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CHAPTER-1

ACCOUNTING FOR NOT-FOR- PROFIT ORGANISATION

Not-for-profit organizations are established for the purpose of rendering services Eg: Sports and Arts clubs, Hospitals, Libraries, Charitable Institutions etc.

Characteristics of Not-For Profit Organizations

- Objective is to render service
- Organized for charitable trusts/societies
- Subscribers to such organization are called members.
- Keep Cash Book to record all daily receipt and payments, it help to prepare Receipt and payment Account.
- They usually maintain a ledger containing the accounts of all incomes, expenses, assets and liabilities.
- The main sources of income of such organizations are subscription from members, donations, legacies, grant, income from investment etc

Accounting Records Not-For Profit Organizations

The final accounts of a Not-For Profit Organizations include:-

1. Receipts and Payment Account
2. Income and Expenditure Account
3. Balance Sheet

Receipt and Payment account

It is a summary of cash book .It is debited with all item of receipts and credited with all payments.

Salient features of Receipt and payment account

- It is a real account.
- It is a summary of cash book.
- It is prepared at the end of an accounting year on the basis of cash book.
- It is debited with all cash receipts and credited with all cash payments.
- It is prepared on cash basis
- It records all receipts and payments whether they are of capital and revenue nature.

Capital Receipt: The non-recurring receipt of the organization is called Capital Receipts. It is never considered as an income.

Example: Specific donations, Life Membership Fees, Sale of investments, sale proceeds of fixed assets, Loans from banks etc. Capital receipt should be shown on the liabilities side of the Balance Sheet.

Revenue Receipt: Receipts which are recurring in nature and which are available for meeting all day to day expenses (revenue expenditure) of a concern are known as "Revenue receipts", e.g. Subscriptions, interest on investment received, sale of old news paper, General Donations, Profit on sale of Assets, locker rent, commission received, rent received, dividend received etc.

Capital expenditure: Any expenditure which is incurred in acquiring or increasing the value of fixed assets is

termed as capital expenditure. Such expenditure yields benefit over a long period and hence treated as an asset. Eg. Purchase of Fixed Assets, Books, Investments etc.

Revenue expenditure: Revenue expenses are short-term expenses and the full benefit of which is received during one accounting period.

Examples: Salaries, Telephone Expenses, Electricity Charges, Postage and Stationery, Depreciation, Audit fees. Loss on sale of machinery, Advertisements, Insurance, sports expenses

Income and Expenditure Account

- It is prepared in the form of profit and loss account.
- All revenue expense of losses is debited and all revenue incomes are credited.
- The excess of income over expenditure is known as surplus.
- The Excess of expenditure over income is known as deficit.

Difference between Income and Expenditure and Receipt and Payment Account

Receipt and Payment Account	Income and Expenditure Account
<ol style="list-style-type: none"> 1. It is a real account. 2. Its debit side shows receipt and credit side Shows payment. 3. It records both revenue and capital items 4. Objective is to ascertain the balance of cash In hand or cash at bank. 5. It is prepared on cash system. 	<ol style="list-style-type: none"> 1. It is a nominal account. 2. Debit side shows expense and credit side Shows incomes and gains. 3. It records only revenue item 4. Objective is for knowing surplus or deficit 5. It is prepared on mercantile system.

Special terms

Legacy: Amount received by non-profit organizations as per the will of deceased person.

Donation: Amount received by way of gifts

Life Membership Fee: A lump sum amount paid a membership fee on admission of a member for the whole life instead of paying regular periodic subscriptions.

Subscription: Subscription is the membership fees paid by the members on annual/monthly basis. It is the main source of income of a not for profit organization.

Income and Expenditure Account

Expenditure	Amount	Income	Amount
Salaries	xxx	Subscription	xxx
Honorarium	xxx	General Donation	xxx
Rent, rates and taxes	xxx	Entrance Fee (Not Capitalized)	xxx
Postage Printing and stationery	xxx	Hall rent	xxx
Telephone charges	xxx	Locker Rent	xxx
Charities	xxx	Sale of old news papers	xxx
Wages	xxx	Sale of grass	xxx

Upkeep of grounds	xxx	Interest received	xxx
Insurance	xxx	Sale of refreshments	xxx
Electricity charges	xxx	Profit on sale of F. Assets	xxx
Interest	xxx	Miscellaneous receipts	xxx
General exp	xxx	Deficit (Excess of expenditure over income)	xxx
Entertainment Exp	xxx		
Bank Charges	xxx		
Conveyance	xxx		
Repairs	xxx		
Newspapers & periodicals	xxx		
Loss on sale of F. Assets	xxx		
Depreciation on F.Assets	xxx		
Surplus (Excess of income over expenditure)	xxx		
	xxxx		xxxx

Balance sheet /Statement of affairs

Balance sheet shows the financial position of a concern on the closing date of the accounting year.

1. From the following information find out of the amount of subscription to be credited to Income and Expenditure account for the year ending 31st December 2010.

- | | | |
|----|--|---------|
| a) | Subscription received during theyear2010 | ₹12,000 |
| b) | Subscription outstandingon31/12/2010 | ₹1,500 |
| c) | Subscription outstandingon31/12/2009 | ₹1,200 |
| d) | Subscription received in advance on31/12/2010 | ₹1,800 |
| e) | Subscription received in advance on 31/12/2009 | ₹750 |

Ans:

Subscription to be credited to Income and Expenditure Account

	Amount	Amount
Subscription received during the year		1,200
Add Subscription outstanding on 31/12/2010	1,500	
Subscription received in advance on 01/01/2010	7,50	2,250
Less Subscription outstanding on 31/12/2009	1,200	
Subscription received in advance on 31/12/2010	1,800	3,000
Subscription to be credited to Income and Expenditure Account		11,250

Q: You are the secretary of Western Sports Club .You are entrusted with the duty of preparation of final accounts of the club .On 31st Dec 2010 the book of the club has revealed the following receipts and pay

Receipts	Amount	Payments	Amount
Subscription	35,000	Salary paid	11,000
Locker rent	1,750	Sundry expenses	5,00
Donation for building fund	20,000	Entertainment expense	2,50
Sale of news paper	2,00	Furniture purchased(1/10/10)	7,500
Interest received	2,50	Purchase of library books	7,50
Donation (1/3 to be capitalized)	1,500	News paper	2,00
		Traveling expense	3,00

The books of the club has revealed the following additional information

- The club had a cash balance on 1/01/2010 ₹2000/-
- Subscription outstanding on 31/12/ 2010 ₹750/- and on 1/01/2010 ₹500/
- Salary prepaid on 31/12/2010 ₹500/-and locker rent received in advance on 31/12/2010 ₹250/-.
- On 31/12/2009 the club had investment for ₹10000/-, furniture ₹5000/-Building₹12500 and sports equipment ₹5000/-
- Depreciation is to be provided during the year as follows:-
On furniture 20%, Building at 10% and sports equipment at 15%.

