehicle	700	Freehold Property	7,000	
To Stock	3,900	Plant and Equip.	5,000	
To Sundry Debtors	2,000	Stock	3,000	
To Bank (Creditors)	11,700		1,600	16,600
To Bank (Expenses)	1,500	Debtors By Q (Car)		500
		By Capital Accounts: (Loss)		
		P	25,500	
		Q	17,000	
		R	8,500	51,000
	80,600			80,600

Partners' Capital Accounts

Particulars	P Rs.	Q Rs.	R Rs.	Particulars	P Rs.	Q Rs.	R Rs.
To Current A/c (Transfer) (WN)	5,500	—	2,400	By Balance b/d	20,000	20,000	10,000
To Realization A/c (Loss)	25,500	17,000	8,500	By Current A/c (Transfer) (WN)	—	5,000	—
To Realization A/c	—	500	—	By Bank	—	—	300

(Car)				By Bank	25,500	17,000	—
To R's Capital A/c (Deficiency) Bank	300	300	—	(realization loss)			
To	14,200	24,200	—	By P & Q (Deficiency)	—	—	600
	45,500	42,000	10,900		45,500	42,000	10,900

Working Note

Particulars	P	Q	R
Current Account Balance	500 (Cr)	9000 (Cr)	400 (Dr)
Less: share of Profit & Loss A/c (debit balance)	6000 (Dr)	4000 (Dr)	2000 (Dr)
Adjusted Current Account Balance	5500 (Dr)	5000 (Cr)	2400 (Dr)

Note:

1. P, Q, and R will bring cash to make good their share of the loss on realization. In actual practice they will not be bringing any cash; only a notional entry will be made.
2. On following Garner Vs. Murray rule, solvent partners P and Q have to bear the loss due to insolvency of a partner R in their fixed capital ratio.

Question 88

Amal and Bimal are in equal partnership. Their Balance Sheet stood as under on 31st March, 2021 when the firm was dissolved:

Liabilities	Rs.	Assets	Rs.
Creditors A/c	4,800	Plant & Machinery	2,500
Amal's Capital A/c	750	Furniture	500
		Debtors	1,000
		Stock	800
		Cash	200
		Bimal's drawings	550
	5,550		5,550

The assets realized as under:

Particulars	Rs.
Plant & Machinery	1,250
Furniture	150
Debtors	400
Stock	500

The expenses of realization amounted to Rs. 175. Amal's private estate is not sufficient even to pay his private debts, whereas Bimal's private estate has a surplus of Rs. 200 only.

Show necessary ledger accounts to close the books of the firm.

[SM]

Answer

In the books of M/s Amal and Bimal

Realization Account

Particulars	Rs.	Particulars		Rs.
To Sundry Assets:		By Cash A/c:		
Plant & Machinery	2,500	Plant & Machinery	1,250	

Furniture	500	Furniture	150	
Debtors	1,000	Debtors	400	
Stock	800	Stock	500	2,300
Cash A/c-expenses	175	By Partners' Capital A/c Loss on realization (Bal. fig.)		
		Amal	1,337	
		Bimal	1,338	2,675
	4,975			4,975

Cash Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	200	By Realization A/c- expenses	175
To Realization A/c		By Sundry Creditors A/c (Bal. fig.)	2,525
- Sale of sundry assets	2,300		
To Bimal's Capital A/c	200		
	2,700		2,700

Sundry Creditors Account

Particulars	Rs.	Particulars	Rs.
To Cash A/c	2,525	By Balance b/d	4,800
To Deficiency A/c-transfer (bal. fig.)	2,275		
	4,800		4,800

Partners' Capital Accounts

Particulars	Amal(Rs.)	Bimal (Rs.)	Particulars	Amal (Rs.)	Bimal (Rs.)
To Balance b/f	—	550	By Balance b/f	750	— 200
To Realization A/c			By Cash A/c	—	
- loss	1,337	1,338	By Deficiency A/c- transfer (bal. fig.)	587	1,688
	1,337	1,888		1,337	1,888

Deficiency Account

Particulars	Rs.	Particulars	Rs.
To Partners' Capital A/c		By Sundry Creditors A/c	2,275
Amal	587		
Bimal	1,688		
	2,275		2,275

Question 89

A, B, C, and D sharing profits in the ratio of 4:3:2:1 decided to dissolve their partnership on 31st March 2022 when their balance sheet was as under:

Liabilities	Rs.	Assets	Rs.
Creditors	15,700	Bank	535

Employees Provident Fund	6,300	Debtors	15,850
Capital Accounts:		Stock	25,200
A 40,000		Prepaid Expenses	800
B 20,000	60,000	Plant & Machinery	20,000
		Patents	8,000
		C's Capital A/c	3,200
		D's Capital A/c	8,415
	82,000		82,000

Following information is given to you: -

1. One of the creditors took some of the patents whose book value was Rs. 5,000 at a valuation of Rs. 3,200. Balance of the creditors were paid at a discount of Rs. 400.

2 There was a joint life policy of Rs. 20,000 (not mentioned in the balance sheet) and this was surrendered for Rs. 4,500.

3 The remaining assets were realized at the following values: - Debtors Rs. 10,800; Stock Rs. 15,600; Plant and Machinery Rs. 12,000; and Patents at 60% of their book-values. Expenses of realization amounted to Rs. 1,500.

D became insolvent and a dividend of 25 paise in a rupee was received in respect of the firm's claim against his estate. Prepare necessary ledger accounts.

[SM]

Answer

Realization Account

Particulars		Rs.	Particulars		Rs.
To Sundry Assets: -			By Creditors		15,700
Debtors	15,850		By Employee'sProvident Fund		6,300
Stock	25,200		By Bank A/c:		
Prepaid Expenses	800				
Plant & Machinery	20,000		Joint Life Policy	4,500	
Patents	8,000	69,850	Debtors	10,800	
To Bank-Creditors:		12,100	Stock	15,600	
(Rs. 15,700 –Rs. 3,200 -Rs. 400)			Plant and Machinery	12,000	
To Bank A/c Employee's (P.F)		6,300	Patents 60% of		
			(Rs. 8,000 – Rs. 5,000)	1,800	44,700
To Bank A/c (expenses)		1,500	By Loss transferred to:		
			A's Capital A/c	9,220	
			B's Capital A/c	6,915	
			C's Capital A/c	4,610	
			SSD's Capital A/c	2,305	23,050
		89,750			89,750

Capital Accounts

Particulars	A (Rs.)	B (Rs.)	C (Rs.)	D (Rs.)	Particulars	A (Rs.)	B (Rs.)	C (Rs.)	D (Rs.)
To Bal. b/d	—	—	3,200	8,415	By Bal. b/d	40,000	20,000	—	—
To Realization					By Bank (Realization loss)				

A/c	9,220	6,915	4,610	2,305	By Bank (Recovery)	9,220	6,915	4,610	—
To D's Capital (Deficiency)	5,360	2,680	—	—	By A's Capital (2/3)	—	—	—	2,680
To Bank	34,640	17,320	—	—		—	—	—	5,360
					By B's Capital (1/3)	—	—	—	2,680
							—	3,200	—
	49,220	26,915	7,810	10,720	By Bank A/c	49,220	26,915	7,810	10,720

Bank Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	535	By Realization A/c	12,100
To Realization A/c	44,700	By Realization A/c	6,300
To A's Capital A/c	9,220	By Realization A/c	1,500
To B's Capital A/c	6,915	By A's Capital A/c	34,640
To D's Capital A/c	2,680	By B's Capital A/c	17,320
To C's Capital A/c (4,610 + 3,200)	7,810		
	71,860		71,860

Working Note

D's loss will be borne by A and B only because only solvent partners having credit balance has to bear the loss on account of insolvency. C will bring his share of loss in cash.

Question 90

M/s X, Y, and Z who were in partnership sharing profits and losses in the ratio of 2:2:1 respectively, had the following Balance Sheet as on December 31, 2022:

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital: X	29,200		Fixed Assets		40,000
Y	10,800		Stock		25,000
Z	10,000	50,000	Book Debts	25,000	
Z's Loan		5,000	Less: Provision	(5,000)	20,000
Loan from Mrs. X		10,000	Cash		1,000
Sundry Trade Creditors		25,000	Advance to Y		4,000
		90,000			90,000

The firm was dissolved on the date mentioned above due to continued losses. After drawing up the balance sheet given above, it was discovered that goods amounting to Rs. 4,000 have been purchased in November, 2022 and had been received but the purchase was not recorded in books.

Fixed assets realized Rs. 20,000; Stock Rs. 21,000 and Book Debt Rs. 20,500. Similarly, the creditors allowed a discount of 2% on average. The expenses of realization come to Rs. 1,080. X agreed to take over the loan of Mrs. X. Y is insolvent, and his estate is unable to contribute anything.

Give accounts to close the books; work according to the decision in Garner vs. Murray.

[SM]

Answer

Realization Account

Particulars	Rs.	Particulars		SRs.

To Sundry		By Provision for Doubtful Debts By Cash		5,000
Fixed Assets (transfer)	40,000	(20,000+21,000+20,500)		61,500
Stock	25,000	By Sundry Trade Creditors (Discount)		
Book Debts	25,000	By Loss:		29,000
To Cash—Expenses	1,080	X (2/5)	9,600	
- Creditors	28,420	Y (2/5)	9,600	
		Z (1/5)	4,800	24,000
	1,19,500			1,19,500

Sundry Trade Creditors

Particulars	Rs.	Particulars	Rs.
To Realization A/c	29,000	By Balance b/d	25,000
		By Partners Capital Accounts (Purchase omitted)	4,000
	29,000		29,000

Z's Loan Account

Particulars	Rs.	Particulars	Rs.
To Cash Account	5,000	By Balance b/d	5,000

Mrs. X's Loan Account

Particulars	Rs.	Particulars	Rs.
To X's Capital A/c – transfer	10,000	By Balance b/d	10,000

Cash Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	1,000	By Sundry Trade Creditors (after deducting discount of 2%)	28,420
To Realization A/c-		By Realization A/c – expenses	1,080
assets realized	61,500	By Z's Loan	5,000
To X's Capital A/c*	9,600	By X's Capital A/c	34,300
To Z's Capital A/c*	4,800	By Z's Capital A/c	8,100
	76,900		76,900

*X and Z bring these amounts to make good their share of the loss on realization. In actual practice they will not be bringing any cash; only a notional entry will be made.

Capital Accounts

Particulars	X(Rs.)	Y (Rs.)	Z (Rs.)	Particulars	X (Rs.)	Y (Rs.)	Z (Rs.)
To Sundry Trade Creditors- omission	1,600	1,600	800	By Balance b/d	29,200	10,800	10,000
To Balance c/d	27,600	9,200	9,200				
	29,200	10,800	10,000		29,200	10,800	10,000
To Advance	-	4,000	-	By Balance b/d	27,600	9,200	9,200

To Realization A/c-loss	9,600	9,600	4,800	By Mrs. X's Loan	10,000	-	-
To Y's Capital A/c	3,300	-	1,100	By Cash (Realization loss)	9,600	-	4,800
				By X's Capital A/c		3,300	
To Cash	34,300	-	8,100	By Z's Capital A/c	-	1,100	-
	47,200	13,600	14,000		47,200	13,600	14,000

Note: Y's deficiency comes to Rs. 4,400 (difference in the two sides of his Capital Account); this has been debited to X and Z in the ratio of 27,600: 9,200 i.e., capital standing up just before dissolution but after correction of error committed while drawing up the accounts for 2022.

Question 91

A, B, and C are partners sharing profits and losses in the ratio of 5:3:2. Their capitals were Rs. 9,600, Rs. 6,000 and Rs. 8,400 respectively.

After paying creditors, the liabilities and assets of the firm were:

Liabilities	Rs.	Assets	Rs.
Liability for interest on loans from:		Investments	1,000
Spouses of partners	2,000	Furniture	2,000
Partners	1,000	Machinery	1,200
		Stock	4,000

The assets realized in full in the order in which they are listed above. B is insolvent.

You are required to prepare a statement showing the distribution of cash as and when available, applying the maximum possible loss procedure.

[SM]

Answer

Statement of Distribution of Cash

Realization		Interest on loans from partner's spouses	Interest on loans from partners	Partners Capitals			Total
				A	B	C	
Rs.		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balances due (1)		2,000	1,000	9,600	6,000	8,400	24,000
(i) Sale of Investments	1,000	(1,000)					
		1,000	1,000				
(ii) Sale of furniture	2,000	(1,000)	(1,000)				
(iii) Sale of machinery	1,200						
Maximum possible loss Rs. 22,800 (total of capitals Rs. 24,000 less Cash available Rs. 1,200) allocated to partners in the profit sharing ratio i.e. 5:3: 2				(11,400)	(6,840)	(4,560)	(22,800)
Amounts at credit				(1,800)	(840)	3,840	1,200

Deficiency of A and B written off against C				1,800	840	(2,640)	
Amount paid (2)				-	-	1,200	1,200
Balances in capital accounts (1-2) = (3)				9,600	6,000	7,200	22,800
(iv) Sale of stock 4,000							
Max. possible loss 22,800-4,000= 18,800							
allocated to partner's in the ratio 5:3:2				(9,400)	(5,640)	(3,760)	(18,800)
Amounts at credit and cash paid (4)				200	360	3,440	4,000
Balances in capital accounts left unpaid - Loss (3-4) = (5)				9,400	5,640	3,760	18,800

Question 92

The following is the Balance Sheet of A, B, C on 31st December, 2022 when they decided to dissolve the partnership:

Liabilities	Rs.	Assets	Rs.
Creditors	2,000	Sundry Assets	48,500
A's Loan	5,000	Cash	500
Capital Accounts:			
A	15,000		
B	18,000		
C	9,000		
	49,000		49,000

The assets realized the following sums in installments:

I	1,000
II	3,000
III	3,900
IV	6,000
V	20,100
	34,000

The expenses of realization were expected to be Rs. 500 but ultimately amounted to Rs. 400 only. Show how at each stage the cash received should be distributed between partners. They share profits in the ratio of 2:2:1.

[SM, MTP June 24]

Answer

First of all, the following table will be constructed to show the amounts available for distribution among the various interests:

Statement showing Realization and Distribution of Cash Payments

Particulars	Realization	Creditors	Partners' Loan	Partners' Capitals

	Rs.	Rs.	Rs.	Rs.
1. After taking into account cash balance and amount set aside for expenses	1,000	1,000	-	-
2.	3,000	1,000	2,000	- 900
3.	3,900	-	3,000	6,000
4.	6,000	-	-	20,100
Including saving in expenses	20,100	-	-	
	34,000	2,000	5,000	27,000

To ascertain the amount distributable out of each installment realized among the partners, the following table will be constructed:

Statement of Distribution on Capital Accounts

(1) Calculation to determine the mode of distribution of Rs. 900

Particulars	Total (Rs.)	A(Rs.)	B(Rs.)	C(Rs.)
Balance	42,000	15,000	18,000	9,000
Less: Possible loss, should remaining assets prove to be worthless (in their profit-sharing ratio)	(41,100)	(16,440)	(16,440)	(8,220)
	+ 900	– 1,440	+ 1,560	+ 780
Deficiency of A's capital written off against those of B and C in the ratio of their capital, 18,000:9,000 (Garner vs. Murray)			(960)	(480)
Manner in which the first Rs. 900 should be distributed			+ 600	+ 300

(2) Distribution of Rs. 6,000

Balance after making payment of amount shown in step (1)	41,100	15,000	17,400	8,700
Less: Possible Loss assuming remaining asset to be valueless (in their profit sharing ratio)	(35,100)	(14,040)	(14,040)	(7,020)
Balance available and to be distributed	6,000	960	3,360	1,680

(3) Distribution of Rs. 20,100

Balance after making payment of amount shown in step (2)	35,100	14,040	14,040	7,020
Less: Possible loss, assuming remaining assets to be valueless (in their profit sharing ratio)	(15,000)	(6,000)	(6,000)	(3,000)
Manner of distribution of Rs. 20,100	20,100	8,040	8,040	4,020
Summary:				
Balance	42,000	15,000	18,000	9,000
Total amounts paid	27,000	9,000	12,000	6,000
Loss	15,000	6,000	6,000	3,000

Question 93

A partnership firm was dissolved on 30th June, 2022. Its Balance Sheet on the date of dissolution was as follows:

Liabilities	Rs.	Rs.	Assets	Rs.
Capitals:			Cash	10,800
A	76,000		Sundry Assets	1,89,200
B	48,000			
C	36,000	1,60,000		
Loan A/c – B		10,000		
Sundry Creditors		30,000		
		2,00,000		2,00,000

The assets were realized in instalments and the payments were made on the proportionate capital basis. Creditors were paid Rs. 29,000 in full settlement of their account. Expenses of realization were estimated to be Rs. 5,400 but actual amount spent was Rs. 4,000. This amount was paid on 15th September. Draw up a statement showing distribution of cash, which was realized as follows:

	Rs.
On 5th July, 2022	25,200
On 30th August, 2022	60,000
On 15th September, 2022	80,000

The partners shared profits and losses in the ratio of 2 : 2 : 1. Prepare a statement showing distribution of cash amongst the partners by 'Highest Relative Capital' method.

[SM]

Answer

Statement showing distribution of cash amongst the partners

	Creditors	B's Loan	A	B	C
2022	Rs.	Rs.	Rs.	Rs.	Rs.
June 30 Balance b/d					
Cash balance	30,000	10,000	76,000	48,000	36,000
less Provision for expenses (Rs. 10,800 – Rs. 5,400)	5,400	-	-	-	-
Balances unpaid	24,600	10,000	76,000	48,000	36,000
July 5	23,600	1,600	-	-	-
1st Instalment of Rs. 25,200	1,000	8,400	76,000	48,000	36,000
Discount received on full settlement	1,000				
Less: Transferred to Realisation A/c	Nil				
		8,400	32,640	4,640	14,320
August 30		Nil	43,360	43,360	21,680
2nd instalment of Rs. 60,000 (W.N. 2)					
Balance unpaid					
September 15					
Amount realised Rs. 80,000			32,560	32,560	16,280
Add: Balance out of the Provision for Expenses A/c1,400			10,800	10,800	5,400
81,400					
Amount unpaid being loss on Realisation in the ratio of 2 : 2 : 1					

Working Notes:

1. Highest relative capital basis

		A	B	C
		Rs.	Rs.	Rs.
1.	Present Capitals	76,000	48,000	36,000
2.	Profit-sharing ratio	2	2	1
3	Capital per unit of Profit share (1 ÷ 2)	38,000	24,000	36,000
4.	Proportionate capitals taking B, whose capital is the least, as the basis	48,000	48,000	24,000
5.	Excess capital (1-4)	28,000	Nil	12,000
6.	Profit-sharing ratio	2	-	1
7.	Excess capital per unit of Profit share (5 ÷ 6)	14,000		12,000
8.	Proportionate capitals as between A and C taking C capital as the basis	24,000	-	12,000
9.	Excess of A's Capital over C's Excess capital (5- 8)	4,000	-	-
10.	Balance of Excess capital (5-9)	24,000		12,000
11.	Distribution sequence:			
	First Rs. 4,000 (2 : 0 : 0)	4,000	-	-
	Next Rs. 36,000 (2 : 0 : 1)	24,000	-	12,000
	Over Rs. 40,000 (2 : 2 : 1)			

2. Distribution of Second instalment

	Creditors	A	B	C
First Rs. 8,400	8,400	-	-	-
Next Rs. 4,000 (2 : 0 : 0)		4,000	-	-
Next Rs. 36,000 (2 : 0 : 1)		24,000	-	12,000
Balance Rs. 11,600 (2 : 2 : 1)		4,640	4,640	2,320
60,000	8,400	32,640	4,640	14,320

Question 94

P and Q were partners sharing profits equally in LLP. Their Balance Sheet as on March 31, 2022 was as follows:

Balance Sheet
as on 31st March, 2022

Equity and Liabilities		Rs.	Assets	Rs.
Capitals:			Bank	30,000
P	1,00,000		Debtors	25,000
Q	50,000	1,50,000	Stock	35,000
Creditors		20,000	Furniture	40,000
Q's current account		10,000	Machinery	60,000
Reserves		15,000	P's current account	10,000
Bank overdraft		5,000		
		2,00,000		2,00,000

The firm was dissolved on the above date:

P took over 50% of the stock at 10% less on its book value, and the remaining stock was sold at a gain of 15%. Furniture and Machinery realized for Rs. 30,000 and Rs. 50,000 respectively; There was an unrecorded investment which was sold for Rs. 25,000; Debtors realized 90% only and Rs. 1,245 were recovered for bad debts

written off last year. There was an outstanding bill for repairs which had to be paid for Rs. 2,000.
You are required to prepare Realization Account, Partners' capital accounts (including transfer of current account balances) and Bank Account in the books of the firm.

[SM]

Answer

Books of P & Q LLP.
Realization Account

Particulars		Rs.	Particulars		Rs.
To Debtors	25,000		By Creditors		20,000
To Stock	35,000		By Bank overdraft		5,000
To Furniture	40,000		By Bank:		
To Machinery	60,000	1,60,000	Investment	25,000	
To Bank:			Furniture	30,000	
Creditors	20,000		Machinery	50,000	
Bank overdraft	5,000		Debtors (90%) Stock	22,500	
Outstanding bill	2,000	27,000	Bad debts Recovered	20,125	
To Profit transferred to:			By P's capital	1,245	1,48,870
P's capital	1,310		(stock taken over)		15,750
Q's capital	1,310	2,620			
		1,89,620			1,89,620

Partners' Capital Accounts

	P	Q		P	Q
To P's current Account	16,940		By Balance b/d	1,00,000	50,000
To Bank	83,060	68,810	By Q's current Account		18,810
	1,00,000	68,810		1,00,000	68,810

Bank Account

	Rs.		Rs.
To Balance b/d	30,000	By Realization	27,000
To Realization	1,48,870	By P's capital	83,060
		By Q's capital	68,810
	1,78,870		1,78,870

Working Note:

Partners' Current Accounts

	P	Q		P	Q
To Balance b/d	10,000		By Balance b/d		10,000
To Realization	15,750		By Reserves	7,500	7,500
To Q's capital		18,810	By Realization (profit)	1,310	1,310
			By P's Capital	16,940	
	25,750	18,810		25,750	18,810

Question 95

Amar, Akbar and Antony are in partnership. The following is their Balance Sheet as at March 31, 2024 on which date they dissolved their partnership. They shared profit in the ratio of 5:3:2.

Liabilities	Rs.	Assets	Rs.
Creditors	80,000	Plant and machinery	60,000
Loan A/c – Amar	20,000	Premises	80,000
Capital A/cs - Amar	1,00,000	Stock	60,000
Akbar	30,000	Debtors	1,20,000
Antony	90,000		
	3,20,000		3,20,000

It was agreed to repay the amounts due to the partners as and when the assets were realised, viz.

April 15, 2024	Rs. 60,000
May 1, 2024	Rs. 1,46,000
May 31, 2024	Rs. 94,000

Prepare a statement showing how the distribution should be made under maximum loss method.

[MTP April 24]

Answer

Statement of Distribution of Cash by 'Maximum Loss Method'

	Creditors Rs.	Amar's Loan Rs.	Amar Rs.	Akbar Rs.	Antony Rs.
Balance due	80,000	20,000	1,00,000	30,000	90,000
15th April 2024 realised Rs. 60,000					
Paid to creditors	(60,000)	-	-	-	-
Balance due	20,000	20,000	1,00,000	30,000	90,000
1st May, 2024 realised Rs. 1,46,000					
Paid to creditors (Rs. 20,000)	20,000	-	-	-	-
Paid to Amar's loan (Rs. 20,000)	-	20,000	-	-	-
Balance due (1)	Nil	Nil	1,00,000	30,000	90,000
Balance Rs. 1,06,000					
Maximum Loss (1,00,000 + 30,000 + 90,000 - 1,06,000) = Rs. 1,14,000					
shared in Profit & Loss ratio 5:3:2			(57,000)	(34,200)	(22,800)
			43,000	(4,200)	67,200
Akbar's deficiency shared by Amar & Antony in capital ratio 100:90			(2,210)	4,200	(1,990)
Cash paid [2]			40,790	-	65,210
Balance due (3) [1-2]			59,210	30,000	24,790
31st May 2024 realised Rs. 94,000					
Maximum Loss [59,210 + 30,000 + 24,790 - 94,000] = Rs. 20,000 shared in 5:3:2			(10,000)	(6,000)	(4,000)
Cash paid (4)			49,210	24,000	20,790
Balance/Loss* on realisation (3-4)			10,000	6,000	4,000

Question 96

State the circumstances when Garner V/S Murray rule not applicable.

[SM]

Answer

Non-Applicability of Garner vs Murray rule:

(i) When the solvent partner has a debit balance in the capital account.
Only solvent partners will bear the loss of capital deficiency of insolvent partner in their capital ratio. If incidentally, a solvent partner has a debit balance in his capital account, he will escape the liability to bear the loss due to insolvency of another partner.

(ii) When the firm has only two partners.

(iii) When there is an agreement between the partners to share the deficiency in capital account of the insolvent partner.

(iv) When all the partners of the firm are insolvent.

Question 97

W paid a premium to other partners of the firm at the time of his admission to the firm, with a condition that they will not be dissolved before the expiry of five years. The firm is dissolved after three years. W claims refund of premium.

(i) List the criteria for the calculation of the amount of refund.

(ii) Also list any two conditions when no claim in this respect will arise.

[SM]

Answer

If the firm is dissolved before the term expires, as is the case, W being a partner who has paid a premium on admission will have to be repaid/refunded

The criteria for calculation of refund amount are:

(i) Terms upon which admission was made,

(ii) The time period for which it was agreed that the firm will not be dissolved,

(iii) The time period for which the firm has already been in existence. No claim for refund will arise if:

(i) The firm is dissolved due to the death of a partner,

(ii) If the dissolution of the firm is basically because of misconduct of W,

(iii) If the dissolution is through an agreement and such an agreement does not have a stipulation for a refund of premium.

Question 98

P, Q, and R are partners sharing profits and losses as to 2:2:1. Their Balance Sheet as on 31st March, 2022 is as follows:

Liabilities		Rs.	Assets	Rs.
Capital accounts			Plant and Machinery	1,08,000
P	1,20,000		Fixtures	24,000
Q	48,000		Stock	60,000
R	24,000	1,92,000	Sundry debtors	48,000
Reserve Fund		60,000	Cash	60,000
Creditors		48,000		
		3,00,000		3,00,000

They decided to dissolve the business. The following are the amounts realized:

Particulars	Rs.

Plant and Machinery	1,02,000
Fixtures	18,000
Stock	84,000
Sundry debtors	44,400

Creditors allowed a discount of 5% and realization expenses amounted to Rs. 1,500. There was an unrecorded asset of Rs. 6,000 which was taken over by Q at Rs. 4,800. An amount of Rs. 4,200 due for GST had come to notice during the course of realization and this was also paid.
You are required to prepare:
(i) Realization account.
(ii) Partners' capital accounts.
(iii) Cash account.

[SM]

Answer

1. Realization Account

Particulars		Rs.	Particulars		Rs.
To Debtors		48,000	By Creditors		48,000
To Stock To Fixtures		60,000	By Cash A/c (Assets realized):		
		24,000	Plant and Machinery	1,02,000	
To Plant and machinery		1,08,000	Fixtures Stock	18,000	
To Cash A/c (Creditors)		45,600	Sundry Debtors	84,000	
To Cash A/c (GST)		4,200	By Q (Unrecorded asset)	44,400	2,48,400
To Cash A/c (Realization expenses)		1,500			4,800
To Profit on Realization					
P	3,960				
Q	3,960				
R	1,980	9,900			
		3,01,200			3,01,200

Partners' Capital Accounts

Particulars	P	Q	R	Particulars	P	Q	R
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
ToRealization A/c (unrecorded asset)		4,800		By Balance b/d	1,20,000	48,000	24,000
To Cash (Bal. Fig.)	1,47,960	71,160	37,980	By Reserve fund By Realization A/c (Profit)	24,000	24,000	12,000
					3,960	3,960	1,980
	1,47,960	75,960	37,980		1,47,960	75,960	37,980

Cash Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	60,000	By Realization A/c (Creditors)	45,600
To Realization A/c (Assets)	2,48,400	By Realization A/c (Expenses)	1,500
		By Realization A/c (GST)	4,200
		By P's Capital A/c	1,47,960

		By Q's Capital A/c	71,160
		By R's Capital A/c	37,980
	3,08,400		3,08,400

Question 99

'Thin', 'Short' and 'Fat' were in partnership sharing profits and losses in the ratio of 2:2:1. On 30th September, 2022 their Balance Sheet was as follows:

Liabilities		Rs.	Assets	Rs.
Capital Accounts:			Premises	50,000
Thin	80,000		Fixtures	1,25,000
Short	50,000		Plant	32,500
Fat	20,000	1,50,000	Stock	43,200
Current Accounts:			Debtors	54,780
Thin	29,700			
Short	11,300			
Fat (Dr.)	(14,500)	26,500		
Sundry Creditors		84,650		
Bank Overdraft		44,330		
		3,05,480		3,05,480

'Thin' decides to retire on 30th September, 2022 and as 'Fat' appears to be short of private assets, 'Short' decides that he does not wish to take over Thin's share of partnership, so all three partners decide to dissolve the partnership with effect from 30th September, 2022. It then transpires that 'Fat' has no private assets whatsoever.

The premises are sold for Rs. 60,000 and the plant for Rs. 1,07,500. The fixtures realize Rs. 20,000 and the stock is acquired by another firm at a book value less 5%. Debtors realize Rs. 45,900. Realization expenses amount to Rs. 4,500.

The bank overdraft is discharged and the creditors are also paid in full.

You are required to write up the following ledger accounts in the partnership books following the rules in Garner vs. Murray:

(i) Realization Account;

(ii) Partners' Current Accounts;

(iii) Partners' Capital Accounts showing the closing of the firm's books.

[SM]

Answer

Realization Account

Particulars	Rs.	Particulars		Rs.
To Premises	50,000	By Sundry Creditors		84,650
To Plant	1,25,000	By Bank:		
To Fixtures	32,500	Premises	60,000	
To Stock	43,200	Plant	1,07,500	
To Debtors	54,780	Fixtures	20,000	
To Bank (Creditors)	84,650	Stock	41,040	
To Bank (Expenses)	4,500	Debtors	45,900	2,74,440
		By Loss on Realization transferred to Partners' Current A/cs		

		Thin	14,216	
		Short	14,216	
		Fat	7,108	35,540
	3,94,630			3,94,630

Partners' Current Accounts

Particulars	Thin	Short	Fat	Particulars	Thin	Short	Fat
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To Balance b/d	-	-	14,500	By Balance b/d	29,700	11,300	-
To Realization	14,216	14,216	7,108	By Capital A/c			
To Capital A/c				Transfer	-	2,916	21,608
transfer	15,484	-	-				
	29,700	14,216	21,608		29,700	14,216	21,608

Partners' Capital Accounts

Particulars	Thin	Short	Fat	Particulars	Thin	Short	Fat
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To Current A/c	-	2,916	21,608	By Balance b/d By	80,000	50,000	20,000
To Fat's Capital A/c				Current A/c			
Deficiency in the				(transfer)	15,484	-	-
ratio of 8:5	990	618	-	By Bank	14,216	14,216	
				(Realization loss)			
To Bank	1,08,710	60,682	-	By Thin & Short			
				Capital A/cs			1,608
	1,09,700	64,216	21,608		1,09,700	64,216	21,608

Working Notes:

(i) Bank Account

Particulars	Rs.	Particulars	Rs.
To Realization A/c	2,74,440	By Balance b/d	44,330
To Thin's Capital A/c	14,216	By Realization A/c (Creditors)	84,650
To Short's Capital A/c	14,216	By Realization A/c (Expenses)	4,500
		By Thin's Capital A/c	1,08,710
		By Short's Capital A/c	60,682
	3,02,872		3,02,872

(ii) Fat's deficiency has been by borne Thin & Short in the ratio of their fixed capitals i.e., 8:5 following the rule in Garner vs. Murray.

Question 100

Amit, Sumit, and Kumar are partners sharing profit and losses in the ratio 2:2:1. The partners decided to dissolve the partnership on 31st March 2022 when their Balance Sheet was as under:

Liabilities	Amount	Assets	Amount
Capital Accounts:		Land & Building	1,35,000
Amit	55,200	Plant & Machinery	45,000
Sumit	55,200	Furniture	25,500

General Reserve	61,500	Investments	15,000
Kumar's Loan A/c	15,000	Book Debts 60,000	
Loan from D	1,20,000	Less: Prov. for bad debts (6,000)	54,000
Trade Creditors	30,000	Stock	36,000
Bills Payable	12,000	Bank	13,500
Outstanding Salary	7,500	Capital Withdrawn:	
		Kumar	32,400
	3,56,400		3,56,400

The following information is given to you:

(i) Realization expenses amounted to Rs. 18,000 out of which Rs. 3,000 was borne by Amit.
(ii) A creditor agreed to takeover furniture of book value Rs. 12,000 at Rs. 10,800. The rest of the creditors were paid off at a discount of 6.25%.
(iii) The other assets realized as follows:
Furniture - Remaining taken over by Kumar at 90% of book value Stock - Realized 120% of book value
Book Debts - Rs. 12,000 of debts proved bad, remaining were fully realized
Land & Building - Realized Rs. 1,65,000
Investments -Taken over by Amit at 15% discount
(iv) For half of his loan, D accepted Plant & Machinery and Rs. 7,500 cash. The remaining amount was paid at a discount of 10%.
(v) Bills payable were due on an average basis of one month after 31st March 2022, but they were paid immediately on 31st March @ 6% discount "per annum".
Prepare the Realization Account, Bank Account and Partners' Capital Accounts in the books of Partnership firm.

[SM]

Answer

Realization Account

	Particulars	*Rs.*		*Particulars*	*Rs.*
To	Land and Building	1,35,000	By	Provision for bad debts	6,000
To	Plant and Machinery	45,000	By	Loan from D	1,20,000
To	Furniture	25,500	By	Trade creditors	30,000
To	Investments	15,000	By	Bills payable	12,000
To	Book debts	60,000	By	Outstanding salary	7,500
To	Stock	36,000	By	Kumar - Furniture taken over (13,500	
To	Bank (Realization expenses)			x .9)	12,150
		15,000	By	Bank A/c -	
				Stock Realized 43,200	
To	Amit- Realization expenses	3,000		Land & Building 1,65,000	
				Debtors 48,000	2,56,200
To	Bank A/c -				
	Bill payable	11,940	By	Amit (Investment taken over)	12,750
	D's Loan	61,500			
	Creditors	18,000			
	Salary	7,500			
To	Profit transferred to partners' capital Accounts				
	Amit 9,264				
	Sumit 9,264				
	Kumar 4,632	23,160			

		4,56,600			4,56,600

Bank Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	13,500	By Realization A/c (payment of liabilities: 11,940+ 7,500 + 54,000 + 15,000 + 18,000 + 7,500)	1,13,940
To Realization A/c (assets realized)	2,56,200	By Amit	79,314
To Kumar	12,618	By Sumit	89,064
	2,82,318		2,82,318

Partners' Capital Accounts

Particulars	Amit Rs.	Sumit Rs.	Kumar Rs.	Particulars	Amit Rs.	Sumit Rs.	Kumar Rs.
To Balance b/d			32,400	By Balance b/d	55,200	55,200	
				By Kumar's Loan			15,000
To Realization A/c (Investment taken over)	12,750			By General Reserve	24,600	24,600	12,300
To Realization A/c (Furniture taken over)			12,150	By Realization A/c (expense)	3,000		
				By Realization A/c (profit)			
To Bank A/c	79,314	89,064		By Bank A/c	9,264	9,264	4,632
							12,618
	92,064	89,064	44,550		92,064	89,064	44,550

Working Notes:

1. Payment for Bills Payable

Particulars	Amount (Rs.)
Bills Payable as per Balance Sheet	12,000
Less: Discount for early payment {12,000 x 6% x (1/12)}	60
Amount Paid in Cash	11,940

2. Payment to D's Loan

Particulars	Amount (Rs.)
D's Loan as per Balance Sheet 50% of Loan adjusted as below:	120,000.00
Plant & Machinery accepted at Book Value (Rs. 45,000) and Rs. 7,500 in cash.	7,500
Balance 50% of Loan adjusted as below:	
In cash after allowing discount of 10% i.e. Rs. 60,000 – Rs. 6,000 = Rs. 54,000.	54,000

3. Payment to Trade Creditors

Particulars	Amount (Rs.)
Trade Creditors as per Balance Sheet	30,000
Less: Furniture of Book Value Rs. 12,000 accepted at value Rs. 10,800	10,800
	19,200

Less: Discount @ 6.25%	1,200
Amount paid in Cash	18,000

4. Furniture taken over by Kumar

Particulars	Amount (Rs.)
Furniture as per Balance Sheet	25,500
Less: Furniture of Book Value Rs. 12000 accepted by trade creditors	12,000
	13,500
Less: 10% of Book Value	1,350
Value of Furniture taken over by Kumar	12,150

Question 101

Neptune, Jupiter, Venus and Pluto had been carrying on business in partnership sharing profits and losses in the ratio of 3 : 2 : 1 : 1. They decide to dissolve the partnership on the basis of the following Balance Sheet as on 30th April, 2024:

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital Account:			Premises		1,20,000
Neptune	1,00,000		Furniture		40,000
Jupiter	60,000	1,60,000	Stock		1,00,000
General Reserve		56,000	Debtors		40,000
Capital Reserve		14,000	Bank		8,000
Sundry Creditors		20,000	Capital Overdrawn:		
Mortgage Loan		80,000	Venus	10,000	
			Pluto	12,000	22,000
		3,30,000			3,30,000

(i) The assets were realised as under:

	Rs.
Debtors	24,000
Stock	60,000
Furniture	16,000
Premises	90,000

(ii) Expenses of dissolution amounted to Rs. 4,000.

(iii) Further creditors of Rs. 12,000 had to be met.

(iv) General Reserve unlike Capital Reserve was built up by appropriation of profits.

You are required to draw up the Realisation Account, Partners' Capital Accounts and the Bank Account assuming that Venus became insolvent and nothing was realised from his private estate. Apply the principles laid down in Garner vs Murray.

[RTP Jan 25, MTP Dec 24(Similar)]

Answer

Realisation Account

		Rs.			Rs.	Rs.
To	Sundry assets A/c (transfer):		By	Sundry creditors A/c		20,000
			By	Mortgage loan		80,000
	Premises	1,20,000	By	Bank A/c (assets realised):		
	Furniture	40,000				
	Stock	1,00,000		Premises	90,000	

					Furniture	16,000	
	Sundry Debtors	40,000			Stock	60,000	
To	Bank A/c (creditors paid)	32,000			Debtors	24,000	1,90,000
To	Bank A/c (Mortgage loan)	80,000	By		Loss transferred to Capital Accounts:		
To	Bank A/c (expenses)	4,000		Neptune		54,000	
				Jupiter		36,000	
				Venus		18,000	
				Pluto		18,000	
							1,26,000
		4,16,000					4,16,000

Bank Account

			Rs.				Rs.
To	Balance b/d		8,000	By	Realisation A/c (creditors)		32,000
To	Realisation A/c (assets realised)		1,90,000	By	Realisation A/c (expenses)		4,000
To	Capital A/c(realisation loss made good):			By	Mortgage loan		80,000
	Neptune	54,000		By	Neptune's Capital A/c		1,18,857
	Jupiter	36,000		By	Jupiter's Capital A/c		73,143
	Pluto	18,000	1,08,000				
To	Pluto's Capital A/c		2,000				
			3,08,000				3,08,000

Partners' Capital Account

Particulars	Neptune	Jupiter	Venus	Pluto	Particulars	Neptune	Jupiter	Venus	Pluto
	Rs.	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.	Rs.
To Balance b/d	–	–	10,000	12,000	By Balance b/d	1,00,000	60,000	–	–
To Realisastion A/c (loss)	54,000	36,000	18,000	18,000	By General reserve	24,000	16,000	8,000	8,000
To Venus's Capital A/c (loss) (W.N.1)	11,143	6,857	–	–	A/c (3 : 2 : By 1 :1) Capital reserve A/c (3 : 2 :	6,000	4,000	2,000	2,000
To Bank A/c	1,18,857	73,143	–	–	By 1 :1)	54,000	36,000	–	18,000
					Bank A/c	–	–	11,143	–
					By (loss on	–	–	6,857	–
					By realization)	–	–	–	2,000
	1,84,000	1,16,000	28,000	30,000	By Neptune's Capital A/c	1,84,000	1,16,000	28,000	30,000
					Jupiter's Capital A/c				

					Bank A/c				

W.N. 1: Statement showing distribution of Loss of Venus

Particulars	Neptune	Jupiter
Opening Capital	1,00,000	60,000
General Reserve	24,000	16,000
Capital reserve	6,000	4,000
Total	1,30,000	80,000
Ratio	13	8
Loss of Venus of Rs. 18,000 is to be distributed in the ratio of (13:8)	11,143	6,857

Question 102

Seema, Meena & Tina are partners sharing profits and losses in the ratio of 5:3:2. There capitals were Rs. 13,440, Rs. 8,400, Rs. 11,760 respectively.