Prepare Receipt and Payment Account and Income and Expenditure Account of the club for the year ended 31st December 2010

Receipt and Payment Account for the year ended 31st Dec 2010

Receipts	Amount	Payments	Amount
Balance B/d	2,000	Salary paid	11,000
Subscription	35,000	Sundry expenses	5,00
Locker rent	1,750	Entertainment expense	2,50
Donation for building fund	20,000	Furniture purchased(1/10/10)	7,500
Sale of news paper	2,00	Purchase of library books	7,50
Interest received	2,50	News paper	2,00
Donation	1,500	Traveling expense	3,00
		Balance C/d	40,200
	60,700		60,700

Income and expenditure account for the year ended 31st December 2010

Expenditure		Amount	Income		Amount
Salary	11000	10,500	Subscription	35000	35,250
Less prepaid	<u>500</u>		Add outstanding on 31/012/2010	<u>750</u>	
Sundry expense		500		35750	
Entertainment expense			Less outstanding on 1/01/2010	<u>500</u>	
Depreciation:			Locker rent	1750	
Furniture: $7500 \times 20 / 100 \times 3 / 12 =$	375		Less received in advance:	<u>250</u>	1,500
$5000 \times 20 / 100 =$	1000		Sale of news paper		200
Building: $12500 \times 10 / 100 =$	1250		Interest received		250
Sports equipment $5000 \times 15 / 100$	<u>750</u>	3,375	Donation $(1500 \times 2 / 3)$		1,000
News paper		200			
Traveling expense		300			
Surplus		23075			
		38,200			38,200

Q. The following is the Receipts and Payments Neelgiri club for the year ended 31.12.2020
Receipts and Payment account

Receipts		Amount	Payments		Amount
Balance B/d		1,600	Sports expenses		3,200
Entrance fee		2,000	Entertainment expenses		2,200
Donation for endowment fund		3,000	Furniture (1/7/2020)		3,000
Sale of Grass		4,000	Office expenses		4,000
Subscription:-			Library books		3,200
2019 - 300			Printing & stationary		600
2020 - 9100			Maintenance of ground		700
2021 - 400		9,800	Subscription to news paper		600
			Balance c/d		
			Cash		1,800
			Bank		1,100
		20,400			20,400

The club has 100 members each paying an annual subscription of ₹100. On 1.1 2020, Stock of stationery was for ₹75 and 31 12.20 stock is valued at ₹125 On 1.1.2020, furniture was valued at ₹5,000. Provide depreciation on furniture @ 20% pa

Prepare. Income and Expenditure A/c for the year ended 31.12.2007

Q. Subscription received by Anuragha sports club during 2008 amounted to ₹25,400, which included ₹2,500 received in arrears for the year 2007 and ₹4,200 received in advance for 2009. It is found that ₹4000 has not been received for the current year (2008) and that ₹2,400 was received in advance in 2007 as subscription for 2008. Calculate income from subscription for the year 2008.

Q. From the following particulars prepare income and expenditure account and balance sheet for the year ending 31/12/2014

Receipt and payments account

Receipts	Amount	Payments	Amount
Balance B/d	1,500	Rent	2,200
Subscription	12,500	Sports equipments	13,500
Entrance fee	300	stationary	800
Donation for building	17,000	investments	10,000
Bank Interest	200	miscellaneous exp	1,500
		balance c/d	3,500
	31,500		31,500

Additional information:-

Subscription includes Rs 800 for 2013 and Rs 500 for 2015. Subscription for 2014 still outstanding Rs 700.

Rent paid for 2013 was Rs 350.

Entrance fee is to be capitalized.

CHAPTER -2

ACCOUNTING FOR PARTNERSHIP –BASIC CONCEPTS

Definition (Indian Partnership Act 1932). “The relation between persons who have agreed to share the profits of the business carried on by all of any of them acting for all”.

Features

1. No. of members : Minimum 2(According to partnership Act, 1932)
Maximum 10 for banking business and 100 for any other Business (Companies Act, 2013)
2. Agreement : Compulsory, written/Oral written is not compulsory
3. Sharing of profit : In an agreed ratio or equally.
4. Management : Carried on by all or any one of them acting for all.
5. Purpose : To conduct a lawful business.

Partnership Deed/Articles of Partnership

Written agreement between Partners is called partnership deed.

Main Contents:-

1. Name of the firm
2. Names & Addresses of partners.
3. Capital contribution
4. Sharing of profit
5. Interest on drawings & interest on capital etc.

Rules in the absence of Partnership Deed

1. Sharing of profit -Equally
2. Interest on capital - No interest on Capital
3. Interest on drawings - No interest on drawings
4. Interest on loan - 6%p.a
5. Salary /Commission - No salary or Commission.

Profit And Loss Appropriation Account

- It is the extension of profit and loss account
- This account is credited with net profit as per Profit and Loss account and Interest on drawings.
- Debited with interest on capital ,salary, and commission to partners and net loss

Methods of Maintaining Capital Accounts of Partners

1. Fixed capital method
2. Fluctuating capital method

Difference between Fixed Capital Method & Fluctuating Capital Method

Fixed Capital Method	Fluctuating Capital Method
<ol style="list-style-type: none"> 1. Two accounts are prepared. ie capital account and current account 2. Balance in capital account remaining the same 	<ol style="list-style-type: none"> 1. Only one account is prepared, i.e. capital account 2. Balance in capital account fluctuates.

<p>3. All adjustments are made in the capital account itself</p> <p>4. Only capital account balance appears in the balance sheet.</p>	<p>3. All adjustments like interest on capital, Interest on drawings etc. are made in current account</p> <p>4. Both the capital and current account balance appears in the balance sheet.</p>
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Illustration:

On 1st January 2012 A and B Entered in to partnership by contributing ₹40000 and ₹30000 respectively. Their profit sharing ratio was 3:2. A is entitled a commission of ₹5000. Interest on capital is allowed @10%p.a and interest on drawings was charged @12%p.a. Their drawings during the year 2012 were A, ₹10000 and B ₹5000. The profit made by the firm during 2012 before making above adjustments were ₹24000.

Prepare:-

1. Profit And Loss Appropriation Account
2. Capital account of all partners under
 - a. Fixed capital method
 - b. Fluctuating capital method

Ans

Profit And Loss Appropriation Account

Particulars	Amount	Particulars	Amount
Interest on capital: A- 4000 B-3000	7,000	Profit and Loss A/c	24,000
B's Commission	5,000	Interest on Drawings:	
A's salary	3,000	A-1200	1,800
Capital A/c:		B-600	
A-(10800x3/5)6480			
B-(10800x2/5)4320	10,800		
	25,800		25,800

Fixed Capital Method

Capital Account

Particulars	A	B	Particulars	A	B
			Cash	40,000	30,000
Balance c/d	40,000	30,000			
	40,000	30,000		40,000	30,000

Current Account

Particulars	A	B	Particulars	A	B
Drawings	10,000	5,000	Interest on capital	4,000	3,000
Interest on drawings	1,200	600	Salaries	3,000	-
			Commission	-	5,000
			P&L Appropriation a/c (Share of profit)	6,480	4,320
Balance c/d	2,280	6,720			
	13,480	12,320		13,480	12,320

Fluctuating Capital Method

Capital Account

Particulars	A	B	Particulars	A	B
Drawings	10,000	5,000	Cash	40,000	30,000
Interest on drawings	1,200	600	Interest on capital	4,000	3,000
			Salaries	3,000	-
			Commission	-	5,000
			P&L Appropriation a/c (Share of profit)	6,480	4,320
Balance c/d	42,280	36,720			
	53,480	42,320		53,480	42,320

Calculation of interest on capital :

Case-1

Calculation of Interest on Capital-When there is no Addition or Withdrawal of capital

$$\text{Interest on capital} = \text{Opening capital} \times \text{Rate} \times \text{Period for which amount remained in business.}$$

Q. Amal and Bimal entered into partnership business on 01-01-2019 by bringing ₹300000 and ₹200000 respectively. They decided to share profit and losses equally and agreed that the interest on capital will be provided to the partners @ 10% per annum. There was no addition or withdrawal of capital by any partner during the year. Calculate interest on capital ?

Ans: Amal's Interest on capital = 3,00,000 x 10/100 = 30000

Bimal's Interest on capital = 2,00,000 x 10/100 = 20000

Case-2

Calculation of Interest on Capital-When there is additional capital introduced during the accounting year.

a) On opening capital interest for full year

b) On the additional capital interest from the date of contribution to the end of the period

Q. Anna and Maria are partners in a firm. Anna's capital account showed a balance of Rs.50,000 on 01-01-2019. During the year 2017 Anna introduced an additional capital of Rs.10,000 on 1st August 2019. The Interest on capital allowed @ 8% p.a. Accounts are closed on December 31st every year. Calculate interest on capital to be allowed to Anna during the year 2019?

Ans:

For Anna's opening capital, interest for full year, i.e. $50,000 \times 8\% = 4,000$

For Anna's additional capital, interest from the date of contribution (1-8-2019) to the end of the period (31-12-2019) 5 months, i.e. $10,000 \times 8\% \times 5/12 = 333$

Total Interest on capital of Anna = $4000 + 333 = 4333$

Case-3

Calculation of interest on capital – When there is withdrawal out of capital during the year

i. On opening capital interest is calculated for full year (1)

ii. On amount of capital withdrawn during the year, interest for the period from the date of withdrawal to the closing date and deduct it from the above (1)

Q. Sneha and Varsha are partners in a firm. Their capital accounts as on 1-04-2017 showed a balance of Rs.2,00,000 and Rs.3,00,000 respectively. On October 1st 2017, Sneha withdraw Rs.30,000 from her capital. Interest is allowed @8% p.a. Calculate interest on capital of Sneha for the financial year 2017-2018?

On opening capital for full year, i.e. $2,00,000 \times 8\% = 16,000$ (1)

Calculate interest on the amount of capital withdraw for the period from the date of withdraw to the closing date,

i.e. $30,000 \times 8\% \times 6/12 = 1200$ (2)

Interest on capital (1-2) = $16000 - 1200$

= 14,800

Case-4

Calculation of interest on capital – When there is both addition and withdrawal of capital by partners during the year

i. On opening capital interest is calculated for full year (1)

ii. On additional capital from the date of contribution to the end of the period (2)

iii. On the amount of capital withdrawn during the year interest for the period from the date of withdrawal to the closing day and deducted from the total of the interest calculated under point (1) and point (2).

Q. Tomy and George are partners in a firm. Their capital account balance as on 1-4-2017 showed a balance of Rs.5,00,000 and Rs.2,00,000 respectively. On June 1st, Tomy introduced additional capital of Rs.20,000. On November 1st Tomy withdraw Rs.30,000 from his capital. Interest on capital is allowed @10% p.a. Calculate interest on capital

Ans.

On opening capital (5,00,000) Interest on capital for whole year

i.e. $5,00,000 \times 10\% = 50,000$ (1)

On additional capital from the date of contribution (1-6-2017) to the closing date (31-3-2018)

i.e. $20,000 \times 10\% \times 10/12 = 1667$ (2)

On the amount of capital withdrawn for the period from the date of withdrawal (1-11-2017) to the closing day (31-3-2018) Hsslive.ini.e. $30,000 \times 10\% \times 5/12 = 1250$ (3)

Net interest on capital = (1) + (2) – (3)

i.e. $50,000 + 1667 - 1250 = 50417$

Calculation of opening capital when closing capital is given

Particulars	Amount	Amount
Closing capital		xxx
Add:		
Drawings	xxx	
Interest on drawings	xxx	
Share of loss (if any)	xxx	xxx
Less:		xxx
Partners salary Partners	xxx	
Commission	xxx	
Share of profit(if any)	xxx	xxx
Opening capital		xxx

Q. Anoop and Aslam started business on 1 Jan 2017 with capital of Rs 50000 and 40000 respectively. As per partnership deed Aslam is to receive a salary of Rs 500 per month. Interest on capital is to be allowed @ 10% per annum. The profits are to be shared in the ratio of 3:2. Drawings of Anoop and Aslam were 6000 and 4000 respectively. During the year firm made a profit of Rs 30000 before charging interest on capital and partners salary.

Prepare profit and loss appropriation account and partners capital account

Q. R and S started business on 1st January 2009 On first January 2012. R had a capital balance of 80,000 and S had 60,000 as capital. According to partnership deed interest on Capital and drawings are 12% and 10% respectively R and S are to get 2,000 and 3,000 as salary per month. The profits for the year ending 31st December, 2012 before making the above appropriations was 1,00,300. Drawings of R and S were 40,000 and 50000 respectively. interest on Drawings amounted to 2,000 for R and 2,500 for S.

Prepare Profit and loss Appropriation Account and Capital account assuming the Capitals are fluctuating profits are shared in the ratio of 4:3.

Chapter 3
RECONSTITUTION OF PARTNERSHIP
ADMISSION OF A PARTNER

Reconstitution of Partnership

Reconstitution of partnership means a change in the nature of relationship amongst the partners, effected through a fresh agreement but the existing business continues.

Modes of reconstitution of partnership

1. Admission of a partner
2. Change in the profit sharing ratio.
3. Retirement of a partner.

Admission of a new partner

Inclusion of a new person as partner to an existing firm is called admission of a partner. At the time admission the new partner will get the following rights

1. Right to share the assets of the firm.
2. Right to share the profit of the business.

Accounting adjustments at the time of admission

1. New profit sharing ratio.
2. Sacrificing ratio.
3. Treatment of goodwill.
4. Revaluation of assets and liabilities.
5. Treatment of accumulated profit or loss.
6. Adjustment of capital.

New profit sharing ratio

While admitting a new partner it is necessary to find out the new profit sharing ratio as the incoming partner acquires his share of profit from the old partners. The new ratio is determined by considering how the new partner acquires his share of profit from the old partners.

If the partnership deed is silent regarding this matter, the new partner acquires his share in profits from the old partners in the old ratio, and the old partners continue to share the remaining profits in the old ratio.

Sacrificing ratio

Sacrificing ratio is the ratio in which the old partners have agreed to sacrifice their share of profits in favour of the new partner.

$$\text{Sacrificing Ratio} = \text{Old Ratio} - \text{New Ratio}$$

$$\therefore \text{Sacrificing Share} = \text{Old Share} - \text{New Share}$$

Example:

Beena and Neena are partners sharing profits in the ratio 3:2. They admit Seena for a sixth share. Calculate the New profit sharing ratio and Sacrificing ratio.

Old ratio of Beena and Neena 3:2 ie (3/5, 2/5)

Seena's Share = 1/6

Remaining share = $1 - \frac{1}{6} = \frac{5}{6}$

Beena's New share = old share \times remaining share
 $= \frac{3}{5} \times \frac{5}{6} = \frac{15}{30} = \frac{1}{2}$

Neena's New share = $\frac{2}{5} \times \frac{5}{6} = \frac{10}{30} = \frac{1}{3}$

New Share = 1/2, 1/3, 1/6

New Ratio=3/6:2/6:1/6=3:2:1(3/6,2/6,1/6)

Sacrificing Ratio=Old Share-New Share

Beena's Sacrifice=3/5-3/6=18-15/30=3/30

Neena's Sacrifice=2/5-2/6=12-10/30=2/30

Sacrificing Ratio=3/30:2/30=3:2

Exercise:

1.P and Q are partners sharing profits and losses in the ratio 3:2.They admit R for 1/4 th share in future profits. Calculate the New ratio and Sacrificing ratio.

Answer:

New ratio-9:6:5

Sacrificing ratio-3:2

2.R and S are partners sharing profits and losses in the ratio of 4:3.They admit T for 2/7 share which he acquires equally from R and S. Calculate the New ratio and Sacrificing ratio.

Answer:

New ratio-3:2:2

Sacrificing ratio-1:1

Goodwill

Goodwill is the value of reputation of a firm in respect of the profits expected in future over and above the normal profits. In accounting, the monetary value of the advantage of good name, reputation and wide business connections which help the business to earn more profits is known as Goodwill.

Factors affecting Goodwill

- 1.Location of Business
2. Nature of Business
3. Efficiency of Management
4. Time Factor
5. Market Situation
6. Special Advantages

Methods of valuation of goodwill

1. Average Profit Method.

Under this method, the goodwill is valued at an agreed number of 'years' purchase of the average profits of the past a few years. It is based on the assumption that a new business will not be able to earn any profits during the first few years of its operations.