Liabilities and assets of the firm are as under:

Liabilities:	Rs.
Trade creditors	2,800
Loan from partners	1,400
Assets:	**Rs.**
Patent	1,400
Furniture	2,800
Machinery	1,680
Stock	5,600

The assets realized in full in the order in which they are listed above. Meena is insolvent.

You are required to prepare a statement showing the distribution of cash as and when available, applying maximum possible loss procedure.

[RTP June 24]

Answer

Statement of Distribution of Cash

	Realization	Trade Creditor	Loans from partners	Partners' Capitals			
				Seema	Meena	Tina	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balances due (1)		2,800	1,400	13,440	8,400	11,760	33,600
(i) Sale of Patent	1,400	(1,400)	-				
		1,400	1,400				
(ii) Sale of furniture	2,800	(1,400)	(1,400)				
(iii) Sale of machinery	1,680						
Maximum possible loss (total of capitals Rs. 33,600 less cash available Rs. 1,680) allocated to partners in the profit	Rs. 31,920			(15,960)	(9,576)	(6,384)	(31,920)

sharing ratio i.e. 5 : 3 : 2							
Amounts at credit				(2,520)	(1,176)	5,376	1,680
Deficiency of Seema and Meena written off against Tina				2,520	1,176	(3,696)	-
Amount paid (2)				-	-	1,680	1,680
Balances in capital accounts (1 – 2) = (3)				13,440	8,400	10,080	31,920
(iv) Sale of stock	5,600						
Maximum possible loss	26,320						
(Rs. 31,920 – Rs. 5,600) allocated							
to partners in the ratio 5 : 3 : 2				(13,160)	(7,896)	(5,264)	(26,320)
Amounts at credit and cash paid (4)				280	504	4,816	5,600
Balances in capital accounts left unpaid— Loss (3 – 4) = (5)				13,160	7,896	5,264	26,320

Question 103

Akbar and Bali are partners in a firm sharing profits and losses equally. On 1st April, 2023 the balance of their Capital Accounts were : Akbar Rs. 50,000 and Bali Rs. 40,000. On that date the balances of their Current Accounts were: Akbar Rs. 10,000 (credit) and Bali Rs. 3,000 (debit). Interest @ 5% p.a. is to be allowed on the balance of Capital Accounts as on 1.4.2023. Bali is to get annual salary of Rs. 3,000 which had not been withdrawn. Drawings of Akbar and Bali during the year were Rs. 1,000 and Rs. 2,000 respectively. The profit for the year ended 31st March, 2024 before charging interest on capital but after charging Bali salary was Rs. 70,000. It is decided to transfer 10% of divisible profit to a Reserve Account. Prepare Profit & Loss Appropriation Account for the year ended 31st March, 2024 and show Capital and Current Accounts of the Partners for the year.

[RTP Jan 25, May 22]

Answer

Profit and Loss Appropriation Account
for the year ended 31st March, 2024

		Rs.	Rs.			Rs.
To	Salary - Bali		3,000	By	Net profit	73,000
To	Interest on Capitals:					
	Akbar	2,500				
	Bali	2,000	4,500			
To	Reserve (10% of 65,500)		6,550			
To	Partners' current accounts:					
	Akbar	29,475				
	Bali	29,475	58,950			

		73,000		73,000

Partners' Capital Account

Date		Akbar	Bali	Date		Akbar	Bali
31.03.24	To Balance c/d	50,000	40,000	01.04.23	By Balance b/d	50,000	40,000
		50,000	40,000			50,000	40,000

Partners' Current Account

Date		Akbar	Bali	Date		Akbar	Bali
01.04.23	To Balance b/d	-	3,000	01.04.23	By Balance b/d	10,000	
31.03.24	To Drawings A/c	1,000	2,000	31.03.24	By Interest on Capital	2,500	2,000
31.03.24	To Balance c/d	40,975	29,475	31.03.24	By Salary		3,000
				31.03.24	By Profit and Loss App A/c	29,475	29,475
		41,975	34,475			41,975	34,475

Note: Profit before charging interest on Capital and Salary to Bali = 70,000 + 3,000 = 73,000.

Question 104

On 31st March, 2023, the Balance Sheet of X, Y and Z sharing profits and losses in proportion to their Capital stood as below:

Liabilities	Rs.	Assets	Rs.
Capital Account:		Land and Building	90,000
Mr. X	60,000	Plant and Machinery	60,000
Mr. Y	90,000	Stock of goods	36,000
Mr. Z	60,000	Sundry debtors	33,000
Sundry Creditors	30,000	Cash and Bank Balances	21,000
	2,40,000		2,40,000

On 1st April, 2023, X desired to retire from the firm and remaining partners decided to carry on the business. It was agreed to revalue the assets and liabilities on that date on the following basis:

(i) Land and Building be appreciated by 20%.
(ii) Plant and Machinery be depreciated by 30%.
(iii) Stock of goods to be valued at Rs. 30,000.
(iv) Old credit balances of Sundry creditors, Rs. 6,000 to be written back.
(v) Provisions for bad debts should be provided at 5%.
(vi) Joint life policy of the partners surrendered and cash obtained Rs. 22,650.
(vii) Goodwill of the entire firm is valued at Rs. 42,000 and X's share of the goodwill is adjusted in the A/cs of Y and Z, who would share the future profits equally. No goodwill account being raised.
(viii) The total capital of the firm is to be the same as before retirement. Individual capital is in their profit sharing ratio.
(ix) Amount due to Mr. X is to be settled on the following basis: 50% on retirement and the balance 50% within one year.

Prepare (a) Revaluation account, (b) The Capital accounts of the partners, (c) Cash account and (d) Balance Sheet of the new firm M/s Y & Z as on 1.04.2023.

[RTP June 24, Nov 20,22 May 18]

Answer

Revaluation Account

Date	Particulars	Rs.	Date	Particulars	Rs.
2023 April	To Plant & Machinery	18,000	2023 April	By Land and building	18,000
	To Stock of goods	6,000		By Sundry creditors	6,000
	To Provision for bad and doubtful debts	1650		By Cash & Bank - Joint life Policy surrendered	22,650
	To Capital accounts (profit on revaluation transferred)				
	Mr. X (2/7) 6,000				
	Mr. Y (3/7) 9,000				
	Mr. Z (2/7) 6,000				
		21,000			-
		46,650			46,650

Partners' Capital Accounts

Dr.									Cr.
Particulars		X	Y	Z	Particulars		X	Y	Z
		(Rs.)	(Rs.)	(Rs.)			(Rs.)	(Rs.)	(Rs.)
To	X's Capital A/c - goodwill	-	3,000	9,000	By	Balance b/d	60,000	90,000	60,000
To	Cash & bank A/c - (50% dues paid)	39,000	-	-	By	Revaluatio n A/c	6,000	9,000	6,000
To	X's Loan A/c - (50% transfer)	39,000	-	-	By	Y & Z's Capital A/cs – goodwill	12,000	-	-
To	Balance c/d	-	1,05,000	1,05,000	By	Cash & bank A/c - amount brought in (Balancing figures)	-	9,000	48,000
		78,000	1,08,000	1,14,000			78,000	1,08,000	1,14,000

Cash and Bank Account

Particulars		Rs.	Particulars		Rs.
To	Balance b/d	21,000	By	X's Capital A/c - 50% dues paid	39,000
To	Revaluation A/c – surrender value of joint life policy	22,650	By	Balance b/d	61,650

To	Y's Capital A/c	9,000			
To	Z's Capital A/c	48,000			1,00,650
		1,00,650			

Balance Sheet of M/s Y & Z as on 01.04.2023

Liabilities		Rs.	Assets		Rs.
Partners' Capital account			Land and Building	90,000	
Mr. Y	1,05,000		Add: Appreciation 20%	18,000	1,08,000
Mr. Z	1,05,000	2,10,000	Plant & Machinery	60,000	
Mr. X's Loan account		39,000	Less: Depreciation 30%		
				18,000	42,000
Sundry Creditors		24,000	Stock of goods	36,000	
			Less: revalued	6,000	30,000
			Sundry Debtors	33,000	
			Less: Provision for bad debts 5%	1650	31,350
			Cash & Bank balances		61,650
		2,73,000			2,73,000

Working Notes:

Adjustment for Goodwill:	
Goodwill of the firm	42,000
Mr. X's Share (2/7)	12,000
Gaining ratio of Y & Z;	
Y = ½ - 3/7 = 1/14	
Z = ½ - 2/7 = 3/14	
Y:Z = 1:3	

Therefore, Y will bear – ¼ □ 12000 or Rs.3,000 Z will bear = ¾ □ 12000 or Rs.9,000

Question 105

A, B and C are partners sharing profits in the ratio of 3:2:1. Their Balance Sheet as at 31st March, 2023 stood as:

Liabilities	Rs.		Assets	Rs.	
Capital Accounts			Building		10,00,000
A	8,00,000		Furniture		2,40,000
B	4,20,000		Office equipments		2,80,000
C	4,00,000	16,20,000	Stock		2,50,000
Sundry Creditors		3,70,000	Sundry debtors	3,00,000	
General Reserves		3,60,000	Less: Provision for Doubtful debts	30,000	2,70,000
			Joint life policy		1,60,000
			Cash at Bank		1,50,000
		23,50,000			23,50,000

B retired on 1st April, 2023 subject to the following conditions:

(i) Office Equipment's revalued at Rs. 3,27,000.

(ii) Building revalued at Rs. 15,00,000. Furniture is written down by Rs. 40,000 and Stock is reduced to Rs. 2,00,000.
(iii) Provision for Doubtful Debts is to be created @ 5% on Debtors.
(iv) Joint Life Policy will appear in the Balance Sheet at surrender value after B's retirement. The surrender value is Rs. 1,50,000
(v) Goodwill was to be valued at 3 years purchase of average 4 years profit which were:

Year	Rs.
2019	90,000
2020	1,40,000
2021	1,20,000
2022	1,30,000

(vi) Amount due to B is to be transferred to his Loan Account.
Prepare the Revaluation Account, Partners' Capital Accounts and the Balance Sheet immediately after B's retirement.

[RTP Nov 23, PYQ May 18, MTP June 24]

Answer

Revaluation Account

	Rs.		Rs.
To Furniture A/c	40,000	By Office equipment A/c	47,000
To Stock A/c	50,000	By Building A/c	5,00,000
To Joint life policy*	10,000	By Provision for	
To Partners' capital A/cs:		doubtful debts	15,000
A 2,31,000			
B 1,54,000			
C 77,000	4,62,000		
	5,62,000		5,62,000

*Alternatively JLP A/c of Rs. 10,000 can be debited to Partners Capital A/c in the profit sharing ratio. In that case, the revaluation Profit will become 4,72,000/- and credited to Partners Capital A/c in profit sharing ratio.

Partners' Capital Accounts

	A Rs.	B Rs.	C Rs.		A Rs.	B Rs.	C Rs.
To B's capital A/c	90,000	-	30,000	By Balance b/d	8,00,000	4,20,000	4,00,000
To B's loan A/c		8,14,000		By General Reserve	1,80,000	1,20,000	60,000
To Balance c/d	11,21,000		5,07,000	By revaluation A/c	2,31,000	1,54,000	77,000
				By A's capital A/c		90,000	
				By C's capital A/c		30,000	
	12,11,000	8,14,000	5,37,000		12,11,000	8,14,000	5,37,000

Balance Sheet as on 1.4.2023 (After B's retirement)

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital accounts:			Building		15,00,000
A	11,21,000		Furniture		2,00,000
C	5,07,000	16,28,000	Office equipment		3,27,000
B's loan account		8,14,000	Stock		2,00,000
Sundry creditors		3,70,000	Sundry debtors	3,00,000	
			Less: Provision for doubtful debts	(15,000)	2,85,000
			JLP		1,50,000
			Cash at bank		1,50,000
		28,12,000			28,12,000

Working Notes:
Calculation of goodwill:
1. Average of last 4 year's profit
= (90,000+1,40,000+1,20,000+1,30,000)/4
= Rs. 1,20,000

2. Goodwill at three years' purchase
Rs. 1,20,000 x 3 = Rs. 3,60,000

Goodwill adjustment

	Share of goodwill (Old ratio)	Share of goodwill (New ratio)	Adjustment
A	1,80,000	2,70,000	90,000 (Dr.)
B	1,20,000	-	1,20,000 (Cr.)
C	60,000	90,000	30,000 (Dr.)

Question 106
P, Q and R were partners in a firm sharing profits in the ratio of 1:2:2. After division of the profits for the year ended 3.03.2022 their capitals were: P Rs. 1,50,000. Q Rs. 1,80,000 and R Rs. 2,10,000. During the year they withdraw Rs. 20,000 each. The profit of the year was Rs. 60,000. The partnership deed provided that interest on capital will be allowed @ 10% p.a. While preparing the final accounts, interest on partners' capital was not allowed.
You are required to pass the necessary adjustment entity for providing interest on capital.

[RTP June 23]

Answer

Calculation of Capital as on 01.04.2021

Particulars	P (Rs.)	Q (Rs.)	R (Rs.)	Total
Closing Capital	1,50,000	1,80,000	2,10,000	5,40,000
Add: Drawings	20,000	20,000	20,000	60,000
Less: Share of Profit	12,000	24,000	24,000	60,000
Capitals as on 01.04.2021	1,58,000	1,76,000	2,06,000	5,40,000

Particulars	P (Rs.)	Q (Rs.)	R (Rs.)	Total
Share of profit already credited (A)	12,000	24,000	24,000	60,000

II. Amount which should have been credited:				
Interest on Capital @ 10%	15,800	17,600	20,600	54,000
Share of Profit (out of the balance amount) (60,000 – 54,000)	1,200	2,400	2,400	6,000
(B)	17,000	20,000	23,000	60,000
III. Difference [(A)-(B)]	-5000	4,000	1,000	-

Journal entry

Particulars		L.F.	Dr. (Rs.)	Cr. (Rs.)
Q's Capital A/c	Dr.		4,000	
R's Capital A/c	Dr.		1,000	
To P's Capital A/c				5,000
(Being the omission of interest on capital rectified)				

Question 107

A, B and C entered into partnership on 1.1.2021 to share profits and losses in the ratio of 5 : 3 : 2. A personally guaranteed that C's share of profit after charging interest on capitals at 5% p.a. would not be less than Rs. 90,000 in any year. Capitals of A, B and C were Rs. 9,60,000, Rs. 6,00,000 and Rs. 4,80,000 respectively.
Profits for the year ending 31.12.2021 before providing for interest on partners capital was Rs. 4,77,000.
You are required to prepare the Profit and Loss Appropriation Account.

[RTP June 23, Nov 21, May 18, 20]

Answer

Profit and Loss Appropriation Account for the year ended 31st December, 2021

Dr. Cr.

		Rs.	Rs.			Rs.
To	Interest on capital			By	Net profit	4,77,000
	A (5% of Rs. 9,60,000)	48,000			b/d	
	B (5% of Rs. 6,00,000)	30,000				
	C (5% of Rs. 4,80,000)	24,000				
			1,02,000			
To	Partners' capital accounts: [profit transferred (Rs.4,77,000 - 1,02,000)					
	A (5/10 of Rs. 3,75,000)	187,500				
	Less: Transferred to C	15,000	1,72,500			
	B (3/10 of Rs. 3,75,000)		1,12,500			
	C (2/10 of Rs. 3,75,000)	75,000				
	Add: Transferred from A	15,000	90,000			
			4,77,000			4,77,000

Question 108

The following is the Balance Sheet of M/s. TMR as at 31st March,2021 they share profit equally:

Balance Sheet as at 31st March, 2021

Liabilities		Rs.	Assets		Rs.
Capital	Tina	24,600	Machinery		30,000
	Meena	24,600	Furniture		16,800
	Rita	27,000	Fixture		12,600
General Reserve		9,000	Cash		9,000
Trade payables		14,100	Inventories		5,700
			Trade receivables	27,000	
			Less: Provision for Doubtful debts	1800	25,200
		99,300			99,300

Rita died on 5th April, 2021 and the following agreement was to be put into effect.

(a) Assets were to be revalued: Machinery to Rs. 35,100; Furniture to Rs. 13,800; Inventory to Rs. 4,500.

(b) Goodwill was valued at Rs. 18,000 and was to be credited with his share, without using a Goodwill Account.

(c) Rs. 6,000 was to be paid away to the executors of the dead partner on 8th April, 2021.

(d) After death of Rita, Tina and Meena share profit equally.

Prepare Revaluation Account and Capital Accounts of the partners and also show Journal Entry for Goodwill adjustment.

[RTP Nov 21, 19, MTP Mar 18, Mar 21, July 24, Dec 24 (Different Values, Same Concept)]

Answer

Journal Entry in the books of the M/s TMR

Date	Particulars		Dr. Rs.	Cr. Rs.
April,5 2021	Tina's Capital A/c	Dr.	3,000	
	Meena's Capital A/c	Dr.	3,000	
	To Rita's Capital A/c			6,000
	(Being the required adjustment for goodwill through partner's capital accounts)			

Revaluation Account

Dr. Particulars	Rs.	Particulars	Cr. Rs.
To Furniture A/c (Rs. 16,800-13,800)	3,000	By Machinery A/c (Rs. 35,100 - 30,000)	5,100
To Inventory A/c (Rs. 5,700 – 4,500)	1,200		
To Partners' Capital A/cs (Tina - Rs. 300, Meena - Rs. 300, Rita - Rs. 300)	900		
	5,100		5,100

Partners' Capital Accounts

	Tina	Meena	Rita		Tina	Meena	Rita
To Rita	3,000	3,000	-	By Balance b/d	24,600	24,600	27,000

(Goodwill)							
To Cash A/c	-	-	6,000	By General Reserve A/c	3,000	3,000	3,000
To Executors A/c	-	-	30,300	By Revaluation A/c (Profit)	300	300	300
To Balance c/d	24,900	24,900	-	By Tina (Goodwill)	-	-	3,000
				By Meena (Goodwill)	-	-	3,000
	27,900	27,900	36,300		27,900	27,900	36,300

Working Note:

Statement showing the Required Adjustment for Goodwill

Particulars	Tina	Meena	RIta
Right of goodwill before death	1/3	1/3	1/3
Right of goodwill after death	1/2	1/2	-
Gain / (Sacrifice)	(+) 1/6	(+) 1/6	(-) 1/3

Question 109

Rose, Lilly and Lotus start business with capital of Rs. 2,00,000/-, Rs. 3,00,000/- and Rs.4,00,000 on 1st April 2019. Lotus is entitled to a salary of Rs. 50,000 per annum. Interest is allowed on capitals at 12% p.a. and is charged on drawings at 12% per annum. Profits are to be distributed in the ratio 1:2:3 after the above-mentioned adjustments. Rose was given guarantee of minimum profit of Rs. 50,000 by Lotus. Partners drawings during the year were Rose Rs. 40,000/-Lilly Rs. 30,000/- Lotus Rs. 20,000/-. Lotus had paid Rs. 10,000/- as tuition fees of his son on 31st March 2020, which was wrongly debited to salaries account. The profit for the year 2019-20 before allowing interest on capital and charging interest on drawings and salary paid to Lotus was Rs.3,34,600/-. Assuming the capitals to be fixed, prepare the Profit and Loss Appropriation Account and the Capital and Current Accounts relating to the partners.

[RTP May 21]

Answer

In the Books of Rose, Lilly and Lotus

Profit and Loss Appropriation A/c for the Year ended 31st March, 2020

Particulars	Rs.	Particulars	Rs.
To Salary to Lotus	50,000	By Net Profit b/d 3,34,600	
To Interest on capital Rose 24,000		Add: Drawings of	
Lilly 36,000		Lotus wrongly debited	
		as salaries 10,000	3,44,600
Lotus 48,000	1,08,000		
		By Interest on drawings Rose 2,400	
To Net Profit transferred to			
Rose 50,000		Lilly 1,800	
Lilly 64,000		Lotus 1,200	5,400
Lotus 78,000	1,92,000		
	3,50,000		3,50,000

Partners' Capital Accounts

Particulars	Rose	Lilly	Lotus	Particulars	Rose	Lilly	Lotus

To	2,00,000	3,00,000	4,00,000	By Bank	2,00,000	3,00,000	4,00,000
Balance c/d	2,00,000	3,00,000	4,00,000		2,00,000	3,00,000	4,00,000
				By balance b/d	2,00,000	3,00,000	4,00,000

Partners' Current Accounts

Particulars	Rose	Lilly	Lotus	Particulars	Rose	Lilly	Lotus
To Tuition fees			10,000	By Interest on capital	24,000	36,000	48,000
To Drawings	40,000	30,000	20,000	By Salary			50,000
To Interest on drawings	2,400	1,800	1,200	By Net Profit	50,000	64,000	78,000
To balance c/d	31,600	68,200	1,44,800				
	74,000	1,00,000	1,76,000		74,000	1,00,000	1,76,000
				By balance b/d	31,600	68,200	1,44,800

Question 110

Ramu and Mamu were partners in a firm sharing profits and losses in the ratio 3:2 Their Balance Sheet as on 31st March, 2020 was as follows:

Liabilities	Rs.	Assets	Rs.
Capital :		Land & Building	1,50,000
Ramu	2,10,000	Machinery	1,80,000
Mamu	1,90,000	Furniture	44,000
General Reserve	60,000	Trade Receivables	42,800
Loan from LFC bank	25,000	Inventory	65,200
Trade Payables	21,000	Bank	24,000
	5,06,000		5,06,000

Damu was admitted as partner from 1st April, 2020 on the following terms:

1. He shall bring Rs. 1,50,000 as capital and goodwill.
2. He shall get 1/5th share in future profits, to be acquired equally from Ramu and Mamu.
3. Goodwill of the firm to be valued at Rs. 2,50,000. It was agreed that goodwill shall not appear in the books of accounts.
4. Land & Building is to be appreciated by 50% and inventory is revalued at Rs. 60,000
5. Machinery to be depreciated by 20%. Debtors of Rs. 2,800 are to be written off as bad debts and a Reserve for doubtful debts should be created @ 5% of debtors.
6. Furniture to be reduced to Rs.40,000.
7. After admission of Damu, capitals of the partners' to be adjusted in their new profit sharing ratio, taking Damu's capital as base.

You are required to prepare:

1. Revaluation account
2. Partners' capital accounts.
3. Cash and bank account.

4. Balance Sheet after admission

[RTP May 21]

Answer

In the books of Ramu, Mamu and Damu

Revaluation A/c

Particulars	Rs.	Particulars	Rs.
To machinery	36,000	By Building	75,000
To Bad debts	2,800		
To Reserve for Bad debts	2,000		
To Furniture	4,000		
To Inventory	5,200		
To Profit on revaluation			
Ramu 15,000			
Mamu 10,000	25,000		
	75,000		75,000

Partner's Capital A/cs

Particulars	Ramu	Mamu	Damu	Particulars	Ramu	Mamu	Damu
				By Balance b/d	2,10,000	1,90,000	
To Ramu, Mamu			50,000	By bank			1,50,000
				By Damu	25,000	25,000	
To Bank (b/f)	36,000	99,000		By General reserve	36,000	24,000	
To balance c/d (working note)	2,50,000	1,50,000	1,00,000	By revaluation	15,000	10,000	
	2,86,000	2,49,000	80,000		2,86,000	2,49,000	1,50,000

Bank A/c

Particulars	Rs.	Particulars	Rs.
To balance b/d	24,000	By Ramu's capital	36,000
To Damu's capital	1,50,000	By Mamu's capital	99,000
		By balance c/d	39,000
	1,74,000		1,74,000

Balance Sheet as on 1st April, 2020 (after admission)

Liabilities	Rs.	Assets		Rs.
Capital Accounts:		Land & Building		2,25,000
Ramu	2,50,000	Machinery		1,44,000
Mamu	1,50,000	Furniture		40,000
Damu	1,00,000	Trade Receivables	40000	
Loan from HDFC bank	25,000	Reserve for Bad debts	2,000	38,000
Trade Payables	21,000	Inventory		60,000
		Bank		39,000
	5,46,000			5,46,000

Working Note:

Partner	Old Share		Sacrificed Share		New Share
Ramu	3/5	-	1/10	=	5/10
Mamu	2/5	-	1/10	=	3/10
Damu		-	2/10 (gain)	=	2/10

Since the capitals of the old partners are adjusted on the basis of the incoming partners share- The closing balances will be fixed first as follows-

Capital and goodwill brought in by Damu - Rs. 1,50,000 His share of goodwill- 2,50,000 x 1/5 Rs. (50,000) Amount brought in as capital Rs.1,00,000

Total capital of the firm based on his share 1,00,000 x 5 = Rs. 5,00,000

Remaining capital to be borne by Ramu and Mamu in their new profit sharing ratio Closing capital of Ramu (5/10th share) = 5,00,000 x 5/10 = 2,50,000

Closing capital of Mamu (3/10th share) = 5,00,000 x 3/10 = 1,50,000

Based on the above closing balances- the cash will be either brought in or excess cash will be withdrawn from the books.

Question 111

Laurel and Hardy are partners of the firm LH & Co., from 1.4.2013. Initially both of them contributed Rs. 1,00,000 each as capital. They did not contribute any capital thereafter. They maintain accounts of the firm on mercantile basis. They were sharing profits and losses in the ratio of 5:4. After the accounts for the year ended 31.3.2017 were finalized, the partners decided to share profits and losses equally with effect from 1.4.2013.

It was also discovered that in ascertaining the results in the earlier years certain adjustments, details of which are given below, had not been noted.

Year ended 31st March	2014	2015	2016	2017
	Rs.	Rs.	Rs.	Rs.
Profit as per accounts prepared and finalized	1,40,000	2,60,000	3,20,000	3,60,000
Expenses not provided for (as at 31st March)	30,000	20,000	36,000	24,000
Incomes not taken into account (as at 31st March)	18,000	15,000	12,000	21,000

The partners decided to admit Chaplin as a partner with effect from 1.4.2017. It was decided that Chaplin would be allotted 20% share in the firm and he must bring 20% of the combined capital of Laurel and Hardy.

Following is the Balance sheet of the firm as on 31.3.2017 before admission of Chaplin and before adjustment of revised profits between Laurel and Hardy.

Balance Sheet of LH & Co. as at 31.3.2017

Liabilities	Rs.	Assets	Rs.
Capital Accounts:		Plant and machinery	60,000
Laurel	2,11,500	Cash on hand	10,000
Hardy	1,51,500	Cash at bank	5,000
Trade Payables	2,27,000	Stock in trade	3,10,000
		Trade Receivables	2,05,000
	5,90,000		5,90,000

You are required to prepare:

(i) Profit and Loss Adjustment account;
(ii) Capital accounts of the partners; and
(iii) Balance Sheet of the firm after the admission of Chaplin.

(MTP Nov 18, Nov 21)

Answer

1. Profit and Loss Adjustment Account

	Rs.		Rs.
To Expenses not provided for (years 2014-2017)	1,10,000	By Income not considered (for years 2014-2017)	66,000
		By Partners' capital accounts (loss)	
		Laurel	22,000
		Hardy	22,000
	1,10,000		1,10,000

(ii) Partners' Capital Accounts

	Laurel Rs.	Hardy Rs.	Chaplin Rs.		Laurel Rs.	Hardy Rs.	Chaplin Rs.
To P & L Adjustment A/c	22,000	22,000	-	By Balance b/d	2,11,500	1,51,500	-
To Hardy	60,000			By Laurel	-	60,000	-
To Balance c/d				By Cash	-	-	63,800
	1,29,500	1,89,500	63,800				
	2,11,500	2,11,500	63,800		2,11,500	2,11,500	63,800
				By Balance b/d	1,29,500	1,89,500	63,800

(iii) Balance Sheet of LH & Co.
as on 1.4.2017
(After admission of Chaplin)

Liabilities	Rs.	Assets	Rs.
Capital accounts:		Plant and machinery	60,000
Laurel	1,29,500	Trade receivables	2,05,000
Hardy	1,89,500	Stock in trade	3,10,000
Chaplin	63,800	Accrued income	66,000
Trade payables	2,27,000	Cash on hand (10,000 + 63,800)	73,800
Outstanding expenses	1,10,000	Cash at bank	5,000
	7,19,800		7,19,800

Working Notes:

1. Computation of Profit and Loss distributed among partners

		Rs.
Profit for the year ended	31.3.2014	1,40,000
	31.3.2015	2,60,000
	31.3.2016	3,20,000
	31.3.2017	3,60,000
Total Profit		10,80,000

	Laurel	Hardy	Total
	Rs.	Rs.	Rs.

Profit shared in old ratio i.e 5:4	6,00,000	4,80,000	10,80,000
Profit to be shared as per new ratio i.e. 1:1	5,40,000	5,40,000	10,80,000
Excess share	60,000		
Deficit share		(60,000)	

Laurel to be debited by Rs. 60,000 and Hardy to be credited by Rs. 60,000.

2. Capital brought in by Chaplin

	Rs.
Capital to be brought in by Chaplin must be equal to 20% of the combined capital of Laurel and Hardy	
Capital of Laurel (2,11,500 – 22,000 – 60,000)	1,29,500
Capital of Hardy (1,51,500 – 22,000 + 60,000)	1,89,500
Combined Capital	3,19,000
20% of the combined capital brought in by Chaplin (20% of Rs. 3,19,000)	63,800

Question 112

Dinesh, Ramesh and Naresh are partners in a firm sharing profits and losses in the ratio of 3:2:1. Their Balance Sheet as on 31st March, 2018 is as below:

Liabilities		(Rs.)	Assets	(Rs.)
Trade payables		22,500	Land & Buildings	37,000
Outstanding Liabilities		2,200	Furniture & Fixtures	7,200
General Reserve		7,800	Closing stock	12,600
Capital Accounts: Dinesh	15,000		Trade Receivables	10,700
Ramesh	15,000			
Naresh	10,000	40,000		
			Cash in hand	2,800
			Cash at Bank	2,200
		72,500		72,500

The partners have agreed to take Suresh as a partner with effect from 1st April, 2018 on the following items:

(i) Suresh shall bring Rs. 8,000 towards his capital.

(ii) The value of stock to be increased to Rs. 14,000 and Furniture & Fixtures to be depreciated by 10%.

(iii) Reserve for bad and doubtful debts should be provided at 5% of the Trade Receivables.

(iv) The value of Land & Buildings to be increased by Rs. 5,600 and the value of the goodwill be fixed at Rs. 18,000.

(v) The new profit sharing ratio shall be divided equally among the partners.

The outstanding liabilities include Rs. 700 due to Ram which has been paid by Dinesh. Necessary entries were not made in the books.

Prepare (i) Revaluation Account, (ii) Capital Accounts of the partners, (iii) Balance Sheet of the firm after admission of Suresh.

[PYQ Nov 18]

Answer

Revaluation Account

2018			Rs.	2018		Rs.
April 1	To Provision for bad and doubtful debts		535	April 1	By Inventory	1,400

	To Furniture and fittings		720		in trade By Land and Building	5,600
	To Capital A/cs: (Profit on revaluation transferred) Dinesh Ramesh Naresh	2,872.50 1,915.00 957.50	5,745			
			7,000			7,000

Partners' Capital Accounts

Particulars	Dinesh Rs.	Ramesh Rs.	Naresh Rs.	Suresh Rs.	Particulars	Dinesh Rs.	Ramesh Rs.	Naresh Rs.	Suresh Rs.
To Dinesh & Ramesh			1,500	4,500	By Balance b/d	15,000	15,000	10,000	-
					By General Reserve	3,900	2,600	1,300	
To Balance c/d	26,972.50	21,015	10,757.50	3,500	By Cash	-	-	-	8,000
					By Naresh & Suresh	4,500	1,500	-	-
					By Outstanding Liabilities (Ram)	700	-	-	
					By Revaluation A/c	2,872.50	1,915	957.50	-
	26,972.5	21,015	12,257.50	8,000		26,972.50	21,015	12,257.50	8,000

Working Note:
Calculation of sacrificing ratio

Partners	New share	Old share	Sacrifice	Gain
Dinesh	$\frac{1}{4}$	3/6	6/24	
Ramesh	$\frac{1}{4}$	2/6	2/24	
Naresh	$\frac{1}{4}$	1/6		2/24
Suresh	$\frac{1}{4}$			6/24

Entry for goodwill adjustment

Naresh (2/24 of Rs.18,000)	Dr.	1,500	
Suresh (6/24 of Rs.18,000)	Dr.	4,500	
To Dinesh (6/24 od Rs.18,000)			4,500
To Ramesh (2/24 of Rs.18,000)			1,500

Balance Sheet of M/s. Dinesh, Ramesh, Naresh and Suresh as on 1-4-2018

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Trade payables		22,500	Land and Buildings		42,600

Outstanding Liabilities (2,200-700)		1,500	Furniture		6,480
Capital Accounts of Partners :			Inventory of goods		14,000
Mr. Dinesh	26,972.50		Trade receivables	10,700	
Mr. Ramesh	21,015.00		Less: Provisions	(535)	10,165
Mr. Naresh	10,757.50		Cash in hand		2,800
Mr. Suresh	3,500.00	62,245	Cash at Bank (2,200+8,000)		10,200
		86,245			86,245

Question 113

The following is the Balance Sheet of Krish and Bala, sharing profit and loss in the ratio 3: 2

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Capital Accounts:		Land & Buildings	28,000
Krish 25,000			
Bala 15,000	40,000		
General Reserve	30,000	Plant & Machinery	15,000
Workmen's Compensation		Stock	10,000
Reserve	10,000		
Creditors	10,000	Debtors 25,000	
Employee's		Less: Provision for	
Provident Fund	8,000	Doubtful debts 4,000	21,000
		Bank	20,000
		Advertisement	
		Expenditure	4,000
	98,000		98,000

On admission of Sobha for 1/6th share in the profits, it was decided that:

(1) Value of land and buildings to be increased by Rs. 5,000.
(2) Value of stock to be increased by Rs. 3,500.
(3) Provision of doubtful debts to be increased by Rs. 1,500.
(4) Liabilities of workmen's compensation reserve was determined to be Rs. 8,000.
(5) Sobha was to bring in cash of Rs. 25,000 as her capital.
(6) Sobha brought in her share of goodwill Rs. 12,000 in cash.

Prepare the Revaluation Account, the Capital Account and the Balance Sheet of the new firm. (10 Marks)

Answer

Revaluation A/c

Liabilities	Rs.	Assets	Rs.
To Provision for Doubtful Debts	1,500	By Land and Building	5,000
To Profit on revaluation		By stock	3,500
Krish 4,200			
Bala 2,800	7,000		
	8,500		8,500

Partners' Capital A/c

Particulars	Krish	Bala	Sobha	Particulars	Krish	Bala	Sobha
To Krish and Bala's capital A/c–			12,000	By balance b/d	25,000	15,000	
To Advertisement expenses	2,400	1,600		By Bank- (Capital + GW)			37,000
				By Sobha's Capital A/c	7,200	4,800	
To Balance c/d	53,200	33,800	25,000	By General Reserve	18,000	12,000	
				By Workman comp. Reserve	1,200	800	
				By Revaluation A/c	4,200	2,800	
	55,600	35,400	37,000		55,600	35,400	37,000

Balance Sheet of the Firm (after admission of Sobha)

Liabilities		Rs.	Assets		Rs.
Capital Accounts:			Land and Building		33,000
Krish	53,200		Plant & Machinery		15, 000
Bala	33,800		Stock		13,500
Sobha	25,000	1,12,000	Debtors	25,000	
Employees provident fund		8,000	*Less*: Provision		
workman compensation Reserve		8,000	for Doubtful Debts	5,500	19,500
Creditors		10,000	Bank (W.N.2)		57,000
		1,38,000			1,38,000

Working Note:

(1) Calculation of Sacrificing ratio

Partner	Old Share		New Share		Difference
Krish	3/5	–	3/6	=	3/30
Bala	2/5	–	2/6	=	2/30
Sobha		–	1/6		

(2) Bank A/c

Particulars	Rs.	Particulars	Rs.
To balance b/d	20,000	By Balance c/d	57,000
To Sobha's capital A/c	37,000		
	57,000		57,000

It may be noted that Advertisement expenses are not permitted to be deferred. It must be written off when incurred, as they do not result in acquisition or creation of an intangible or recognizable asset. That is why it is routed through partner's capital account.

Question 114

X, Y and Z were in a firm sharing profit and loss as 3: 2: 1. Their Balance Sheet on 31st March, 2024 was as follows:

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
X's Capital	78,000	Goodwill	12,000

X's Capital	42,000	Patents	30,000
Z's Capital	31,000	Machinery	60,000
Investment Fluctuation Fund	6,000	Investment (Market value Rs. 27,600)	25,000
		Stock	30,650
Workmen's Compensation	12,000	Debtors 50,000	
Trade Creditors	31,000	Less: Provision for doubtful debts 4,000	46,000
Employee's Provident Found	12,000	Cash at Bank	8,350
TOTAL	2,12,000	TOTAL	2,12,000

Z retired on the above date on the following terms:

(1) Goodwill of the firm was valued at Rs. 60,000.

(2) Value of patents was to be reduced by 20% and that of machinery to 90%.

(3) Provision for doubtful debts was to be raised to 10%.

(4) Liability on account of Provident fund was only Rs. 6,000.

(5) Liability for workmen compensation to the extent of Rs. 6,000 is to be created.

(6) Z took over the investment at market value.

(7) Amount due to Z is to be settled on the following basis- 50% on retirement, 50% of the balance within one year and the balance by a bill of exchange (without interest) at 3 months.

You are required the following:

(i) Show entries for the treatment of goodwill,

(ii) Prepare Revaluation Account,

(iii) Partner Capital Account, &

(iv) Balance Sheet.

[PYQ Sep 24]

Answer

(a) (i) Entries for the treatment of goodwill Total goodwill of firm is Rs. 60,000 Z's share (1/6 x Rs. 60,000) =Rs. 10,000

(a) X's Capital A/c Dr. 6,000 Y's Capital A/c Dr. 4,000
Z's Capital A/c Dr. 2,000
To Goodwill A/c 12,000 (Being existing goodwill written off)

(b) X's Capital A/c Dr. 6,000
Y's Capital A/c Dr. 4,000
To Z's Capital A/c 10,000
(Being Z's share of goodwill credited to him and debited to gaining partners in gaining ratio)

(ii)

	Rs.		Rs.
To Patents A/c	6,000	By employee provident fund A/c	6,000
To Machinery A/c	6,000	By Investments A/c	2,600
To Provision for Bad Debts A/c	1,000	By Revaluation Loss Partners' Capital A/cs –	10,400
To workmen's compensation*		X 5,200	
	6,000	Y 3,467	
	19,000	Z 1,733	19,000

(iii) Partners' Capital Account

		X (Rs.)	Y (Rs.)	Z (Rs.)			X (Rs.)	Y (Rs.)	Z (Rs.)
To	Goodwill	6,000	4,000	2,000	By	Balance b/d	78,000	42,000	31,000

To	Revaluation A/c	5,200	3,467	1,733	By	Investment Fluctuation Fund	3,000	2,000	1,000
To	Investments			27,600					
To	Z's Capital A/c	6,000	4,000		By	X's Capital A/c			6,000
To	Bank A/c			5,334	By	Y's Capital A/c			4,000
To	Z's Loan A/c			2,667					
To	Bills Payable A/c			2,666					
To	Balance c/d	63,800	32,533						
		81,000	44,000	42,000			81,000	44,000	42,000

(iv) Balance Sheet as on 1stApril, 2024

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital accounts:			Patent		24,000
X	63,800		Machinery		54,000
Y	32,533	96,333	Closing stock		30,650
Z's loan account		2,666	Sundry debtors	50,000	
Trade creditors		31,000	*Less*: Provision for bad debts	(5,000)	45,000
Bills payable		2,667			
Workman compensation		18,000	Cash and bank balances		3,016
Employee Provident Fund		6,000			
		1,56,666			1,56,666

Working Notes:

1. Gaining ratio of existing partners:

X 3/5-3/6=3/30 Y 2/5-2/6=2/30

*It is assumed that Workmen's Compensation is treated as liability.