Example:

From the following information compute the value of goodwill at 3 years purchase of 5 years average profits.

Year	2010	2011	2012	2013	2014
Profit	20000	21000	23000	25000	29000

Solution:

$$\begin{aligned} \text{Average Profit} &= \frac{\text{Total Profit}}{\text{Number of Years}} \\ &= \frac{20000+21000+23000+25000+29000}{5} = \frac{118000}{5} = 23600 \\ \text{Goodwill} &= 3 \text{ Years Purchase of 5 Years average profit} \\ &= 3 \times 23600 = ₹70800. \end{aligned}$$

Exercise:

1. The profit for the five years of a firm are as follows – year 2013 Rs 4,00,000; year 2014 Rs.3,98,000; year 2015 Rs. 4,50,000; year 2016 Rs. 4,45,000 and year 2017 Rs. 5,00,000. Calculate goodwill of the firm on the basis of 4 years purchase of 5 years average profits.

Answer: ₹17,54,400.

Treatment of Goodwill

At the time of admission of a new partner, he gets his share of profit from the existing partners, for which he has to compensate them. For this he has to bring in his share of goodwill (premium) in cash. The goodwill thus brought in by the new partner is shared by the old partners in their sacrificing ratio.

When the new partner brings Goodwill in Cash the following journal entry is passed.

Cash Account Dr
 To Old Partners' Capital Account

(Cash brought in for goodwill by the new partner credited to old partners in their sacrificing ratio)

Adjustment For Accumulated Profit or Loss

At the time of change in profit sharing ratio, some undistributed profits and reserves may stand in the books. It should be shared among the partners in their old profit sharing ratio before reconstitution takes place. This is to be done even if the question is silent in this regard.

Journal Entry:

1. Undistributed profits or Reserves.

Profit and Loss Account Dr
Reserves Account Dr
 To Old Partners' Capital Account

2. Undistributed Losses.

Old Partners' Capital Account Dr
 To Profit and Loss Account

Revaluation of Assets and reassessment of Liabilities.

At the time of admission of a Partner it is better to ascertain that whether the assets and liabilities of the firm are shown at their correct value. If they are overstated or understated, they must be revalued and any profit or loss should be adjusted to the old partners in their old ratio. For this purpose a Revaluation Account or Profit and Loss Adjustment Account is prepared. It is a Nominal Account.

Journal Entries:-

a. Increase in the value of asset

Asset Account Dr
 To Revaluation Account

b. Decrease in the value of asset

Revaluation Account Dr
 To Asset Account

c. Increase in the value of liability

Revaluation account Dr
 To Liability Account

d. Decrease in the value of liability-

Liability Account Dr
 To Revaluation Account

e. Unrecorded Asset

Asset Account Dr
To Revaluation Account

f. Unrecorded Liability

Revaluation Account Dr
To Unrecorded Liability Account

g. Transfer of revaluation profit

Revaluation account Dr
To Old Partners' Capital (individually) account

i. Transfer of revaluation loss

Old Partners' capital account Dr
To Revaluation account.

Example 1

Ramu and Gopi are partners in a firm sharing profits and losses equally. Their Balance sheet as on 31 st December 2014 was as follows:

**Balance Sheet
As On 31st December 2014**

Liabilities		Amount	Assets		Amount
Bills payable		3,000	Cash in hand		3,000
Sunday creditors		30,000	Sundry debtors		20,000
Capitals:			Stock		40,000
Ramu	30,000		Furniture		5,000
Gopi	20,000	50,000	Plant and machinery		15,000
		83,000			83,000

Ravi is admitted as a partner on the date of the Balance Sheet on the following terms

1. Ravi will bring in ₹ 40,000 as his capital
2. Plant and Machinery should be increased by ₹ 50,000 and furniture be appreciated by 20%
3. Stock should be reduced by ₹ 3,000.
4. A provision for bad and doubtful debts is to be created at 5% on debtors.
5. Creditors be reduced by ₹ 1,000 as it is unlikely to be claimed.
 - a. Pass necessary journal entries,
 - b. Prepare the Revaluation Account
 - c. Partners' Capital Accounts
 - d. Balance Sheet after the admission of Ravi.

Solution**Journal**

Date	Particulars	Lf	Dr. ₹	Cr. ₹
	Cash a/c Ravi's capital a/c (Cash brought in by Ravi for capital)	Dr	40,000	40,000
	Plant and machinery a/c Furniture a/c Revaluation a/c (Increase in the value of assets)	Dr Dr	5,000 1,000	6,000
	Revaluation a/c Stock a/c Provision for doubtful debts a/c (Decrease in the value of assets)	Dr	4,000	3,000 1,000
	Creditors a/c Revaluation a/c (Creditors being reduced)	Dr	1,000	1,000
	Revaluation a/c Ramu's capital a/c Gopi's capital a/c (Profit on revaluation transferred to partners' capital a/c)		3,000	1,500 1,500

Dr Revaluation Account Cr.

Particulars	Amount	Particulars	Amount
Stock	3,000	Plant and machinery	5,000
Prov. for doubtful debts	1,000	Furniture	1,000
		Creditor	1,000
Ramu's capital	1,500		
Gopi's capital	1,500		
	7,000		7,000

Dr Capital Accounts Cr.

Particulars	Ramu	Gopi	Ravi	Particulars	Ramu	Gopi	Ravi
Balance .c/d	31,500	21,500	40,000	Balance. b/d	30,000	20,000	-
				Revaluation	1,500	1,500	-
				Cash (Capital)	-	-	40,000
	31,500	21,500	40,000		31,500	21,500	40,000

Balance Sheet as on 1st January, 2015.

Liabilities		Amount	Assets		Amount
Bills payable		3,000	Cash in hand (3,000+40,00)		43,000
Sundry Creditors	30,000		Sundry Debtors	20,000	
Less: Not Payable	<u>1,000</u>	29,000	Less: Prov. for doubtful debts	<u>1,000</u>	19,000
Capitals:			Stock	40,000	
Ramu	31,500		Less: Decrease	<u>3,000</u>	37,000
Gopi	21,500		Furniture	5,000	
Ravi	<u>40,000</u>	93,000	Add: Increase	<u>1,000</u>	6,000
			Plant and machinery	<u>15,000</u>	
			Add: Increase	<u>5,000</u>	20,000
		<u>1,25,000</u>			<u>1,25,000</u>

Example 2

The following is the Balance sheet of Dhanya and Ramya sharing profits and losses in the ratio 3:2 as on 31st December 2014.

Liabilities		Amount	Assets		Amount
Creditors		74,000	Cash at Bank		4,00
Reserve		20,000	Debtors		30,000
Capital:			Stock		45,000
Dhanya	60,000		Machinery		30,000
Ramya	40,000	1,00,000	Building		80,000
		<u>1,94,000</u>	Profit & Loss A/c		5,000
					<u>1,94,000</u>

On this date they admit Vanya as a Partner on the following terms:

1. Vanya should bring in ₹50,000 as capital for a sixth share in future profit.
2. Building should be revalued at ₹1,20,000 and machinery at 20% less than the book Value
3. A provision of 5% be made for bad and doubtful debts.
4. A liability of ₹2,500 on repair bill outstanding be recorded in the books.

Pass necessary journal entries, prepare revaluation account, capital account and Balance Sheet after admission of Vanya.