Question 115

P, Q and R wee partners sharing profit & losses in the ratio of 3:2:1. They decided to dissolve the business as on 31st Mrach,2024 when their Balance Sheet was as follows:

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Capital A/c:		Land & Building	4,85,000
P 3,55,000		Machinery	1,88,000
Q 2,20,000		Furniture	1,05,000
R 1,25,000	7,00,000	Stock	55,800
General Reserve	1,50,000	Trade Debtors	1,56,000
Employees Provident Found	60,000	Cash & Bank	44,200
Trade Creditors	1,24,000		
	10,34,000		10,34,000

The following information is given to you:

(i) There was an unrecorded investment which was sold for Rs. 30,000.

(ii) One of the creditors agreed to take over some items of furniture of Book value Rs. 25,000 at Rs. 24,000. The rest of the creditors were paid at a discount of 5%.

(iii) Out of the trade debtors Rs. 9,000 proved bad, remaining were fully realized.

(iv) The other assets were realised as under:

Land & Building	Rs. 5,25,000
Machinery	Rs. 1,70,000
Furniture	Remaining taken over by P at Rs. 75,000
Stock	Rs. 60,000

(v) Expenses of dissolution amounted to Rs. 18,700.

(vi) There was an outstanding bill for repairs which had to be paid for Rs. 3,500.

You are required to prepare:

(1) Realisation A/c

(2) Cash & Bank A/c

(3) Partner's Capital A/c in the books of partnership firm

[PYQ June 24, MTP April 25 (Similar)]

Answer

Realisation Account

Particulars	Amount (Rs.)	Amount (Rs.)	Particulars	Amount (Rs.)	Amount (Rs.)
To Sundry Assets:			By Creditors		1,24,000
Debtors Stock	1,56,000		By Employee's Provident Fund		60,000
	55,800				
Furniture	1,05,000		By Bank A/c:		
Plant & Machinery	1,88,000		Land and Building	5,25,000	
Land and Building	4,85,000	9,89,800	Debtors	1,47,000	
To Bank-Creditors: (W.No.1)		95,000	Stock	60,000	
To Bank A/c o/s bill for repairs		3,500	Machinery	1,70,000	
To Bank A/c (expenses)		18,700	Unrecorded Investment	30,000	9,32,000
To Bank (Employee provident Fund)		60,000	By P's Capital A/C		75,000
To Profit transferred to:					
P's Capital A/c	12,000				
Q's Capital A/c	8,000				
R's Capital A/c	4,000	24,000			
		11,91,000			11,91,000

Partner's Capital Accounts

Particulars	P (Rs.)	Q (Rs.)	R (Rs.)	Particulars	P (Rs.)	Q (Rs.)	R (Rs.)
To Realisation A/c - Furniture	75,000			By Bal. b/d	3,55,000	2,20,000	1,25,000
To Bank	3,67,000	2,78,000	1,54,000	By Gen. Reserve	75,000	50,000	25,000
				By Realisation Profit	12,000	8,000	4,000
	4,42,000	2,78,000	1,54,000		4,42,000	2,78,000	1,54,000

Bank Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	44,200	By Realisation A/c:	
To Realisation A/c (Assets realized)	9,32,000	(Liabilities Paid)	1,77,200
		By P's Capital A/c	3,67,000
		By Q's Capital A/c	2,78,000
		By R's Capital A/c	1,54,000
	9,76,200		9,76,200

Working Note 1:
Payment to Trade Creditors:

Particulars	Amount (Rs.)
Trade creditors as per Balance sheet	1,24,000
Less: Furniture (Book Value Rs.25,000 accepted at Rs. 24,000)	24,000
	1,00,000
Less: Discount @ 5%	5,000
Amount Paid to Creditors	95,000

Question 116

A, B and C are partners in a firm sharing profits and losses as 8:5:3. Their balance sheet as at 31st December, 2018 was as follows:

	Rs.		Rs.
Sundry creditors	1,50,000	Cash	40,000
General reserve	80,000	Bills receivable	50,000
Partners' loan accounts:		Sundry debtors	60,000
A	40,000	Stock	1,20,000
B	30,000	Fixed assets	2,80,000
Partners' capital accounts:			
A	1,00,000		
B	80,000		
C	70,000		
	5,50,000		5,50,000

From 1st January, 2019 they agreed to alter their profit-sharing ratio as 5:6:5. It is also decided that:
(a) the fixed assets should be valued at Rs. 3,31,000;
(b) a provision of 5% on sundry debtors to be made for doubtful debts;
(c) the goodwill of the firm at this date be valued at three years' purchase of the average net profits of
    a. the last five years before charging insurance premium; and
(d) the stock be reduced to Rs. 1,12,000.

There is a joint life insurance policy for Rs. 2,00,000 for which an annual premium of Rs. 10,000 is paid, the premium being charged to profit and loss account. The surrender value of the policy on 31st December, 2018 was Rs. 78,000.

The net profits of the firm for the last five years were Rs. 14,000, Rs. 17,000, Rs. 20,000, Rs. 22,000 and Rs. 27,000.

Goodwill and the surrender value of the joint life policy was not to appear in the books.

Draft journal entries necessary to adjust the capital accounts of the partners and prepare the revised balance

sheet.

(MTP Oct 19, March 22)

Answer

In the books of M/s ABC
Journal Entries

Date	Particulars		Dr. (Rs.)	Cr.(Rs.)
2019 January 1	Fixed assets A/c	Dr.	51,000	
	To Revaluation A/c			51,000
	(Revaluation of fixed assets)			
	Revaluation A/c	Dr.	11,000	
	To Stock A/c			8,000
	To Provision for doubtful debts A/c			3,000
	(Reduction in the value of stock and provision @ 5% on sundry debtors created for doubtful debts)			
	B's capital A/c	Dr.	10,500	
	C's capital A/c	Dr.	21,000	
	To A's capital A/c			31,500
	(Adjustment for goodwill and joint life policy(W.N.1))			
	Revaluation A/c	Dr.	40,000	
	To A's capital A/c			20,000
	To B's capital A/c			12,500
	To C's capital A/c			7,500
	(Transfer of profit on revaluation)			
	General reserve A/c	Dr.	80,000	
	To A's capital A/c			40,000
	To B's capital A/c			25,000
	To C's capital A/c			15,000
	(Transfer of general reserve)			

Balance Sheet (revised) as on 1st January, 2019

Liabilities		Amount Rs.	Assets		Amount Rs.
Sundry creditors		1,50,000	Cash		40,000
Partners' loan A/cs:			Bills receivable		50,000
A	40,000		Sundry debtors	60,000	
B	30,000	70,000	Less: Provision	3,000	57,000
Partners' capital A/cs: (W.N.2)			Stock		1,12,000
A	1,91,500		Fixed assets		3,31,000
B	1,07,000				
C	71,500	3,70,000			
		5,90,000			5,90,000

Working Notes:

(1) Adjustment for goodwill and joint life policy

	Rs.
Average profit of last five years	20,000
Add: Insurance premium per annum	10,000
Average profit before charging premium	30,000
Value of goodwill (3x Rs. 30,000)	90,000
Add: Surrender value of joint life policy	78,000
Total amount for adjustment	1,68,000

	A	B	C
	Rs.	Rs.	Rs.
Raised in old profit sharing ratio (8:5:3)	84,000	52,500	31,500
Written off in new profit sharing ratio (5:6:5)	52,500	63,000	52,500
Net effect in capital accounts	31,500	10,500	21,000
	(Cr.)	(Dr.)	(Dr.)

Alternatively, the net effect in partners' capital accounts due to adjustment for goodwill and joint life policy can be shown on the basis of profit sacrificing ratio. Profit sacrificing ratios are:

A = (8/16) - (5/16) = 3/16

B = (5/16) - (6/16) = (1/16)

C = (3/16) - (5/16) = (2/16)

Therefore, adjustments in partner's capital account:

A = 3/16 x Rs. 1,68,000 = Rs. 31,500 (Cr.)

B = (1/16) x Rs. 1,68,000 = Rs. 10,500 (Dr.)

C = (2/16) x Rs. 1,68,000 = Rs. 21,000 (Dr.)

(2) Partners' Capital Accounts

		A	B	C			A	B	C
2019		Rs.	Rs.	Rs.	2019		Rs.	Rs.	Rs.
Jan 1	To A' capital A/c	-	10,500	21,000	Jan 1	By Balance b/d	1,00,000	80,000	70,000
	To Balance c/d	1,91,500	1,07,000	71,500		By B and C's capital A/c (as per contra)	31,500	-	-
						By Revaluation A/c (revaluation profit)	20,000	12,500	7,500
						By General reserve	40,000	25,000	15,000
		1,91,500	1,17,500	92,500			1,91,500	1,17,500	92,500

Question 117

(ii) A, B and C are partners in a firm. On 1st April 2019 their fixed capital stood at Rs. 50,000, Rs. 25,000 and Rs. 25,000 respectively. As per the provision of partnership deed:

(1) C was entitled for a salary of 5,000 p.a.

(2) All the partners were entitled to interest on capital at 5% p.a.
(3) Profits and losses were to be shared in the ratio of Capitals of the partners. Net Profit for the year ended 31st March, 2020 of Rs. 33,000 and 31st March,2021 of Rs. 45,000 was divided equally without providing for the above adjustments.
You are required to pass an adjustment journal entry to rectify the above errors.

[PYQ Dec 21, MTP Dec 23, May 24]

Answer

Particulars	A	B	C	Total Profit of firm
I. Amount already credited:				
Shareof profit (in the ratio of 1:1:1) (2019-20,2020-21)	26,000	26,000	26,000	78,000
II. Amount which should have been credited:				
C's Salary (2019-20,2020-21)			10,000	
Interest on Capital (2019-20,2020-21) Share of Profit	5,000	2,500	2,500	
	29,000	14,500	14,500	58,000
	34,000	17,000	27,000	
Net effect (I-II)	(8,000)	9,000	(1,000)	-

The necessary journal entry will be:

Particulars	Debit (Rs.)	Credit (Rs.)
B's Current A/c	9,000	
To A's Current A/c		8,000
To C's Current A/c		1,000
(Salary to C, Interest on capital charged and profit shared among partners in the ratio of capital)		

Question 118

A, B and C were trading in partnership sharing profits and losses in the proportion of 4:3:3. The balances in the books of the firm as on 31st December, 2022 subject to final adjustment were as under:

	Debit	Credit
	Amount Rs.	Amount Rs.
Capital Accounts		
A		2,25,000
B		1,12,500
C		1,35,000
Current Account		
A	36,000	
B	54,000	
C	54,000	
Land and Building	1,80,000	
Furniture and Fixtures	33,750	
Stock	2,81,250	
Debtors	45,000	
Bank Account	90,000	
Profit for the year before charging interest		2,34,000

Creditors		67,500
Total	7,74,000	7,74,000

Goodwill may be recorded separately, instead of through Revaluation Account. C died on 30th June, 2022. The Partnership deed provided that:

(a) Interest was credited on Capital Account of Partners as @ 12% per annum on the balance at the beginning of the year.

(b) On the death of partner

(i) Goodwill was to be valued at three years purchase of average annual profits of three years up to the death, after deducting interest on capital employed at 10%p.a. and a fair remuneration for each of the partners.

(ii) Fixed assets were to be valued by an independent valuer and all other assets and liabilities to be taken at book value, and

(c) Whenever necessary, profit or loss should be apportioned on a time basis. You ascertain that:

(i) Profit for three years, before charging partners' interest were:

2019 2,52,000
2020 2,83,500
2021 2,70,000

(ii) The independent valuation on the date of death revealed: Land and Building Rs. 2,25,000
Furniture and Fixtures Rs. 22,500

(iii) For valuation of goodwill a fair remuneration for each of the partners would be Rs. 56,250 per annum and that the capital employed in the business to be taken as Rs. 5,85,000 throughout.

It was agreed between the partners that:

(1) Goodwill was not be shown as an asset of the firm as on 31st December, 2022. Therefore, adjustment for goodwill was to be made in Capital Accounts.

(2) The amount due to C's Estate was to remain as loan with the firm carrying interest at 12% p.a.

(3) A and B would share profits equally from the date of death of C.

(4) Depreciation on revised value of assets would be ignored. You are required to prepare:

(A) Partners' Capital Account and Current Account; and

(B) Balance Sheet of the firm as on 31st December, 2022.

Working should be done correct to the nearest rupee.

[PYQ June 23]

Answer

Partner's Capital Accounts

Particular	A	B	C	Particular	A	B	C
To C's capital A/c (goodwill) (W.N. 1)	11,475	22,950		By balance b/d	2,25,000	1,12,500	1,35,000
To C's current A/c			9,180	By A & B Capital			34,425
To C's executor A/c			1,60,245	A/c (goodwill) (W.N. 1)			
To balance c/d	2,13,525	89,550					
	2,25,000	1,12,500	1,69,425		2,25,000	1,12,500	1,69,425

Partner's Current Accounts

Particulars	A	B	C	Particulars	A	B	C

To balance b/d	36,000	54,000	54,000	By Interest on capital	27,000	13,500	8,100
To balance c/d	83,528	39,787		By Profit & Loss A/c (W.N. 3)	79,028	70,162	26,595
				By Revaluation Profit (W.N. 4)	13,500	10,125	10,125
				By C's Capital			9,180
	1,19,528	93,787	54,000		1,19,528	93,787	54,000

Balance sheet as on 31st December,2022

Liabilities	Rs.	Assets		Rs.
Capital A/c A	2,13,525	Land & building	1,80,000	
B	89,550	Add : revaluation	45,000	2,25,000
Current A/c A	83,528	Fixture & furniture	33,750	
B	39,787	Less: revaluation	11,250	22,500
C's executor A/c	1,60,245	Stock		2,81,250
C's interest on executors Amount	9,615	Debtors		45,000
Creditors	67,500	Bank		90,000
	6,63,750			6,63,750

Working Notes:

1. Calculation of goodwill Rs.

Average profit of last 3 years up to 30.6.2022

2019 (6 months)	1,26,000
2020	2,83,500
2021	2,70,000
2022 (6 months)	1,17,000
	7,96,500
Years	3
Average profit	2,65,500
Less: 10% of capital employed	(58,500)
Less: remuneration of partners (56,250 x 3)	(1,68,750)
Average adjusted profit	38,250
Goodwill for 3 years	1,14,750
C's Share of Goodwill (3/10x 1,14,750)	34,425

2. Calculation of gaining ratio

Name of Partner	New ratio		Old ratio	Gaining Ratio
A	1/2	-	4/10	1/10
B	1/2	-	3/10	2/10

A's capital A/c	Dr.	11,475	
B's capital A/c	Dr	22,950	
To C's capital A/c			34,425

Profit & Loss Appropriation Account

Particulars	1.4.22 to 30.6.22	1.7.22 to 31.12.22	Particulars	1.4.22 to 30.6.22	1.7.22 to 31.12.22

To interest on capital (6 months):			By Net profit	1,17,000	1,17,000
A 2,25,000 x 6%	13,500	13,500			
B 1,12,500 x 6%	6,750	6,750			
C 1,35,000 x 6%	8,100	-			
To Interest on executor amount (1,60,245 x 6%)	-	9,615			
To partners current A/c:					
A	35,460	43,568			
B	26,595	43,567			
C	26,595	-			
	1,17,000	1,17,000		1,17,000	1,17,000

3. Calculation of Revaluation Profit

Revaluation Account

Particulars	Amount	Particulars	Amount
To Furniture and Fixtures	11,250	By Land & building	45,000
To Profit A (4/10) = 13,500 B (3/10) = 10,125 C (3/10) = 10,125	33,750		
	45,000		45,000

Question 119

A, B and C are partners sharing profits & losses in the ratio of 3:2:1.

The following is the Balance Sheet of their firm M/s ABC Trading Corporation as on 31 March, 2024:

Balance Sheet as on 31stMarch, 2024

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Capital Accounts:		Land & Building	2,40,000
A	2,80,000	Machinery	1,50,000
B	1,90,000	Furniture & Fixtures	1,05,000
C	1,50,000	Trade Receivables 1,55,200	
General Reserve	1,35,000	Less: Provision for Doubtful debts 5,700	
Trade Payables	97,400		1,49,500
		Stock	85,600
		Joint Life Policy	90,000
		Cash & Bank	32,300
	8,52,400		8,52,400

C died on 30th June, 2024. As per Partnership deed the following arrangement was to be put into effect:

i. Goodwill of firm was to be valued at 2 years' purchase of average profit of four years to 31 March preceding the death of partner. The profits were as under:

31stMarch, 2021 Rs. 1,14,000
31stMarch, 2022 Rs. 1,22,000
31stMarch, 2023 Rs. 1,19,000

31stMarch, 2024 Rs. 1,25,000

Goodwill Account will not be opened in the books of accounts and C was to be credited with his share. The new profit-sharing ratio of A and B will be 5:3.

ii. Profit till the date of death to be ascertained on the basis of average profit of previous four years and share of C was to be credited to his capital account.

iii. Assets were to be revalued: Land & Building was appreciated by 15%, Machinery to be depreciated by 5%, Furniture & Fixtures to be revalued at Rs. 1,00,000 and the value of Stock to be taken at Rs. 90,000.

iv. Provision for doubtful debts to be increased by Rs. 1,800.

v. A sum of Rs. 2,40,000 was received from insurance company against Joint Life Policy.

vi. Amount due to C was paid to the executors.

You are required to prepare Revaluation Account, Partners Capital Accounts and Balance Sheet as on 30thJune, 2024, along with necessary workings.

[PYQ Jan 25]

Answer

Revaluation Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Machinery A/c	7,500	By Land and Building A/c	36,000
To Furniture and Fixtures	5,000	By Stock	4,400
To Provision for doubtful debt	1,800		
To Capital A/c (Revaluation Profit) A = 26,100 x 3/6 = 13,050 B= 26,100 x 2/6 = 8,700 C = 26,100 x 1/6 = 4,350	26,100		
	40,400		40,400

Partners' Capital Accounts

Particulars	A (Rs.)	B (Rs.)	C (Rs.)	Particulars	A (Rs.)	B (Rs.)	C (Rs.)
To Bank A/c-C's Executor's			2,46,850	By Balance b/d	2,80,000	1,90,000	1,50,000
To C's Capital A/c	30,000	10,000	-	By General reserve	67,500	45,000	22,500
To Balance c/d	4,05,550	2,83,700		By A and B's Capital A/c	-	-	40,000
				By Revaluation A/c	13,050	8,700	4,350
				By Joint Life Policy (WN.3)	75,000	50,000	25,000
				By Profit and Loss suspense A/c (WN. 1)			5,000
	4,35,550	2,93,700	2,46,850		4,35,550	2,93,700	2,46,850

Balance Sheet of M/s ABC as at 30th June,2024

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Capital accounts:		Land and Building	2,76,000
A	4,05,550	Machinery	1,42,500

B	2,83,700	Stock	90,000
		Furniture & fixtures	1,00,000
Trade payables	97,400	Trade Receivables 1,55,200	
		Less: Prov. for Doubtful Debt 7,500	1,47,700
		Cash & bank (WN 2)	25,450
		Profit and Loss Suspense A/c	5,000
	7,86,650		7,86,650

Working Note:

1. Calculation of goodwill and C's share of profit

(a)	Average of last three year's profits and losses	Profit/(loss) (Rs.)
	Year ended on	
	31.3.2021	1,14,000
	31.3.2022	1,22,000
	31.3.2023	1,19,000
	31.3.2024	1,25,000
		4,80,000
	Average profit (4,80,000/4)	1,20,000
(b)	Goodwill at 2 years' purchase	
	Rs. 1,20,000 x 2 = Rs. 2,40,000	
	Goodwill calculated at the time of death of partner C Rs. 2,40,000	
	C's Share in Goodwill (Rs. 2,40,000/6 = Rs. 40,000)	
(c)	C's share of profits from the period 1.4.2024 to 30.06.2024	
	Rs. 1,20,000 x 3/12 x 1/6 = Rs. 5,000	

Calculation of Gaining Ratio

Partner	Old Share	New Share	Gain
A	3/6	5/8	6/48
B	2/6	3/8	2/48
C	1/6	-	-

Adjusting entry:

A's Capital Account	Dr.	30,000
B's Capital Account	Dr.	10,000
To C's Capital Account		40,000
(Adjustment for goodwill on the death of C on the basis of gaining ratio)		

2. Bank A/c

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Balance B/d	32,300	By C's executors A/c	2,46,850
To Bank	2,40,000	By Balance c/d (bal fig)	25,450
	2,72,300		2,72,300

Alternatively, the balance of Bank A/c can also be ascertained in statement form.

3. The Joint life policy is calculated on the basis of surrender value method- where in the amount shown in

the balance sheet shall be deducted from the JLP proceeds received from insurance co, on the death of a partner. Hence the calculations will be Rs. 2,40,000- 90,000 (Balance Sheet value) = Rs. 1,50,000 (divided in profit sharing ratio between the partners.)

Alternatively, Joint life policy can also be routed through revaluation Account. In that case the solution shall be as follows:

Revaluation Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Machinery A/c	7,500	By Land and Building A/c	36,000
To Furniture and Fixtures	5,000	By Stock	4,400
		By Joint Life Policy (WN. 3)	1,50,000
To Provision for doubtful debt	1,800		
To Capital A/c (Revaluation Profit)	1,76,100		
A = 1,76,100 x 3/6 = 88,050			
B = 1,76,100 x 2/6 = 58,700			
C = 1,76,100 x 1/6 = 29,350			
	1,90,400		1,90,400

Partners' Capital Accounts

Particulars	A (Rs.)	B (Rs.)	C (Rs.)	Particulars	A (Rs.)	B (Rs.)	C (Rs.)
To Bank A/c- C's Executor's			2,46,850	By Balance b/d	2,80,000	1,90,000	1,50,000
To C's Capital A/c	30,000	10,000	-	By General reserve	67,500	45,000	22,500
To Balance c/d	4,05,550	2,83,700		By A and B's Capital A/c	-	-	40,000
				By Revaluation A/c	88,050	58,700	29,350
				By Profit and Loss Suspense A/c (WN.1)			5,000
	4,35,550	2,93,700	2,46,850		4,35,550	2,93,700	2,46,850

Balance Sheet of M/s ABC as at 30th June,2024

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Capital accounts:		Land and Building	2,76,000
A	4,05,550	Machinery	1,42,500
B	2,83,700	Stock	90,000
		Furniture & fixtures	1,00,000
Trade payables	97,400	Trade Receivables 1,55,200	
		Less: Prov. for Doubtful Debt 7,500	1,47,700
		Cash & bank (WN 2)	25,450

		Profit and Loss Suspense A/c	5,000
	7,86,650		7,86,650

Working Note:

1. Calculation of goodwill and C's share of profit

(a)	Average of last three year's profits and losses	Profit/(loss) (Rs.)
	Year ended on	
	31.3.2021	1,14,000
	31.3.2022	1,22,000
	31.3.2023	1,19,000
	31.3.2024	1,25,000
		4,80,000
	Average profit (4,80,000/4)	1,20,000
(b)	Goodwill at 2 years' purchase	
	Rs. 1,20,000 x 2 = Rs. 2,40,000	
	Goodwill calculated at the time of death of partner C Rs. 2,40,000 C's Share in Goodwill (Rs. 2,40,000/6 = Rs. 40,000)	
(c)	C's share of profits from the period 1.4.2024 to 30.06.2024	
	Rs. 1,20,000 x 3/12 x 1/6 = Rs. 5,000	

Calculation of Gaining Ratio

Partner	Old Share	New Share	Gain
A	3/6	5/8	6/48
B	2/6	3/8	2/48
C	1/6	-	-

Adjusting entry:

A's Capital Account	Dr.	30,000	
B's Capital Account	Dr.	10,000	
To C's Capital Account			40,000

(Adjustment for goodwill on the death of C on the basis of gaining ratio)

2. Bank A/c

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Balance B/d	32,300	By C's executors A/c	2,46,850
To Bank	2,40,000	By Balance c/d (bal. fig)	25,450
	2,72,300		2,72,300

Alternatively, the balance of Bank A/c can also be ascertained in statement form.

3. Joint Life Policy A/c

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Balance b/d	90,000	By Bank A/c	2,40,000
To Revaluation A/c	1,50,000		
	2,40,000		2,40,000

CHAPTER – 11 COMPANY ACCOUNTS

Question 1

Explain salient features of a company in brief.

[SM]

Answer

Following are the salient features of a company:

1. Incorporated Association: A company comes into existence through the operation of law. Therefore, incorporation of company under the Companies Act is must. Without such registration, no company can come into existence. Being created by law, it is regarded as an artificial legal person.
2. Separate Legal Entity: A company has a separate legal entity and is not affected by changes in its membership. Therefore, being a separate business entity, a company can contract, sue and be sued in its incorporated name and capacity.
3. Perpetual Existence: Since company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members.
4. Common Seal: Company is not a natural person; therefore, it cannot sign the documents in the manner as a natural person would do. In order to enable the company to sign its documents, it is provided with a legal tool called 'Common Seal'. The common seal is affixed on all documents by the person authorised to do so who in turn puts his signature for and on behalf of the company. Companies Act, 2013 required common seal to be affixed on certain documents (such as bill of exchange, share certificates, etc.) Now, the use of common seal has been made optional. All such documents which required affixing the common seal may now instead be signed by two directors or one director and a company secretary of the company. Further, every company registered in India are required to obtain unique Corporate Identification Number (CIN) that is assigned by Registrar of Companies.
5. Limited Liability: The liability of every shareholder of a company is limited to the amount he has agreed to pay to the company on the shares allotted to him. If such shares are fully paid-up, he is subject to no further liability.
6. Distinction between Ownership and Management: Since the number of shareholders is very large and may be distributed at different geographical locations, it becomes difficult for them to carry on the operational management of the company on a day- to-day basis. This gives rise to the need of separation of the management and ownership.
7. Not a citizen: A company is not a citizen in the same sense as a natural person is, though it is created by the process of law. It has a legal existence but does not enjoy the citizenship rights and duties as are enjoyed by the natural citizens.
8. Transferability of Shares: The capital is contributed by the shareholders through the subscription of shares. Such shares are transferable by its members except in case of a private limited company, which may have certain restrictions on such transferability.
9. Maintenance of Books: A limited company is required by law to keep a prescribed set of account books and any failure in this regard attracts penalties.
10. Periodic Audit: A company has to get its accounts periodically audited through the chartered accountants appointed for the purpose by the shareholders on the recommendation of board of directors.
11. Right of Access to Information: The right of the shareholders of a company to inspect its books of account, with the exception of books open for inspection under the Statute, is governed by the Articles of Association. The shareholders have a right to seek information from the directors by participating in the meetings of the company and through the periodic reports.

Question 2

Write short note on:

(i) Foreign company.

(ii) Small company.

(iii) Company limited by guarantee.

[SM]

Answer

(i) Foreign Company

According to Section 2 (42) of the Companies Act, 2103, "Foreign company" means any company or body corporate incorporated outside India which –

(a) Has a place of business in India whether by itself or through an agent physically or through electronic mode; and

(b) Conducts any business activity in India in any other manner.

(ii) Small Company

Section 2(85) of the Companies Act, 2013 defines "Small company" means a company, other than a public company.

(i) paid-up share capital of which does not exceed four crores rupees or such higher amount as may be prescribed which shall not be more than ten crore rupees; or

(ii) turnover of which as per its last profit and loss account for the immediately preceding financial year does not exceed forty crores rupees or such higher amount as may be prescribed which shall not be more than hundred crore rupees.

Provided that nothing in this clause should apply to:

(A) a holding company or a subsidiary company

(B) a company registered under section 8

(C) a company or body corporate governed by any special Act

(iii) Company limited by Guarantee

As per Section 2(21) of the Companies Act, 2013, "company limited by guarantee" means a company having the liability of its members limited by the memorandum to such amount as the members may respectively undertake to contribute to the assets of the company in the event of its being wound up.

Question 3

A company had an authorised capital of Rs. 10,00,000 divided into 1,00,000 equity shares of Rs. 10 each. It decided to issue 60,000 shares for subscription and received applications for 70,000 shares. It allotted 60,000 shares and rejected remaining applications. Upto 31-3 -2022, it has demanded or called Rs. 9 per share. All shareholders have duly paid the amount called, except one shareholder, holding 5,000 shares who has paid only Rs. 7 per share.

Prepare a balance sheet assuming there are no other details.

[SM]

Answer

Balance Sheet as at 31st March, 2022

Particulars	Notes No.	Rs.
EQUITY AND LIABILITIES		
Shareholders' funds		
Share capital	1	5,30,000
Total		5,30,000
ASSETS		

Current assets		
Cash and cash equivalents	2	5,30,000
Total		5,30,000

Notes to accounts

		Rs.	Rs.
1.	Share Capital		
	Equity share capital		
	Authorised share capital 1,00,000 Equity shares of Rs. 10 each	10,00,000	
	Issued share capital 60,000 Equity shares of Rs. 10 each	6,00,000	
	Subscribed share capital 60,000 Equity shares of Rs. 10 each	6,00,000	
	Called up and Paid up share capital 60,000 Equity shares of Rs. 10 each Rs. 9 called up	5,40,000	
	Less: Calls unpaid on 5,000 shares @ Rs. 2 per share	(10,000)	5,30,000
2.			
	Cash and cash equivalents		
	Balances with banks		5,30,000

Question 4

A company invited applications for 10,000 equity shares of Rs. 50 each payable on application Rs. 15, on Allotment Rs. 20, on first and final call Rs.15. Applications are received for 10,000 shares and all the applicants are allotted the number of shares they have applied for and instalment money was duly received by the company. Show Journal entries in the books of the company.

[SM]

Answer

Journal entries in the books of a company

For application money received:

Amount received along with application is accounted as follows:

Bank A/c ……. Dr. (Application money on allotted share i.e.,10,000 × Rs.15 = Rs.1,50,000)

To Equity Share Application A/c

At the time of allotment: Application money received from successful applicants become part of share capital and is transferred to share capital as under:

Equity Share Application A/c Dr. (Application money on allotted share i.e.,10,000 × Rs. 15 = Rs. 1,50,000)

To Equity Share Capital A/c

To record amount due on allotment: When the decision is taken to allot shares, allotment money on allotted shares falls due and is recorded as follows:

Equity Share Allotment A/c Dr. (Allotment money due at the allotted share i.e.,10,000 × Rs. 20 = Rs. 2,00,000)

To Equity Share Capital A/c

For allotment money received: Allotment money received from shareholders is recorded as follows:

Bank A/c Dr. (Allotment money received from shareholders i.e.10,000 × Rs. 20 =Rs. 2,00,000)

To Equity Share Allotment A/c

When decision to demand first call is made: After allotment of share, when the Board of Directors decide to demand the next instalment from shareholders, first call money falls due and is accounted for, as under:

Equity Share First Call A/c Dr. (No. of shares × first call money per share i.e.,10,000 × Rs. 15 = Rs. 1,50,000)
To Equity Share Capital A/c

On receiving first and final call money: The journal entry passed to record the money received on account of first call is as under:
Bank A/c Dr. (Amount actually received on account of first call i.e., Rs. 10,000 × Rs. 15 = Rs. 1,50,000)
To Equity First Call A/c

Question 5

On 1st April, 2021, A Ltd. issued 43,000 shares of Rs. 100 each payable as follows:
Rs. 20 on application;
Rs. 30 on allotment;
Rs. 25 on 1st October, 2021; and
Rs. 25 on 1st February, 2022.
By 20th May, 40,000 shares were applied for and all applications were accepted. Allotment was made on 1st June. All sums due on allotment were received on 15th July; those on 1st call were received on 20th October. Journalise the transactions when accounts were closed on 31st March, 2022.

[SM, RTP May 22, Nov 21, 19,18, MTP Aug18,Oct 18,Oct 19]

Answer

A Ltd.
Journal

2021		Rs.	Rs.
May 20	Bank Account Dr. To Share Application A/c (Application money on 40,000 shares at Rs. 20 per share received.)	8,00,000	8,00,000
June 1	Share Application A/c Dr. To Share Capital A/c (The amount transferred to Capital Account on 40,000 shares at - Rs. 20 on application. Directors' resolution no..... dated)	8,00,000	8,00,000
	Share Allotment A/c Dr. To Share Capital A/c (Being share allotment made due at Rs. 30 per share. Directors' resolution no..... dated)	12,00,000	12,00,000
July 15	Bank Account Dr. To Share Allotment A/c (The sums due on allotment received.)	12,00,000	12,00,000
Oct. 1	Share First Call Account Dr. To Share Capital Account (Amount due from members in respect of first call-on 40,000 shares at Rs. 25 as per Directors, resolution no... dated...)	10,00,000	10,00,000
Oct. 20	Bank Account Dr. To Share First Call Account (Receipt of the amounts due on first call.)	10,00,000	10,00,000
2022 Feb. 1	Share Second and Final Call A/c Dr. To Share Capital A/c	10,00,000	10,00,000

	(Amount due on 40,000 share at Rs. 25 per share on second and final call, as per Directors resolution no... dated...)		
Mar. 31	Bank Account Dr. To Share Second & Final Call A/c (Amount received against the final call on 40,000 shares at Rs. 25 per share.)	10,00,000	10,00,000

Question 6

Pant Ltd. invited applications for 50,000 equity shares at Rs.50 each, which are payable as on application Rs.20, on allotment Rs.10 and on first and final call Rs.20. The company received applications for 60,000 shares. The directors accepted application for 50,000 shares and rejected the rest. Show Journal entries if company refunded the application money to rejected applicants and allotment money was received for 45,000 shares.

[SM]

Answer

Pant Ltd.
Journal

	Rs.	Rs.
Bank A/c Dr. To Equity Share Application A/c (Being the application money received for 60,000 shares at Rs. 20 per share)	12,00,000	 12,00,000
Equity Share Application A/c Dr. To Equity Share Capital A/c To Bank A/c (Being share allotment made for 50,000 shares and excess refunded.)	12,00,000	 10,00,000 2,00,000
Equity Share Allotment A/c Dr. To Equity Share Capital A/c (Being allotment amount due on 50,000 equity shares at Rs. 10 per share as per Directors' resolution no... dated...)	5,00,000	 5,00,000
Bank A/c Dr. Calls in Arrears A/c Dr. To Equity Share Allotment A/c (Being allotment money received for 45,000 shares at Rs. 10 per share.)	4,50,000 50,000	 5,00,000

Question 7

The Delhi Artware Ltd. issued 50,000 equity shares of Rs. 100 each and 1,00,000 preference shares of Rs. 100 each. The Share Capital was to be collected as under:

	Equity Shares (Rs.)	Preference Shares (Rs.)
On Application	25	20
On Allotment	20	30
First Call	30	20
Final Call	25	30

All these shares were subscribed. Final call was received on 42,000 equity shares and 88,000 preference shares. Prepare the cash book and journalise the remaining transactions in the books of the company.

[SM]

Answer

Delhi Artware Ltd.
Cash Book

Dr. Cr.

		Rs.		Rs.
To	Equity Shares Applications Account (application money on 50,000 shares at Rs. 25)	12,50,000	By Balance c/d	1,44,40,000
To	Preference Share Application A/c (application money on 1,00,000 shares at Rs. 20)	20,00,000		
To	Equity Share Allotment A/c (allotment money on 50,000 shares at Rs. 20)	10,00,000		
To	Preference Share Allotment A/c (allotment money on 1,00,000 shares at Rs. 30)	30,00,000		
To	Equity Shares First Call A/c (Rs. 30 on 50,000 shares)	15,00,000		
To	Preference Share First Call A/c (Rs. 20 on 1,00,000 shares)	20,00,000		
To	Equity Shares Final Call A/c (Rs. 25 on 42,000 shares)	10,50,000		
To	Preference Share Final A/c (Rs. 30 on 88,000 shares)	26,40,000		
		1,44,40,000		1,44,40,000
To	Balance b/d	1,44,40,000		

Journal

	Rs.	Rs.
Equity Share Application A/c Dr. Equity Share Allotment A/c Dr. To Equity Share Capital A/c [The Credit to share capital on allotment of 50,000 equity shares at Rs. 45 per share (Rs. 25 on application and Rs. 20 on allotment) allotted as per Directors resolution no.... dated.]	12,50,000 10,00,000	 22,50,000
Preference Share Application A/c Dr. Preference Share Allotment A/c Dr. To Preference Share Capital A/c [The credit to Preference Share Capital on allotment of 1,00,000 preference shares at Rs. 50 per share (Rs. 20 on application and Rs.30 on allotment), allotted as per Directors' resolution no... dated...]	20,00,000 30,00,000	 50,00,000
Equity Share First Call A/c Dr. To Equity Share Capital A/c (Amount due on 50,000 equity shares at Rs. 30 per share as per Directors' resolution no... dated...)	15,00,000	 15,00,000
Preference Share First Call A/c Dr. To Preference Share Capital A/c (Amount due on 1,00,000 preference shares at Rs. 20 per share, as per	20,00,000	 20,00,000

Directors' resolution no...dated...)		
Equity Share Final Call A/c Dr. To Equity Share Capital A/c (Amount due on final call on 50,000 equity shares at Rs. 25 per share, as per Directors' resolution no... dated...)	12,50,000	12,50,000
Preference Share Final Call A/c Dr. To Preference Share Capital A/c (Amount due on final call on 1,00,000 preference shares at Rs. 30 per share, as per Directors' resolution no... dated...)	30,00,000	30,00,000

Question 8

On 1st October, 2022 Pioneer Equipment Limited received applications for 2,50,000 Equity Shares of Rs. 100 each to be issued at a premium of 25 per cent payable as :

On Application Rs. 25

On Allotment Rs. 75 (including premium) Balance Amount on Shares As and when required

The shares were allotted by the Company on October 20, 2022 and the allotment money was duly received on October 31, 2022.

Record journal entries in the books of the company to record the transactions in connection with the issue of shares.

[SM]

Answer

Pioneer Equipment Limited
Journal

Date	Particulars	L.F.	Debit Amount	Credit Amount
2022			(Rs.000)	(Rs.000)
Oct. 1	Bank A/c Dr. To Equity Share Application A/c (Money received on applications for 2,50,000 shares @ Rs. 25 per share)		6,250	6,250
Oct. 20	Equity Share Application A/c Dr. To Equity Share Capital A/c (Transfer of application money on allotment to share capital)		6,250	6,250
Oct. 20	Equity Share Allotment A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Amount due on allotment of 2,50,000 shares @ Rs. 75 per share including premium)		18,750 6,250	12,500
Oct. 31	Bank A/c Dr. To Equity Share Allotment A/c (Money received including premium consequent upon allotment)		18,750	18,750

Note: Bifurcation of Allotment amount

Security premium per share = 25% x Rs.100 = Rs. 25

Money received on allotment per share = Rs. 75

	Premium	Capital
Per Share (75)	Rs. 25	Rs. 50

No. of Shares (in '000)	250	250
Total Amount (In '000)	Rs. 6,250	Rs.12,500

Question 9

JHP Limited is a company with an authorised share capital of Rs.10,00,000 in equity shares of Rs.10 each, of which 6,00,000 shares had been issued and fully paid on 30th June, 2021. The company proposed to make a further issue of 1,00,000 of these Rs. 10 shares at a price of Rs.14 each, the arrangements for payment being:

(a) Rs. 2 per share payable on application, to be received by 1st July, 2021;

(b) Allotment to be made on 10th July, 2021 and a further Rs. 5 per share (including the premium) to be payable;

(c) The final call for the balance to be made, and the money received by 30th April, 2022.

Applications were received for 3,55,000 shares and were dealt with as follows:

(i) Applicants for 5,000 shares received allotment in full;

(ii) Applicants for 30,000 shares received an allotment of one share for every two applied for; no money was returned to these applicants, the surplus on application being used to reduce the amount due on allotment;

(iii) Applicants for 3,20,000 shares received an allotment of one share for every four applied for; the money due on allotment was retained by the company, the excess being returned to the applicants; and

(iv) the money due on final call was received on the due date.

You are required to record these transactions (including cash items) in the Journal of JHP Limited.