Solution

Journal entries

Date	Particulars	LF	₹ (Debit)	₹ (Credit)
	Cash a/c Vanya's capital a/c (Amount brought in for capital)	Dr	50,000	50,000
	Building a/c Revaluation A/c (Appreciation in the value of buildings)	Dr	40,000	40,000

Revaluation a/c Machinery a/c Provision for doubtful debts a/c (Decrease in the value of assets)	Dr	7,500	6,000 1,500
Revaluation a/c Repair bill outstanding a/c (The unrecorded liability brought into books)	Dr	2,500	2,500
Revaluation a/c Dhanya's capital a/c Remya's capital a/c (Revaluation profit transferred to old partners capital a/c)	Dr	30,000	18,000 12,000
Reserve a/c Dhanya's capital a/c Remya's capital a/c (Reserve credited to old partners)		20,000	12,000 8,000
Dhanya's capital a/c Remya's capital a/c Profit and Loss a/c (Accumulated loss debited to old partners' capitals)		3,000 2,000	5,000

Dr.		Realisation Account		Cr.	
Particulars	₹	Particulars	₹		
Machinery	6,000	Buildings	40,000		
Provision for bad debts	1,500				
Repair bill outstanding	2,500				
Danya's capital					
Remya's capital					
	18,000				
	12,000				
	30,000				
	40,000				40,000

Dr.		Capital Account				Cr.	
Particulars	Dhanya	Remya	Vanya	Particulars	Dhanya	Remya	Vanya
P&L a/c	3,000	2,000		Balance. b/d	60,000	40,000	-
Balance. c/d	87,000	58,000	50,000	Revaluation	18,000	12,000	-
				Reserve	12,000	8,000	-
				Cash (Capital)	-	-	50,000
	90,000	60,000	50,000		90,000	60,000	50,000

Balance Sheet as on 1st January, 2015.

Liabilities	Amount	Assets	Amount
Creditors	74,000	Cash & Bank (4000+50000)	54,000
Repair bill outstanding	2,500	Debtors	30,000
Capitals:		Less provision	<u>1,500</u>
Danya	87,000	Stock	45,000
Ramya	58,000	Machinery	24,000
Vanya	<u>50,000</u>	Buildings	1,20,000
	195,000		
	<u>2,71,500</u>		<u>2,71,500</u>

Exercise 1

X and Y were in partnership, sharing profits and losses in the ratio 3:2 respectively. Their Balance Sheet on 31st march, 2014 was as follow:

Liabilities	₹	Assets	₹
Creditors	12,535	Cash in hand	710
Profit and loss A/c	4,000	Sundry	17,425
Capitals:		Stock	18,000
X	32,000	Furniture	4,400
Y	<u>32,000</u>	Buildings	40,000
	80,535		
			<u>80,535</u>

Z is admitted to the business for a sixth share in future profits on the following terms:

1. Z is to bring in ₹ 35,000 as his capital and ₹ 10,000 for goodwill.
2. Stock to be reduced by 10% and furniture by 20%.
3. Sundry debtors be provided ₹ 425 For doubtful debts
4. Building to be valued at ₹ 42,000

Pass journal entries, prepare ledger accounts and the Balance sheet of the firm immediately after Z's admission.

Ans Revaluation loss ₹1105, Capital X 39737 Y 37158, B.S Total ₹124430

Chapter 4

RECONSTITUTION OF PARTNERSHIP RETIREMENT AND DEATH OF A PARTNER

Withdrawal of a partner from the partnership with the consent of other partners or as per the provisions of partnership deed or by giving notice of retirement is termed as retirement.

Accounting aspects on Retirement.

1. Change in Profit sharing ratio.
2. Calculation of gaining ratio.
3. Adjustment regarding goodwill.
4. Adjustment of reserves and accumulated profits/losses.
5. Revaluation of assets and liabilities.
6. Ascertainment of profit or loss up to the date of retirement.
7. Calculation of total amount due to the retiring partner.
8. Settlement of total amount due to the retiring partner.
9. Adjustment of capitals of continuing partner.

Change in Profit Sharing Ratio

While retiring a partner the profit sharing ratio of the existing partners may be revised. The share of outgoing partner is often acquired by the existing partners in their profit sharing ratio itself, unless otherwise agreed upon ie; the profit sharing ratio among the remaining partners will not change.

For example P,Q & R share profits in the ratio of 3 : 2 : 1 and B retires, the ratio between P and Q will be 3 : 1, whereas if they decide to be equal partners, the new ratio will be 1 : 1.

Gaining Ratio

The ratio in which the continuing partners share the profit of outgoing partner is called gaining ratio.

$$\text{Gaining Ratio} = \text{New ratio} - \text{Old ratio}$$

$$\therefore \text{Gaining share} = \text{New share} - \text{Old share}$$

Revaluation of Assets and Liabilities

Assets and Liabilities are to be revalued at the time of retirement as in the case of admission of a partner. It is to be done, in order to find out the appropriate share of retiring partner in the firm. It can be done through a revaluation account or profit and loss adjustment account and the profit or loss on revaluation is transferred to all the partner's capital accounts in their old ratio.

The journal entries are same as in the case of admission of a Partner. Adjustment of Accumulated Profits / Losses General reserve, profit and loss account credit balance and unused reserves like workmen's compensation fund (in liability side) should be transferred to all partner's capital accounts in their old ratio.

Accounting treatment:

General Reserve A/c Dr

Workmen's compensation fund A/c Dr

Profit and Loss A/c Dr

To Partners' capital account (individually)

In case of accumulated loss (debit balance in P/L account) appearing on the assets side;

Partner's Capital A/c Dr

To Profit and Loss A/c

Disposal of amount due to the retiring partner

1. Lump Sum Payment:

The total amount due to the retiring partner shown by his capital account may be paid in full at the time of retirement, the entry will be:

Retiring partner's capital account Dr
To Cash / Bank

2. Payment in Installments:

If the firm is not in a position to pay off the entire amount in lumpsum, the amount due to him is transferred to his loan account and it will be paid in installments along with the interest as per the agreement.

Retiring partner's capital a/c Dr
To Retiring partner's loan account.

Ascertaining the Amount Due to Retiring/ Deceased Partner

In order to get the total amount due to the retiring partner, his capital account is prepared. The capital account is started with the balance on it on the date of last Balance Sheet and Credited with the following:

1. His share of Goodwill
2. His share of revaluation profit
3. His share of undistributed profit and reserves.
4. His share of profit up to the date of retirement or death
5. Interest or salary or commission due to him

The Capital account is credited with:

1. His share of undistributed losses.
2. His share of undistributed losses
3. His drawings during the period
4. Interest on his drawings.
5. His share of loss till the date of retirement or death.

Example 1

Mr. Raheem died on 1st March 2011 who was an active partner in the firm. The other partners were Mujeeb and Shereef. The Books of account reveal the following:

	₹
General Reserve	12,000
Capital of Raheem	40,000
P & L A/c (Dr)	18,000
Drawing of Raheem	10,000
Raheem's loan to firm	20,000
Interest on loan due to Raheem	2,000
Value of goodwill	24,000

They share profit and losses equally.

Calculate the amount due to Raheem's legal heirs.

Calculation of total amount due to Mr. Raheem

Opening Capital balance		40,000
Add: Share of reserve (12,000x1/3)	4,000	
Raheem's loan to firm	20,000	
Interest on loan due to Raheem	2,000	
Share of goodwill (24,000x1/3)	8,000	34,000
		74,000
Less: Share of undistributed loss (18,000x1/3)	6,000	
Drawing of Raheem	10,000	16,000
Amount due to Raheem		58,000

Exercise 1

Meriland furniture is a partnership organization run by three partners N,M&P for a Profit of 1/6, 2/6, 3/6. on 31-December 2018 - P is decided to retire from the firm due to unhealthy condition.

The following are the amount entitle to the retiring Partner.

Partner's Capital as on 1st January 2018 ₹3,00,000, total value of firm's goodwill ₹1,20,000, total profit on revaluation ₹60,000. General reserve ₹35,000 as on 31 December - 2018 and profit and loss (debit balance) on the same day ₹75,000. Profit during the current year ₹15,000, Interest on capital ₹3,000, He is entitled a salary of ₹5,000 p.m. Interest of drawing ₹7,000, Drawings ₹40,000.

Calculate the net amount due to the retiring partner.

Ans:- ₹3,67,667

Example 2

Rena, Seena and Teena are partners in a firm. Seena retires from the firm. On her date of retirement ₹40,000 is due to her. The remaining partners agreed to repay the amount in 4 equal instalments at the end of every year together with 12% interest per annum. Prepare Seena's loan account.

Seena's Loan A/c

<i>Particulars</i>	<i>Amount</i>	<i>Particulars</i>	<i>Amount</i>
To Cash	14,800	By Seena's capital	40,000
Balance c/d	30,000	Interest	4,800
	44,000		44,800
Cash	13,000	Balance b/d	30,000
Balance c/d	20,000	Interest	3,600
	33,600		33,600
Cash	12,400	Balance b/d	20,000
Balance c/d	10,000	Interest	2,400
	22,400		22,400
Cash	11,200	Balance b/d	10,000
	11,200	Interest	1,200
			11,200

Exercise 2

A,B,&C are partners sharing profits & losses in 2:3:5 respectively. A retires from the firm on 1st January 2015 when capital account shows a net credit balance of ₹25,000 after the necessary adjustments. A is to be paid ₹10,000 in cash immediately on retirement and the balance in three equal instalment together with interest @ 10% p.a on diminishing balance. Show A's capital and loan account.

Chapter – 5
DISSOLUTION OF PARTNERSHIP FIRM

The term dissolution means breaking up. In a partnership organization, there can be two types of dissolutions. They are (1) Dissolution of partnership (2) Dissolution of firm.

1. Dissolution of Partnership:

Dissolution of partnership means the termination of the original partnership agreement among the partners.

2. Dissolution of Firm:

When the relation between all the partners of the firm comes to an end, this is called dissolution of the firm.

Dissolution of a firm takes place in the following ways

1. Dissolution by Agreement
2. Compulsory Dissolution
3. Dissolution by Notice
4. Dissolution by Court
5. Dissolution on the happening of Contingencies

Differences between Dissolution of a Partnership and Dissolution of Firm

Dissolution of Partnership	Dissolution of Firm
<ol style="list-style-type: none"> 1. Business is not terminated 2. Assets and Liabilities are revalued 3. No need to close of account 4. There is no Intervention by the court 5. Revaluation account is prepared 	<ol style="list-style-type: none"> 1. Business is terminated 2. Assets are realised and Liabilities are Paid off 3. All books of accounts are closed 4. Court has power to intervene 5. Realisation account is prepared

Accounting Treatment:

When a firm is dissolved, the books of accounts are to be closed. For this purpose the following account are prepared.

Realisation Account:

It is a nominal account prepared to close the accounts of assets and liabilities and to find out the profit or loss on realisation of assets and payment of liabilities. All assets excluding cash, bank and fictitious assets are transferred to the debit side and all external liabilities are transferred to the credit side of realisation account.

Journal entries require to close realisation account:

1. For transfer of assets (Excluding Cash, Bank and fictitious assets)

Realisation a/c	Dr
Assets (Individually) a/c	

2. For transfer of Liabilities (All external Liabilities)

Liabilities a/c	Dr
Realisation a/c	

3. For Sale of assets:

Bank a/c	Dr
----------	----

- Realisation a/c
4. For an assets taken over by a partner
 Partner's Capital a/c Dr
 Realisation a/c
5. For payment of liabilities
 Realisation a/c Dr
 Bank a/c
6. If a partner agrees to discharge a Liability
 Realisation a/c Dr
 Partner's Capital a/c
7. For realisation expenses
 Realisation a/c Dr
 Bank a/c
8. For realisation expenses met by any partner
 Realisation a/c Dr
 Partner's Capital a/c
9. For realisation of any unrecorded assets
 Bank a/c Dr
 Realisation a/c
10. For settlement of any unrecorded liability
 Realisation a/c Dr
 Bank a/c
11. For Realisation profit
 Realisation a/c Dr
 Partner's Capital a/c
12. For Realisation loss
 Partner's Capital a/c Dr
 Realisation a/c

Illustration 1

Ravi and Rani are partners in a firm. They share profit and losses are equally. The Balance Sheet as on 31-12-2018 was as follow:

Liabilities	₹	Assets	₹
Sundry Creditors	20,000	Cash in hand	15,000
Capital:		Sundry Debtors	20,000
Ravi - 28,000		Stock	18,000
Rani - 25,000		Furniture	20,000
	53,000		
	73,000		73,000

The firm was dissolved on 31.12.2018, as a result

a. Debtors realised	₹ 17,000
b. Stock realised	₹ 15,500
c. Furniture realised	₹ 25,000
d. Creditors paid (in full settlement)	₹18,000
e. Realisation expenses paid	₹ 1,000

Record Journal entries prepare realisation account

Solution

Journal entries

Date	Particulars	LF	₹ (Debit)	₹ (Credit)
	Realisation a/c Dr Sundry debtors a/c Stock a/c Furniture a/c (Assets transferred to realisation account)		58,000	20,000 18,000 20,000
	Creditors A/c Dr Realization A/c (creditors transferred to realization accounts)		20,000	20,000
	Bank A/c Dr Realization A/c (Assets realized)		57,500	57,500
	Realization A/c Dr Bank A/c (creditors paid off)		18,000	18,000
	Realization a/c Dr Bank A/c (Realization Expenses)		1000	1000
	Realization A/c Dr Ravi's capital A/c (500x1/2) Rani's capitals A/c (500x1/2) (Realisation Profit Transferred to capital account)		500	250 250

Dr		Realization Account		Cr	
Particulars	₹	Particulars	₹		
Sundry Debtors	20,000	Creditors	20,000		
Stock	18,000	Bank (17,00+15,500+25,000)	57,500		
Furniture	20,000				
Bank (Creditors)	18,000				
Bank (Realization expenses)	1000				
Capital :					
Ravi - 250					
Rani - 250					
	500				
	77,500				77,500

Illustration 2

Rakesh, Sharma and Raji are Partners of firm. Sharma sharing Profit and Losses in the ratio of 4:3:2. Following is the balance sheet of the firm as at 31-12-2017

Balance Sheet as at 31-12-2017

Liability	₹	Assets	₹
Bills Payable	90,000	Stock	3,00,000
Sundry Creditors	3,20,000	Sundry	5,00,000
Capitals:		Cash in Hand	10,000
Rakesh - 4,00,000		Building	5,00,000
Sharma - 3,00,000			
Rajive - 2,00,000	9,00,000		
	13,10,000		13,10,000

Partner of the firm decided to dissolve the firm on the above said date :

- Building realized ` 5,20,000 and Sundry debtors ` 4,40,000
- Stock was valued at ` 2,50,000 and it was takenover by a partner Sharma
- Creditors were allowed discount of 5%
- Realization expenses amounted to ` 6,000

Record journal entries, Prepare realization account

Journal

Date	Particulars	LF	₹ (Debit)	₹ (Credit)
	Realisation A/c		13,00,000	
	Building A/c			5,00,000
	Stock A/c			3,00,000
	Sundry Debtors			5,00,000
	(Assets transferred to realization a/c)			
	Bills Payble A/c		90,000	
	Sundry Creditors A/c		3,20,00	
	Realization a/c			4,10,00
	(Liabilities transferred to realization account)			

Bank A/c Realization A/c (assets realized)	9,60,000	9,60,000
Realisation a/c Bank A/c (Creditor paid off)	3,04,000	3,04,000
Sharma's capital A/c Realisation A/c (Assets takom by sharma)	2,50,000	2,50,000
Realization A/c Bank a/c (Realization expenses)	6,000	6,000
Realisatim a/c Rakesh's capital a/c Sharmas's capitals a/c Raju's capital a/c (Realistasation Profit Transferred to capital a/c)	10,000	4445 3333 2222