[SM, Similar RTP June 23, May 20, PYQ Jan 21, May 18, MTP April 23]

Answer

Journal of JHP Limited

Date		Rs.	Rs.
2021	Particulars		
July 1	Bank A/c (Note 1 – Column 3) Dr. To Equity Share Application A/c (Being application money received on 3,55,000 shares @ Rs. 2 per share)	7,10,000	 7,10,000
July 10	Equity Share Application A/c Dr. To Equity Share Capital A/c To Equity Share Allotment A/c (Note 1 Column 5) To Bank A/c (Note 1 – Column 6) (Being application money on 1,00,000 shares transferred to Equity Share Capital Account; on 2,15,000 shares adjusted with allotment and on 40,000 shares refunded as per Board's Resolution No.....dated...)	7,10,000	 2,00,000 4,30,000 80,000
	Equity Share Allotment A/c Dr. To Equity Share Capital A/c To Securities Premium a/c (Being allotment money due on 1,00,000 shares @ Rs. 5 each including premium at Rs.4 each as per Board's Resolution No....dated....)	5,00,000	 1,00,000 4,00,000
	Bank A/c (Note 1 – Column 8) Dr. To Equity Share Allotment A/c (Being balance allotment money received)	70,000	 70,000
2022	Equity Share Final Call A/c Dr.	7,00,000	

	To Equity Share Capital A/c (Being final call money due on 1,00,000 shares @ Rs. 7 per share as per Board's Resolution No.....dated....)		7,00,000
April 30	Bank A/c Dr. To Equity Share Final Call A/c (Being final call money on 1,00,000 shares @ Rs. 7 each received)	7,00,000	7,00,000

Working Notes:
Calculation for Adjustment and Refund

Category	No. of Shares Applied for	No. of Shares Allotted	Amount Received on Application	Amount Required on Application	Amount adjusted on Allotment	Refund [3 - 4 + 5]	Amount due on Allotment	Amount received on Allotment
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(i)	5,000	5,000	10,000	10,000	Nil	Nil	25,000	25,000
(ii)	30,000	15,000	60,000	30,000	30,000	Nil	75,000	45,000
(iii)	3,20,000	80,000	6,40,000	1,60,000	4,00,000	80,000	4,00,000	Nil
TOTAL	3,55,000	1,00,000	7,10,000	2,00,000	4,30,000	80,000	5,00,000	70,000

Also,
(i) Amount Received on Application (3) = No. of shares applied for (1) x Rs. 2
(ii) Amount Required on Application (4) = No. of shares allotted (2) x Rs. 2

Question 10
Shreyas Ltd. did not receive the first call on 10,000 equity shares @ Rs. 3 per share which was due on 1.7.2021. This amount was received on 1.4.2022.
Open Calls in arrears account and journalise the entries in the books of the company on 1.7.2021 and 1.4.2022.
[SM]

Answer
Shreyas Ltd Journal

Date	Particulars	L.F.	Amount Dr.	Amount Cr.
1.7.2021	Calls in Arrears A/c Dr. To Equity Share First Call A/c (Being amount due on first call on 10,000 shares at Rs.3 per share transferred to calls in arrears account)		30,000	30,000
1.4.2022	Bank A/c Dr. To Calls in Arrears A/c (Being calls in arrears received)		30,000	30,000

Question 11
Rashmi Limited issued at par 1,00,000 Equity shares of Rs.10 each payable Rs.2.50 on application; Rs.3 on allotment; Rs. 2 on first call and balance on the final call. All the shares were fully subscribed. Mr. Nair who held 10,000 shares paid full remaining amount on first call itself. The final call which was made after 3 months from first call was fully paid except a shareholder having 1000 shares who paid his due amount after 2 months along with interest on calls in arrears. Company also paid interest on calls in advance to Mr. Nair. Give journal entries to record these transactions.
[SM, May 18, 21]

Answer

Date	Particulars	L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
	Bank A/c Dr. To Equity Share Application A/c (Money received on applications for 1,00,000 shares @ Rs. 2.50 per share)		2,50,000	 2,50,000
	Equity Share Application A/c Dr. To Equity Share Capital A/c (Transfer of application money on 1,00,000 shares to share capital)		2,50,000	 2,50,000
	Equity Share Allotment A/c Dr. To Equity Share Capital A/c (Amount due on the allotment of 1,00,000 shares @ Rs. 3 per share)		3,00,000	 3,00,000
	Bank A/c Dr. To Equity Share Allotment A/c (Allotment money received)		3,00,000	 3,00,000
	Equity Share First Call A/c Dr. To Equity Share Capital A/c (Being first call made due on 1,00,000 shares at Rs. 2 per share)		2,00,000	 2,00,000
	Bank A/c Dr. To Equity Share First Call A/c To Calls in Advance A/c (Being first call money received along with calls in advance on 10,000 shares at Rs. 2.50 per share)		2,25,000	 2,00,000 25,000
	Equity Share Final Call A/c Dr. To Equity Share Capital A/c (Being final call made due on 1,00,000 shares at Rs. 2.50 each)		2,50,000	 2,50,000
	Bank A/c Dr. Calls in Advance A/c Dr. Calls in Arrears A/c Dr. To Equity Share Final Call A/c (Being final call received for 89,000 shares And calls in advance for 10,000 shares adjusted)		2,25,000 25,000 2,500	 2,50,000
	Interest on Calls in Advance A/c Dr. To Shareholders A/c (Being interest made due on calls in advance of Rs.25,000 at the rate of 12% p.a.)		750	 750
	Shareholders A/c Dr. To Bank A/c (Beingpayment of interest made to shareholder)		750	 750
	Shareholders A/c Dr. To Interest on Calls in Arrears A/c (Being interest on calls in arrears made due at the rate of 10%)		41,67	 41.67

	Bank A/c Dr. To Calls in Arrears A/c To Shareholders A/c (Being money received from shareholder for calls in arrears and interest thereupon)		2541.67	 2500 41.67

Question 12

A Ltd forfeited 30,000 equity shares of Rs. 10 fully called-up, held by Mr. X for non-payment of final call @ Rs. 4 each. However, he paid application money @ Rs. 2 per share and allotment money @ Rs. 4 per share. These shares were originally issued at par. Give Journal Entry for the forfeiture.

[SM]

Answer

In the books of A Ltd.

Journal

Date	Particulars		Rs.	Rs.
	Equity Share Capital A/c (30,000 x Rs. 10)	Dr.	3,00,000	
	To Equity Share Final Call A/c (30,000 x Rs. 4)			1,20,000
	To Forfeited Shares A/c (30,000 x Rs. 6)			1,80,000
	(Being the forfeiture of 30,000 equity shares of Rs. 10 each fully called-up for non-payment of final call money @ Rs. 4 each as per Board's Resolution No…. dated….)			

Question 13

X Ltd forfeited 20,000 equity shares of Rs. 10 each, Rs. 8 called-up, for non-payment of first call money @ Rs. 2 each. Application money @ Rs. 2 per share and allotment money @ Rs. 4 per share have already been received by the company. Give Journal Entry for the forfeiture (assume that all money due is transferred to Calls-in-Arrears Account).

[SM]

Answer

In the books of X Ltd

Journal

Date	Particulars		Rs.	Rs.
	Equity Share Capital A/c (20,000 x Rs. 8)	Dr.	1,60,000	
	To Calls-in-Arrears A/c (20,000 x Rs. 2)			40,000
	To Forfeited Shares A/c (20,000 x Rs. 6)			1,20,000
	(Being the forfeiture of 20,000 equity shares of Rs. 10 each, Rs. 8 called-up for non-payment of first call money @ Rs. 2 each as per Board's Resolution No……dated…..)			

Question 14

X Ltd. forfeited 5,000 equity shares of Rs.100 each fully called-up which were issued at a premium of 20%. Amount payable on shares were: on application Rs. 20; on allotment Rs. 50 (including premium); on First and Final call Rs. 50. Only application money was paid by the shareholders in respect of these shares. Pass Journal Entries for the forfeiture.

[SM]

Answer

In the books of X Ltd.
Journal

Date	Particulars		Rs.	Rs.
	Equity Share Capital A/c (5,000 x Rs. 100)	Dr.	5,00,000	
	Securities Premium A/c (See Note)	Dr.	1,00,000	
	To Equity Share Allotment A/c (5,000 x Rs. 50)			2,50,000
	To Equity Share First and Final Call A/c (5000 x Rs. 50)			2,50,000
	To Forfeited Shares A/c (5000 x Rs. 20)			1,00,000
	(Being the forfeiture of 5,000 equity shares of Rs. 100 each fully called-up, issued at a premium of 20%, for non-payment of allotment and call money as per Board's Resolution No.....dated....)			

Question 15

Mr. Shami has applied for 1,000 shares of Company XYZ Ltd. paying application money @ Rs. 2 per share but has been allotted only 600 shares. The shares have a face value of Rs. 10 and a premium of Rs. 2 per share, which are payable as: on Allotment- Rs. 5 (including premium) and on final call Rs. 5. Now in case Mr. Shami doesn't pay allotment money and final call and his shares are forfeited, then following entry will be passed on forfeiture:

[SM]

Answer

Share Capital A/c (600 x Rs. 10)	Dr.	6,000	
Securities Premium A/c (600 x Rs. 2)	Dr.	1,200	
To Share Forfeiture A/c			2,000
To Share Allotment A/c			2,200
To Share Final Call A/c (600 x 5)			3,000
(Being 600 shares forfeited due to non-payment of allotment money and call money as per Board Resolution no..... dated)			

Note:

Total Amount Received on application (1,000 x 2)	2,000
Less: Amount used for application money (600 x 2)	(1,200)
Excess money received on application	800
Amount due on Allotment (600 x 5)	3,000
For premium (600 x 2)	1,200
For Capital A/c (600 x 3)	1,800
Thus amount not received on allotment (3,000 - 800)	2,200

	For Premium A/c	For Capital A/c
Amount not received on allotment (2,200)	Rs. 1,200	Rs. 1,000

Question 16

Mr. Long who was the holder of 2,000 preference shares of Rs. 100 each, on which Rs. 75 per share has been called up could not pay his dues on Allotment and First call each at Rs. 25 per share. The Directors forfeited the above shares and reissued 1500 of such shares to Mr. Short at Rs. 65 per share paid-up as Rs. 75 per share.
Give Journal Entries to record the above forfeiture and re-issue in the books of the company.

(SM, MTP Apr 19 (Same Concept, Different values))

Answer

	Particulars	Rs.	Rs.
	Preference Share Capital A/c (2,000 x Rs. 75) Dr.	1,50,000	
	To Preference Share Allotment A/c		50,000
	To Preference Share First Call A/c To Forfeited Share A/c		50,000
	(Being the forfeiture of 2,000 preference shares Rs. 75 each being called up for non-payment of allotment and first call money as per Board's Resolution No.... dated)		50,000
	Bank A/c (1,500 x Rs. 65) Dr.	97,500	
	Forfeited Shares A/c (1,500 x Rs. 10) Dr.	15,000	
	To Preference Share Capital A/c		1,12,500
	(Being re-issue of 1500 shares at Rs. 65 per share paid-up as Rs. 75 as per Board's Resolution No.....dated....)		
	Forfeited Shares A/c Dr.	22,500	
	To Capital Reserve A/c (Note 1)		22,500
	(Being profit on re-issue transferred to Capital/Reserve)		

Working Note:

Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share = Rs. 50,000/2000 = Rs. 25
Loss on re-issue = Rs. 75 – Rs. 65 = Rs. 10
Surplus per share re-issued Rs. 15
Transferred to capital Reserve Rs. 15 x 1500 = Rs. 22,500

Question 17

Beautiful Co. Ltd issued 30,000 equity shares of Rs. 10 each payable as Rs. 3 per share on application, Rs. 5 per share (including Rs. 2 as premium) on allotment and Rs. 4 per share on call. All the shares were subscribed. Money due on all shares was fully received except from Ram, holding 500 shares, who failed to pay the Allotment and Call money and Shyam, holding 1,000 shares, who failed to pay the Call Money. All those 1,500 shares were forfeited. Of the shares forfeited, 1,250 shares (including whole of Ram's shares) were subsequently re-issued to Jadu as fully paid up at a discount of Rs. 2 per share.

Pass the necessary entries in the Journal of the company to record the forfeiture and re-issue of the share. Also prepare the Balance Sheet of the company.

[SM, Similar in PYQ Nov 22, Nov 20, 19]

Answer

In the books of Beautiful Co. Ltd.

Journal

Date	Particulars		Rs.	Rs.
	Equity Share Capital A/c (1,500 x Rs. 10)	Dr.	15,000	
	Securities Premium A/c (500 x Rs. 2)	Dr.	1,000	
	To Equity Share Allotment A/c (500 x Rs. 5)			2,500
	To Equity Share Call A/c (1,500 x Rs. 4)			6,000
	To Forfeited Shares A/c			7,500
	(Being forfeiture of 1,500 equity shares for non-payment of allotment and call money on 500 shares and for non-payment of call money on 1,000 shares as per Board's Resolution No.....dated ....)			
	Bank A/c	Dr.	10,000	
	Forfeited Shares A/c	Dr.	2,500	

	To Equity Share Capital A/c (Being re-issue of 1250 shares @ Rs. 8 each as per Board's Resolution No.....dated....)			12,500
	Forfeited Shares A/c	Dr.	3,500	
	To Capital Reserve A/c (Being profit on re-issue transferred to Capital Reserve)			3,500

Balance Sheet of Beautiful Limited as at.....

Particulars	Notes No.	Rs.
EQUITY AND LIABILITIES		
Shareholders' funds		
Share capital	1	2,99,000
Reserves and Surplus	2	62,500
Total ASSETS		3,61,500
Current assets		
Cash and cash equivalents (bank)		3,61,500
Total		3,61,500

Notes to accounts

		Rs.	Rs.
1.	Share Capital		
	Equity share capital Issued share capital		
	30,000 Equity shares of Rs. 10 each Subscribed, called up and paid up share capital	3,00,000	
	29,750 Equity shares of Rs. 10 each	2,97,500	
	Add: Forfeited shares	1,500	2,99,000
2.	Reserves and Surplus		
	Securities Premium	59,000	
	Capital Reserve	3,500	62,500

Working Note :

(1) Calculation of Amount to be Transferred to Capital Reserve

Amount forfeited per share of Ram	Rs. 3	Amount forfeited per share of Shyam	Rs. 6
Less: Loss on re-issue per share	(Rs. 2)	Less: Loss on re-issue per share	(Rs. 2)
Surplus	Rs. 1	Surplus	Rs. 4
Transferred to Capital Reserve: Ram share (500 x Rs. 1)	Rs. 500		
Shyam's Share (750 x Rs. 4)	Rs.3,000		
Total	Rs.3,500		

(2) Balance of Security Premium

Total Premium amount receivable on allotment	=	60,000
Less: Amount reversed on forfeiture	=	(1,000)
Balance remaining	=	59,000

Question 18

A holds 2,000 shares of Rs. 10 each on which he has paid Rs. 2 as application money. B holds 4,000 shares of Rs. 10 each on which he has paid Rs. 2 per share as application money and Rs. 3 per share as allotment money. C holds 3,000 shares of Rs. 10 each and has paid Rs. 2 on application, Rs. 3 on allotment and Rs. 3 for the first call. They

all fail to pay their arrears on the second and final call and the directors, therefore, forfeited their shares. The shares are re-issued subsequently for Rs. 12 per share fully paid-up. Journalise the transactions relating to the forfeiture and re-issue.

[SM]

Answer

Journal

Date	Particulars	Rs.	Rs.
	Share Capital A/c (9,000 x Rs. 10) Dr.	90,000	
	To Share Allotment A/c (2,000 x Rs. 3)		6,000
	To Share First Call A/c (6,000 x Rs. 3)		18,000
	To Share Final Call A/c (9,000 x Rs. 2)		18,000
	To Forfeited Shares A/c		48,000
	(Being forfeiture of 9,000 shares of Rs. 10 each for non- payment of allotment, first and final call money as per Board's Resolution No…..dated….)		
	Bank A/c (9,000 x Rs. 12) Dr.	1,08,000	
	To Share Capital A/c		90,000
	To Securities Premium A/c		18,000
	(Being the re-issue of 9,000 shares of Rs. 10 each @ Rs. 12 as per Board's Resolution No…..dated…)		
	Forfeited Shares A/c Dr.	48,000	
	To Capital Reserve A/c		48,000
	(Being profit on re-issue transferred to Capital Reserve).		

Working Note:

Shareholders	Money Received				Money Not Received On		
	Application	Allotment	First Call	Final Call	Allotment	First Call	Final Call
A	2,000	-	-	-	2,000	2,000	2,000
B	4,000	4,000	-	-	-	4,000	4,000
C	3,000	3,000	3,000	-	-	-	3,000
TOTAL	9,000	7,000	3,000	-	2,000	6,000	9,000
Money Receivable	Rs. 2	Rs. 3	Rs. 3	Rs. 2	Rs. 3	Rs. 3	Rs. 2
	Rs. 18,000	Rs.21,000	Rs. 9,000	-	Rs. 6,000	Rs. 18,000	Rs. 18,000

Question 19

X Co. Ltd. was incorporated with an authorized share capital of 90,000 equity shares of Rs. 10 each. The company purchased land and buildings from Y Co. Ltd for Rs. 4,00,000 payable in fully paid-up shares of the company. The balance of the shares were issued to the public, which were fully subscribed and paid for.

You are required to pass Journal Entries and to prepare the Balance Sheet.

Answer

Journal

Date	Particulars	Rs.	Rs.
	Land and Buildings A/c Dr.	4,00,000	
	To Y Co. Ltd A/c		4,00,000
	(Being the land and buildings purchased from Y Co. Ltd as per		

	agreement dated…).		
	Y.Co. Ltd A/c Dr. To Equity Share Capital A/c (Being 40,000 shares of Rs. 10 each issued to Y Co. Ltd. on purchase of land and building)	4,00,000	4,00,000
	Bank A/c Dr. To Equity Share Application and Allotment A/c (Being the issue of 50,000 shares of Rs. 10 each as per Board's Resolution No…..dated…)	5,00,000	5,00,000
	Equity Share Application and Allotment A/c Dr To Equity Share Capital A/c (Beingshares allotted for application money received.)	5,00,000	5,00,000

Balance Sheet of X Company Limited as at….

	Particulars	Notes No.	Rs.
	EQUITY AND LIABILITIES		
	Shareholders' funds		
	Share capital	1	9,00,000
	Total ASSETS		9,00,000
	Non-current assets		
1.	a Fixed assets		
	Plant Property and Equipment	2	4,00,000
2.	Current assets		
	Cash and cash equivalents	3	5,00,000
	Total		9,00,000

Notes to accounts

		Rs.
1.	Share Capital	
	Equity share capital	
	Authorised share capital 90,000 Equity shares of Rs. 10 each	9,00,000
	Issued share capital	
	90,000 Equity shares of Rs. 10 each	9,00,000
	Subscribed Share Capital 90,000 Equity Shares of Rs. 10 each	9,00,000
	Called up and Paid up Capital 90,000 Equity Shares of Rs. 10 each	9,00,000
	(Out of the above 40,000 shares have been allotted as fully paid up pursuant to contract(s) without payment being received in cash)	
2.	Plant Property and Equipment	
	Land and Building	4,00,000
3.	Cash and cash equivalents	
	Balances with banks	5,00,000

Question 20

Write short notes on:

(i) Utilization of securities premium account

(ii) Re-issue of forfeited shares

[SM]

Answer

(i) According to Section 52 of the Companies Act, 2013, Securities Premium Account may be used by the company:

(a) Towards issue of un-issued shares of the company to be issued to members of the company as fully paid bonus securities.

(b) To write off preliminary expenses of the company.

(c) To write off the expenses of, or commission paid, or discount allowed on any of the securities or debentures of the company.

(d) To provide for premium on the redemption of redeemable preference shares or debentures of the company.

(e) For the purchase of own shares or other securities.

(ii) A forfeited share is merely a share available to the company for sale and remains vested in the company for that purpose only. Reissue of forfeited shares is not allotment of shares but only a sale. The share, after forfeiture, in the hands of the company is subject to an obligation to dispose it off. In practice, forfeited shares are disposed off by auction. These shares can be re- issued at any price so long as the total amount received (from the original allottee and the second purchaser) for those shares is not less than the amount in arrears on those shares.

Question 21

Distinguish between:

(i) Calls-in-Arrears and Calls-in-advance

(ii) Issue of shares for cash and Issue of Shares for Consideration other than Cash

[SM]

Answer

(i) Calls-in-Arrears: Sometimes shareholders fail to pay the amount due on allotment or calls. The total unpaid amount on one or more instalments is known as Calls-in-Arrears or Unpaid Calls. Such amount represents the uncollected amount of capital from the shareholders; hence, it is shown by way of deduction from 'called-up capital' to arrive at paid-up value of the share capital.

Calls-in-advance: Some shareholders may sometimes pay a part, or whole, of the amount not yet called up, such amount is known as Calls-in-advance.

(ii) The shares can be issued by a company either for cash or for consideration other than cash. Public limited companies, generally, issue their shares for cash and use such cash to buy the various types of assets needed in the business. Sometimes, however, a company may issue shares in a direct exchange for land, buildings or other assets.

Question 22

Can a company issue shares at discount?

[SM]

Answer

According to Section 53 of the Companies Act, 2013, a Company cannot issue shares at a discount except in the case of issue of sweat equity shares (issued to employees and directors). Thus any issue of shares at discount shall be void.

Question 23

X Ltd. invited applications for 10 lakhs shares of Rs. 100 each payable as follows :

	Rs.

On Application	20
On Allotment (on 1st May, 2022)	30
On First Call (on 1st Oct., 2022)	30
On Final Call (on 1st Feb., 2023)	20

All the shares were applied for and allotted. A shareholder holding 20,000 shares paid the whole of the amount due along with allotment. Journalise the transactions, assuming all sums due were received. Interest was paid to the shareholder concerned on 1st February, 2023.

(SM, MTP Mar 18, Mar 19, March 21, Nov 23)

Answer

Journal of X Ltd.

2022		Rs. in lakhs	Rs. in lakhs
May 1	Bank A/c Dr. To Share Application A/c (Receipt of applications for 10 lakh shares along with application money of Rs. 20 per share.)	200	200
May 1	Share Application A/c Dr. Share Allotment A/c Dr. To Share Capital A/c (The allotment of 10 lakh shares: payable on application Rs. 20 share and Rs. 30 on allotment as per Directors' resolution no... dated...)	200 300	500
May 1	Bank A/c Dr. To Shares Allotment A/c To Calls in Advance A/c [Receipt of money due on allotment @ Rs. 30, also the two calls (Rs. 30 and Rs. 20) on 20,000 shares.]	310	300 10
Oct. 1	Share First Call A/c Dr. To Share Capital A/c (The amount due on 10 lakh shares @ Rs. 30 on first call, as per Directors, resolution no... dated...)	300	300
	Bank A/c Dr. Calls in Advance A/c Dr. To Share First Call A/c (Receipt of the first call on 9.80 lakh shares, the balance having been previously received and now debited to call in advance account.)	294 6	300
2023 Feb. 1	Share Final Call A/c Dr. To Share Capital A/c (The amount due on Final Call on 10 lakh shares @ Rs. 20 per share, as per Directors' resolution no... dated...)	200	200
Feb. 1	Bank A/c Dr. Calls in Advance A/c Dr. To Share Final Call A/c (Receipt of the moneys due on final call on 9.80 lakhs shares, the balance having been previously received.)	196 4	200
Feb. 1	Interest on calls in Advance A/c Dr.	0.66	

	To Shareholder A/c (Being interest on call in advance made due)			0.66
Feb 1	Shareholder A/c	Dr.	0.66	
	To Bank A/c (Being interest paid)			0.66

Working Note:

The interest on calls in advance paid @ 12% on :	Rs.
Rs. 6,00,000 (first call) from 1st May to 1st Oct., 2022-5 months	30,000
Rs. 4,00,000 (final call) from 1st May to 1st Feb., 2023-9 months	36,000
Total Interest Amount Due	66,000

Question 24

A limited Company, with an authorized capital of Rs. 20,00,000 divided into shares of Rs. 100 each, issued for subscription 10,000 shares payable at Rs. 25 per share on application, Rs. 30 per share on allotment, Rs. 20 per share on first call three months after allotment and the balance as and when required.

The subscription list closed on January 31, 2022 when application money on 10,000 shares was duly received and allotment was made on March 1, 2022. All amounts due were received within one month of the date they were called.

The allotment amount was received in full but, when the first call was made, one shareholder failed to pay the amount on 1,000 shares held by him and another shareholder with 500 shares paid the entire amount on his shares. Give journal entries in the books of the Company to record these share capital transactions.

[SM]

Answer

Journal Entries in the Books of the Company

Date	Particulars	L.F.	Debit	Credit
2022			Amount	Amount
			(Rs.)	(Rs.)
Jan. 31	Bank A/c Dr. To Equity Share Application A/c (Money received on applications for 10,000 shares @ Rs. 25 per share)		2,50,000	2,50,000
March 1	Equity Share Application A/c Dr. To Equity Share Capital A/c (Transfer of application money on 10,000 shares to share capital)		2,50,000	2,50,000
March 1	Equity Share Allotment A/c Dr. To Equity Share Capital A/c (Amount due on the allotment of 10,000 shares @ Rs. 30 per share)		3,00,000	3,00,000
April 1	Bank A/c Dr. To Equity Share Allotment A/c (Allotment money received)		3,00,000	3,00,000
June 1	Equity Share First Call A/c Dr. To Equity Share Capital A/c (First call money due on 10,000 shares @ Rs. 20 per share)		2,00,000	2,00,000
July 1	Bank A/c Dr.		1,92,500	

	Calls-in-Arrears A/c Dr. To Equity Share First Call A/c To Calls-in-Advance A/c (First call money received on 9000 shares and calls-in-advance on 500 shares @ Rs. 25 per share)		20,000	 2,00,000 12,500

Question 25

A Ltd. forfeits 100 shares of Rs.10 each fully called upon. The shareholder failed to pay the first call money of Rs. 4 per share and the second and final Call Money of Rs. 4 per share. Give journal entry to show the effect of this transaction.

[SM]

Answer

In the Books of A Ltd.
Journal Entries

Date	Particulars	Rs.	Rs.
	Equity Share Capital A/c (100X10) Dr. To Share First Call A/c (100X4) To Second and Final Call A/c (100X4) To Share Forfeiture A/c (100X2) (Being share forfeiture of 100 shares as per Board's Resolution No.....dated...)	1,000	 400 400 200

Question 26

B Ltd. issued 20,000 equity shares of Rs. 100 each at a premium of Rs. 20 per share payable as follows: on application Rs. 50; on allotment Rs. 50 (including premium); on final call Rs. 20. Applications were received for 24,000 shares. Letters of regret were issued to applicants for 4,000 shares and shares were allotted to all the other applicants. Mr. A, the holder of 150 shares, failed to pay the allotment and call money, the shares were forfeited. Show the Journal Entries and Cash Book in the books of B Ltd.

[SM, PYQ Dec 23]

Answer

In the Books of B Ltd.
Cash Book (Bank column only)

Date	Particulars	Rs.	Date	Particulars	Rs.
	To Equity Share Application A/c (Being application money received on 24,000 shares @ Rs. 50 each)	12,00,000		By Equity Share Application A/c (Being excess money refunded on 4,000 shares @ Rs. 50 each as per Board's Resolution No...dated....)	2,00,000
	To Equity Share Allotment A/c (Being allotment money received on 19,850 shares @ Rs. 50 each)	9,92,500		By Balance c/d	23,89,500
	To Equity Share Final Call A/c (Being final call money	3,97,000			

	received on 19,850 shares @ Rs. 20 each)				
		25,89,500			25,89,500

Journal Entries

Date	Particulars	Rs.	Rs.
	Equity Share Application A/c Dr. To Equity Share Capital A/c (Being application money on 20,000 shares @Rs. 50 each transferred to Equity Share Capital Account as per Board's Resolution No.....dated...)	10,00,000	 10,00,000
	Equity Share Allotment A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Being allotment money @ Rs. 50 per share including premium of Rs. 20 per share being made due as per Board's Resolution No.....dated....)	10,00,000	 6,00,000 4,00,000
	Equity Share Capital A/c (150 x Rs. 100) Dr. Securities Premium A/c (150 x Rs. 20) Dr. To Equity Share Allotment A/c To Equity Share Final Call A/c To Forfeited Shares A/c (Being forfeiture of 150 shares for non-payment of allotment money and final call money as per Board's Resolution No....dated...)	15,000 3,000	 7,500 3,000 7,500
	Equity Share Final Call A/c (19,850 x Rs. 20) Dr. To Equity Share Capital A/c (Being final call money received for Rs. 20 per share being made as per Board's resolution No.... dated .....)	3,97,000	 3,97,000

Note: Here, securities premium on forfeited shares has not been realised, so Securities Premium Account will be debited at the time of forfeiture of these shares.
Also, alternatively Calls in arrears A/c could have been used in which case following entries would have been passed in place of the entry (given above) for forfeiture:

On non- receipt of allotment money: Calls in Arrears A/c To Equity Share Allotment A/c (Being allotment money on 150 shares @ Rs. 50 not received transferred to calls in arrears.)	Dr.	7,500	 7,500
On non - receipt of Call money: Calls in Arrears A/c To Equity Share Final Call A/c (Being final call on 150 shares @ Rs. 20 not received transferred to calls in arrears)	Dr.	3,000	 3,000
On Forfeiture: Share Capital A/c (150 x Rs. 100) Securities Premium A/c (150 x Rs. 20) To Calls in Arrears A/c To Share Forfeiture A/c (Being forfeiture of 150 shares for non-payment of allotment money and final		 15,000 3,000	 10,500 7,500

call money as per Board's Resolution No….dated…)		

Question 27

Kunal Fortune Ltd invited applications for issuing 30,000 Equity Shares of ₹ 10 each. The amount was payable as follows:

(i) On Application ₹ 1 per share
(ii) On Allotment ₹ 2 per share
(iii) On First call ₹ 3 per share
(iv) On Second and final Call ₹ 4 per share

The issue was fully subscribed. Arun to whom 300 shares were allotted, failed to pay the allotment money and his shares were forfeited immediately after the allotment. Ajeet to whom 450 shares were allotted, failed to pay the first call. His shares were also forfeited after the first call. Afterwards the second and final call was made. Mohan to whom 150 shares were allotted failed to pay the second and final call. His shares were also forfeited. All the forfeited shares were re-issued at ₹ 9 per share fully paid-up.

Pass necessary Journal entries in the books of Kunal Fortune Ltd.

[RTP Jan 25, PYQ Dec 21, MTP Dec 23, May 25(Similar)]

Answer

In the books of Kunal Fortune Ltd.
Journal Entries

Particulars		L.F.	Debit Amount (₹)	Credit Amount (₹)
Bank A/c	Dr.		30,000	
To Equity Share Application A/c				30,000
(Money received on applications for 30,000 shares @ ₹ 1 per share)				
Equity Share Application A/c	Dr.		30,000	
To Equity Share Capital A/c				30,000
(Transfer of application money of 30,000 shares to share capital)				
Equity Share Allotment A/c	Dr.		60,000	
To Equity Share Capital A/c				60,000
(Amount due on the allotment of 30,000 shares @ ₹ 2 per share)				
Bank A/c	Dr.		59,400	
To Equity Share Allotment A/c				59,400
(Allotment money received on 29,700 shares)				
OR				
Bank A/c	Dr.		59,400	
Calls in arrears A/c	Dr.		600	
To Equity Share Allotment A/c				60,000
(Allotment money received except 300 shares)				
Equity Share Capital A/c	Dr.		900	
To Share Forfeiture A/c				300
To Equity Shares Allotment A/c (300 Shares of Arun forfeited)				600
OR				

Equity Share Capital A/c	Dr.		900	
To Shares Forfeiture A/c To Calls in arrears A/c				300
(300 shares forfeited due to non- payment of allotment money)				600
Equity Share First Call A/c	Dr.		89,100	
To Equity Share Capital A/c				89,100
(First call made due on 29,700 shares at ₹ 3 per share)				
Bank A/c	Dr.		87,750	
To Equity Share First Call A/c				87,750
(First call money received on 29,250 shares at ₹ 3 per share)				
OR				
Bank A/c	Dr.		87,750	
Calls in arrears A/c	Dr.		1,350	
To Equity Share First Call A/c (First Call money received except 450 shares)				89,100
Equity Share Capital A/c	Dr.		2,700	
To Share Forfeiture A/c				1350
To Equity Share First Call A/c (450 Shares of Ajeet forfeited)				1350
OR				
Equity Share Capital A/c To Share Forfeiture A/c To Calls in arrears A/c	Dr.		2,700	
(450 shares forfeited due to non - payment of First call money)				1,350
				1,350
Equity Share Second and Final Call A/c	Dr.		1,17,000	
To Equity Share Capital A/c				1,17,000
(Second and Final call made due on 29,250 shares at ₹ 4 per share)				
Bank A/c	Dr.		1,16,400	
To Equity Share Second and Final Call A/c				1,16,400
(Second and Final call money received on 29,100 shares at ₹ 4 per share)				
OR	Dr.		1,16,400	
Bank A/c	Dr.		600	
Calls in arrears A/c				1,17,000
To Equity Shares Second and Final call A/c				
(Second and Final call money received except 150 shares)				
Equity Share Capital A/c	Dr.		1,500	
To Share Forfeiture A/c				900
To Equity Share Second and Final Call A/c				600
(150 Shares of Mohan forfeited)				
OR				

Equity Share Capital A/c				
To Shares Forfeiture A/c			1,500	900
To Calls in arrears A/c				600
(50 shares forfeited due to non- payment of Second and final call money)	Dr.			
Bank A/c	Dr.			
Share Forfeiture A/c	Dr.		8,100	
To Equity Share Capital A/c			900	9,000
(900 shares reissued at ₹ 9 per share)				
Share Forfeiture A/c	Dr.			
To Capital Reserve A/c (W.N.1)				1,650
(Profit on re-issue transferred to Capital Reserve)			1,650	

Working Note-1:

Calculation of amount to be transferred to Capital Reserve:

Surplus out of 300 shares of Arun forfeited	₹ 300
Surplus out of 450 shares of Ajeet forfeited	₹ 1,350
Surplus out of 150 shares of Mohan forfeited	₹ 900
	₹ 2,550
Less: Loss on re-issue of shares	₹ 900
Transferred to Capital Reserve	₹1,650

Question 28

Happy Limited registered with an authorised equity capital of ₹ 4,00,000 divided into 4,000 shares of ₹ 100 each, issued for subscription of 2,000 shares payable at ₹ 25 per share on application, ₹ 30 per share on allotment, ₹ 20 per share on first call and the balance as and when required. Application money on 2,000 shares was duly received and allotment was made to them. The allotment amount was received in full, but when the first call was made, one shareholder failed to pay the amount on 200 shares held by him and another shareholder with 100 shares, paid the entire amount on his shares. The company did not make any other call. Give the necessary journal entries in the books of the company to record these transactions.

[RTP Sep 24, Nov 20,23 and May 19, MTP Oct 20, Nov 22]

Answer

Journal entries in the books of Happy Limited

Bank A/c	Dr.	50,000	
To Equity Share Application A/c			50,000
(Money received on application for 2,000 shares @ ₹ 25 per share)			
Equity Share Application A/c	Dr.	50,000	
To Equity Share Capital A/c			50,000
(Transfer of application money on 2,000 shares to share capital)			
Equity Share Allotment A/c	Dr.	60,000	
To Equity Share Capital A/c			60,000
(Amount due on the allotment of 2,000 shares @ ₹ 30 per share)			
Bank A/c	Dr.	60,000	
To Equity Share Allotment A/c			60,000
(Allotment money received)			
Equity Share First Call A/c	Dr.	40,000	
To Equity Share Capital A/c			40,000
(First call money due on 2,000 shares @ ₹ 20 per share)			

Bank A/c		Dr.	38,500	
Calls-in-Arrears A/c		Dr.	4,000	
To Equity Share First Call A/c				40,000
To Calls-in-Advance A/c				2,500
(First call money received on 1,800 shares and calls-in- advance on 100 shares @ ₹ 25 per share)				

Question 29

Give necessary journal entries for the forfeiture and re-issue of shares:

(i) Avtar Ltd. forfeited 900 shares of ₹ 10 each fully called up, held by Varun for non- payment of allotment money of ₹ 3 per share and final call of ₹ 4 per share. He paid the application money of ₹ 3 per share. These shares were re-issued to Nitesh for ₹ 8 per share.

(ii) X Ltd. forfeited 200 shares of ₹ 10 each (₹ 7 called up) on which Naresh had paid application and allotment money of ₹ 5 per share. Out of these, 150 shares were re- issued to Mahesh as fully paid up for ₹ 6 per share.

[RTP June 23, PYQ Nov 18]

Answer

Journal Entries in the books of Avtar Ltd.

Date			Dr. ₹	Cr. ₹
(a)	Equity Share Capital A/c	Dr.	9,000	
	To Equity Share Allotment money A/c (900 x ₹ 3)			2,700
	To Equity Share Final Call A/c (900 x ₹ 4)			3,600
	To Forfeited Shares A/c (900 x ₹ 3)			2,700
	(Being the forfeiture of 900 equity shares of ₹ 10 each for non-payment of allotment money and final call, held by Varun as per Board's resolution No……..dated)			
(b)	Bank A/c (900 x 8)	Dr.	7,200	
	Forfeited Shares A/c (900x 2)	Dr.	1,800	
	To Equity Share Capital A/c			9,000
	(Being the re-issue of 900 forfeited shares @ ₹ 8 each as fully paid up to Nitesh as per Board's resolution No…. dated)			
(c)	Forfeited Shares A/c	Dr.	900	
	To Capital Reserve A/c			900
	(Being the profit on re-issue, transferred to capital reserve)			

(ii)

Date			Dr. ₹	Cr. ₹
(a)	Equity Share Capital A/c (200 x ₹ 7)	Dr.	1,400	
	To Equity Share First Call A/c (200 x ₹ 2)			400
	To Forfeited Shares A/c (200 x ₹ 5)			1,000
	(Being the forfeiture of 200 equity shares of ₹ 10/- (₹7 called up) for non-payment of first call @ ₹ 2/- per share as per Board Resolution No……. dated)			
(b)	Bank A/c	Dr.	900	
	Forfeited Shares A/c	Dr.	600	
	To Equity Share Capital A/c			1,500
	(Being the re-issue of 150 forfeited shares as fully paid up as per			

	Board's resolution No.....dated)			
(c)	Forfeited Shares A/c	Dr.	150	
	To Capital Reserve A/c			150
	(Being the profit on re-issue, transferred to capital reserve)			

Working Note:

Balance in forfeited shares account on forfeiture of 150 shares (150 x 5)	750
Less: Forfeiture of 150 shares	(600)
Profit on re-issue of shares	150

Question 30

Radha Ltd. invited applications for issuing 2,00,000 equity shares of ₹ 10 each. The amounts were payable as follows:

On application - ₹ 3 per share

On allotment - ₹ 5 per share

On first and final call - ₹ 2 per share

Applications were received for 3,00,000 shares and pro-rata allotment was made to all the applicants. Money overpaid on application was adjusted towards allotment money. B, who was allotted 3,000 shares, failed to pay the first and final call money. His shares were forfeited. Out of the forfeited shares, 2,500 shares were reissued as fully paid-up @ ₹ 6 per share.

Pass necessary Journal entries to record the above transactions in the books of Radha Ltd.

[RTP Nov 22, May 20, PYQ May 19, MTP April 21, May 23, June 24, July 24]

Answer

In the books of Radha Ltd.