Realisation Account

Particulars	₹	Particulars	₹
Building a/c	5,00,000	Bills payble a/c	90,000
Stock a/c	3,00,000	Sundry creditors a/c	3,20,000
Sundry debtor a/c	5,00,000	Bank (5,20,00+4,40,000)	9,60,000
Bank a/c	3,04,000	Sharma's capital a/c	2,50,000
Bank a/c (realization expenses)	6,000		
Capitals :			
Rakesh	4445		
Sharma	3333		
Rajive	2222		
	10,000		
	16,20,000		16,20,000

Question 1

1. Anup and Anvar are equal partner in a firm. They decided to dissolve the partnership an 31-12-2017, when the balance sheet is as under :

Balance sheet as on 31-12-2017

Liability	₹	Assets	₹
Creditors	27,000	Cash at bank	11,000
Reserve fund	10,000	Debtors	12,000
Loan	40,000	Plant	47,000
Capital:		Stock	42,000
Anup - 60,000		Lease hold premises	60,000
Anvar - 60,00		Furniture	25,000
	1,20,000		
	1,97,000		1,97,000

The assets were realised as follow :

Lease hold premises	- 72,000
Furniture	- 22,500
Stock	- 40,500
Plant	- 48,000
Debtors	- 1,05,000

The creditors were paid Rs 25,500 in full settlement. Expenses of realization amount to ₹2500.

Prepare Realization account

(an: Realization profit ₹46,500)

Question 2

On 31st Dec. 2014 partnership firm of X, Y and Z is dissolved. They had fixed assets 2,00,000, stock in trade 40,000, sundry debtors 60,000, cash and bank balance 20,000 They had liabilities on bills payable 15,000 and sundry creditors 40,000. On dissolution fixed assets realised 2,30,000, stock trade realised 35,000 and sundry debtors 54,000 Creditors are paid 36,000 and bills payable is settled at 14,000.

They had provision for ba debts 3,000 at the time of dissolution. Realisation expence amounted to 3,000. Prepare relevent account to find out the profit on realisation .

Ans. Realisation profit 24,000

Question 3

Jain and Sajin are partners sharing profits and loss equally. They have capitals Rs 60,000 and Rs 40,000 respectively. They have general reserve 10,000 and creditors 30,000. Cash balance amounted to 15,000 and sundry assets 1,25,000.

They decide to dissolve the firm. Sundry assets Realisation cost amounted to 2,000, realised 1,40,000 and paid 25,000 to creditors.

Prepare realisation account

Ans. Realisation profit 18,000;

Part III
COMPUTERISED ACCOUNTING

No.	Name of unit and Focus Areas	Pages
1.	Overview of Computerised accounting system Features of CAS Components of CAS Grouping of Accounts Merits and Demerits of CAS	1 - 3
2.	Spread Sheet Features of LibreOffice Calc Components of LibreOffice Calc Spread Sheet Operations Cell references Function (Date and Time, Statistical, Logical and Mathematical)	4 - 6
3.	Use of spreadsheet in Business Application Payroll Accounting Asset Accounting	7
4.	Graphs and Charts for Business Data Column chart, Bar chart, Pie Chart, Doughnut Chart) Advantages of Graphs and Charts	8
5.	Accounting Software Package - GNUKhata Creation of organisation Leader Creation Voucher entry	9 - 10
6.	Database Management System Components of DBMS Preparation of Table in design view	11 - 12

Chapter 1

OVERVIEW OF COMPUTERISED ACCOUNTING SYSTEM

A computerized Accounting System refers to the process of accounting with the help of Computers and Accounting software. It receives the transactions as its inputs and processes it as per the Accounting Rules and generates various reports like Journals, Ledger, Trail Balance, Profit and Loss A/c and Balance sheet.

Data and Information

Data is raw, unorganized facts that need to be processed. It can be something simple and useless until it is organized. **Information** When data is processed, organized, structured, or presented in a given context so as to make it useful, it is called information.

Components of Computerized Accounting System

1. Procedure : A logical sequence of actions to perform a task
2. Data : The raw fact for any business operation
3. People : Users
4. Hardware : The physical components of a computer
5. Software : A set of programs to do a work

Advantages of CAS

1. Timely generation of reports and information in desired format
2. Alterations and additions in transactions are easy
3. Ensure effective control over the system
4. Economy in processing of accounting data
5. Confidentiality of data is maintained

Demerits/ Disadvantages of computerized accounting system

1. Costly: Computerised accounting system software is expensive.
2. Lack of reliability: Computer viruses and hackers may destroy all data stored in the computer system.
3. Human Error: Speedy recording of data in accounting software may result serious errors.
4. Lack of knowledge: Lack of experienced staff. Proper training to staff is compulsory.
5. Chances of data loss due to various reasons.

Grouping of accounts

The process of arranging accounts of similar nature at one place is called grouping of accounts. In CAS grouping of accounts is based on Accounting Equation.

Accounting Equation $Assets = Liabilities + Capital$

ASSETS

Fixed Assets

- Land and Building
- Plant and Machinery
- Furniture and Fittings
- Vehicles

- Others

Current Assets

- Cash
- Bank
- Debtors
- Stock
- Bills Receivables
- Loans and Advances (Assets)

LIABILITIES

Long term Liabilities

- Debentures
- Loans from Financial Institutions

Short term Liabilities

- Short term Loans
- Creditors
- Bills Payable
- Provisions

CAPITAL

Share Capital

Reserves and Surplus

- Capital reserve
- General Reserve
- Balance of Profit and Loss Account

Income (Revenue)

- Sales
- Other Income

Expenses

- Raw materials consumed
- Manufacturing Expenses
- Wages
- Salaries
- Depreciation

Codification of Accounts

Giving a numerical number or alphabet or both to a particular account for identification is known as Codification of Accounts.

Types of Codes

1. Sequential codes:-

This code is sequential when each succeeding code is one number greater than the preceding code.

This code is primarily applied to source documents such as invoices, cheques..etc.

Codes	Accounts
AB001	Suriya Traders
AB002	XY Traders
AB003	Zemo Traders

2. Block Codes:-

In block codes, a range of numbers is portioned into a desired number of sub ranges and each sub range is allotted to specific group.

Codes	Accounts Group
001-100	Direct Expense
101-300	Indirect Expense
301-500	Assets

3. Mnemonic Codes:-

A mnemonic code consists of alphabets or abbreviations as symbols to codify an Account. These are user friendly.

Eg. Salary account can be coded as 'SLR', Building Account can be coded as 'BLD' and places like Calicut as 'CLT' Trivandrum as 'TVM' and so on.

Chapter 2 SPREAD SHEET

Spreadsheet is a large sheet comprising several rows and columns for data manipulation. It is used to record, calculate and compare numerical or financial data

Eg:- LibreOffice Calc, MS Excel, Lotus 123 etc.

LibreOffice Calc

It is a spread sheet which is used to calculate, analyse and manage data

Features of libreOffice Calc

- Easy Calculations
- Arranging Data
- Dynamic Charts
- Database functions

Components of Spreadsheet (LibreOffice Calc)

Row:- The horizontal grid in a worksheet is called row. In LibreOffice Calc there are 1048576 rows

Column:- The vertical grid in a worksheet is calumn. In LibreOffice Calc there are 1024 COLUMNS

Cell:- The intersection of a row and a column is called a cell

Range:- A range is a group of adjacent cells in a worksheet

Cell address:- Cell address is used to identify a cell

Naming a Range: Naming a range means a reference name to a specific range

Spread Sheet Operation

1. Open work book - Open a new work book by choosing 'New' spreadsheet option from the file menu
2. Save a worksheet - Click 'Save As' option from the file menu enables you to save a workbook with a suitable name
3. Close work book - Click 'Close' option from the file menu to close your work book
4. Insert a new work sheet - Right click on the sheet tab to insert a new work sheet
5. To delete a worksheet - Click on the work sheet tab which you want to delete - Right click - Delete sheet - ok
6. To rename a worksheet - Click on the name of the work sheet tab you want to rename - Right click - Enter the new name - ok
7. Quit LibreOffice Calc - Use Exit LibreOffice' option from the file menu

Types of Data

In the cell of a worksheet three types of data are entered. They are

- Value - It is a number that you enter in a cell
eg:- +,=(), decimal point (.) etc.
- Label - The text data is called label
eg:- Name, sex, Designation etc.