Journal Entries

		Dr. ₹	Cr. ₹
Bank A/c	Dr.	9,00,000	
To Equity Share Application A/c			9,00,000
(Being the application money received for 3,00,000 shares at ₹ 3 per share)			
Equity Share Application A/c	Dr.	9,00,000	
To Equity Share Capital A/c (2,00,000 x ₹ 3)			6,00,000
To Share allotment A/c			3,00,000
(Being share allotment made for 2,00,000 shares and excess adjusted towards allotment)			
Equity Share Allotment A/c	Dr.	10,00,000	
To Equity Share Capital A/c			10,00,000
(Being allotment amount due on 2,00,000 equity shares at ₹ 5 per share as per Directors' resolution no... dated...)			
Bank A/c	Dr.	7,00,000	
To Equity Share Allotment A/c			7,00,000
(Being balance allotment money received for 2,00,000 shares at ₹ 5 per share.)			
Equity Share first and final call A/c	Dr.	4,00,000	
To Equity Share Capital A/c			4,00,000
(Being first and final call amount due on 2,00,000 equity shares at ₹ 2 per share as per Directors' resolution no... dated...)			
Bank A/c	Dr.	3,94,000	

Calls in arrears A/c		6,000	
To Equity Share first and final call A/c			4,00,000
(Being final call received on 1,97,000 shares)			
Share capital A/c (3,000 x ₹ 10)	Dr.	30,000	
To Forfeited share A/c (3,000 x ₹ 8)			24,000
To Calls in arrears A/c (3,000 x ₹ 2)			6,000
(Being forfeiture of 3,000 shares of ₹ 10 each fully called-up for non payment of first and final call @ ₹ 2 as per Directors' resolution no... dated..)			
Bank A/c (2,500 x ₹6) .	Dr.	15,000	
Forfeited share A/c (2,500 x ₹4)		10,000	
To Equity Share Capital A/c (2,500 x ₹ 10) (Being re-issue of 2,500 shares @ 6)			25,000
Forfeited share A/c (2,500 x ₹ 4)		10,000	
To capital reserve A/c (2,500 x ₹ 4)			10,000
(Being profit on re-issue transferred to capital reserve)			

Working Note:

Calculation of amount to be transferred to Capital reserve A/c		₹
Forfeited amount per share	= 24,000/3,000 =	8
Loss on re issue (8-4)		4
Surplus per share		4

Transfer to capital reserve = 4 x 2,500 = ₹ 10,000

Question 31

Delta Ltd. forfeited 600 shares of ₹ 10 each issued at a premium of 10% to W for non- payment of first and final call money of ₹ 3 (including ₹ 1 premium). At different intervals of time out of these 400 shares were re-issued to Z, credited as fully paid for ₹ 9 per share and 100 shares were re-issued to X as ₹ 10 paid up for ₹ 11 per share. Record the journal entries for forfeiture and reissue of shares.

[RTP May 22]

Answer

In the Books of Delta Ltd.

Journal Entries

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
1.	Share capital A/c (600 × ₹ 10) Dr.		6,000	
	Securities Premium A/c (600 × ₹ 1) Dr.		600	
	To Calls-in-arrears A/c (600 × ₹ 3)			1,800
	To forfeited Shares A/c (600 × ₹ 8)			4,800
	(Being 600 shares forfeited for non-payment of call money)			
2.	Bank A/c (400 × ₹ 9) Dr.		3,600	
	Forfeited Shares A/c (400 × ₹ 1) Dr.		400	
	To Share Capital A/c (400 × ₹ 10)			4,000
	(Being 400 shares re-issued as fully paid-up for ₹ 9 per share)			
3.	Forfeited Shares A/c Dr.		2,800	
	To Capital Reserve A/c			2,800
	(Being the transfer of profit on re-issue of 400 shares to Z)			
4.	Bank A/c (100 × ₹ 11) Dr.		1,100	
	To Share Capital A/c (100 × ₹ 10)			1,000

	To Securities Premium A/c (100 × ₹ 1) (Being 100 shares re-issued to X as fully paid-up for ₹ 11 per share)			100
5.	Forfeited Shares A/c (₹ 4,800 × 100/600) Dr. To Capital Reserve A/c (Being the transfer of profit on re-issue of 100 shares to X)		800	 800

Question 32

Mr. Samphat who was the holder of 12,000 preference shares of ₹ 100 each, on which ₹ 60 per share has been called up could not pay his dues on Allotment and First call each at ₹ 20 per share. The Directors forfeited the above shares and reissued 10,000 of such shares to Mr. Sushil at ₹ 50 per share paid-up as ₹60 per share.
You are required to prepare journal entries to record the above forfeiture and re-issue in the books of the company.

[RTP Nov 19,21, May 18,19, 21]

Answer

In the books of Company
Journal

Particulars		Dr. ₹	Cr. ₹
Preference Share Capital A/c (12,000 x ₹60)	Dr.	7,20,000	
To Preference Share Allotment A/c			2,40,000
To Preference Share First Call A/c			2,40,000
To Forfeited Share A/c			2,40,000
(Being the forfeiture of 12,000 preference shares ₹ 60 each being called up for non-payment of allotment and first call money as per Board's Resolution No.... dated)			
Bank A/c (10,000 x ₹50)	Dr.	5,00,000	
Forfeited Shares A/c (10,000 x ₹10)	Dr.	1,00,000	
To Preference Share Capital A/c			6,00,000
(Being re-issue of 10,000 shares at ₹ 60 per share paid-up as ₹ 70 as per Board's Resolution No.....dated....)			
Forfeited Shares A/c	Dr.	1,00,000	
To Capital Reserve A/c (Note 1)			1,00,000
(Being profit on re-issue transferred to Capital Reserve)			

Working Note:
Calculation of amount to be transferred to Capital Reserve
Forfeited amount per share =₹ 2,40,000/1,20,000 = ₹ 20
Loss on re-issue =₹ 60 – ₹ 50 = ₹ 10
Surplus per share re-issued = ₹ 10
Transferred to capital Reserve ₹ 10 x 10,000 = ₹ 1,00,000.

Question 33

Amol Ltd. issued 40,00,000, 9% debentures of Rs. 50 each, payable on application as per term mentioned in the prospectus and redeemable at par any time after 3 years from the date of issue. Record necessary entries for issue of debentures in the books of Amol Ltd.

[SM]

Answer

Books of Amol Ltd.
Journal

Date	Particulars	L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
	Bank A/c Dr. To Debenture Application A/c (Debenture application money received)		20,00,00,000	20,00,00,000
	Debenture Application A/c Dr. To 9% Debentures A/c (Application money transferred to 9% debentures account consequent upon allotment)		20,00,00,000	20,00,00,000

Question 34

Atul Ltd. issued 1,00,00,000, 8% debenture of Rs.100 each at a discount of 10% redeemable at par at the end of 10th year. Money was payable as follows :
Rs. 30 on application
Rs. 60 on allotment
Record necessary journal entries regarding issue of debenture.

[SM, May 21, Nov 19, MTP Mar 18,Nov 18 (different values, same concept)]

Answer

Books of Atul Ltd.
Journal

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
	Bank A/c To Debenture Application A/c (Debenture application money received)	Dr.	30,00,00,000	30,00,00,000
	Debenture Application A/c To 8% Debentures A/c (Application money transferred to 8% debentures account consequent upon allotment)	Dr.	30,00,00,000	30,00,00,000
	Debenture allotment A/c Discount on issue of debentures A/c To 8% Debentures A/c (Amount due on allotment)	Dr. Dr.	60,00,00,000 10,00,00,000	70,00,00,000
	Bank A/c To Debenture Allotment A/c (Money received upon consequent allotment)	Dr.	60,00,00,000	60,00,00,000

Question 35

Koinal Chemicals Ltd. issued 15,00,000, 10% debenture of Rs.50 each at premium of 10%, payable as Rs.20 on application and balance on allotment. Debentures are redeemable at par after 6 years. All the money due on allotment was called up and received. Record necessary entries when premium money is included in application money.

[SM]

Answer

Books of Koinal Chemicals Ltd.

Journal

When premium money is received along with application money:

Date	Particulars	L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
	Bank A/c	Dr.	3,00,00,000	
	To Debenture Application A/c			3,00,00,000
	(Debenture application money received)			
	Debentures Application A/c	Dr.	3,00,00,000	
	To 10% Debentures A/c			2,25,00,000
	To Securities Premium A/c			75,00,000
	(Application money transferred to 10% debentures account and securities premium account consequent upon allotment)			
	Debenture Allotment A/c	Dr.	5,25,00,000	
	To 10% Debentures A/c			5,25,00,000
	(Call made consequent upon allotment)			
	Bank A/c	Dr.	5,25,00,000	
	To Debenture Allotment A/c			5,25,00,000
	(Call made consequent upon allotment money received)			

Question 36

Modern Equipments Ltd. issued 4,00,000, 12% debentures of Rs. 100 payable as follows :

On application Rs. 30

On allotment Rs. 70

The debenture were fully subscribed and all the money was duly received. As per the terms of issue, debentures are redeemable at Rs.110 per debenture. Record necessary entries regarding issue of debentures.

[SM]

Answer

Books of Modern Equipments Ltd.

Journal

Date	Particulars		Debit Amount (Rs. Lakhs)	Credit Amount (Rs. Lakhs)
	Bank A/c	Dr.	120	
	To Debentures application A/c			120
	(Debenture application money received)			
	Debentures Application A/c	Dr.	120	
	To 12% Debentures A/c			120
	(Application money transferred to 12% debentures account consequent to allotment)			
	Debentures Allotment A/c	Dr.	280	
	Loss on issue of Debentures A/c	Dr.	40	
	To 12% Debentures A/c			280
	To Debenture redemption premium A/c			40
	(Call made on allotment of debentures at par and entry for debentures redeemable at premium)			
	Bank A/c	Dr.	280	

	To Debentures allotment A/c (Call made consequent upon allotment money received)		280

Question 37

Agrotech Ltd. issued 150 lakh 9% debentures of Rs. 100 each at a discount of 6%, redeemable at a premium of 5% after 3 years payable as: Rs. 50 on application and Rs. 44 on allotment. Record necessary journal entries for issue of debentures.

[SM]

Answer

Books of Agrotech Ltd.

Journal

Date	Particulars	L.F.	Debit Amount (Rs. Lakhs)	Credit Amount (Rs. Lakhs)
	Bank A/c	Dr.	7,500	
	To Debenture Application A/c			7,500
	(Debentures application money received)			
	Debenture Application A/c	Dr.	7,500	
	To 9% Debentures A/c			7,500
	(Application money transferred to 9% debentures account)			
	Debenture Allotment A/c	Dr.	6,600	
	Loss on issue of debenture A/c	Dr.	1,650	
	To 9% Debentures A/c			7,500
	To Debenture redemption premium A/c			7,50
	(Call made consequent upon allotment of debentures issued at discount and redeemable at premium)			
	Bank A/c	Dr.	6,600	
	To Debenture Allotment A/c			6,600
	(Allotment amount received)			

Working Notes :

Loss on issue of debentures =

(Amount of discount on issue + Premium payable on redemption) x No. of Debentures

= (6% of Rs.100 + 5% of Rs.100) x 150 lakh

= (Rs. 6 + Rs. 5) x 150 lakh

= Rs. 1,650 lakh

Question 38

Simmons Ltd. issued 1,00,000, 12% Debentures of Rs.100 each at par payable in full on application by 1st April, Application were received for 1,10,000 Debentures. Debentures were allotted on 7th April. Excess money refunded on the same date.

You are required to pass necessary Journal Entries (including cash transactions) in the books of the company.

(SM, MTP Oct 18, Oct 19)

Answer

In the books of Simmons Limited

Journal

Date	Particulars	Rs. 000	Rs. 000

April 1	Bank A/c Dr. To Debentures Application A/c (Being money received on 1,10,000 debentures)	11,000	 11,000
April 7	Debentures Application A/c Dr. To Bank A/c (Being money on 10,000 debentures refunded as per Board's Resolution No.....dated...)	1,000	 1,000
April 7	Debentures Application A/c Dr. To Debentures A/c (Being the allotment of 1,00,000 debentures of Rs. 100 each at par, as per Board's Resolution No....dated...)	10,000	 10,000

Question 39

X Ltd. issued 1,00,000 12% Debentures of Rs.100 each at a discount of 10% payable in full on application by 31st May, 2022. Applications were received for 1,20,000 debentures. Debentures were allotted on 9th June, 2022. Excess money was refunded on the same date. Pass necessary Journal Entries. Also show necessary ledger accounts.

[SM]

Answer

In the books of X Limited

Journal Entries

Date			
2022	Particulars	Rs. '000	Rs. '000
May 31	Bank A/c Dr. To Debentures Application A/c (Being money received for 1,20,000 debentures @ Rs. 90 each)	10,800	 10,800
June 9	Debentures Application A/c Dr. To Bank A/c (Being excess money on 20,000 debentures @ Rs. 90 refunded as per Board's Resolution No....dated....)	1,800	 1,800
June 9	Debentures Application A/c Dr. Discount on Issue of Debentures A/c Dr. To 12% Debentures A/c (Being the allotment of 1,00,000 debentures of Rs. 100 each at a discount of Rs. 10 per debenture as per Board's Resolution No.....dated...)	9,000 1,000	 10,000

Bank Account

Date	Particulars	Rs.	Date	Particulars	Rs.
31.5.2022	To 12% Debentures Application A/c	10,800	9.6.2022	By 12% Debentures Application A/c	1,800
			9.6.2022	By Balance c/d	9,000
		10,800			10,800

12% Debentures Account

Date	Particulars	Rs.	Date	Particulars	Rs.
30.6.2022	To Balance c/d	10,000	9.6.2022	By 12% Debentures	9,000

			9.6.2022	Application A/c By Discount on Issue of Debentures A/c	1,000
		10,000			10,000

Debentures Application Account

Date	Particulars	Rs.	Date	Particulars	Rs.
9.6.2022 9.6.2022	To Bank A/c To 12% Debentures A/c	1,800 9,000	31.5.2022	By Bank A/c	10,800
		10,800			10,800

Discount on Issue of Debentures Account

Date	Particulars	Rs.	Date	Particulars	Rs.
9.6.2022	To12% Debentures A/c	1,000	30.6.2022	By Balance c/d	1,000
		1,000			1,000

Question 40

X Ltd. obtains a loan from IDBI of Rs.1,00,00,000, giving as collateral security of Rs.1,50,00,000 (of Rs. 10 each), 14%, First Mortgage Debentures.

[SM]

Answer

In the Notes to Accounts of Balance Sheet of X Ltd., it is shown as follows:

Notes to Accounts of X Limited as at…(includes)	
Long Term Borrowings	Rs.
Secured Loan	
IDBI Bank	1,00,00,000
(Collaterally secured by issue of Rs. 1,50,00,000 14% First Mortgage Debentures)	

Question 41

Taking the same information of the illustration 8, the entry on issue will be as follows :

In the Books of X Ltd.

Journal

Date	Particulars	Rs.	Rs.
	Debentures Suspense A/c Dr. To 14% First Mortgage Debentures A/c (Being the issue of Rs. 15,00,000 debentures @ Rs.10 collaterally as per Board's Resolution No…dated…)	1,50,00,000	1,50,00,000

Balance Sheet of X Limited as at….(Extracts)

Particulars	Notes No.	Rs.	
EQUITY AND LIABILITIES Non-Current Liabilities Long Term Borrowings	1	2,50,00,000	

		Total		2,50,00,000
ASSETS				
Non-current Assets				
Other non-current asset				
Current Assets			2	1,50,00,000
Cash and cash equivalent				1,00,00,000
		Total		2,50,00,000
Notes to accounts				
				Rs. Rs.
1.	Long Term Borrowings			
	Secured Loan			
	IDBI Loan			1,00,00,000
	14% First Mortgage Debentures			1,50,00,000 2,50,00,000
2.	Other non-current asset			
	Debenture Suspense Account			
	(issue of Rs. 15,00,000 14% First Debentures as collateral security as per contra)			1,50,00,000

Question 42

X Company Limited issued 10,000 14% Debentures of the nominal value of Rs. 50,00,000 as follows:

(a) To sundry persons for cash at 90% of nominal value of Rs. 25,00,000.

(b) To a vendor for purchase of fixed assets worth Rs.10,00,000 – Rs. 12,50,000 nominal value.

(c) To the banker as collateral security for a loan of Rs. 10,00,000 – Rs. 12,50,000 nominal value. Pass necessary Journal Entries.

[SM, RTP June 23, May 18, PYQ Nov 20, MTP Mar 19 , Oct 20, March 21, March 22, Nov 23 (same concept, different figures)]

Answer

In the books of X Company Ltd.

Journal Entries

Date	Particulars	Rs.	Rs.
(a)	Bank A/c Dr.	22,50,000	
	To Debentures Application A/c		22,50,000
	(Being the application money received on 5,000 debentures @ Rs. 450 each)		
	Debentures Application A/c Dr.	22,50,000	
	Discount on issue of Debentures A/c Dr.	2,50,000	
	To 14% Debentures A/c		25,00,000
	(Being the issue of 5,000 14% Debentures @ 90% as per Board's Resolution No….dated….)		
(b)	Fixed Assets A/c Dr.	10,00,000	
	To Vendor A/c		10,00,000
	(Being the purchase of fixed assets from vendor)		
	Vendor A/c Dr.	10,00,000	
	Discount on Issue of Debentures A/c Dr.	2,50,000	
	To 14% Debentures A/c		12,50,000
	(Being the issue of debentures of Rs. 12,50,000 to vendor to satisfy his claim)		

(c)	Bank A/c Dr. To Bank Loan A/c (See Note) (Being a loan of Rs.10,00,000 taken from bank by issuing debentures of Rs.12,50,000 as collateral security)	10,00,000	 10,00,000

Note : No entry is made in the books of account of the company at the time of making issue of such debentures. In the Balance Sheet due to the fact that the debentures being issued as collateral security and outstanding are shown under the respective liability.

Question 43

HDC Ltd issues 1,00,000, 12% Debentures of Rs.100 each at Rs. 94 on 1st January, 2022. Under the terms of issue, the debentures are redeemable at the end of 5 years from the date of the issue. Calculate the amount of discount to be written-off in each of the 5 years.

[SM, RTP Nov 22, May 20, PYQ Nov 18, MTP May 20, April 23]

Answer

Total amount of discount comes to Rs. 6,00,000 (Rs.6 × 1,00,000). The amount of discount to be written-off in each year is calculated as under :

Year end	Debentures outstanding	Ratio in which discount to be written-off	Amount of discount to be written-off
1st	Rs. 1,00,00,000	1/5	1/5th of Rs. 6,00,000 = Rs. 1,20,000
2nd	Rs. 1,00,00,000	1/5	1/5th of Rs. 6,00,000 = Rs. 1,20,000
3rd	Rs. 1,00,00,000	1/5	1/5th of Rs. 6,00,000 = Rs. 1,20,000
4th	Rs. 1,00,00,000	1/5	1/5th of Rs. 6,00,000 = Rs. 1,20,000
5th	Rs. 1,00,00,000	1/5	1/5th of Rs. 6,00,000= Rs. 1,20,000

Question 44

HDC Ltd. issues 2,00,000, 12% Debentures of Rs.10 each at Rs.9.40 on 1st January, 2022. Under the terms of issue, 1/5th of the debentures are annually redeemable by drawings, the first redemption occurring on 31st December, 2022. Calculate the amount of discount to be written- off from 2022 to 2026.

[SM]

Answer

Calculation of amount of discount to be written-off

At the Year end	Debentures Outstanding before redemption	Ratio of benefit Derived	Amount of discount to be written-off
2022	Rs. 20,00,000	5	5/15th of Rs. 1,20,000 = Rs. 40,000
2023	Rs. 16,00,000	4	4/15th of Rs. 1,20,000 = Rs. 32,000
2024	Rs. 12,00,000	3	3/15th of Rs. 1,20,000 = Rs. 24,000
2025	Rs. 8,00,000	2	2/15th of Rs. 1,20,000 = Rs. 16,000
2026	Rs. 4,00,000	1	1/15th of Rs. 1,20,000 = Rs. 8,000
	TOTAL	15	Rs. 1,20,000

Question 45

A company issued 12% debentures of the face value of Rs.10,00,000 at 10% discount on 1-1-2019. Debenture interest after deducting tax at source @ 10% was payable on 30th June and 31st of December every year. All the debentures were to be redeemed after the expiry of five year period at 5% premium.

Pass journal entries for the accounting year 2022.

[SM, RTP Nov 23, PYQ May 19, MTP Nov 21, April 21, Nov 22, June 24]

Answer

Journal Entries

			(Rs.)	(Rs.)
1-1-2022	Bank A/c	Dr.	9,00,000	
	Discount/Loss on Issue of Debentures A/c	Dr.	1,50,000	
	To 12% Debentures A/c			10,00,000
	To Premium on Redemption of Debentures A/c			50,000
	(For issue of debentures at discount redeemable at premium)			
30-6-2022	Debenture Interest A/c	Dr.	60,000	
	To Debenture holders A/c			54,000
	To Tax Deducted at Source A/c (For interest payable)			6,000
	Debenture holders A/c	Dr.	54,000	
	Tax Deducted at Source A/c	Dr.	6,000	
	To Bank A/c			60,000
	(For payment of interest and TDS)			
31-12-2022	Debenture Interest A/c	Dr.	60,000	
	To Debenture holders A/c			54,000
	To Tax Deducted at Source A/c			6,000
	(For interest payable)			
	Debenture holders A/c	Dr.	54,000	
	Tax Deducted at Source A/c	Dr.	6,000	
	To Bank A/c			
	(For payment of interest and tax)			60,000
	Profit and Loss A/c	Dr.	1,20,000	
	To Debenture Interest A/c			1,20,000
	(For transfer of debenture interest to profit and loss account at the end of the year)			
	Profit and Loss A/c	Dr.	30,000	
	To Discount/Loss on issue of debenture A/c			30,000
	(For proportionate debenture discount and premium on redemption written off, i.e., 1,50,000 x 1/5)			

Question 46

Distinguish between debentures and shares.

[SM]

Answer

Debentures	Shares
1. Debenture holders are the creditors of the company.	1. Shareholders are the owners of the company.
2. Debenture holders have no voting rights and consequently do not pose any threat to the existing control of the company.	2. Shareholders have voting rights and consequently control the total affairs of the company.
3. Debenture interest is generally paid at a pre-determined fixed rate. It is payable, whether there is any profit or not. Debentures rank ahead of all types of shares for payment of the interest due on them.	3. Dividend on equity shares is paid at a variable rate which is vastly affected by the profits of the company (however, dividend on preference shares is paid at a fixed rate).

4. Interest on debentures are the charges against profits and they are deductible as an expense in determining taxable profit of the company.	4. Dividends are appropriation of profit and these are not deductible in determining taxable profit of the company.
5. There are different kinds of debentures, such as Secured/ Unsecured; Redeemable/ Irredeemable; Registered / Bearer; Convertible/ Non-convertible, etc.	5. There are only two kinds of shares– Equity Shares and Preference Shares.
6. In the Company's Balance Sheet, Debentures are shown under Term "Long Borrowings".	6. In the Company's Balance Sheet, shares are shown under "Shareholder's Fund" detailed in 'Share Capital' of Notes to Accounts.
7. Debentures can be converted into other debentures or shares as per the terms of issue of debentures.	7. Shares cannot be converted into other shares in any circumstances.
8. Debentures cannot be forfeited for non- payment of call moneys.	8. Shares can be forfeited for non-payment of allotment and call moneys.
9. At maturity, debenture holders get back their money as per the terms and conditions of redemption.	9. Equity shareholders cannot get back their money before the liquidation of the company (however, preference shareholders can get back their money before liquidation).
10. At the time of liquidation, debenture holders are paid-off before the shareholders.	10. At the time of liquidation shareholders are paid at last, after paying debenture holders, Trade payable, etc.

Question 47
Explain the purpose for raising of debenture by the company. Also give the main features of debentures.
[SM]

Answer
Debenture is one of the most commonly used debt instrument issued by the company to raise funds for the business. The most common method of supplementing the capital available to a company is to issue debentures which may either be simple or naked carrying no charge on assets, or mortgage debentures carrying either a fixed or a floating charge on some or all of the assets of the company.

FEATURES OF DBENTURES
1. It is a document which evidences a loan made to a company.
2. It is a fixed interest-bearing security where interest falls due on specific dates.
3. Interest is payable at a predetermined fixed rate, regardless of the level of profit.
4. The original sum is repaid at a specified future date or it is converted into shares or other debentures.
5. It may or may not create a charge on the assets of a company as security.
6. It can generally be bought or sold through the stock exchange at a price above or below its face value.

Question 48
Country Crafts Ltd. issued 1,00,000, 8% debentures of Rs. 100 each at premium of 5% payable fully on application and redeemable at premium of Rs. 10 Pass necessary journal entries at the time of issue.
[SM]

Answer
Journal Entries in the Books of Country Crafts Ltd.

Date	Particulars	L.F.	Debit	Credit
			Amount	Amount

			(Rs.'000)	(Rs.'000)
(a)	Bank A/c	Dr.	10,500	
	To Debenture Application A/c			10,500
	(Debenture application money received)			
(b)	Debenture Application A/c	Dr.	10,500	
	Loss on Issue of Debenture A/c	Dr.	1,000	
	To Securities Premium A/c			500
	To 8% Debentures A/c			10,000
	To Premium on Redemption A/c			1,000
	(Debenture application money transferred to debenture account)			

Question 49

Koinal Chemicals Ltd. issued 20,00,000, 10% debentures of Rs.50 each at premium of 10%, payable as Rs. 20 on application and balance on allotment. Debentures are redeemable at par after 6 years. All the money due on allotment was called up and received. Record necessary entries when premium money is included in allotment money.

[SM]

Answer

Journal Entries in the Books of Koinal Chemicals Ltd.

Particulars		Debit Amount (Rs. lakhs)	Credit Amount (Rs. lakhs)
Bank A/c	Dr.	400	
To Debenture Application A/c			400
(Debenture application money received)			
Debentures Application A/c	Dr.	400	
To 10% Debentures A/c			400
(Debenture application money transferred debenture to 10% account consequent upon allotment)			
Debenture allotment A/c	Dr.	700	
To 10% Debentures A/c			600
To Securities Premium A/c			100
(Call made on allotment of debenture including premium)			
Bank A/c	Dr.	700	
To Debenture Allotment A/c			700
(Money received consequent upon allotment)			

Question 50

Kapil Ltd. issued 50,000, 12% Debentures of Rs.100 each at a premium of 10% payable in full on application by 1st March, 2022. The issue was fully subscribed and debentures were allotted on 9th March, 2022.
Pass necessary Journal Entries (including cash transactions).

[SM]

Answer

Journal Entries in the books of Kapil Limited

Date	Particulars		Rs.	Rs.
2022				
March 1	Bank A/c	Dr.	55,00,000	

	To Debentures Application A/c (Beingthe money received on 50,000 debentures @ Rs. 110 each including premium of Rs. 10 each)		55,00,000
March 9	Debentures Application A/c Dr. To 12% Debentures A/c To Securities Premium A/c (Being the allotment of 50,000 debentures of Rs. 100 each, premium @ Rs. 10 each transferred to Securities Premium Account as per Board's Resolution No….dated….)	55,00,000	 50,00,000 5,00,000

Question 51

On 1st April 2022 Sheru Ltd. issued 1,00,000 12% debentures of Rs.100 each at a discount of 5%, redeemable on 31st March, 2027. Issue was oversubscribed by 20,000 debentures, who were refunded their money. Interest is paid annually on 31st March. You are required to prepare:

(i) Journal Entries at the time of issue of debentures.

(ii) Discount on issue of Debenture Account

(iii) Interest account and Debenture holder Account assuming TDS is deducted @ 10%.

[SM]

Answer

(i) Journal in the Books of Sheru Ltd.

Date	Particulars LF	(Rs. 00)	(Rs. 00)
2022			
Apr 1	Bank A/c	1,14,000	
	To Debenture Application A/c		1,14,000
	(Being debenture application money received for 1,20,000 debentures)		
	Debenture Application A/c Dr.	1,14,000	
	Discount on Issue of Debenture A/c Dr.	5,000	
	To 12% Debenture A/c		1,00,000
	To Bank A/c		19,000
	(Being application money transferred to debenture account and excess refunded)		

(ii) Discount on Issue of Debenture A/c

Date	Particulars	Rs.'00	Date	Particulars	Rs.'00
1.4.22	To 12% Debentures A/c	5,000	31.3.23	By Profit & Loss A/c	1,000
			31.3.23	By Balance c/d	4,000
		5,000			5,000
1.4.23	To Balance b/d	4,000	31.3.24	By Profit & Loss A/c	1,000
			31.3.24	By Balance c/d	3,000
		4,000			4,000
1.4.24	To Balance b/d	3,000	31.3.25	By Profit & Loss A/c	1,000
			31.3.25	By Balance c/d	2,000
		3,000			3,000

1.4.25	To Balance b/d	2,000	31.3.26 31.3.26	By Profit & Loss A/c By Balance c/d	1,000 1,000
		2,000			2,000
1.4.26	To Balance b/d	1,000	31.3.27	By Profit & Loss A/c	1,000
		1,000			1,000

(iii) Interest A/c

Date	Particulars	Rs.'00	Date	Particulars	Rs.'00
31.3.23	To Debentureholder A/c	12,000	31.3.23	By Profit & Loss A/c	12,000
		12,000			12,000
31.3.24	To Debentureholder A/c	12,000	31.3.24	By Profit & Loss A/c	12,000
		12,000			12,000
31.3.25	To Debentureholder A/c	12,000	31.3.25	By Profit & Loss A/c	12,000
		12,000			12,000
31.3.26	To Debentureholder A/c	12,000	31.3.26	By Profit & Loss A/c	12,000
		12,000			12,000
31.3.27	To Debentureholder A/c	12,000	31.3.27	By Profit & Loss A/c	12,000
		12,000			12,000

Debenture holder A/c

Date	Particulars	Rs.'00	Date	Particulars	Rs.'00
31.3.23 31.3.23	To Bank A/c To TDS A/c	10,800 1,200	31.3.23	By Interest A/c	12,000
		12,000			12,000
31.3.24 31.3.24	To Bank A/c To TDS A/c	10,800 1,200	31.3.24	By Interest A/c	12,000
		12,000			12,000
31.3.25 31.3.25	To Bank A/c To TDS A/c	10,800 1,200	31.3.25	By Interest A/c	12,000
		12,000			12,000
31.3.26 31.3.26	To Bank A/c To TDS A/c	10,800 1,200	31.3.26	By Interest A/c	12,000
		12,000			12,000
31.3.27 31.3.27	To Bank A/c To TDS A/c	10,800 1,200	31.3.27	By Interest A/c	12,000
		12,000			12,000

Question 52

A Limited issued 14% Debentures of the nominal value of Rs. 10 each as follows:

(a) To sundry persons 1,00,000 Debentures for cash at 10% discount.

(b) To a vendor for purchase of Inventory worth Rs. 1,00,000, 8,000 debentures at 25% premium.

(c) To the banker as collateral security for a loan of Rs. 1,00,000 – Rs. 1,50,000 nominal value.

Pass necessary Journal Entries.

[SM]

Answer

In the books of A Ltd.
Journal Entries

Date	Particulars	Rs.	Rs.
(a)	Bank A/c Dr.	9,00,000	
	To Debentures Application A/c		9,00,000
	(Being the application money received on 100,000 debentures @ Rs. 9 each)		
	Debentures Application A/c Dr.	9,00,000	
	Discount on issue of Debentures A/c Dr.	1,00,000	
	To 14% Debentures A/c		10,00,000
	(Being the issue of 100,000 14% Debentures @ 90% as per Board's Resolution No….dated….)		
(b)	Inventories A/c Dr.	1,00,000	
	To Vendor A/c		1,00,000
	(Being the purchase of inventories from vendor)		
	Vendor A/c Dr.	1,00,000	
	To 14% Debentures A/c		80,000
	To Securities Premium		20,000
	(Being the issue of 8,000 debentures of to vendor to satisfy his claim at premium of 25%)		
(c)	Bank A/c Dr.	1,00,000	
	To Bank Loan A/c (See Note)		1,00,000
	(Being a loan of Rs.1,00,000 taken from bank by issuing debentures of Rs.1,50,000 as collateral security)		

Note : No entry is made in the books of account of the company at the time of making issue of such debentures. In the Balance Sheet due to the fact that the debentures being issued as collateral security and outstanding are shown under the respective liability.

Question 53

On 1st April 2023, Globex Ltd. took over assets of ₹9,00,000 and liabilities of 1,20,000 of Himalayan Ltd. for the purchase consideration of ₹ 8,80,000. It paid the purchase consideration by issuing 8% debenture of ₹ 100 each at 10% premium on same date. XY Ltd. issued another 6000, 8% debenture of ₹ 100 at discount of 10% redeemable at premium of 5% after 5 years. According to the terms of the issue ₹ 30 is payable on application and the balance on the allotment on debentures. It has been decided to write off the entire loss on issue of discount in the current year itself.

You are required to pass the journal entries in the books of XY Ltd. for the financial year 2023-24

[RTP Jan 25, June 24 and May 22, MTP Oct 21, May 23, MTP Oct 21, May 23]

Answer

In the books of XY Ltd.
Journal Entries

Date	Particular	L.F	Dr.	Cr.
2023	Sundry Assets A/c Dr.		9,00,000	
April	Goodwill A/c (Bal. fig) Dr.		1,00,000	
	To Himalayan Ltd. A/c			8,80,000

	To Sundry Liabilities A/c (Assets and liabilities taken over for a net consideration of ₹ 8,80,000)			1,20,000
	Himalyan Ltd. A/c Dr. To 8% Debentures A/c To Securities Premium A/c (8000; 8% Debenture of ₹ 100 each issued at a premium of 10%)		8,80,000	 8,00,000 80,000
	Bank A/c Dr. To Debenture Application A/c (Application money received for 6000, 8% Debenture)		1,80,000	 1,80,000
	Debenture Application A/c Dr. To 8% Debenture A/c (6000; 8% Debenture allotted)		1,80,000	 1,80,000
	Debentures allotment A/c Dr. Loss on issue of debenture A/c Dr. To 8% Debentures A/c To Premium on redemption of debentures A/c (Allotment money due on 6000; 8% Debentures at 10% discount and redeemable at 5% premium)		3,60,000 90,000	 4.20,000 30,000
	Bank A/c Dr. To Debentures Allotment A/c (Allotment money received)		3,60,000	 3,60,000
2024 Mar,31	Profit and Loss A/c Dr. To Loss on issue of Debenture A/c (Loss on issue of debenture written off)		90,000	 90,000

Question 54

Well Done Ltd. issued 3,50,000, 12% Debentures of ₹100 each at par payable in full on application by 1st April, Application were received for 3,85,000 Debentures. Debentures were allotted on 7th April. Excess money refunded on the same date.

You are required to prepare necessary Journal Entries (including cash transactions) in the books of the company.

[RTP Sep 24, Nov 18, 20]

Answer

In the books of Well Done Limited

Journal entries

Date	Particulars		₹ '000	₹ '000
April 1	Bank A/c To 12% Debentures Application A/c (Being money received on 3,85,000 debentures)	Dr.	38,500	 38,500
April 7	12% Debentures Application A/c To Bank A/c (Being money on 35,000 debentures refunded as per Board's Resolution No.....dated...)	Dr.	3,500	 3,500
April 7	12% Debentures Application A/c To 12% Debentures A/c	Dr.	35,000	 35,000

	(Being the allotment of 3,50,000 debentures of ₹ 100 each at par, as per Board's Resolution No….dated…)			

Question 55

Avantika Ltd. purchased machinery worth ₹9,90,000 from Avneet Ltd. The payment was made by issue of 10% debentures of ₹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 20 % discount; and (iii) Debentures are issued at 20% premium.

[RTP Nov 21, May 19]

Answer

Books of Avantika Ltd.

Journal

Machinery A/c	Dr.	9,90,000	
To Avneet Ltd.			9,90,000
(Machinery purchased)			
Case(i) When debentures are issued at par:			
Avneet Ltd.	Dr.	9,90,000	
To 10% Debentures A/c			9,90,000
(10% Debentures issued to Avneet Ltd.)			
Case(ii) When debentures are issued at 20% discount:			
Avneet Ltd.	Dr.	9,90,000	
Discount on Issue of Debentures A/c	Dr.	2,47,500	
To 10% Debentures A/c			12,37,500
(10% Debentures issued to Avneet Ltd. at 20% discount)			
Case(iii) When debentures are issued at 20% premium:			
Avneet Ltd. Dr.		9,90,000	
To 10% Debentures A/c			8,25,000
To Premium on Issue of Debentures A/c			1,65,000
(10% Debentures issued to Avneet Ltd. at 20% premium)			

Workings:

(a) Number of debentures issued in case of 20% discount:

	(₹)
Face value	100
Less: Discount 20%	20
Value at which issued	80

₹ 9,90,000/80 = 12,375 Debentures

(b) Number of debentures issued in case of 20% premium:

	(₹)
Face value	100
Add: Premium 20%	20
Value at which issued	120

₹9,90,000/ 120 = 8,250 Debentures

Question 56

Following items appear in the trial balance of Bharat Ltd. (a listed company) as on 31st March, 2022:

	Rs.

40,000 Equity shares of Rs. 10 each	4,00,000
Capital Redemption Reserve	55,000
Securities Premium (collected in cash)	30,000
General Reserve	1,05,000
Surplus i.e. credit balance of Profit and Loss Account	50,000

The company decided to issue to equity shareholders bonus shares at the rate of 1 share for every 4 shares held and for this purpose, it decided that there should be the minimum reduction in free reserves. Pass necessary journal entries.

[SM]

Answer

Journal Entries in the books of Bharat Ltd.

Dr.			Cr.
		Rs.	Rs.
Capital Redemption Reserve A/c	Dr.	55,000	
Securities Premium A/c	Dr.	30,000	
General Reserve A/c (b.f.)	Dr.	15,000	
To Bonus to Shareholders A/c			1,00,000
(Bonus issue of one share for every four shares held, by utilising various reserves as per Board's resolution dated…….)			
Bonus to Shareholders A/c	Dr.	1,00,000	
To Equity Share Capital A/c			1,00,000
(Capitalisation of profit)			

Working Note-
Number of Bonus shares to be issued- (40,000 shares / 4) X 1 = 10,000 shares Value of Bonus shares- 10,000 shares of Rs. 10 each = Rs. 1,00,000

Question 57

Pass Journal Entries in the following circumstances:

(i) A Limited company with subscribed capital of Rs. 5,00,000 consisting of 50,000 Equity shares of Rs. 10 each; called up capital Rs. 7.50 per share. A bonus of Rs. 1,25,000 declared out of General Reserve to be applied in making the existing shares fully paid up.

(ii) A Limited company having fully paid up capital of Rs. 50,00,000 consisting of Equity shares of Rs. 10 each, had General Reserve of Rs. 9,00,000. It was resolved to capitalize Rs. 5,00,000 out of General Reserve by issuing 50,000 fully paid bonus shares of Rs. 10 each, each shareholder to get one such share for every ten shares held by him in the company.

[SM]

Answer

Journal Entries

			Rs.	Rs.
(i)	General Reserve A/c	Dr.	1,25,000	
	To Bonus to shareholders A/c			1,25,000
	(For making provision of bonus issue)			
	Share Final Call A/c		1,25,000	
	To Equity share capital A/c			1,25,000
	(For final calls of Rs. 2.5 per share on 50,000 equity shares due as per			

	Board's Resolution dated….)			
	Bonus to shareholders A/c	Dr.	1,25,000	
	To Share Final Call A/c			1,25,000
	(For bonus money applied for call)			
(ii)	General Reserve A/c	Dr.	5,00,000	
	To Bonus to shareholders A/c			5,00,000
	(For making provision of bonus issue)			
	Bonus to shareholders A/c	Dr.	5,00,000	
	To Equity share capital A/c			5,00,000
	(For issue of 50,000 bonus shares at Rs. 10)			

Question 58

Following notes pertain to the Balance Sheet of Solid Ltd. as at 31st March, 2022:

Rs.	
Authorised capital :	
10,000 12% Preference shares of Rs. 10 each	1,00,000
1,00,000 Equity shares of Rs. 10 each	10,00,000
	11,00,000
Issued and Subscribed capital:	
8,000 12% Preference shares of Rs. 10 each fully paid	80,000
90,000 Equity shares of Rs. 10 each, Rs. 8 paid up	7,20,000
Reserves and Surplus :	
General reserve	1,60,000
Revaluation reserve	35,000
Securities premium (collected in cash)	20,000
Profit and Loss Account	2,05,000
Secured Loan:	
12% Debentures @ Rs. 100 each	5,00,000

On 1st April, 2022 the Company has made final call @ Rs. 2 each on 90,000 equity shares. The call money was received by 20th April, 2022. Thereafter the company decided to capitalise its reserves by way of bonus at the rate of one share for every four shares held. Show necessary entries in the books of the company and prepare the extract of the Balance Sheet immediately after bonus issue assuming that the company has passed necessary resolution at its general body meeting for increasing the authorised capital.

[SM]

Answer

Journal Entries in books of Solid Ltd.

			Dr.	Cr.
2022			Rs.	Rs.
April 1	Equity Share Final Call A/c	Dr.	1,80,000	
	To Equity Share Capital A/c			1,80,000
	(Final call of Rs. 2 per share on 90,000 equity shares due as per Board's Resolution dated)			
April 20	Bank A/c	Dr.	1,80,000	1,80,000
	To Equity Share Final Call A/c			
	(Final Call money on 90,000 equity shares received)			
	Securities Premium A/c	Dr.	20,000	
	General Reserve A/c	Dr.	1,60,000	

	Profit and Loss A/c (b.f.) To Bonus to Shareholders A/c (Bonus issue @ one share for every four shares held by utilising various reserves as per Board's Resolution dated...)	Dr.	45,000	2,25,000
April 20	Bonus to Shareholders A/c To Equity Share Capital A/c (Capitalization of profit)	Dr.	2,25,000	2,25,000

Balance Sheet (Extract) as at 30th April, 2022 (after bonus issue)

		Particulars	Notes	Amount (Rs.)
1	a	Equity and Liabilities Shareholders' funds		
	b	Share capital Reserves and Surplus	1	12,05,000
		Non-current liabilities	2	1,95,000
2	a	Long-term borrowings	3	5,00,000
		Total		19,00,000

Notes to Accounts

1	Share Capital			
	Equity share capital			
	Authorised share capital			
	10,000 12% Preference shares of Rs. 10 each			1,00,000
	1,12,500 Equity shares of Rs. 10 each			11,25,000
	Issued, subscribed and fully paid share capital			
	8,000 12% Preference shares of Rs. 10 each			80,000
	1,12,500 Equity shares of Rs. 10 each, fully paid (Out of above, 22,500 equity shares @ Rs. 10 each were issued by way of bonus)			11,25,000
				12,05,000
2		(A)		
	Reserves and Surplus	Total		35,000
	Revaluation Reserve			
	Securities Premium		20,000	Nil
	Less: Utilised for bonus issue		(20,000)	
	General reserve		1,60,000	
	Less: Utilised for bonus issue		(1,60,000)	Nil
	Profit & Loss Account		2,05,000	
	Less: Utilised for bonus issue		(45,000)	1,60,000
				1,95,000
3	Long-term borrowings			
	Secured			
	12% Debentures @ Rs. 100 each			5,00,000
		Total		

The authorised capital has been increased by sufficient number of shares. (11,25,000 – 10,00,000)

Working Note-

Number of Bonus shares to be issued (90,000 shares / 4) X 1 = 22,500 shares

Question 59

Following notes pertain to the Balance Sheet of Preet Ltd. as at 31st March, 2022

	Rs.
Share capital:	
Authorised capital:	
15,000 12% Preference shares of Rs. 10 each	1,50,000
1,50,000 Equity shares of Rs. 10 each	15,00,000
	16,50,000
Issued and Subscribed capital:	
12,000 12% Preference shares of Rs. 10 each fully paid	1,20,000
1,35,000 Equity shares of Rs. 10 each, Rs. 8 paid up	10,80,000
Reserves and surplus:	
General Reserve	1,80,000
Capital Redemption Reserve	60,000
Securities premium (collected in cash)	37,500
Profit and Loss Account	3,00,000

On 1st April, 2022, the Company has made final call @ Rs. 2 each on 1,35,000 equity shares. The call money was received by 20th April, 2022. Thereafter, the company decided to capitalise its reserves by way of bonus at the rate of one share for every four shares held.

Show necessary journal entries in the books of the company and prepare the extract of the balance sheet as on 30th April, 2022 after bonus issue.

[SM, MTP June 24]

Answer

Journal Entries in the books of Preet Ltd.

			Rs.	Rs.
1-4-2022	Equity share final call A/c	Dr.	2,70,000	
	To Equity share capital A/c			2,70,000
	(For final calls of Rs. 2 per share on 1,35,000 equity shares due as per Board's Resolution dated….)			
20-4-2022	Bank A/c	Dr.	2,70,000	
	To Equity share final call A/c			2,70,000
	(For final call money on 1,35,000 equity shares received)			
	Securities Premium A/c	Dr.	37,500	
	Capital Redemption Reserve A/c	Dr.	60,000	
	General Reserve A/c	Dr.	1,80,000	
	Profit and Loss A/c (b.f.)	Dr.	60,000	
	To Bonus to shareholders A/c			3,37,500
	(For making provision for bonus issue of one share for every four shares held)			
	Bonus to shareholders A/c	Dr.	3,37,500	
	To Equity share capital A/c			3,37,500
	(For issue of bonus shares)			

Extract of Balance Sheet as at 30th April, 2022 (after bonus issue)

		Rs.
Share Capital		

Authorised Capital		
15,000 12% Preference shares of Rs.10 each		1,50,000
1,68,750 Equity shares of Rs.10 each (refer working note below)		16,87,500
Issued and subscribed capital		
12,000 12% Preference shares of Rs.10 each, fully paid		1,20,000
1,68,750 Equity shares of Rs.10 each, fully paid		16,87,500
(Out of above, 33,750 equity shares @ Rs.10 each were issued by way of bonus)		
Reserves and surplus		
Securities Premium	37,500	
Less: Utilised for bonus issue	(37,500)	NIL
Capital Redemption Reserve	60,000	
Less: Utilised for bonus issue	(60,000)	NIL
General Reserve	1,80,000	
Less: Utilised for bonus issue	(1,80,000)	NIL
Profit and Loss Account	3,00,000	
Less: Utilised for bonus issue	(60,000)	2,40,000

Working Notes:

1. Number of Bonus shares to be issued- Rs. (1,35,000 shares / 4) X 1 = 33,750 shares
2. The authorised capital should be increased as per details given below:

Existing issued Equity share capital	13,50,000
Add: Issue of bonus shares to equity shareholders	3,37,500
	16,87,500

Question 60

A company offers new shares of Rs. 100 each at 25% premium to existing shareholders on one for four bases. The cum-right market price of a share is Rs. 150. Calculate the value of a right. What should be the ex-right market price of a share?

[SM]

Answer

Ex-right value of the shares = (Cum-right value of the existing shares + Rights shares Issue Price) / (Existing Number of shares + No. of right shares)

= (Rs. 150 X 4 Shares + Rs. 125 X 1 Share) / (4 + 1) Shares

= Rs. 725 / 5 shares = Rs. 145 per share.

Value of right = Cum-right value of the share – Ex-right value of the share

= Rs. 150 – Rs. 145 = Rs. 5 per share.

Hence, any one desirous of having a confirmed allotment of one share from the company at Rs. 125 will have to pay Rs. 20 (4 shares × Rs. 5) to an existing shareholder holding 4 shares and willing to renounce his right of buying one share in favour of that person.

Question 61

What is meant by Bonus issue? Explain its related provisions as per the Companies Act, 2013.

[SM]

Answer

Bonus Issue means an offer of free additional shares to existing shareholders. A company may decide to distribute further shares as an alternative to increase the dividend pay-out. For details, refer para 4.1.1 & 4.1.2.

Question 62
Explain the financial effects of a further issue of equity shares on the market value of the share.

[SM]

Answer
The financial position of a business is contained in the balance sheet. Further issue of shares increases the amount of share capital as well as the liquid resources (Bank). The amount of share capital issued is the product of further number of shares issued multiplied by issue price. The issue price may be higher than the face value (issue at a premium).

Question 63
What are the advantages and disadvantages of a rights issue?

[SM]

Answer
Rights issue is an issue of rights to a company's existing shareholders that entitles them to buy additional shares directly from the company in proportion to their existing holdings, within a fixed time period. For advantages and disadvantages of right issue, refer para 4.2.3.

Question 64
What is meant by renunciation of rights shares by existing shareholder?

[SM]

Answer
In a situation where existing shareholder does not intend to subscribe to the rights issue of a company, he may give up his right in favour of another person for a consideration. Such giving up of rights is called renunciation of rights.

Question 65
Following items appear in the Trial Balance of Saral Ltd. as on 31st March, 2022:

Particulars	Amount
4,500 Equity Shares of Rs. 100 each	4,50,000
Securities Premium (collected in cash)	40,000
Capital Redemption Reserve	70,000
General Reserve	1,05,000
Profit and Loss Account (Cr. Balance)	65,000

The company decided to issue to equity shareholders bonus shares at the rate of 1 share for every 3 shares held. Company decided that there should be the minimum reduction in free reserves. Pass necessary Journal Entries in the books Saral Ltd.

[SM]

Answer

Journal Entries in the books of Saral Ltd.

2022			Dr.	Cr.
	Capital Redemption Reserve A/c	Dr.	70,000	
	Securities Premium A/c	Dr.	40,000	
	General Reserve A/c (b.f.)	Dr.	40,000	

	To Bonus to Shareholders A/c (Bonus issue of one shares for every three shares held, by utilising various reserves as per Board's resolution dated…….)		1,50,000
	Bonus to Shareholders A/c Dr.	1,50,000	
	To Equity Share Capital A/c (Capitalisation of profit)		1,50,000

Working Note- Number of bonus shares to be issued- 4500 / 3 X1= 1500 shares

Question 66

The following notes pertain to Brite Ltd.'s Balance Sheet as at 31st March, 2022:

Notes	Rs. in Lakhs
(1) Share Capital Authorised :	
20 crore shares of Rs. 10 each Issued and Subscribed :	
10 crore Equity Shares of Rs. 10 each	20,000
2 crore 11% Cumulative Preference Shares of Rs. 10 each	10,000
Total	2,000
Called and paid up:	12,000
10 crore Equity Shares of Rs. 10 each, Rs. 8 per share called and paid up	8,000
2 crore 11% Cumulative Preference Shares of Rs. 10 each, fully called and paid up	2,000
Total	10,000
(2) Reserves and Surplus :	
Capital Redemption Reserve	1,485
Securities Premium (collected in cash)	2,000
General Reserve	1,040
Surplus i.e. credit balance of Profit & Loss Account	273
Total	4,798

On 2nd April 2022, the company made the final call on equity shares @ Rs. 2 per share. The entire money was received in the month of April, 2022.

On 1st June 2022, the company decided to issue to equity shareholders bonus shares at the rate of 2 shares for every 5 shares held . Pass journal entries for all the above mentioned transactions. Also prepare the notes on Share Capital and Reserves and Surplus relevant to the Balance Sheet of the company immediately after the issue of bonus shares.

[SM, MTP Aug 24]

Answer

Journal Entries in the books of Brite Ltd.

2022		Dr. Rs. in lakhs	Cr. Rs. in lakhs
April 2	Equity Share Final Call A/c Dr. To Equity Share Capital A/c (Final call of Rs. 2 per share on 10 crore equity shares made due)	2,000	2,000
	Bank A/c Dr. To Equity Share Final Call A/c (Final call money on 10 crore equity shares received)	2,000	2,000
June 1	Capital Redemption Reserve A/c Dr. Securities Premium A/c Dr.	1,485 2,000	

	General Reserve A/c (b.f.) Dr.	515	
	To Bonus to Shareholders A/c		4,000
	(Bonus issue of two shares for every five shares held, by utilising various reserves as per Board's resolution dated…….)		
	Bonus to Shareholders A/c Dr.	4,000	
	To Equity Share Capital A/c		4,000
	(Capitalisation of profit)		

Notes to Accounts

			Rs. in lakhs
1.	Share Capital		
	Authorised share capital:		
	20 crore shares of Rs. 10 each		20,000
	Issued, subscribed and fully paid up share capital: 14 crore		14,000
	Equity shares of Rs. 10 each, fully paid up		
	(Out of the above, 4 crore equity shares @ Rs. 10 each were issued by way of bonus)		2,000
	2 crore, 11% Cumulative Preference share capital of Rs. 10 each, fully paid up		16,000
2.	Reserves and Surplus:		
	Capital Redemption reserve	1,485	
	Less: Utilised for bonus issue	(1,485)	-
	Securities Premium	2,000	
	Less: Utilised for bonus issue	(2,000)	-
	General Reserve	1,040	
	Less: Utilised for bonus issue	(515)	525
	Surplus (Profit and Loss Account)		273
	Total		798

Question 67

Following notes pertain to the Balance Sheet of Manoj Ltd. as at 31st March, 2022

Authorised capital:	Rs.
30,000 12% Preference shares of Rs. 10 each	3,00,000
3,00,000 Equity shares of Rs. 10 each	30,00,000
	33,00,000
Issued and Subscribed capital:	
24,000 12% Preference shares of Rs. 10 each fully paid	2,40,000
2,70,000 Equity shares of Rs. 10 each, Rs. 8 paid up	21,60,000
Reserves and surplus:	
General Reserve	3,60,000
Capital Redemption Reserve	1,20,000
Securities premium (collected in cash)	75,000
Profit and Loss Account	6,00,000

On 1st April, 2022, the Company has made final call @ Rs. 2 each on 2,70,000 equity shares. The call money was received by 20th April, 2022. Thereafter, the company decided to capitalise its reserves by way of bonus at the rate of one share for every four shares held.

Show necessary journal entries in the books of the company and prepare the extract of the balance sheet as on

30th April, 2022 after bonus issue.

[MTP April 25]

Answer

Journal Entries in the books of Manoj Ltd.

		Rs.	Rs.
1-4-2022	Equity share final call A/c Dr.	5,40,000	
	To Equity share capital A/c		5,40,000
	(For final calls of Rs. 2 per share on 2,70,000 equity shares due as per Board's Resolution dated….)		
20-4-2022	Bank A/c Dr.	5,40,000	
	To Equity share final call A/c		5,40,000
	(For final call money on 2,70,000 equity shares received)		
	Securities Premium A/c Dr.	75,000	
	Capital redemption Reserve A/c Dr.	1,20,000	
	General Reserve A/c Dr.	3,60,000	
	Profit and Loss A/c (b.f.) Dr.	1,20,000	
	To Bonus to shareholders A/c		6,75,000
	(For making provision for bonus issue of one share for every four shares held)		
	Bonus to shareholders A/c Dr.	6,75,000	
	To Equity share capital A/c (For issue of bonus shares)		6,75,000

Extract of Balance Sheet as at 30th April, 2022 (after bonus issue)

		Rs.
Authorised Capital		
30,000 12% Preference shares of Rs.10 each		3,00,000
3,37,500 Equity shares of Rs.10 each (refer W.N.)		33,75,000
Issued and subscribed capital		
24,000 12% Preference shares of Rs.10 each, fully paid		2,40,000
3,37,500 Equity shares of Rs.10 each, fully paid		33,75,000
(Out of the above, 67,500 equity shares @ Rs.10 each were issued by way of bonus shares)		
Reserves and surplus		
Capital Redemption Reserve	1,20,000	
Less: Utilised for bonus issue	(1,20,000)	NIL
Securities premium	75,000	
Less: Utilised for bonus issue	(75,000)	NIL
General Reserve	3,60,000	
Less: Utilised for bonus issue	(3,60,000)	NIL
Profit and Loss Account	6,00,000	
Less: Utilised for bonus issue	(1,20,000)	4,80,000

Working Note:

1. Number of bonus shares to be issued- 2,70,000/4 X1= 67,500 shares
2. The authorised capital should be increased as per details given below:

	Rs.
Existing issued Equity share capital	27,00,000
Add: Issue of bonus shares to equity shareholders	6,75,000
	33,75,000

Question 68

Following are the balances appear in the trial balance of XYZ Ltd. as at 31st March, 2023.
Issued and Subscribed Capital:

Particulars	₹
10,000; 10% Preference Shares of ₹ 10 each fully paid	1,00,000
1,00,000 Equity Shares of ₹ 10 each ₹ 8 paid up	8,00,000
Reserves and Surplus:	
General Reserve	2,40,000
Securities Premium (collected in cash)	25,000
Profit and Loss Account	1,20,000

On 1st April, 2023 the company has made final call @ ₹ 2 each on 1,00,000 Equity Shares. The call money was received by 15th April, 2023. Thereafter the company decided to issue bonus shares to equity shareholders at the rate of 1 share for every 5 shares held and for this purpose, it decided that there should be minimum reduction in free reserves. Pass Journal entries.

[RTP June 24]

Answer

XYZ Ltd.
Journal Entries

2023			Dr. ₹	Cr. ₹
April 1	Equity Share Final Call A/c	Dr.	2,00,000	
	To Equity Share Capital A/c			2,00,000
	(Final call of ₹ 2 per share on 1,00,000 equity shares due as per Board's Resolution dated)			
April 15	Bank A/c	Dr.	2,00,000	
	To Equity Share Final Call A/c			2,00,000
	(Final Call money on 1,00,000 equity shares received)			
	Securities Premium A/c	Dr.	25,000	
	General Reserve A/c*	Dr.	1,75,000	
	To Bonus to Shareholders A/c			2,00,000
	(Bonus issue @ one share for every 5 shares held by utilizing various reserves as per Board's Resolution dated...)			
April 15	Bonus to Shareholders A/c	Dr.	2,00,000	
	To Equity Share Capital A/c			2,00,000
	(Capitalization of profit)			

Note: Profit and Loss Account balance may also be utilized along with General Reserve for the purpose of issue of Bonus shares.

Question 69

A company has decided to increase its existing share capital by making rights issue to its existing shareholders. The company is offering one new share for every two shares held by the shareholder. The market value of the share is Rs. 240 and the company is offering one share of Rs. 120 each. Calculate the value of a right. What should be the ex-right market price of a share?

[SM]

Answer

Ex-right value of the shares = (Cum-right value of the existing shares + Rights shares x Issue Price) / (Existing Number of shares + No. of right shares)
= (Rs. 240 x 2 Shares + Rs. 120 x 1 Share) / (2 + 1) Shares
= Rs. 600 / 3 shares = Rs. 200 per share.

Value of right = Cum-right value of the share – Ex-right value of the share
= Rs. 240 – Rs. 200 = Rs. 40 per share.

Hence, any one desirous of having a confirmed allotment of one share from the company at Rs. 120 will have to pay Rs. 80 (2 shares x Rs. 40) to an existing shareholder holding 2 shares and willing to renounce his right of buying one share in favour of that person.

Question 70

A Ltd company having share capital of 25,000 equity shares of Rs.10 each decides to issue rights share at the ratio of 1 for every 4 shares held at par value. Assuming all the share holders accepted the rights issue and all money was duly received, pass journal entries in the books of the company.

[SM]

Answer

Journal Entry in the books of A Ltd.

		Rs.	Rs.
Bank A/c	Dr.	62,500	
To Equity share capital A/c			62,500
(For rights share issued at par value in the ratio of 1:4 equity shares due as per Board's Resolution dated….)			

Working Note:
Number of Rights shares to be issued- 25,000/4x1= 6,250 shares

Question 71

Following notes pertain to the Balance Sheet of Mars Company Limited as at 31st March 2022:

	Rs.
Authorised capital:	
50,000 12% Preference shares of Rs. 10 each	5,00,000
5,00,000 Equity shares of Rs. 10 each	50,00,000
	55,00,000
Issued and Subscribed capital:	
50,000 12% Preference shares of Rs. 10 each fully paid	5,00,000
4,00,000 Equity shares of Rs. 10 each, Rs. 8 paid up	32,00,000
Reserves and surplus:	
General Reserve	1,60,000
Capital Redemption Reserve	2,40,000
Securities premium (collected in cash)	2,75,000
Revaluation Reserve	1,00,000
Profit and Loss Account	16,00,000

On 1st April, 2022, the Company has made final call @ Rs. 2 each on 4,00,000 equity shares. The call money was received by 25th April, 2022. Thereafter, on 1st May 2022 the company decided to capitalise its reserves by

way of bonus at the rate of one share for every four shares held, it decided that there should be minimum reduction in free reserves.
On 1st June 2022, the Company issued Rights shares at the rate of two shares for every five shares held on that date at issue price of Rs. 12 per share. All the rights shares were accepted by the existing shareholders and the money was duly received by 20th June 2022.
Show necessary journal entries in the books of the company for bonus issue and rights issue.

[SM, MTP Dec 24(Similar)]

Answer

Journal Entries in the books of Mars Ltd.

2022		Dr. Rs.	Cr. Rs.
April 1	Equity Share Final Call A/c Dr. To Equity Share Capital A/c (Final call of Rs. 2 per share on 4,00,000 equity shares made due)	8,00,000	8,00,000
April 25	Bank A/c Dr. To Equity Share Final Call A/c (Final call money on equity shares received)	8,00,000	8,00,000
May 1	Capital Redemption Reserve A/c Dr. Securities Premium A/c Dr. General Reserve A/c Dr. Profit and Loss A/c (b.f.) Dr.	2,40,000 2,75,000 1,60,000 3,25,000	
	To Bonus to Shareholders A/c (Bonus issue of one shares for every four shares held, by utilising various reserves as per Board's resolution dated…….)		10,00,000
	Bonus to Shareholders A/c Dr. To Equity Share Capital A/c (Capitalisation of profit)	10,00,000	10,00,000
June 20	Bank A/c Dr. To Securities Premium A/c To Equity Share Capital A/c (Being Rights issue of 2 shares for every 5 shares held as per board resolution dated …….)	24,00,000	4,00,000 20,00,000

Question 72

Following is the extract of Balance Sheet of Goldstar Ltd. as at 31st March, 2024 :

	₹
Authorized capital:	
3,00,000 equity shares of ₹10 each	30,00,000
25,000,10% preference shares of ₹10 each	2,50,000
	32,50,000
Issued and subscribed capital:	
2,70,000 equity shares of ₹ 10 each fully paid up	27,00,000
24,000, 10% preference shares of ₹ 10 each fully paid up	2,40,000
	29,40,000
Reserves and surplus:	
General reserve	3,60,000
Capital redemption reserve	1,20,000

Securities premium (collected in cash)	75,000
Profit and loss account	6,00,000
	11,55,000

On 1st April, 2024, the company decided to capitalize its reserves by way of bonus at the rate of two shares for every five equity shares held.

Show necessary journal entries in the books of the company and prepare the extract of the balance sheet after bonus issue.

[RTP Sep 24]

Answer

In the books of Goldstar Ltd.

Journal Entries

			Dr.	Cr.
April 1	Capital Redemption Reserve A/c	Dr.	1,20,000	
	Securities Premium A/c	Dr.	75,000	
	General Reserve A/c	Dr.	3,60,000	
	Profit and Loss A/c (b.f.)	Dr.	5,25,000	
	To Bonus to Equity Shareholders A/c			
	(Being bonus issue @ two shares for every five shares held by utilizing various reserves as per Board's Resolution dated...)			10,80,000
	Bonus to Shareholders A/c	Dr.	10,80,000	
	To Equity Share Capital A/c			10,80,000
	(Being bonus shares issued)			

Balance Sheet (Extract) as on 1st April, 2024 (after bonus issue)

		Particulars	Notes	Amount (₹)
		Equity and Liabilities		
1		Shareholders' funds		
	a	Share capital	1	40,20,000
	b	Reserves and Surplus	2	75,000

Notes to Accounts

1	Share Capital		(₹)
	Authorized share capital:		
	3,78,000* Equity shares of ₹ 10 each		37,80,000*
	25,000 10% Preference shares of ₹ 10 each		2,50,000
	Total		40,30,000
	Issued, subscribed and fully paid share capital: 3,78,000 Equity shares of ₹ 10 each, fully paid (Out of above, 1,08,000 equity shares @ ₹ 10 each were issued by way of bonus)		37,80,000
	24,000 10% Preference shares of ₹ 10 each		2,40,000
	Total		40,20,000
2	Reserves and Surplus		
	Capital Redemption Reserve	1,20,000	Nil
	Less: Utilized	1,20,000	
	Securities Premium	75,000	
	Less: Utilised for bonus issue	(75,000)	Nil

	General reserve	3,60,000	
	Less: Utilised for bonus issue	(3,60,000)	Nil
	Profit & Loss Account	6,00,000	
	Less: Utilised for bonus issue	(5,25,000)	75,000
	Total		75,000

Note: *Authorized capital has been increased by the minimum required amount i.e. ₹ 7,80,000 (37,80,000 – 30,00,000) in the above solution.

Question 73

Y. Ltd issued 20,000 shares of ₹ 10 each at premium of 20% per share. Payables as following:

On Application ₹ 2 Per share
On Allotment ₹ 5 per share (including premium)
On First Call ₹ 3 per share
On Final Call ₹ 2 per share

Applications were received for 30,000 shares and pro-rata allotment was made to the application for 24,000 shares. Any excess money paid on application was employed on account of sum due on allotment.

Kamal, to whom 400 shares were allotted, failed to pay the allotment money and on his subsequent failure to pay the first call his shares were forfeited.

Tamal, the holder of 600 shares, failed to pay the two calls, and his shares were forfeited after the final call. Out of the shares forfeited, 800 shares were issued to Ramesh Credited as fully paid for ₹ 9 per share, the whole of Kamal's shares being included.

Pass the necessary journal entries to record the above transactions.

[RTP June 24]

Answer

Particulars	LF	Dr.	Cr.
Bank A/c Dr. To Share Application A/c (Being application money received)		60,000	60,000
Share Application A/c Dr. To Share Capital A/c To Share allotment A/c To Bank A/c (Being application money Transfer to share capital account)		60,000	40,000 8,000 12,000
Share Allotment A/c Dr. To Share Capital A/c To Securities Primmum A/c (Being allotment money due)		1,00,000	60,000 40,000
Bank A/c (W.N.) Dr. To Share Allotment A/c (Being Allotment money received		90,160	90,160
Share First Call A/c Dr. To Share Capital A/c (Being first call money receivable)		60,000	60,000
Bank A/c Dr. To Share First call A/c (Being First call money received)		57,000	57,000
Share Capital A/c Dr. Securities Premium A/c Dr.		3,200 800	

To Share Allotment A/c			1,840
To Share First call A/c			1,200
To Share Forfeiture A/c			960
(Being Share forfeited for 400 share of Kamal)			
Share Final Call A/c Dr.		39,200	
To Share Capital A/c			39,200
(BeingFinal call money due for 20,000-400 = 19600 shares)			
Bank A/c Dr.		38,000	
To Share Final call A/c			38,000
(Being First call money received)			
Share Capital A/c Dr.		6,000	
To Share First call A/c			1,800
To Share Final call A/c			1,200
To Share Forfeiture A/c			3,000
(Being Share forfeited for 600 shares)			
Bank A/c Dr.		7,200	
Share Forfeited A/c Dr.		800	
To Share Capital A/c			8,000
(Being 800 shares are re-issued)			
Share Forfeited A/c Dr.		2,160	
To Capital Reserve A/c			2,160
(Being Profit on re-issue transfer to capital reserve account)			

Working Note:
Calculation of shares applied by Kamal:
Total Shares Applied =24,000 , Share Allotted = 20,000
share applied by Kamal = 400 shares *24,000/20,000 = 480 shares.
Allotment money due to Kamal = 400*5=2,000
Adjustment of excess money of application =80*2=160

Allotment Money Received by Company:
Allotment money due =20,000* 5 = 1,00,000
Adjustment of excess money of application (4,000*2) (8,000)
Arrear of Allotment money of Kamal (1,840)
Allotment Money Received 90,160

Question 74
Hinduja Company Ltd. had 5,000, 8% Redeemable Preference Shares of Rs. 100 each, fully paid up. The company decided to redeem these preference shares at par by the issue of sufficient number of equity shares of Rs. 10 each fully paid up at par. You are required to pass necessary Journal Entries including cash transactions in the books of the company.

[SM]

Answer

In the books of Hinduja Company Ltd.
Journal Entries

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
	Bank A/c Dr.	5,00,000	
	To Equity Share Capital A/c		5,00,000
	(Being the issue of 50,000 Equity Shares of Rs.10 each at par for		

	the purpose of redemption of preference shares, as per Board Resolution No. ……dated…)			
	8% Redeemable Preference Share Capital A/c	Dr.	5,00,000	
	To Preference Shareholders A/c			5,00,000
	(Being the amount payable on redemption of preference shares transferred to Preference Shareholders Account)			
	Preference Shareholders A/c	Dr.	5,00,000	
	To Bank A/c			5,00,000
	(Being the amount paid on redemption of preference shares)			

Question 75

C Ltd. had 10,000, 10% Redeemable Preference Shares of Rs. 100 each, fully paid up. The company decided to redeem these preference shares at par, by issue of sufficient number of equity shares of Rs. 10 each at a premium of Rs. 2 per share as fully paid up. You are required to pass necessary Journal Entries including cash transactions in the books of the company.

[SM]

Answer

In the books of C Ltd.
Journal Entries

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
	Bank A/c Dr.	12,00,000	
	To Equity Share Capital A/c		10,00,000
	To Securities Premium A/c		2,00,000
	(Being the issue of 1,00,000 Equity Shares of Rs.10 each at a premium of Rs.2 per share as per Board's Resolution No….. dated)		
	10% Redeemable Preference Share Capital A/c Dr.	10,00,000	
	To Preference Shareholders A/c		10,00,000
	(Being the amount payable on redemption of preference shares transferred to Preference Shareholders A/c)		
	Preference Shareholders A/c Dr.	10,00,000	
	To Bank A/c		10,00,000
	(Beingthe amount paid on redemption of preference shares)		

Note: Amount required for redemption is Rs. 10,00,000. Therefore, face value of equity shares to be issued for this purpose must be equal to Rs. 10,00,000. Premium received on new issue cannot be used to finance the redemption.

Question 76

G India Ltd. had 9,000 10% redeemable Preference Shares of Rs. 10 each, fully paid up. The company decided to redeem these preference shares at par by the issue of sufficient number of equity shares of Rs. 9 each fully paid up.

You are required to pass necessary Journal Entries including cash transactions in the books of the company.

[SM]

Answer

In the books of G India Limited Journal

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)
	Bank A/c	Dr.	90,000	
	To Equity Share Capital A/c			90,000
	(Being the issue of 10,000 Equity Shares of Rs.9 each at par, as per Board's Resolution No……Dated…..)			
	10% Redeemable Preference Shares Capital A/c	Dr.	90,000	
	To Preference Shareholders A/c			90,000
	(Being the amount payable on redemption of preference shares transferred to Preference Shareholders A/c)			
	Preference Shareholders A/c	Dr.	90,000	
	To Bank A/c			90,000
	(Being the amount paid on redemption of preference shares)			

Question 77

The Board of Directors of a Company decided to issue minimum number of equity shares of Rs. 9 to redeem Rs. 5,00,000 preference shares. The maximum amount of divisible profits available for redemption is Rs. 3,00,000. Calculate the number of shares to be issued by the company to ensure that the provisions of Section 55 are not violated. Also determine the number of shares if the company decides to issue shares in multiples of Rs. 50 only. **[SM]**

Answer

Nominal value of preference shares Rs. 5,00,000
Maximum possible redemption out of profits Rs. 3,00,000
Minimum proceeds of fresh issue Rs. 5,00,000 – 3,00,000 = Rs. 2,00,000
Proceed of one share = Rs. 9
Minimum number of shares = 2,00,000/9 = 22,222.22 shares
As fractional shares are not permitted, the minimum number of shares to be issued is 22,223 shares.
If shares are to be issued in multiples of 50, then the next higher figure which is a multiple of 50 is 22,250. Hence, minimum number of shares to be issued in such a case is 22,250 shares.

Question 78

X Ltd. gives you the following information as at 31st March, 2023:

	Particulars	Rs.
	EQUITY AND LIABILITIES	
1.	Shareholders' funds	
	Share capital	2,90,000
	Reserves and Surplus	48,000
2.	Current liabilities	
	Trade Payables	56,500
1.	ASSETS	3,45,000
2.	Property, Plant and Equipment	18,500
3.	Non-current investments	
	Current Assets	
	Cash and cash equivalents (bank)	31,000

The share capital of the company consists of Rs. 50 each equity shares of Rs. 2,25,000 and Rs. 100 each Preference shares of Rs. 65,000(issued on 1.4.2021). Reserves and Surplus comprises Profit and Loss Account

only.
In order to facilitate the redemption of preference shares at a premium of 10%, the Company decided:
(a) to sell all the investments for Rs. 15,000.
(b) to finance part of redemption from company funds, subject to, leaving a bank balance of Rs. 12,000.
(c) to issue minimum equity share of Rs. 50 each share to raise the balance of funds required. You are required to pass the necessary Journal Entries to record the above transactions.

[SM]

Answer

Journal

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
	Bank A/c Dr. To Share Application A/c (For application money received on 750 shares @ Rs. 50 per share)	37,500	37,500
	Share Application A/c Dr. To Equity Share Capital A/c (For disposition of application money received)	37,500	37,500
	Preference Share Capital A/c Dr. Premium on Redemption of Preference Shares A/c Dr. To Preference Shareholders A/c (For amount payable on redemption of preference shares)	65,000 6,500	71,500
	Bank A/c Dr. Profit and Loss A/c (loss on sale) A/c Dr. To Investment A/c (For sale of investments at a loss of Rs. 3,500)	15,000 3,500	18,500
	Profit and Loss A/c Dr. To Capital Redemption Reserve A/c (For transfer to CRR out of divisible profits an amount equivalent to excess of nominal value of preference shares over proceeds (face value of equity shares) i.e., Rs. 65,000 - Rs. 37,500)	27,500	27,500
	Preference Shareholders A/c Dr. To Bank A/c (For payment of preference shareholders)	71,500	71,500
	Profit and Loss A/c Dr. To Premium on Redemption of Preference Shares A/c (For writing off premium on redemption out of profits)	6,500	6,500

Working Note:	
Calculation of Number of Shares:	Rs.
Amount payable on redemption (Rs. 65,000 + 10% of Rs. 65,000)	71,500
Less: Sale price of investment	(15,000)
	56,500
Less: Available bank balance (31,000 - 12,000)	(19,000)
Funds from fresh issue	37,500
∴ No. of shares = 37,500/50=750 shares	

Question 79

The following are the extracts from the Balance Sheet of ABC Ltd. as on 31st December, 2022.
Share capital:
40,000 Equity shares of Rs. 10 each fully paid – Rs. 4,00,000;
1,000 10% Redeemable preference shares of Rs. 100 each fully paid – Rs. 1,00,000.
Reserve & Surplus:
Capital reserve – Rs. 50,000;
Securities premium – Rs. 50,000;
General reserve – Rs. 75,000;
Profit and Loss Account – Rs. 35,000
On 1st January 2023, the Board of Directors decided to redeem the preference shares at par by utilisation of reserve.
You are required to pass necessary Journal Entries including cash transactions in the books of the company.

[SM]

Answer

In the books of ABC Limited
Journal Entries

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)
2023				
Jan 1	10% Redeemable Preference Share Capital A/c	Dr.	1,00,000	
	To Preference Shareholders A/c			1,00,000
	(Being the amount payable on redemption transferred to Preference Shareholders Account)			
	Preference Shareholders A/c	Dr.	1,00,000	
	To Bank A/c			1,00,000
	(Beingthe amount paid on redemption of preference shares)			
	General Reserve A/c	Dr.	75,000	
	Profit & Loss A/c	Dr.	25,000	
	To Capital Redemption Reserve A/c			1,00,000
	(Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)			

Note: Securities premium and capital reserve (not being distributable profits) cannot be utilised for transfer to Capital Redemption Reserve.

Question 80

C Limited had 3,000, 12% Redeemable Preference Shares of Rs. 100 each, fully paid up. The company had to redeem these shares at a premium of 10%.
It was decided by the company to issue the following:
(i) 25,000 Equity Shares of Rs. 10 each at par,
(ii) 1,000 14% Debentures of Rs. 100 each.
The issue was fully subscribed and all amounts were received in full. The payment was duly made. The company had sufficient profits. Show Journal Entries in the books of the company.

[SM, Similar June 24]

Answer

In the books of C Limited
Journal Entries

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)

	Bank A/c Dr. To Equity Share Capital A/c (Being the issue of 25,000 equity shares of Rs. 10 each at par as per Board's resolution No……dated…..)	2,50,000	 2,50,000
	Bank A/c Dr. To 14% Debenture A/c (Being the issue of 1,000 Debentures of Rs. 100 each as per Board's Resolution No…..dated……)	1,00,000	 1,00,000
	Profit & Loss A/c Dr. To Capital Redemption Reserve A/c (Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)	50,000	 50,000
	12% Redeemable Preference Share Capital A/c Dr. Premium on Redemption of Preference Shares A/c Dr. To Preference Shareholders A/c (Being the amount payable on redemption transferred to Preference Shareholders Account)	3,00,000 30,000	 3,30,000
	Preference Shareholders A/c Dr. To Bank A/c (Being the amount paid on redemption of preference shares)	3,30,000	 3,30,000
	Profit & Loss A/c Dr. To Premium on Redemption of Preference Shares A/c (Being the adjustment of premium on redemption against Profits & Loss Account)	30,000	 30,000

Working Note:
Amount to be transferred to Capital Redemption Reserve Account

Face value of shares to be redeemed	3,00,000
Less: Proceeds from new issue	(2,50,000)
Total Balance	50,000

Question 81

The capital structure of a company consists of 20,000 Equity Shares of Rs. 10 each fully paid up and 1,000 8% Redeemable Preference Shares of Rs. 100 each fully paid up (issued on 1.4.2021).
Undistributed reserve and surplus stood as:
General Reserve Rs. 80,000;
Profit and Loss Account Rs. 20,000;
Investment Allowance Reserve out of which Rs. 5,000, (not free for distribution as dividend) Rs. 10,000; Securities Premium Rs. 2,000, Cash at bank amounted to Rs. 98,000. Preference shares are to be redeemed at a Premium of 10% and for the purpose of redemption, the directors are empowered to make fresh issue of Equity Shares at par after utilising the undistributed reserve and surplus, subject to the conditions that a sum of Rs. 20,000 shall be retained in general reserve and which should not be utilised.
Pass Journal Entries to give effect to the above arrangements.

[SM]

Answer

In the books of …….
Journal Entries

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
	Bank A/c Dr.	25,000	

	To Equity Share Capital A/c (Being the issue of 2,500 Equity Shares of Rs. 10 each at a premium of Re. 1 per share as per Board's Resolution No.....dated.....)		25,000
	General Reserve A/c Dr. Profit & Loss A/c Dr. Investment Allowance Reserve A/c Dr. To Capital Redemption Reserve A/c (Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)	60,000 10,000 5,000	 75,000
	8% Redeemable Preference Share Capital A/c Dr. Premium on Redemption of Preference Shares A/c Dr. To Preference Shareholders A/c (Being the amount paid on redemption transferred to Preference Shareholders Account)	1,00,000 10,000	 1,10,000
	Preference Shareholders A/c To Bank A/c Dr. (Being the amount paid on redemption of preference shares)	1,10,000	 1,10,000
	Profit & Loss A/c Dr. To Premium on Redemption of Preference Shares A/c (Being the premium payable on redemption is adjusted against Profit & Loss Account)	10,000	 10,000

Working Note:
No of Shares to be issued for redemption of Preference Shares:
Face value of shares redeemed Rs. 1,00,000
Less: Profit available for distribution as dividend:
General Reserve : Rs.(80,000-20,000) Rs. 60,000
Profit and Loss (20,000 – 10,000 set aside for
adjusting premium payable on redemption of preference shares) Rs.10,000
Investment Allowance Reserve: (Rs. 10,000-5,000) Rs. 5,000 (Rs. 75,000)
Rs. 25,000
Therefore, No. of shares to be issued = Rs. 25,000/Rs.10 = 2,500 shares.

Question 82
The Balance Sheet of XYZ Ltd. as at 31st December, 2021 inter alia includes the following information:

	Rs.
50,000, 8% Preference Shares of Rs.100 each, Rs.70 paid up	35,00,000
1,00,000 Equity Shares of Rs.100 each fully paid up	1,00,00,000
Securities Premium	5,00,000
Capital Redemption Reserve	20,00,000
General Reserve	50,00,000
Bank	15,00,000

Under the terms of their issue, the preference shares are redeemable on 31st March, 2022 at 5% premium. In order to finance the redemption, the company makes a rights issue of 50,000 equity shares of Rs. 100 each at Rs. 110 per share, Rs. 20 being payable on application, Rs. 35 (including premium) on allotment and the balance on 1st January, 2023. The issue was fully subscribed and allotment made on 1st March, 2022. The money due on allotment were duly received by 31st March, 2022. The preference shares weAns

Answer

Journal Entries

		Rs.	Rs.
8% Preference Share Final Call A/c	Dr.	15,00,000	
To 8% Preference Share Capital A/c			15,00,000
(For final call made on preference shares @ Rs. 30 each to make them fully paid up)			
Bank A/c	Dr.	15,00,000	
To 8% Preference Share Final Call A/c			15,00,000
(For receipt of final call money on preference shares)			
Bank A/c	Dr.	10,00,000	
To Equity Share Application A/c			10,00,000
(For receipt of application money on 50,000 equity shares @ Rs. 20 per share)			
Equity Share Application A/c To Equity Share Capital A/c	Dr.	10,00,000	
(For capitalisation of application money received)			10,00,000
Equity Share Allotment A/c	Dr.	17,50,000	
To Equity Share Capital A/c To Securities Premium A/c			12,50,000
(For allotment money due on 50,000 equity shares @ Rs. 35 per share including a premium of Rs. 10 per share)			5,00,000
Bank A/c	Dr.	17,50,000	
To Equity Share Allotment A/c			17,50,000
(For receipt of allotment money on equity shares)			
General Reserve A/c	Dr.	27,50,000	
To Capital Redemption Reserve A/c			27,50,000
(For transfer of CRR the amount not covered by the proceeds of fresh issue of equity shares i.e., 50,00,000 - 10,00,000 - 12,50,000)			
8% Preference Share Capital A/c	Dr.	50,00,000	
Premium on Redemption of Preference Shares A/c	Dr.	2,50,000	
To Preference Shareholders A/c			52,50,000
(For amount payable to preference shareholders on redemption at 5% premium)			
Preference Shareholders A/c	Dr.	52,50,000	
To Bank A/c			52,50,000
(For amount paid to preference shareholders)			
General Reserve A/c	Dr.	2,50,000	
To Premium on Redemption A/c			2,50,000
(For writing off premium on redemption of preference shares)			

Note: Amount received (excluding premium) on fresh issue of shares till the date of redemption should be considered for calculation of proceeds of fresh issue of shares. Thus, proceeds of fresh issue of shares Rs. 22,50,000 (Rs. 10,00,000 application money plus Rs. 12,50,000 received on allotment towards share capital) will be considered.

Question 83

With the help of the details in Illustration 9 above and further assuming that the Preference Shareholders holding 2,000 shares fail to make the payment for the Final Call made under Section 55, you are asked to pass the necessary Journal Entries and show the relevant extracts from the balance sheet as on 31st March, 2022 with the corresponding figures as on 31st December, 2021 assuming that the shares in default are forfeited after giving proper notices. (Ignore date column)

[SM]

Answer

Journal Entries

			Rs.	Rs.
	8% Preference Share Final Call A/c Dr. To 8% Preference Share Capital A/c (For final call made on preference shares @ Rs. 30 each to make them fully paid up)		15,00,000	15,00,000
	Bank A/c (48,000 x Rs.30) Dr. Calls in arrears A/c (2,000x Rs.30) To 8% Preference Share Final Call A/c (For receipt of final call money on preference shares)		14,40,000 60,000	15,00,000
	Preference Share Capital A/c (2000 X Rs.100) To Calls in Arrears A/c (2000 X Rs.30) To Shares Forefeited A/c (2000 X Rs.70) (For Shares Forefeited after shareholders fail to pay the Final Call)	Dr.	2,00,000	 60,000 1,40,000
	Bank A/c To Equity Share Application A/c (For receipt of application money on 50,000 equity shares @ Rs. 20 per share)	Dr.	10,00,000	10,00,000
	Equity Share Application A/c To Equity Share Capital A/c (For capitalisation of application money received)	Dr.	10,00,000	10,00,000
	Equity Share Allotment A/c To Equity Share Capital A/c To Securities Premium A/c (For allotment money due on 50,000 equity shares @ Rs. 35 per share including a premium of Rs. 10 per share)	Dr.	17,50,000	 12,50,000 5,00,000
	Bank A/c To Equity Share Allotment A/c (For receipt of allotment money on equity shares)	Dr.	17,50,000	17,50,000
	General Reserve A/c To Capital Redemption Reserve A/c (For transfer of CRR the amount not covered by the proceeds of fresh issue of equity shares i.e., 48,00,000 – 10,00,000 – 12,50,000)	Dr.	25,50,000	25,50,000
	8% Preference Share Capital A/c Premium on Redemption of Preference Shares A/c To Preference Shareholders A/c (For amount payable to preference shareholders on redemption at 5% premium)	Dr. Dr.	48,00,000 2,40,000	 50,40,000
	Preference Shareholders A/c To Bank A/c (For amount paid to preference shareholders)	Dr.	50,40,000	50,40,000
	General Reserve A/c To Premium on Redemption A/c (For writing off premium on redemption of preference shares)	Dr.	2,40,000	2,40,000
	Shares Forfeited A/c To Capital Reserve A/c (For transferring balance to Capital Reserve A/c after redemption of preference shares)	Dr.	1,40,000	1,40,000

Note: Amount received (excluding premium) on fresh issue of shares till the date of redemption should be considered for calculation of proceeds of fresh issue of shares. Thus, proceeds of fresh issue of shares Rs. 22,50,000 (Rs.10,00,000 application money plus Rs. 12,50,000 received on allotment towards share capital) will be considered.

Question 84
What is the purpose of issuing redeemable preference shares?

[SM]

Answer
A company may issue redeemable preference shares to raise finance in a dull primary market. Preference shares may be redeemed when there is a surplus of capital and the surplus funds cannot be utilised in the business for profitable use. For details, refer para 5.2 of the chapter.

Question 85
What are the provisions of the Companies Act, 2013 related with redemption of preference shares? Explain in brief.

[SM]

Answer
Section 55 of the Companies Act, 2013, deals with provisions relating to redemption of preference shares. It ensures that there is no reduction in shareholders' funds due to redemption and, thus, the interest of outsiders is not affected. For details, refer para 5.3 of the chapter.

Question 86
The books of B Ltd. showed the following balance on 31st December, 2023:
30,000 Equity Shares of Rs.10 each fully paid; 18,000 12% Redeemable Preference Shares of Rs.10 each fully paid; 4,000 10% Redeemable Preference Shares of Rs. 10 each, Rs. 8 paid up (all shares issued on 1st April, 2022). Undistributed Reserve and Surplus stood as: Profit and Loss Account Rs. 80,000; General Reserve Rs. 1,20,000; Securities Premium Account Rs. 15,000 and Capital Reserve Rs. 21,000.

For redemption, 3,000 equity shares of Rs.10 each are issued at 10% premium. At the same time, Preference shares are redeemed on 1st January, 2024 at a premium of Rs.2 per share. The whereabouts of the holders of 100 shares of Rs.10 each fully paid are not known.
A bonus issue of equity share was made at par, two shares being issued for every five held on that date out of the Capital Redemption Reserve Account. However, equity shares, issued for redemption are not eligible for bonus. Show the necessary Journal Entries to record the transactions. (Ignore date column)

[SM, MTP Jan 25]

Answer

In the books of B Limited
Journal Entries

Particulars		Dr. (Rs.)	Cr. (Rs.)
12% Redeemable Preference Share Capital A/c	Dr.	1,80,000	
Premium on Redemption of Preference Shares A/c	Dr.	36,000	
To Preference Shareholders A/c			2,16,000
(Being the amount payable on redemption of 18,000 12% Redeemable Preference Shares transferred to Shareholders Account)			
Preference Shareholders A/c	Dr.	2,14,800	
To Bank A/c			2,14,800

(Being the amount paid on redemption of 17,900 preference shares)			
Bank A/c	Dr.	33,000	
To Equity Shares Capital A/c			30,000
To Securities Premium A/c			3,000
(Being the issue of 3,000 Equity Shares of Rs. 10 each at a premium of 10% as per Board's Resolution No……. Dated……)			
General Reserve A/c Profit & Loss A/c	Dr.	1,20,000	
To Capital Redemption Reserve A/c	Dr.	30,000	
(Being the amount transferred to Capital Redemption Reserve A/c as per the requirement of the Act.)			1,50,000
Capital Redemption Reserve A/c	Dr.	1,20,000	
To Bonus to Shareholders A/c			1,20,000
(Being the amount appropriated for issue of bonus share in the ratio of 5:2 as per shareholders Resolution No…… dated…)			
Bonus to Shareholders A/c	Dr.	1,20,000	
To Equity Share Capital A/c			1,20,000
(Being the utilisation of bonus dividend for issue of 12,000 equity shares of Rs. 10 each fully paid)			
Profit & Loss A/c	Dr.	36,000	
To Premium on Redemption of Preference Shares A/c			36,000
(Being premium on redemption of preference shares adjusted against to Profit & Loss Account)			

Working Note:

(1) Partly paid-up preference shares cannot be redeemed.

(2) Amount to be Transferred to Capital Redemption Reserve Account

Face value of share to be redeemed	Rs. 1,80,000
Less: Proceeds from fresh issue (excluding premium)	(Rs. 30,000)
	Rs. 1,50,000

(3) No bonus shares on 3,000 equity shares issued for redemption.

Note: Bonus shares does not result in receipt of cash, and hence the increase in share capital on account of bonus issue cannot be considered in determination of amount to be transferred to Capital Redemption Reserve.

Question 87

The following is the summarized Balance Sheet of Trinity Ltd. as at 31.3. 2023:

Liabilities	₹	Assets	₹
Share Capital		Fixed Assets 3,00,000	
Authorised		*Less:*Dep 1,00,000	2,00,000
10,000 10% Redeemable Preference		Investments	1,00,000
Shares of ₹ 10 each	1,00,000		
90,000 Equity Shares of ₹10 each	9,00,000		
	10,00,000		
Issued, Subscribed and Paid-up Capital		Current Assets and Loans and Advances	
10,000 10% Redeemable Preference		Inventory	45,000
Shares of ₹ 10 each	1,00,000	Trade receivables	25,000
10,000 Equity Shares of ₹ 10 each	1,00,000	Cash and Bank Balances	50,000
(A)	2,00,000		

Reserves and Surplus			
General Reserve	1,20,000		
Securities Premium	70,000		
Profit and Loss A/c	18,500		
(B)	2,08,500		
Current Liabilities and Provisions (C)	11,500		
Total (A + B + C)	4,20,000	Total	4,20,000

For the year ended 31.3. 2024, the company made a net profit of ₹ 35,000 after providing ₹ 20,000 depreciation. The following additional information is available with regard to company's operation :

1. The preference dividend for the year ended 31.3. 2024 was paid.
2. Except cash and bank balances other current assets and current liabilities as on 31.3. 2024, was the same as on 31.3.2023.
3. The company redeemed the preference shares at a premium of 10%.
4. The company issued bonus shares in the ratio of two share for every equity share held as on 31.3.2024.
5. To meet the cash requirements of redemption, the company sold investments.
6. Investments were sold at 90% of cost on 31.3.2024.

You are required to prepare necessary journal entries to record redemption and issue of bonus shares.

[RTP Jan 25]

Answer

Journal Entries in the Books of Trinity Ltd.

Particulars		Dr.	Cr.
		₹	₹
Dividend A/c	Dr.	10,000	
To Bank A/c			10,000
(Dividend on preference paid)			
Profit & Loss A/c	Dr.	10,000	
To Dividend A/c			10,000
(Dividend on preference shares written off to profit and loss account)			
10% Redeemable Preference Capital	Dr.	1,00,000	
Premium on redemption of Preference Shares	Dr.	10,000	
To Preference Shareholders			1,10,000
(Amount payable to preference shareholders on redemption)			
Profit & Loss A/c	Dr.	10,000	
To Premium on Redemption of Preference shares			10,000
(Amount of premium payable on redemption of preference shares)			
Bank A/c	Dr.	90,000	
Profit and Loss A/c	Dr.	10,000	
To Investments A/c			1,00,000
(Amount realized on sale of Investments and loss thereon adjusted)			
Preference shareholders A/c	Dr.	1,10,000	
To Bank			1,10,000
(Payment made to preference shareholders)			
General Reserve A/c	Dr.	1,00,000	
To Capital Redemption Reserve A/c			1,00,000

(Transfer to the Capital redemption reserve account on redemption of shares)			
Capital Redemption Reserve A/c	Dr.	1,00,000	
Securities Premium A/c	Dr.	70,000	
General Reserve A/c	Dr	20,000	
Profit & Loss A/c	Dr.	10,000	
To Bonus to Equity Shareholders A/c			2,00,000
(Amount adjusted by issuing bonus shares in the ratio of 2:1)			
Bonus to Equity Shareholders A/c	Dr.	2,00,000	
To Equity Share Capital			2,00,000
(Balance on former account transferred to latter)			

Question 88

The following balances appeared in the books of a company (unlisted company other than AIFI, Banking company, NBFC and HFC) as on December 31, 2021: 6% Mortgage 10,000 debentures of Rs. 100 each; Debenture Redemption Reserve (for redemption of debentures) Rs. 50,000; Investments in deposits with a scheduled bank, free from any charge or lien Rs. 1,50,000 at interest 4% p.a. receivable on 31st December every year. Bank balance with the company is Rs. 9,00,000.

The Interest on debentures had been paid up to December 31, 2021.

On February 28, 2022, the investments were realised at par and the debentures were paid off at 101, together with accrued interest.

Write up the concerned ledger accounts (excluding bank transactions). Ignore taxation.

[SM]

Answer

6% Mortgage Debentures Account

2022			Rs.	2022			Rs.
Feb. 28	To	Debenture-holders A/c	10,00,000	Jan. 1	By	Balance b/d	10,00,000

Premium on Redemption of Debentures Account

2022			Rs.	2022			Rs.
Feb. 28	To	Debenture- holders A/c	10,000	Feb. 28	By	Profit and loss A/c	10,000

Debentures Redemption Reserve Investment Account

2022			Rs.	2022			Rs.
Jan. 1	To	Balance b/d	1,50,000	Feb. 28	By	Bank	1,50,000

Debenture Interest Account

2022			Rs.	2022			Rs.
Feb. 28	To	Bank (10,000 x 100 x 6% x 2/12)	10,000	Feb. 28	By	Profit & Loss A/c	10,000

Bank A/c

2022			Rs.	2022			Rs.
Jan 01	To	Balance b/d	9,00,000	Feb. 28	By	Debenture-holders (10,000 x 101)	10,10,000
Feb 28	To	Interest on	1,000				

		Debentures Redemption Investments (1,50,000 x 4% x 2/12)			By	Debenture Interest A/c	
	To	Debentures Redemption Reserve			By	Balance c/d	10,000
		investment A/c	1,50,000				31,000
			10,51,000				10,51,000

Debenture Redemption Reserve Account

2022			Rs.	2022			Rs.
Feb 28	To	General Reserve-note	1,00,000	Jan.1	By	Balance b/d	50,000
				Jan.1			
					By	Profit & Loss (b/f)	50,000
			1,00,000				1,00,000

Note
Amount to be transferred to DRR before the redemption = Rs. 1,00,000 [i.e. 10% of (10,000 X 100)].

Question 89
The following balances appeared in the books of Paradise Ltd (unlisted company other than AIFI, Banking company, NBFC and HFC) as on 1-4-2021:
(i) 12 % Debentures Rs. 7,50,000
(ii) Balance of DRR Rs. 25,000
(iii) DRR Investment 1,12,500 represented by 10% Rs. 1,125 Secured Bonds of the Government of India of Rs. 100 each.
Annual contribution to the DRR was made on 31st March every year. On 31-3-2022, balance at bank was Rs. 7,50,000 before receipt of interest. The investment were realised at par for redemption of debentures at a premium of 10% on the above date.
You are required to prepare the following accounts for the year ended 31st March, 2022:
(1) Debentures Account
(2) DRR Account
(3) DRR Investment Account
(4) Bank Account
(5) Debenture Holders Account.

[SM]

Answer
1. 12% Debentures Account

Date	Particulars	Rs.	Date	Particulars	Rs.
31st March, 2022	To Debenture holders A/c	7,50,000	1st April, 2021	By Balance b/d	7,50,000
		7,50,000			7,50,000

2. DRR Account

Date	Particulars	Rs.	Date	Particulars	Rs.
31st March, 2022	To General reserve A/c (Refer Note)	75,000	1st April, 2021	By Balance b/d	25,000
			1st April, 2021	By Profit and loss A/c (Refer Note)	50,000
		75,000			75,000

3. 10% Secured Bonds of Govt. (DRR Investment) A/c

		Rs.			Rs.
1st April, 2021	To Balance b/d	1,12,500	31st March, 2022	By Bank A/c	1,12,500
		1,12,500			1,12,500

4. Bank A/c

		Rs.			Rs.
31st March, 2022	To Balance b/d	7,50,000	31st March, 2022	By Debenture holders A/c	8,25,000
	To Interest on DRR Investment (1,12,500 x 10%)	11,250			
	To DRR Investment A/c	1,12,500		By Balance c/d	48,750
		8,73,750			8,73,750

5. Debenture holders A/c

		Rs.			Rs.
31st March, 2022	To Bank A/c	8,25,000	31st March, 2022	By 12% Debentures	7,50,000
				By Premium on redemption of debentures (7,50,000 X 10%)	75,000
		8,25,000			8,25,000

Note-
Calculation of DRR before redemption = 10% of Rs. 7,50,000 = 75,000 Available balance = Rs. 25,000
DRR required = 75,000 – 25,000 = Rs. 50,000.

Question 90

XYZ Ltd. has issued 1,000, 12% convertible debentures Rs.100 each redeemable after a period of five years. According to the terms & conditions of the issue, these debentures were redeemable at a premium of 5%. The debenture holders also had the option at the time of redemption to convert 20% of their holdings into equity shares of Rs. 10 each at a price of Rs. 20 per share and balance in cash. Debenture holders amounting Rs. 20,000 opted to get their debentures converted into equity shares as per terms of the issue. You are required to calculate the number of shares issued and cash paid for redemption of Rs. 20,000 debenture holders.

[SM]

Answer

	Number of debentures
Debenture holders opted for conversion (20,000 /100)	200
Option for conversion	20%
Number of debentures to be converted (20% of 200)	40
Redemption value of 40 debentures at a premium of 5% [40 x (100+5)]	Rs. 4,200
Equity shares of Rs. 10 each issued on conversion	
[Rs. 4,200/ Rs. 20]	210 shares

Calculation of cash to be paid :	Rs.
Number of debentures	200
Less: number of debentures to be converted into equity shares	(40)
	160

Redemption value of 160 debentures (160 × Rs. 105) ie. Rs. 16,800.

Question 91

The Balance Sheet of BEE Co. Ltd. (unlisted company other than AIFI, Banking company, NBFC and HFC) as at 31st March, 2021 is as under:

Particulars	Note No	Rs.
Equity and liabilities		
Shareholder's Funds		
Share Capital		
Reserves and Surplus	1	2,00,000
Non-current liabilities	2	1,20,000
Long term borrowings	3	1,20,000
Current Liabilities		
Trade payables		1,15,000
Total		5,55,000
Assets		
Non-current assets		
Property, Plant and Equipment	4	1,15,000
Current assets		
Inventories		1,35,000
Trade receivables		75,000
Cash and bank balances		2,30,000
Total	5	5,55,000

Notes to Accounts

			Rs.
1.	Share Capital		
	Authorised share capital		
	30,000 shares of Rs. 10 each fully paid		3,00,000
	Issued and subscribed share capital		
	20,000 shares of Rs. 10 each fully paid		2,00,000
2.	Reserve and Surplus		
	Profit & Loss Account		1,20,000
3.	Long term borrowings		
	12% Debentures		1,20,000
4.	Property, Plant and Equipment		
	Freehold property		1,15,000
5.	Cash and bank balances		
	Cash at bank	2,00,000	
	Cash in hand	30,000	2,30,000

At the Annual General Meeting, it was resolved:

(a) To give existing shareholders the option to purchase one Rs. 10 share at Rs. 15 for every four shares (held prior to the bonus distribution). This option was taken up by all the shareholders.

(b) To issue one bonus share for every five shares held.

(c) To repay the debentures at a premium of 3%. Give the necessary journal entries for these transactions.

[SM]

Answer

Journal of BEE Co. Ltd.

		Dr. Rs.	Cr. Rs.
Bank A/c	Dr.	75,000	
To Equity Shareholders A/c			75,000
(Application money received on 5,000 shares @ Rs. 15 per share to be issued as rights shares in the ratio of 1:4)			
Equity Shareholders A/c	Dr.	75,000	
To Equity Share Capital A/c			50,000
To Securities Premium A/c			25,000
(Share application money on 5,000 shares @ Rs. 10 per share transferred to Share Capital Account, and Rs. 5 per share to Securities Premium Account vide Board's Resolution dated…)			
Securities Premium A/c	Dr.	25,000	
Profit & Loss A/c	Dr.	25,000	
To Bonus to Shareholders A/c			50,000
(Amount transferred for issue of bonus shares to existing shareholders in the ratio of 1:5 vide General Body's resolution dated...)			
Bonus to Shareholders A/c	Dr.	50,000	
To Equity Share Capital A/c			50,000
(Issue of bonus shares in the ratio of 1 for 5 vide Board's resolution dated)			
Profit and Loss A/c	Dr.	12,000	
To Debenture Redemption Reserve			12,000
(for DRR created 10% x 1,20,000)			
Debenture Redemption Reserve Investment A/c	Dr.	18,000	
To Bank A/c			18,000
(for DRR Investment created 15% x 1,20,000)			
12% Debentures A/c	Dr.	1,20,000	
Premium Payable on Redemption A/c @ 3%	Dr.	3,600	
To Debenture holders A/c			1,23,600
(Amount payable to debentures holders)			
Profit and loss A/c	Dr.	3,600	
To Premium Payable on Redemption A/c			3,600
(Premium payable on redemption of debentures charged to Profit & Loss A/c)			
Debenture Redemption Reserve A/c	Dr.	12,000	
To General Reserve			12,000
(for DRR transferred to general reserve)			
Bank A/c	Dr.	18,000	
To Debenture Redemption Reserve Investment			18,000
(for DRR Investment realised)			
Debenture holders A/c	Dr.	1,23,600	
To Bank A/c			1,23,600
(Amount paid to debenture holders on redemption)			

Question 92

What is meant by redemption of debentures? Explain.

[SM]

Answer

Debentures are usually redeemable i.e. either redeemed in cash or convertible after a time period.

Redeemable debentures may be redeemed:

- after a fixed number of years; or
- any time after a certain number of years has elapsed since their issue; or
- on giving a specified notice; or
- by annual drawing.

For details, refer para 6.2 of the chapter.

Question 93

Write short note on Debenture Redemption Reserve.

[SM]

Answer

A company issuing debentures may be required to create a debenture redemption reserve account out of the profits available for distribution of dividend and amounts credited to such account cannot be utilised by the company except for redemption of debentures. Such an arrangement would ensure that the company will have sufficient liquid funds for the redemption of debentures at the time they fall due for payment. For details, refer para 6.3.

Question 94

Write short notes on the following: "Requirement to create Debenture Redemption Reserve."

[RTP June 24]

Answer

Section 71 of the Companies Act 2013 covers the requirement of creating a debenture redemption reserve account. Section 71 states as follows:

(1) Where a company issues debentures under this section, it should create a debenture redemption reserve account out of its profits which are available for distribution of dividend every year until such debentures are redeemed.

(2) The amounts credited to the debenture redemption reserve should not be utilised by the company for any purpose except for the purpose aforesaid.

(3) The company should pay interest and redeem the debentures in accordance with the terms and conditions of their issue.

(4) Where a company fails to redeem the debentures on the date of maturity or fails to pay the interest on debentures when they fall due, the Tribunal may, on the application of any or all the holders of debentures or debenture trustee and, after hearing the parties concerned, direct, by order, the company to redeem the debentures forthwith by the payment of principal and interest due thereon.

Question 95

A company had issued 20,000, 13% debentures of Rs. 100 each on 1st April, 2021. The debentures are due for redemption on 1st July, 2022. The terms of issue of debentures provided that they were redeemable at a premium of 5% and also conferred option to the debenture holders to convert 20% of their holding into equity shares (Nominal value Rs. 10) at a price of Rs. 15 per share. Debenture holders holding 2,500 debentures did not exercise the option. Calculate the number of equity shares to be allotted to the debenture holders exercising the option to the maximum.

[SM]

Answer

Calculation of number of equity shares to be allotted

	Number of debentures
Total number of debentures	20,000
Less: Debenture holders not opted for conversion	(2,500)
Debenture holders opted for conversion	17,500
Option for conversion	20%
Number of debentures to be converted (20% of 17,500)	3,500
Redemption value of 3,500 debentures at a premium of 5% [3,500 x (100+5)]	Rs. 3,67,500
Equity shares of Rs. 10 each issued on conversion [Rs. 3,67,500/ Rs. 15]	24,500 shares

Question 96

A company had issued 40,000, 12% debentures of ₹ 100 each on 1st April, 2020. The debentures were due for redemption on 1st March, 2024. The terms of issue of debentures provided that they were redeemable at a premium of 5%. The company offered an option to the debenture holders to convert redeemable value of 20% of their holding into equity shares (nominal value ₹ 10) at a predetermined price of ₹ 15 per share and the payment in cash for remaining debentures. 50 debentures holders holding totally 5,000 debentures did not exercise the option. Calculate the number of equity shares to be allotted to the debenture holders and the amount to be paid in cash on redemption.

[RTP Sep 24]

Answer

Calculation of number of equity shares to be allotted

	Number of debentures
Total number of debentures	40,000
Less: Debenture holders not opted for conversion	(5,000)
Debenture holders opted for conversion	35,000
Option for conversion	20%
Number of debentures to be converted (20% of 35,000)	7,000

Redemption value of 7,000 debentures at a premium of 5% [7,000 x (100+5)]	₹ 7,35,000
Equity shares of ₹ 10 each issued to debenture holders on redemption	
[₹ 7,35,000/ ₹ 15]	49,000 shares
Amount of cash to be paid	
Amount to be paid into cash [42,00,000 (40,000 x ₹ 105) – 7,35,000] on redemption	₹ 34,65,000

Question 97

Libra Limited (a listed company) recently made a public issue in respect of which the following information is available:

(a) No. of partly convertible debentures issued- 2,00,000; face value and issue price- Rs. 100 per debenture.

(b) Convertible portion per debenture- 60%, date of conversion- on expiry of 6 months from the date of closing of issue.

(c) Date of closure of subscription lists- 1.5.2021, date of allotment- 1.6.2021, rate of interest on debenture- 15% payable from the date of allotment, value of equity share for the purpose of conversion- Rs. 60 (Face Value Rs. 10).

(d) No. of debentures applied for- 2,00,000.

(e) Interest payable on debentures half-yearly on 30th September and 31st March.

Write relevant journal entries for all transactions arising out of the above during the year ended 31st March, 2022 (including cash and bank entries).

[SM]

Answer

Journal Entries in the books of Libra Ltd.

Journal Entries

Date	Particulars		Amount Rs. Dr.	Amount Rs. Cr.
1.5.2021	Bank A/c	Dr.	2,00,00,000	
	To Debenture Application A/c			2,00,00,000
	(Application money received on 1,50,000 debentures @ Rs. 100 each)			
1.6.2021	Debenture Application A/c	Dr.	2,00,00,000	
	To 15% Debentures A/c			2,00,00,000
	(Allotment of 1,50,000 debentures to applicants and 50,000 debentures to underwriters)			
1.6.2021	Debenture Redemption Investment A/c		12,00,000	
	To Bank A/c	Dr.		12,00,000
	(2,00,000 X 100 x 15% X 40%)			
	(Being Investments made for redemption purpose)			
30.9.2021	Debenture Interest A/c	Dr.	10,00,000	
	To Bank A/c			10,00,000
	(Interest paid on debentures for 4 months @ 15% on Rs. 2,00,00,000)			
31.10.2021	15% Debentures A/c	Dr.	1,20,00,000	
	To Equity Share Capital A/c			20,00,000
	To Securities Premium A/c			1,00,00,000
	(Conversion of 60% of debentures into shares of Rs. 60 each with a face value of Rs. 10)			
31.3.2022	Debenture Interest A/c Dr.		7,50,000	
	To Bank A/c			7,50,000
	(Interest paid on debentures for the half year) (Refer working note)			

Working Note:

Calculation of Debenture Interest for the half year ended 31st March, 2022

On Rs. 80,00,000 for 6 months @ 15% = Rs.6,00,000

On Rs. 1,20,00,000 for 1 months @ 15% = Rs. 1,50,000

= Rs.7,50,000

Question 98

Case Ltd. (unlisted company other than AIFI, Banking company, NBFC and HFC) provides the following information as at 31st March, 2022:

Particulars	Rs.
Shareholder's Funds	
Share Capital	

Authorized share capital:	
45,000 equity shares of Rs. 10 each fully paid	4,50,000
Issued and subscribed share capital:	
30,000 equity shares of Rs. 10 each fully paid	3,00,000
Reserves and Surplus	
Profit & Loss Account	1,62,000
Debenture Redemption Reserve	18,000
Non-current liabilities	
(a) Long term borrowings	
12% Debentures	1,80,000
Current Liabilities	
(a) Trade payables	1,72,500
Non-current assets	
(a) Property, Plant and Equipment (Freehold property)	1,72,500
(b) Non-current Investment: DRR Investment	27,000
Current assets	
(a) Inventories	2,02,500
(b) Trade receivables	1,12,500
(c) Cash and bank balances:	
Cash at bank	2,73,000
Cash in hand	45,000

At the Annual General Meeting on 1.4.2022, it was resolved:

(a) To give existing shareholders the option to purchase one Rs. 10 share at Rs. 15 for every four shares (held prior to the bonus distribution). This option was taken up by all the shareholders.

(b) To issue one bonus share for every five shares held.

(c) To repay the debentures at a premium of 3%. Give the necessary journal entries for these transactions.

[SM, MTP April 24, July 24, May 25]

Answer

Journal Entries in the Books of Case Ltd.

		Dr.Rs.	Cr.Rs.
Bank A/c	Dr.	1,12,500	
To Equity Shareholders A/c			1,12,500
(Application money received on 7,500 shares @ Rs. 15 per share to be issued as rights shares in the ratio of 1:4)			
Equity Shareholders A/c	Dr.	1,12,500	
To Equity Share Capital A/c			75,000
To Securities Premium A/c			37,500
(Share application money on 7,500 shares @ Rs. 10 per share transferred to Share Capital Account, and Rs. 5 per share to Securities Premium Account vide Board's Resolution dated…)			
Securities Premium A/c	Dr.	37,500	
Profit & Loss A/c	Dr.	37,500	
To Bonus to Shareholders A/c			75,000
(Amount transferred for issue of bonus shares to existing shareholders in the ratio of 1:5 vide General Body's resolution dated...)			
Bonus to Shareholders A/c	Dr.	75,000	
To Equity Share Capital A/c			75,000
(Issue of bonus shares in the ratio of 1 for 5 vide Board's resolution			

dateD)			
12% Debentures A/c	Dr.	1,80,000	
Premium Payable on Redemption A/c (@ 3%)	Dr.	5,400	
To Debenture holders A/c			1,85,400
(Amount payable to debentures holders)			
Profit and loss A/c	Dr.	5,400	
To Premium Payable on Redemption A/c			5,400
(Premium payable on redemption of debentures charged to Profit & Loss A/c)			
Debenture Redemption Reserve A/c	Dr.	18,000	
To General Reserve			18,000
(For DRR transferred to general reserve)			
Bank A/c	Dr.	27,000	
To Debenture Redemption Reserve Investment			27,000
(for DRR Investment realised)			
Debenture holders A/c	Dr.	1,85,400	
To Bank A/c			1,85,400
(Amount paid to debenture holders on redemption)			

Question 99

P Limited issued 6,00,000 equity shares of ₹ 10 each at a premium of ₹ 2 per share, payable as ₹ 3 on application, ₹ 5 on allotment (including premium) and the balance in two calls of equal amount. Applications were received for 8,00,000 shares and pro-rata allotment was made to all the applicants. The excess application money was adjusted towards allotment. Harish to whom 1600 shares were allotted failed to pay both calls and his shares were subsequently forfeited after second call. You are required to pass journal entries in the books of P Limited and prepare bank account.

[PYQ Sep 24]

Answer

Particulars	Debit (₹)	Credit (₹)
Bank A/c Dr.	24,00,000	
To Equity Share Application A/c		24,00,000
(Being application money received for 8,00,000 shares @ ₹ 3 per share)		
Equity Share Application A/c Dr.	24,00,000	
To Equity Share Allotment A/c		6,00,000
To Equity Share Capital A/c		18,00,000
(Being excess application money adjusted against allotment and application money transferred to share capital on 6,00,000 shares at ₹ 3 each)		
Equity Share Allotment A/c Dr.	30,00,000	
To Equity Share Capital A/c		18,00,000
To Securities Premium A/c		12,00,000
(Being allotment money due, ₹ 5 per share including ₹ 3 towards share capital and ₹ 2 towards premium)		
Bank A/c Dr.	24,00,000	
To Equity Share Allotment A/c		24,00,000
(Being allotment money received after adjusting excess application money)		
Equity Share First Call A/c Dr.	12,00,000	

To Equity Share Capital A/c (Being first call money due @ ₹ 2 per share)		12,00,000
Bank A/c Dr. Calls in arrear Dr. To Equity Share First Call A/c (Being first call money received, except on 1600 shares) Or Bank A/c Dr. To Equity Share First Call A/c (Being first call money received, except on 1600 shares)	11,96,800 3,200 11,96,800	 12,00,000 11,96,800
Equity Share Final Call A/c Dr. To Equity Share Capital A/c (Being final call money due @ ₹ 2 per share)	12,00,000	 12,00,000
Bank A/c Dr. Calls in arrear Dr. To Equity Share Final Call A/c (Being first call money received, except on 1600 shares) Or Bank A/c Dr. To Equity Share Final Call A/c (Being first call money received, except on 1600 shares)	11,96,800 3,200 11,96,800	 12,00,000 11,96,800
Equity Share Capital A/c Dr. To Call in Arrear To Share Forfeiture A/c (Being forfeiture of 1600 shares of Harish for non-payment of calls money) Or Equity Share Capital A/c Dr. To Equity Share First Call A/c To Equity Share Final Call A/c To Share Forfeiture A/c (Being forfeiture of 1600 shares of Harish for non-payment of calls money)	16,000 16,000	 6,400 9,600 3,200 3,200 9,600

Bank Account

Particulars	Debit (₹)		Credit (₹)
To Equity Share Application A/c	24,00,000	By Balance c/d	71,93,600
To Equity Share Allotment A/c	24,00,000		
To Equity Share First Call A/c	11,96,800		
To Equity Share Second Call A/c	11,96,800		
Total	71,93,600		71,93,600

Question 100

XYZ Ltd. an unlisted company issued 6000, 12% debentures of ₹ 100 each at a discount of 5% on 01.04.2021. Interest is payable annually on 31st March every year. The debentures are redeemable at premium of 10% in 3 equal annual installments beginning from 31.03.2022. The company invested in specified securities for the redemption of debentures. Entire loss on issue to be booked in the 1st year. You are required to pass journal entries for all the 3 years.

[PYQ Sep 24]

Answer

In the Books of XYZ Ltd.
Journal Entries

		(₹)	(₹)
1-4-21	Bank A/c Dr.	5,70,000	
	Loss on Issue of Debentures A/c* (W.N. 1) Dr.	90,000	
	To 12% Debentures A/c		6,00,000
	To Premium on Redemption of Debentures A/c		60,000
	(For issue of debentures at discount and redeemable at premium)		
1-4-21	Profit and Loss A/c Dr.		60,000
	To Debenture Redemption Reserve A/c		60,000
	(BeingDebenture Redemption Reserve (DRR) created at 10%)		
1-4-21	Debenture Redemption Reserve Investment Dr.		30,000
	To Bank A/c		30,000
	(Being DRR Investment created at 15%)		
31-3-22	Profit & Loss A/c Dr.		90,000
	To Loss on issue of debentures	90,000	
	(Beingentire loss on issue of debentures written off)		
31-3-22	Debenture Interest A/c** Dr.		72,000
	To Bank A/c		72,000
	(Being interest to debentures holder paid)		
31-3-22	Debenture Redemption Reserve (DRR) Dr.		20,000
	To General Reserve		20,000
	(For DRR transferred to General reserve)		
31-3-22	Bank A/c Dr.		30,000
	To Debenture Redemption Reserve Investment		30,000
	(Being encashment of Debenture Redemption Reserve Investment for redemption of debentures)		
31-3-22	12% Debentures ** Dr.		2,00,000
	Premium on redemption of debentures A/c Dr.		20,000
	To Bank A/c		2,20,000
	(Being amount of redemption of 2000 debentures paid to debentures holders)		
01-04-22	Debenture Redemption Reserve Investment Dr.		30,000
	To Bank A/c		30,000
	(Being DRR Investment created at 15%)		
31-03-23	Debenture Interest A/c Dr.		48,000
	To Bank A/c		48,000
	(Being interest to debentures holder paid)		
31-03-23	Debenture Redemption Reserve (DRR) Dr.		20,000

	To General Reserve (For DRR transferred to General reserve)		20,000
31-03-23	Bank A/c Dr. To Debenture Redemption Reserve Investment (Being encashment of Debenture Redemption Reserve Investment for redemption of debentures)		30,000 30,000
31-03-23	12% Debentures A/c Dr. Premium on redemption of debentures A/c Dr. To Bank A/c (Being amount of redemption of debentures paid to debenture holders)	20,000	2,00,000 2,20,000
01-04-23	Debenture Redemption Reserve Investment Dr. To Bank A/c (Being DRR Investment created at 15%)	30,000	 30,000
31-03-24	Debenture Interest A/c Dr. To Bank A/c (Being interest to debentures holder paid)	24,000	 24,000
31-03-24	Debenture Redemption Reserve (DRR) Dr. To General Reserve (For DRR transferred to General reserve)	20,000	 20,000
31-03-24	Bank A/c Dr. To Debenture Redemption Reserve Investment (being encashment of Debenture Redemption Reserve Investment for redemption of debentures)	30,000	 30,000
31-03-24	12% Debentures A/c Dr. Premium on redemption of debentures A/c Dr. To Bank A/c (Beingfinal redemption of remaining 2000 debentures paid)	2,00,000 20,000	 2,20,000

Working Note:

1. Discount /Loss on issue of debentures

Discount on Issue of debentures= 6,000 x 100 x 5% = ₹ 30,000 Premium on redemption of debentures = 6,000 x 100 x 10%

= 60,000

Total loss on issue of debentures = ₹ 30,000 + ₹ 60,000 = ₹ 90,000

*Alternatively, discount on issue and premium on redemption of debentures can also be shown separately. In that case, the entry will be

Bank A/c Dr.	5,70,000	
Discount on Issue of Debentures A/c (W.N.1) Dr.	30,000	
Loss on Issue of Debentures A/c (W.N.2) Dr.	60,000	
To 12% Debentures A/c		6,00,000
To Premium on Redemption of Debentures A/c		60,000
(For issue of debentures at discount and redeemable at premium)		

** The entries for interest on Debentures and Redemption of debentures can also be routed through debentures holders a/c.
In addition to above, the following entry every year to transfer debenture interest and Premium on redemption of Debentures A/c to Profit and Loss A/c can also be passed
Profit and Loss A/c……Dr.
To Debenture Interest A/c
To Premium on Redemption of Debentures A/c

Question 101
The following balances appeared in the Books of Mac Ltd. as on 31st December, 2023:

	Amount (₹)
80,000, 10% Preference shares of ₹ 100 each, ₹ 75 paid up	60,00,000
2,00,000 Equity share of ₹ 100 each fully paid up	2,00,00,000
Securities Premium	6,50,000
Capital Redemption Reserve	42,00,000
General Reserve	85,00,000

Under the terms of their issue, the preference shares are redeemable on 31st March,2024 at a premium of 5%. In order to finance the redemption, the company makes a right issue of 60,000 equity shares of ₹ 100 each at a premium of 10%, ₹ 25 being payable on application, ₹ 45 (including premium) on allotment and the balance on 1st August, 2024. The issue was fully subscribed and the allotment made on 1st March,2024. The amount due on allotment was duly received by 25th March,2024.
The preference shares were redeemed after fulfilling the necessary conditions of section 55 of the Companies Act, 2023.
You are required to pass the necessary Journal Entries (including narrations) to give effect to the above arrangement. Also prepare the Notes to accounts on Share Capital Reserves and Surplus relevant to the Balance Sheet immediately after the redemption of preference shares as on 31st March, 2024. Ignore date column in Journal.

[PYQ June 24]

Answer
(a) Journal Entries In the books of Mac ltd.

		Amount (₹)	Amount (₹)
10% Preference Share Final Call A/c	Dr.	20,00,000	
To 10% Preference Share Capital A/c			20,00,000
(Being final call made on preference shares @ ₹ 25 each to make them fully paid up)			
Bank A/c	Dr.	20,00,000	
To 10% Preference Share Final Call A/c			20,00,000
(Being receipt of final call money on preference shares)			
Bank A/c	Dr.	15,00,000	
To Equity Share Application A/c			15,00,000
(Being receipt of application money on 60,000 equity shares @ ₹ 25 per share)			
Equity Share Application A/c	Dr.	15,00,000	
To Equity Share Capital A/c			15,00,000
(Beingcapitalisation of application money received)			
Equity Share Allotment A/c	Dr.	27,00,000	
To Equity Share Capital A/c			21,00,000

To Securities Premium A/c (Being allotment money due on 60,000 equity shares @ ₹ 45 per share including a premium of ₹ 10 per share)			6,00,000
Bank A/c	Dr.	27,00,000	
To Equity Share Allotment A/c (Being receipt of allotment money on equity shares)			27,00,000
General Reserve A/c	Dr.	44,00,000	
To Capital Redemption Reserve A/c (Being transfer of CRR the amount not covered by the proceeds of fresh issue of equity shares i.e., 80,00,000 - 15,00,000 – 21,00,000)			44,00,000
10% Preference Share Capital A/c	Dr.	80,00,000	
Premium on Redemption of Preference Shares A/c	Dr.	4,00,000	
To Preference Shareholders A/c (Being amount payable to preference shareholders on redemption at 5% premium)			84,00,000
Preference Shareholders A/c	Dr.	84,00,000	
To Bank A/c (Beingamount paid to preference shareholders)			84,00,000
General Reserve A/c	Dr.	4,00,000	
To Premium on Redemption of Preference shares A/c (Being writing off premium on redemption of preference shares)			4,00,000

Notes to Accounts:

			₹
1	Share Capital:		
	Equity Share Capital		
	Issued, Subscribed & Paid Up:		
	2,00,000 Equity Shares of ₹ 100 each fully paid up	2,00,00,000	
	60,000 Equity Shares of ₹ 100 each, ₹ 60 called up & paid up	36,00,000	2,36,00,000
	Reserves and Surplus:		
	Securities Premium	6,50,000	
2	Add: Amount received @ - 10 per share on 60,000 Equity Shares	6,00,000	12,50,000
	Capital Redemption Reserve	42,00,000	
	Add: Transferred on Redemption (WN- 1)	44,00,000	86,00,000
	General Reserve	85,00,000	
	Less: Transferred to Capital Redemption Reserve	(44,00,000)	
	Less: Adjustment of Premium payable on Redemption	(4,00,000)	37,00,000
			1,35,50,000

Working Note 1

Amount to be transferred to Capital Redemption Reserve on Redemption:

Nominal Value of 80,000 Preference Shares Redeemed	80,00,000
Less: Proceeds of 60,000 Equity Shares issued, - 60 called up & paid up	36,00,000
Transfer to Capital Redemption Reserve	44,00,000

Note: At the time of redemption of preference shares out of accumulated divisible profits, it is necessary to

transfer to the Capital Redemption Reserve Account an amount equal to the amount repaid on the redemption of preference shares on account of face value less proceeds of a fresh issue of shares made for the purpose of redemption.

Question 102

The following is the abstract of Balance Sheet Happy Ltd. as on 31st March,2024:

		₹
Issued and paid up capital		
90,000 Equity shares of ₹ 10 each fully paid-up	9,00,000	
Less: Calls-in-arrear (10,000 Equity shares of ₹ 2 each)	20,000	8,80,000
40,000 Equity shares of ₹ 10 each,₹ 4 cash paid up		1,60,000
Reserves and Surplus:		
Capital Reserve (realized in cash)		60,000
Capital Redemption Reserve		1,60,000
Securities Premium		1,00,000
General Reserve		1,20,000
Profit and Loss Account		7,00,000

On 1stApril, 2024. The company makes final call @ 6 each on 40000 equity shares. The call money is duly received by 30th April,2024.

On 1st May,2024 the Board of Directors of the company decided:

(i) To forfeit the share on which final call of ₹ 2 each is due:

(ii) To re- issue the forfeited share @₹ 11 each as fully paid up:

(iii) To issue fully paid bonus shares in the ratio of one fully paid bonus share for every two fully paid shares held; and

(iv) To use minimum balance of Profit and Loss Account.

Pass necessary journal entries in the books of the company on the basis of the above decisions.

[PYQ June 24]

Answer

Journal Entries in the books of Happy Ltd.

Date	Particulars		Debit ₹	Credit ₹
1-4-2024	Equity share final call A/c	Dr.	2,40,000	
	To Equity share capital A/c			2,40,000
	(Being final calls of ₹ 6 per share on 40,000 equity shares due as per Board's Resolution dated....)			
30-4-2024	Bank A/c	Dr.	2,40,000	
	To Equity share final call A/c			2,40,000
	(Beingfinal call money on 40,000 equity shares received)			
1-5-2024	Equity Share Capital Account		1,00,000	
	To Calls-in-Arrears A/c			20,000
	To Forfeited Shares A/c			80,000
	(Bring forfeiture of 10,000 Shares due to Non-Payment of Final Call of 2 per share)			
1-5-2024	Bank A/c	Dr.	1,10,000	
	To Securities Premium A/c			10,000
	To Equity Share Capital A/c			1,00,000
	(Beingre-issue of 10,000 forfeited shares at ₹ 11 each)			

	Forfeited Shares A/c	Dr.	80,000	
	To Capital Reserve A/c			80,000
	(Being the profit on re-issue transferred to Capital Reserve)			
1-5-2024	Capital Reserve	Dr.	1,40,000	
	Securities Premium A/c	Dr.	1,10,000	
	Capital Redemption Reserve A/c	Dr.	1,60,000	
	General Reserve A/c	Dr.	1,20,000	
	Profit and Loss A/c (b.f.)	Dr.	1,20,000	
	To Bonus to shareholders A/c			6,50,000
	(Being making provision for bonus issue of one share for every two shares held)			
1-5-2024	Bonus to shareholders A/c	Dr.	6,50,000	
	To Equity share capital A/c			6,50,000
	(Being issue of bonus shares @ ₹ 10 per share)			

Working Notes:

Number of Bonus shares to be issued-	₹
(1,30,000 shares / 2) X 1 = 65,000 shares	
The authorised capital should be increased as per details given below:	
Existing issued Equity share capital (9,00,000 + 4,00,000)	13,00,000
Add: Issue of bonus shares to equity shareholders	6,50,000
Total	**19,50,000**

Question 103

BP Limited issued a prospectus inviting applications for 1,20,000 equity shares of ₹ 10 each at a premium of ₹ 2 per share payable as follows:

On Application - ₹ 3 per share
On Allotment - ₹ 5 per share (including premium)
On First and Final Call - ₹ 4 per share

Applications were received for 3,60,000 equity shares. Applications for 80,000 shares were rejected and the money refunded. Shares allotted to remaining applications as follows:

Category	No. of shares Applied	No. of shares Allotted
I	1,60,000	80,000
II	1,20,000	40,000

Excess money received with applications was adjusted towards sums due on Allotment and the balance amount returned to the applicants. All calls were made duly received except the final call by a shareholder belonging to Category I who has applied for 680 shares. His shares were forfeited. The forfeited shares were reissued at ₹ 13 per share fully paid-up.

Pass necessary journal entries for the above transactions in the books of BP Ltd, Open call in arrears account whenever required.

[PYQ June 23, MTP Jan 25]

Answer

(a) Journal of BP Limited

Particulars		Dr. (₹)	Cr. (₹)
Bank A/c (Note 1 – Column 3)	Dr.	10,80,000	
To Equity Share Application A/c			10,80,000
(Being application money received on 3,60,000 shares @ ₹ 3 per share)			

Equity Share Application A/c	Dr.	10,80,000	
To Equity Share Capital A/c			3,60,000
To Equity Share Allotment A/c (Note 1 Column 5)			4,40,000
To Bank A/c (Note 1 – Column 6)			2,80,000
(Being application money on 2,80,000 shares transferred to Equity Share Capital Account; on 1,60,000 shares adjusted with allotment and on 80,000 shares refunded as per Board's Resolution No…..dated…)			
Equity Share Allotment A/c	Dr.	6,00,000	
To Equity Share Capital A/c			3,60,000
To Securities Premium a/c			2,40,000
(Being allotment money due on 1,20,000 shares @ ₹ 5 each including premium at ₹4 each as per Board's Resolution No….dated….)			
Bank A/c (Note 1 – Column 8)	Dr.	1,60,000	
To Equity Share Allotment A/c			1,60,000
(Being balance allotment money received)			
Equity Share First and Final Call A/c	Dr.	4,80,000	
To Equity Share Capital A/c			4,80,000
(Being final call money due on 1,20,000 shares @ ₹ 4 per share as per Board's Resolution No…..dated….)			
Bank A/c	Dr.	4,78,640	
Calls in Arrears A/c	Dr.	1,360	
To Equity Share First and Final Call A/c			4,80,000
(Being final call money on 1,19,660 shares @ ₹4 each received)			
Equity Share Capital A/c	Dr.	3,400	
To Calls in Arrears A/c			1,360
To Forfeited Shares A/c			2,040
Being forfeiture of 340 equity shares for non- payment of call money as per Board's Resolution No…..dated ….)			
Bank A/c	Dr.	4,420	
To Equity Shares Capital A/c			3,400
To Securities Premium A/c			1,020
Being re-issue of 340 shares @ ₹13 each as per Board's Resolution No…..dated….)			
Forfeited Shares A/c	Dr	2,040	
To Capital Reserve A/c			2,040
(Being profit on re-issue transferred to Capital Reserve)			

Working Note:

Calculation for Adjustment and Refund

Category	No. of Shares Applied for	No. of Shares Allotted	Amount Received on Application	Amount Required on Application	Amount adjusted on Allotment	Refund [3 - 4 + 5]	Amount due on Allotment	Amount received on Allotment
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Rejected	80,000	Nil	2,40,000	Nil	Nil	2,40,000	Nil	Nil
(i)	1,60,000	80,000	4,80,000	2,40,000	2,40,000	Nil	4,00,000	1,60,000
(ii)	1,20,000	40,000	3,60,000	1,20,000	2,00,000	40,000	2,00,000	Nil
TOTAL	3,60,000	1,20,000	10,80,000	3,60,000	4,40,000	2,80,000	6,00,000	1,60,000

Also,

(i) Amount Received on Application (3) = No. of shares applied for (1) x ₹ 3

(ii) Amount Required on Application (4) = No. of shares allotted (2) x ₹ 3

Question 104

(a) PQR Limited issued 2,00,000 equity shares of, 10 each payable as ₹ 3 per share on application & ₹ 5 per share (including ₹ 2 as premium) on allotment and ₹ 4 per share on call. All these shares were subscribed. Money due on all shares was fully received except from Mr. J, holding 5,000 shares who failed to pay ·the allotment and call money and Mr. K, holding 10,000 shares, who failed to pay the call money. All these 15,000 shares were forfeited. Out of the forfeited shares, 10,000 shares (including whole of J's shares) were subsequently re-issued to Mr. L as fully paid up at a discount of ₹ 1 per share.

Pass necessary journal entries in the books of PQR Limited. Also prepare Balance Sheet and notes to accounts of the company.

[PYQ Nov 22, 19]

Answer

(a) In the books of PQR. Ltd.

Journal

Entry no.	Particulars		₹	₹
1	Bank A/c	Dr	6,00,000	
	To Equity Share Application A/c			6,00,000
	(Being application money on 2,00,000 shares @ ₹ 3 per share received)			
2	Equity Share Application A/c	Dr	6,00,000	
	To Equity Share Capital A/c			6,00,000
	(Being transfer of application money to Equity Share Capital on 2,00,000 shares @ ₹ 3 per share as per Director's Resolution no… dated…)			
3	Equity Share Allotment A/c	Dr	10,00,000	
	To Equity Share Capital A/c			6,00,000
	To Securities Premium A/c			4,00,000
	(Being amount due from shareholders in respect of allotment on 2,00,000 shares @ ₹ 5 per share including premium ₹ 2 per share as per Director's Resolution no……dated……)			
4	Bank A/c	Dr	9,75,000	
	To Equity Share Allotment A/c			9,75,000
	(Being amount received against allotment on 1,95,000 shares @ ₹ 5 per share including premium @ ₹ 2 per share)			
	OR			
	Bank A/c			
	Calls in Arrears A/c	Dr	9,75,000	
	To Equity Share Allotment A/c	Dr	25,000	
	(Being amount received against allotment on 2,00,000 share @ ₹ 5 per share including premium @ ₹ 2 per share, Mr. J holding 5,000 shares failed to pay allotment money)			10,00,000
5	Equity Share Call A/c	Dr	8,00,000	
	To Equity Share Capital A/c			8,00,00
	(Being amount due from shareholders in respect of call on 2,00,000 shares @ ₹ 4 per share as per Director's resolution no……dated……..)			
6	Bank A/c	Dr	7,40,000	

	To Equity Share Call A/c (Being amount received against the call on 1,85,000 shares @ ₹ 4 per share) OR Bank A/c Calls in Arrears A/c To Equity Share Call A/c (Being amount received against the call on 1,85,000 shares @ ₹ 4 per share, J holding 5,000 shares and K holding 10,000 shares failed to pay call money)	 Dr Dr	 7,40,000 60,000	7,40,000 8,00,000
7	Equity Share Capital A/c (15,000 x ₹ 10) Securities Premium A/c (5000 x ₹ 2) To Equity Share Allotment A/c (5000 x ₹ 5) To Equity Share Call A/c (15,000 x ₹ 4) To Forfeited Shares A/c (Being forfeiture of 15,000 equity shares for non- payment of allotment and call money on 5,000 shares and for non-payment of call money on 10,000 shares as per Board's Resolution No.....dated ....) OR Equity Share Capital A/c (15,000 x ₹ 10) Securities Premium A/c (5000 x ₹ 2) To Calls in Arrears A/c (₹ 25,000 + ₹ 60,000) To Forfeited Shares A/c (Being forfeiture of 15,000 equity shares for non- payment of allotment and call money on 5,000 shares and for non-payment of call money on 10,000 shares as per Board's Resolution No.....dated.....)	Dr Dr Dr Dr	1,50,000 10,000 1,50,000 10,000	 25,000 60,000 75,000 85,000 75,000
8	Bank A/c Forfeited Shares A/c To Equity Share Capital A/c (Being re-issue of 10,000 shares @ ₹ 9 each as per Board's Resolution No.....dated)	Dr	90,000 10,000	 1,00,000
9	Forfeited Shares A/c To Capital Reserve A/c (Being profit on re-issue transferred to Capital Reserve)	Dr	35,000	 35,000

Balance Sheet of PQR as at.....

Particulars	Notes No.	₹
EQUITY AND LIABILITIES		
Shareholders' funds		
Share Capital	1	19,80,000
Reserves and Surplus	2	4,25,000
Total		24,05,000
ASSETS		
Current assets		
Cash and Cash Equivalents	3	24,05,000
Total		24,05,000

Notes to accounts

		₹	₹
1.	Share Capital		
	Equity share capital		
	Issued share capital		
	2,00,000 Equity shares of ₹ 10 each Subscribed, called up and paid up share capital	20,00,000	
	1,95,000 Equity shares of ₹ 10 each	19,50,000	
	Add: Forfeited shares	30,000	19,80,000
2.	Reserves and Surplus		
	Securities Premium	3,90,000	
	Capital Reserve	35,000	4,25,000
3.	Cash and Cash Equivalents		
	Amount received on Share Application	6,00,000	
	Amount Received on Share Allotment Amount	9,75,000	
	Received on Share Call	7,40,000	
	Amount Received on Re-issue of Shares	90,000	24,05,000

Working Note:

(1) Calculation of Amount to be Transferred to Capital Reserve

Amount forfeited per share of J	₹ 3	Amount forfeited per share of K	₹ 6
Less: Loss on re-issue per share	(₹ 1)	Less: Loss on re-issue per share	(₹ 1)
Surplus	₹ 2	Surplus	₹ 5
Transferred to Capital Reserve:			
J's share (5,000 x ₹ 2)		₹ 10,000	
K's Share (5,000 x ₹ 5)		₹ 25,000	
Total		₹ 35,000	

(2) Balance of Security Premium

Total Premium amount receivable on allotment	=	4,00,000
Less: Amount reversed on forfeiture	=	(10,000)
Balance remaining	=	3,90,000

Question 105

A Limited issued 20,000 Equity shares of, 10 each at a premium of 10%, payable ₹ 2 on application; ₹ 4 on allotment (including premium); ₹ 2 on first call and balance on the final call. All the shares were fully subscribed. Mr. M who held 2000 shares paid full remaining amount on first call itself. The final call which was made after 4 months from the first call was fully paid except a shareholder having 200 shares and one another shareholder having 100 shares. They paid their due amount after 3 months and 4 months respectively along with interest on calls in arrears, Company also paid interest on calls in advance to Mr. M. The Company maintains Calls in Arrear and Calls in Advance A/c. Give journal entries to record these transactions. Show workings of Interest calculation. (Ignore dates).

[PYQ May 22, MTP May 2024, Dec 24, April 25]

Answer

Entry No.	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
1	Bank A/c Dr. To Equity Share Application A/c (Money received on applications for 20,000 shares @ ₹ 2 per		40,000	40,000

	share)				
	Equity Share Application A/c	Dr.		40,000	
2	To Equity Share Capital A/c		40,000		
	(Transfer of application money on 20,000 shares to share capital)				
	Equity Share Allotment A/c	Dr.	80,000		
3	To Equity Share Capital A/c To Securities Premium A/c		60,000 20,000		
	(Amount due on the allotment of 20,000 shares @ ₹ 3 per share and Securities Premium @ ₹1 per share)				
	Bank A/c	Dr.	80,000		
4	To Equity Share Allotment A/c		80,000		
	(Allotment money received)				
	Equity Share First Call A/c	Dr.	40,000		
5	To Equity Share Capital A/c		40,000		
	(Being first call made due on 20,000 shares at ₹ 2 per share)				
	Bank A/c	Dr.	46,000		
6	To Equity Share First Call A/c		40,000		
	To Calls in Advance A/c		6,000		
	(Being first call money received along with calls in advance on 2,000 shares at ₹ 3 per share)				
	Equity Share Final Call A/c	Dr.	60,000		
7	To Equity Share Capital A/c		60,000		
	(Being final call made due on 20,000 shares at ₹ 3 each)				
	Bank A/c	Dr.	53,100		
	Calls in Advance A/c	Dr.	6,000		
8	Calls in Arrears A/c	Dr.	900		
	To Equity Share Final Call A/c		60,000		
	(Being final call received for 17,700 shares, calls in advance for 2,000 shares and calls in arrears on 300 shares adjusted)				
	Interest on Calls in Advance A/c	Dr.	240		
9	To Shareholders A/c		240		
	(Being interest made due on calls in advance of ₹6,000 at the rate of 12% p.a.)				
	Shareholders A/c	Dr.		240	
10	To Bank A/c				240
	(Beingpayment of interest made to shareholder)				
	Shareholders A/c	Dr.		15	
11	To Interest on Calls in Arrears A/c				15
	(Being interest on calls in arrears made due at the rate of 10%)				
	Bank A/c	Dr.		615	
12	To Calls in Arrears A/c				600
	To Shareholders A/c				15
	(Being money received from shareholder having 200 shares for calls in arrears and interest thereupon)				
13	Shareholders A/c	Dr.		10	

	To Interest on Calls in Arrears A/c (Being interest on calls in arrears made due at the rate of 10%)			10
14	Bank A/c Dr. To Calls in Arrears A/c To Shareholders A/c (Being money received from shareholder having 100 share for calls in arrears and interest thereupon)		310	 300 10

Calculation of Interest on Calls in Advance & Calls in Arrears: Interest on Calls in Advance = ₹ 6,000 x 12% x 4 / 12 = ₹ 240 Interest on Calls in Arrears ₹ 600 x 10% x 3 / 12 = ₹ 15
Interest on Calls in Arrears ₹ 300 x 10% x 4 / 12 = ₹ 10
Table F of The Companies Act,2013 prescribes 10% and 12% p.a. as the maximum rates respectively for calls in arrears and calls in advance. Accordingly these rates have been considered while passing the above entries,
Note: For entry no 9&10, 11&12,13&14 combined entry can also be passed.

Question 106

X Limited invited applications for issuing 75,000 equity shares of ₹ 10 each at a premium of ₹ 5 per share. The total amount was payable as follows:

- ₹ 9 per share (including premium) on application and allotment
- Balance on the First and Final Call

Applications for 3,00,000 equity shares were received. Applications for 2,00,000 equity shares were rejected and money refunded. Shares were allotted on pro-rata basis to the remaining applicants. The first and final call was made. The amount was duly received except on 1,500 shares applied by Mr. Raj. His shares were forfeited. The forfeited shares were re-issued at a discount of ₹ 4/- per share.
Pass necessary journal entries· for the above transactions in the books of X Limited.

[PYQ July 21, MTP July 24]

Answer

			Dr. ₹	Cr. ₹
1	Bank Account To Share Application & Allotment A/c (Being Application money on 3,00,000 shares at ₹ 9 per share received.)	Dr.	27,00,000	 27,00,000
2	Share Application & Allotment A/c To Share Capital A/c (75,000 x ₹ 4) To Securities premium A/c (75,000 x ₹ 5) To Bank A/c (2,00,000 x ₹ 9) To Share First & Final Call A/c (Being application money transferred)	Dr.	27,00,000	 3,00,000 3,75,000 18,00,000 2,25,000
3	Share First & Final Call A/c (75,000 x6) To Share Capital Account (Amount First & Final Call A/c due from members as per Directors, resolution no..... dated)	Dr.	4,50,000	 4,50,000
4	Bank Account A/c Calls in arrear A/c To Share First & Final Call Account (Being Receipt of the amounts due on first call.)	Dr. Dr.	2,21,625 3,375	 2,25,000
5	Equity share capital A/c To Share forfeiture A/c	Dr.	11,250	 7,875

	To Calls in arrear A/c			3,375
	(Being 1,125 shares forfeited for non payment of final call.)			
6	Bank Account A/c (1,125 x ₹ 6)	Dr.	6,750	
	Share forfeiture A/c (1,125 x ₹ 4)		4,500	
	To Share Capital Account (1,125 x ₹ 10)			11,250
	(Being forfeited shares reissued at ₹ 4 discount)			
7	Share forfeiture A/c		3,375	
	To Capital reserve A/c			3,375
	(Being share forfeiture transferred to capital reserve*)			

Working notes:

1.

Shares Applied	Shares Allotted	Money Received on Application @ ₹ 9/-	Money Transferred to Share Capital@ ₹ 4/-	Money Transferred to Security Premium @₹ 5/-	Excess Application Money	Share First and Final Call @ ₹ 6/-	Amount received from Share First and Final Call after adjusting excess appl. money	Money Refunded
2,00000	-	18,00,000	-	-	-	-	-	18,00,000
1,00,000	75,000	9,00,000	3,00,000	3,75,000	2,25,000	4,50,000	4,25,000	-
3,00,000	75,000	27,00,000	3,00,000	3,75,000	2,25,000	4,50,000	4,46,625*	18,00,000

* ₹ 4,50,000 less ₹ 3,375.

2. Number of shares allotted to Mr. Raj = 1,500 x 75,000 / 1,00,000 = 1,125 shares

3. Calculation of calls in arrear

Application money received from Raj	(1,500 x9)	13,500
Less: actual application money	1,125 x9	10,125
Excess Application & Allotment Money Adjusted with first		3,375
and final call		
Final call due from Raj		6,750
Less: Adjusted with final call		(3,375)
Calls in arrear		3,375

Question 107

Pihu Ltd. issued 300 lakh 8% debentures of Rs.100 each at a discount of 6%, redeemable at a premium of 5% after 3 years payable as : Rs. 50 on application and Rs. 44 on allotment.

You are required to prepare the necessary journal entries for issue of debentures. (5 Marks)

(SM, MTP Apr 19, March 18, May 22, Nov 22)

Answer

Books of Pihu Ltd.
Journal Entries

Date	Particulars	L.F.	Debit Amount (Rs.'	Credit Amount (Rs.'

			Lakhs)	Lakhs)
	Bank A/c	Dr.	15,000	
	To Debenture Application A/c			15,000
	(Debentures application money received)			
	Debenture Application A/c	Dr.	15,000	
	To 8% Debentures A/c			15,000
	(Application money transferred to 8% debentures account)			
	Debenture Allotment A/c	Dr.	13,200	
	Loss on issue of debenture A/c	Dr.	3,300	
	To 8% Debentures A/c			15,000
	To Debenture redemption premium A/c			1,500
	(Call made consequent upon allotment of debentures issued at discount and redeemable at premium)			
	Bank A/c	Dr.	13,200	
	To Debenture Allotment A/c			13,200
	(Allotment amount received)			

Working Notes :

Loss on issue of debentures = (Amount of discount on issue + Premium payable on redemption) x No. of Debentures

= (6% of Rs.100 + 5% of Rs.100) x 300 lakh

= (Rs. 6 + Rs. 5) x 300 lakh

= Rs. 3,300 lakh

Question 108

Give necessary journal entries for the forfeiture and re-issue of shares:

(i) X Ltd. forfeited 300 shares of Rs. 10 each fully called up, held by Ramesh for non-payment of allotment money of Rs. 3 per share and final call of Rs. 4 per share. He paid the application money of Rs. 3 per share. These shares were re-issued to Suresh for Rs. 8 per share.

(ii) Mr. P, who was the holder of 2,500 preference shares of Rs. 100 each, on which Rs. 70 per share has been called up, could not pay his dues on Allotment and First call each at Rs. 20 per share. The Directors forfeited the above shares and reissued 2,000 of such shares to Mr. Q at Rs. 60 per share paid-up as Rs. 70 per share.

[MTP May 20, Oct 21,Mar 22, Nov 22, Aug 24]

Answer

Journal Entries in the books of X Ltd.

Date			Dr. Rs.	Cr. Rs.
(a)	Equity Share Capital A/c To Equity Share Allotment money A/c (300 x Rs. 3)	Dr.	3,000	900
	To Equity Share Final Call A/c (300 x Rs. 4)			1,200

	To Forfeited Shares A/c (300 x Rs. 3) (Being the forfeiture of 300 equity shares of Rs. 10 each for non-payment of allotment money and final call, held by Ramesh as per Board's resolution No…….dated)			900
(b)	Bank Account (300 x 8) Forfeited Shares Account (300x 2)	Dr.	2,400	
	To Equity Share Capital Account	Dr.	600	
	(Being the re-issue of 300 forfeited shares @ Rs. 8 each as fully paid up to Suresh as per Board's resolution No…….dated)			3,000
(c)	Forfeited Shares Account To Capital Reserve Account	Dr.	300	
	(Being the profit on re-issue, transferred to capital reserve)			300

(ii)

		Dr. Rs.	Cr. Rs.
Preference Share Capital A/c (2,500 x Rs. 70) To Preference Share Allotment A/c (2,500 x Rs. 20) To Preference Share First Call A/c (2,500 x Rs. 20) To Forfeited Share A/c (Being the forfeiture of 2,500 preference shares Rs. 70 each being called up for non-payment of allotment and first call money as per Board's Resolution No.... dated)	Dr.	1,75,000	 50,000 50,000 75,000
Bank A/c (2,000 x Rs.60) Forfeited Shares A/c (2,000 x Rs.10) To Preference Share Capital A/c (Being re-issue of 2,000 shares at Rs. 60 per share paid- up as Rs. 70 as per Board's Resolution No…..dated….)	Dr. Dr.	1,20,000 20,000	 1,40,000
Forfeited Shares A/c To Capital Reserve A/c (Note 1) (Being profit on re-issue transferred to	Dr.	40,000	 40,000
Capital/Reserve)			

Working Note:

Calculation of amount to be transferred to Capital Reserve Forfeited amount

per share =Rs. 75,000/2500 = Rs. 30

Loss on re-issue =Rs. 70 – Rs. 60 = Rs. 10

Surplus per share re-issued Rs. 20

Transferred to capital Reserve Rs. 20 x 2000 = Rs. 40,000.

Question 109

PQR Limited's Profit and Loss account for the year ended 31st March, 2021 includes the following information:

(1)	Liability for Income Tax	₹ 40,000

(2)	Retained Profit	₹ 2,00,000
(3)	Proposed Dividend	₹ 20,000
(4)	Increase in Provision for Doubtful Debts	₹ 25,000
(5)	Bad Debts written off	₹ 20,000

State which one of the items above is - (a) transfer to provisions; (b) transfer to reserves; and (c) neither related to provisions nor reserves.

[PYQ July 21, MTP May 25]

Answer

(a) Transfer to provisions - (i), (iv)
(b) Transfer to reserves - (ii)
(c) Neither related to provisions nor reserves - (iii), (v).

Question 110

Hament applies for 2,000 shares of Rs. 10 each at a premium of Rs. 2.50 per share. He was allotted 1,000 shares. After having paid Rs. 3 per share on application , he did not pay the allotment money of Rs. 4.50 per share (including premium) and on his subsequent failure to pay the first call of Rs. 2 per share, his share were forfeited. These share were reissued at Rs. 8 per share, his shares were forfeited.

At the time of re-issue of forfeited shares of Mr. Hament, final call money amount all other shareholders were duly called up.

You are required to pass journal entries to record forfeiture and reissue of shares.

(MTP Nov 21, April 23)

Answer

		Dr.	Cr.
Share Capital A/c	Dr.	7,000	
Securities Premium Reserve A/c	Dr.	1,500	
To Forfeited Share A/c			5,000
To Share Allotment A/c			1,500
To Share First Call A/c			2,000
(Being 1000 shares forfeited for non-payment of allotment money and first call)			
Bank A/c	Dr.	8,000	
Forfeited Shares A/c	Dr.	2,000	
To Share Capital A/c			10,000
(Being 1000 forfeited shares reissued as fully paid up for Rs 8 per share)			
Forfeited Shares A/c	Dr.	3,000	
To Capital Reserve A/c			3,000
(Being the transfer of gain on reissue)			

Working Note:

Calculation of the amount due but not paid on allotment	Rs.
(a) Total No. of Shares applied	2,000
(b) Total money paid of application (2,000x 3)	6,000
(c) Excess application money (Rs. 6000-(1,000x3))	3,000
(d) Total amount due on allotment (1,000x 4.50)	4,500
(e) Amount due but not paid (Rs.4,500- Rs.3,000)	1,500
Out of Rs. 4,500, Rs. 2,000 are for Share Capital and Rs. 2,500 are for Securities Premium Reserve. Out of excess application money of Rs.3,000 , Rs.2000 are adjusted towards allotment as share capital and Rs.. 1,000 are adjusted towards allotment as securities premium reserve. Therefore, Securities Premium Reserve of Rs. 1,500 (i.e. Rs. 2,500- 1,000) is not received. Hence securities Premium Reserve is debited by Rs. 1,500.	

Question 111

Given below are the extracts of Balance Sheet of Shell Chemicals Limited as on 31st March, 2024:

Particulars	Amount in ₹
9% Redeemable Preference Share Capital	10,00,000
Calls in arears (Redeemable Preference Shares)	20,000
General Reserve	7,00,000
Securities Premium	80,000

It is provided that:

- Preference Shares are of 100 each fully-called, due for immediate redemption.
- Calls-in-arrears are on account of final call on 1000 Preference shares held by four members whose whereabouts are not known.
- Balance of General Reserve to be fully utilised for the purposes of redemption and the shortfall to be made good by issue of equity shares of ₹ 10 each at par.
- The redemption of preference shares was duly carried out.

You are required to pass the necessary journal entries to give effect to the above redemption.

[MTP Aug 24]

Answer

In the books of Shell chemicals Ltd. Journal Entries

		₹	₹
9% Preference Share Capital A/c	Dr.	1,00,000	
To Calls in Arrears A/c			20,000
To Shares Forfeited A/c			80,000
(For Shares Forfeited because of non- payment of calls as holders are unknown)			
Bank A/c (Refer W N)	Dr.	2,00,000	
To Equity Share Capital A/c			2,00,000
(Being the issue of 20,000 Equity Shares of ₹ 10 each at par as per Board's Resolution No.....dated....)			
General Reserve A/c	Dr.	7,00,000	
To Capital Redemption Reserve A/c			7,00,000
(For transfer to CRR for the amount not covered by the proceeds of fresh issue of equity shares)			
9% Preference Share Capital A/c	Dr.	9,00,000	
To Preference Shareholders A/c			9,00,000
(For amount payable to preference shareholders)			
Preference Shareholders A/c	Dr.	9,00,000	
To Bank A/c			9,00,000

(For amount paid to preference shareholders)			

Working Note:

Number of Shares to be issued for redemption of Preference Shares:

Face value of shares redeemed	9,00,000
Less: Profit available for distribution as dividend:	
General Reserve	7,00,000
	2,00,000
Therefore, number of shares to be issued = ₹ 2,00,000/ ₹ 10 = 20,000 shares.	

Question 112

A company had issued 20,000, 8% partly convertible debentures of Rs. 100 each on April 1, 2023. The debentures are due for redemption on June 1, 2024. The terms of issue of debentures provided that 30% of the debentures will be converted into equity shares (Nominal Value Rs. 10) at a price of 20 per share and remaining will be redeemable at a premium of 5%.

(i) Calculate the number of equity shares to be allotted to the debenture holders at the time of conversion.

(ii) Give the necessary journal entries related to the conversion and redemption of debentures assuming that the company has created the Debenture Redemption Reserve and also invested required amount for redemption of debentures at the time of issue. Debenture Redemption Reserve Investment are sold at par value.

[PYQ Jan 25]

Answer

Particulars	Number of debentures
Number of convertible Debenture issued	20,000
Converted into equity shares	30%
Number of debentures to be converted (30% of 20,000)	6,000
Value per Debenture	Rs. 100
Equity shares of Rs. 10 each issued on conversion	
[Rs. 6,000 x 100/ Rs. 20]	30,000 shares

Journal Entries

Date	Particulars		Amount (Rs.) Dr.	Amount (Rs.) Cr.
1-6-24	8% Debentures	Dr.	20,00,000	
	Premium on Redemption of Debentures	Dr.	70,000	
	To Debenture holders A/c			20,70,000
	(Being amount payable to debenture holders on redemption)			
	*Debenture holders A/c	Dr.	6,00,000	
	To Equity Share Capital			3,00,000
	To Securities Premium			3,00,000
	(Being 30,000 equity shares issued on conversion)			
	*Debenture holders A/c	Dr.	14,70,000	
	To Bank A/c			14,70,000
	(Being amount paid to debenture holders)			
	Profit and Loss A/c	Dr.	70,000	
	To Premium on redemption of Debentures			70,000
	(Being premium on redemption of debentures transferred to			

	Profit and Loss A/c)			
	Debenture Redemption Reserve A/c To General Reserve (Being DRR transferred to General Reserve)	Dr.	1,40,000	1,40,000
	Bank A/c To DRR Investment A/c	Dr.	2,10,000	2,10,000
	(Being DRR Investment realised)			

Alternatively, a combined entry can also be passed for the entries marked in " ". In that case, the entry will be -

Debenture holders A/c Dr.	20,70,000		
To Bank A/c		14,70,000	
To Equity Share Capital		3,00,000	
To Securities Premium		3,00,000	
(Being amount paid to debenture holders on redemption and 30,000 equity shares issued on conversion)			

Note: In case of partly convertible debentures, DRR shall be created in respect of non-convertible portion of debenture issue. Amount of DRR created at the time of issue is 10% of Rs.14,00,000 = Rs.1,40,000

Amount of DRR investment should be 15% of 14,00,000 = Rs. 2,10,000

Question 113

Arpit Ltd., with an authorized capital of 20,00,000 divided into Equity shares of Rs. 10 each, on 1stJune, 2023, invited applications for issuing 3,00,000 Equity shares at a premium of Rs. 5 per share. The amount was payable as follows:

On Application	Rs. 2 per share
On Allotment (1st July, 2023)	Rs. 7(including premium) per share
On First call (1st Nov,2023)	Rs. 3 per share
On Final call (1st Jan,2024)	Rs. 3 per share

All the shares were applied for and allotted. Mr. Naresh who held 20,000 shares paid the whole of the amount due on calls along with allotment money. The final call was fully paid except a shareholder having 5,000 shares who paid his due amount on 1st March, 2024 i.e. after 2 months along with interest on calls in arrears @ 10% p.a. Company also paid interest @ 12% p.a. on calls in advance to Mr. Naresh on 1st Jan., 2024.

Give journal entries with narrations to record all these transactions in the books of Arpit Ltd.

[PYQ Jan 25]

Answer

In the books of Arpit Ltd
Journal Entries

Date	Particulars	L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
1-6-23	Bank A/c Dr. To Equity Share Application A/c (Money received on applications for 3,00,000 shares @ Rs. 2 per share)		6,00,000	6,00,000
1-7-23	Equity Share Application A/c Dr.		6,00,000	

	To Equity Share Capital A/c (Transfer of application money on 3,00,000 shares to share capital)				6,00,000
1-7-23	Equity Share Allotment A/c To Equity Share Capital A/c To Securities Premium (Amount due on the allotment of 3,00,000 shares @ Rs. 2 per share and securities premium of Rs. 5 per share)	Dr.		21,00,000	 6,00,000 15,00,000
1-7-23	Bank A/c To Equity Share Allotment A/c To Calls in Advance (Allotment money received along with calls in advance on 20,000 shares)	Dr.		22,20,000	 21,00,000 1,20,000
1-11-23	Equity Share First Call A/c To Equity Share Capital A/c (Being first call due on 3,00,000 shares at Rs. 3 per share)	Dr,		9,00,000	 9,00,000
1-11-23	Bank A/c Calls in Advance A/c To Equity Share First Call A/c (Being first call money received on 2,80,000 shares and calls in advance on 20,000 shares at Rs. 3 per share adjusted)	Dr.		8,40,000 60,000	 9,00,000
1-1-24*	Equity Share Final Call A/c To Equity Share Capital A/c (Being final call made due on 3,00,000 shares at Rs. 3 each)	Dr.		9,00,000	 9,00,000
1-1-24	Bank A/c Calls in Advance A/c Calls in Arrears A/c To Equity Share Final Call A/c (Being final call received for 2,75,000 shares and calls in advance for 20,000 shares adjusted)	Dr		8,25,000 60,000 15,000	 9,00,000
1-1-24	Interest on Calls in Advance A/c To Shareholders A/c (Being interest made due on calls in advance at the rate of 12% p.a.)	Dr.		6,000	 6,000
1-1-24	Shareholders A/c To Bank A/c (Beingpayment of interest made to shareholder)	Dr.		6,000	 6,000
1-3-24	Shareholders A/c To Interest on Calls in Arrears A/c (Being interest on calls in arrears made due at the rate of 10%)	Dr.		250	 250
1-3-24**	Bank A/c	Dr.		15,250	

	To Calls in Arrears A/c To Shareholders A/c (Being money received from shareholder for calls in arrears and interest thereupon)			15,000 250

Calculation of Interest on Calls in Advance & Calls in Arrears:

Interest on Calls in Advance

First Call from 1st July, 2023 to 1st Nov, 2023

= Rs. 60,000 x 12% x 4 / 12 = Rs. 2,400

Final Call from 1st July 2023 to 1st, Jan 2024

= Rs. 60,000 x 12% x 6 / 12 = Rs. 3,600

Total = Rs. 6,000

Interest on Calls in Arrears from 1st Jan,2024 to 1st March,2024 Rs. 15,000 x 10% x 2 / 12 = Rs. 250

Alternatively, the following entries can also be passed for entries pertaining to money received from shareholders from call in arrears and calls in advance and interest thereupon.

Amount (in Rs.)

*	1/1/2024	Bank A/c Calls in advance A/c To Equity Share Final Call A/c (Receipt of final call for 1,75,000 shares and call-in advance for 20,000 shares adjusted)	Dr. Dr	8,25,000 60,000	 8,85,000
**	1/3/2024	Bank A/c To Equity Share Final Call A/c To Shareholders A/c (Being money received from shareholders for calls-in-arrear and interest there upon)	Dr.	15,250	 15,000 250