Formula - Mathematical expression that produce a new value from the Values
eg:-SUM(A2:A4)

Components of a Formula:

A standard formula may have three components

1. Mathematical Operators
2. Cell Reference
3. Functions

1. Mathematical Operators - Mathematical Operators are like +, -, %, *, =, >, <, etc.

2. Cell References - The cell address used in a formula is called cell reference. There are three types of cell reference

- a. Relative reference - when a formula is copied from one cell to another cell and its reference changes it is called relative cell reference
- b. Absolute cell reference - Situations arise in which the cell reference must remain the same when copied. Dollar signs are used to hold a column and or row reference constant
- c. Mixed reference - It is partly absolute and partly relative reference

3. Functions - Predefined formulas in spreadsheet to perform some specific calculations. Functions are

A. Date and Time Function: To manipulate date and time. They are

- * Today () - To shows today's date
- * Now () - To shows the current date with time
- * Day (Serial Number) - To shows the day of the date
- * Month () - To shows the serial number of the date
- * Year () - To shows the serial number of the year from the date value given in the bracket.
- * DATEVALUE () - This function converts the given date that is stored as text to a serial number that LibreOffice Calc recognises as a date.

B. Statistical Function: It helps to report generation. statistical functions are

- * AVERAGE () - To Find out average value in a range of cells
- * MINIMUM/ MINU () - To find out lowest values in a range of cells
- * MAXIMUM/ MAX () - To find out the highest values in a range of cells.
- * COUNT () - To find out the number of cells that contains numeric values in a range of cells
- * COUNTA () - To Find out the number of cells that contains any type of data
- * COUNTBLANK () - To Find out the number of empty cells in a given range
- * COUNTIF () - To Find out the number of cells in a range that meet given criteria

C. Logical Function: It helps to compare more than one condition and outcome. Logical function are

* IF - To test a condition, whether it is TRUE or FALSE

Syntax = IF (A1<30, "Passed", "Failed")

* NESTED IF = To evaluate different conditions.

Syntax = IF (Test 1, Then value 1, If (Test 2, Then value 2))

* AND - To check more than one condition and if any argument is FALSE, returns FALSE.

Syntax = AND (Logical value 1, Logical value 2.....)

* OR- Returns TRUE, if at least one argument is TRUE, returns FALSE if all arguments are FALSE
Syntax = OR (Logical value 1, Logical value 2....)

D. MATHEMATICAL FUNCTIONS: It includes

* SUM () - Used to add the values contained in a range cells

Syntax = SUM (Range 1, Range 2)

* SUMIF () - Used to add the Values contained in a range cells on specific condition

Syntax = SUM IF (Range, "criteria", sum range)

* ROUND () - Used to round a supplied number to a specified decimal places

* ROUND UP () - Used to round a number to upward, without considering digit

* ROUND DOWN () - Used to round a number to downward, without considering the value next to the rounding digit

Chapter 3 USE OF SPREAD SHEET IN BUSINESS APPLICATION

Spreadsheet has wide possibilities in the business. Business firm use spreadsheet for the preparation of payroll, asset accounting and loan repayment schedule

I. Payroll accounting - Payroll is a statement of pay details of employees of an organization. It includes BP, DA, TA, HRA, Deduction etc.

Payroll components :

- * Basic pay - It is the pay in the pay scale. It is usually a fixed amount
- * Dearness allowance (DA) - It is a compensation to make up the purchasing power due to price increase
- * Dearness pay (DP) - A portion of the DA which has been merged with Basic Pay
- * House Rent Allowance (HRA) - For meeting rented accommodation
- * Transport Allowance (TRA)= For meeting conveyance Expenses
- * Other Allowance - Such as City Compensatory Allowance (CCA), Education Allowance, Medical Allowance etc.

Deductions: It includes

- * Provident fund
- * Professional Tax
- * Tax Deducted at Source (TDS)
- * Loan Recovery Amount.

II. Asset accounting - It includes maintenance of asset register, computation of depreciation etc.
Depreciation - It mean gradual and permanent decrease in the value o fixed asset.
There are two methods for calculating depreciation. They are

a. Stright Line Method (SLN)

b. Diminishing Balance Method (DBM)

a. SLN - In LibreOffice Calc, there is a simple function called SLN to calculate depreciation

Syntax - SLN (Cost, Salvage, Life)

b DB - It is the inbuild function in LibreOffice Calc

Syntax - DB (Cost, Salvage, Life, period, [month])

Chapter 4 GRAPHS AND CHARTS FOR BUSINESS DATA

A graph is a pictorial representation of data, while a chart is a form of graphic representation of the data.

LibreOffice Calc provides various types of charts. They are

- * **Column Chart** - It displays data as vertical bars .
- * **Bar Chart** - It displays data as horizontal bars
- * **Pie Chart** - It displays data as a percentage of the total .
- * **Doughnut/ Donut Chart** - It displays more than one series of data

Steps for Creating Chart/ Graphs:

Step - 1 - Open new worksheet in LibreOffice Calc

Step - 2 - To create chart, select data range - Insert - Chart - Select chart type - Next

Step - 3 - Data range - Next - Date series - Next

Step 4 - Enter the details of chart elements - Finish.

Advantages of Graph/ Chart

1. It is more acceptable
 2. It helps to compare easily
 3. It is very simple to understand
 4. It helps to understand trends easily
 5. It helps to analyze the data easily
-

Chapter 5

ACCOUNTING SOFTWARE PACKAGE- GNUKHATA

Accounting software is a computer program that assists bookkeepers and accountants in recording and reporting a firm's financial transactions.

Examples are GNUKhata,SAP,Tata Ex,Peachtree,Dac Easy,Tally etc.

GNUKhata

GNUKhata is free and open source software for accounting and inventory management.

Open GNUKhata:

Application----Office-----GNUKhata or Click the GNUKhata icon from the desktop

Creation of Organisation:

Step-1-Application----Office-----GNUKhata

Step-2 -To create organization click “Create Organisation”.

While creating organisation the following details are necessary.

- a) Organisation name
- b) Upper Case (option to select Upper case, lower case, Title case or as-is)
- c) Organisation type(Profit making or Not for Profit)
- d) Financial Year
- e) Mode of Accounting-Accounting only

Step-3 - Create Admin(Set user name, Password,Confirm password, security question ,answer to security question) Then save.

Groups and sub groups in GNUKHATA

SI No	Name of the Group	Name of the Sub-Group
1	Capital	None
2	Current Asset	Bank, Cash,Loans & Advances, Sundry Debtors
3	Current Liability	Provisions, Sundry Creditors for expenses, Sundry Creditors for purchase
4	Fixed Asset	Building,furniture,land,plant and machinery
5	Investment	Investment in Bank Deposit, Investment in shares and debentures
6	Loans(Asset)	None
7	Loans(Liability)	Secure, Unsecured
8	Miscellaneous Expense (Asset)	None
9	Reserve	None

Profit and Loss Account Groups

SI No	Name of the Group	Sub-Group
1	Direct Income	None
2	Indirect Income	None
3	Direct Expense	None
4	Indirect Expense	None

System Generated Ledger Accounts

Sl.No.	Account Name	Group Name	SubGroup Name
1	Closing Stock	Current Assets	Inventory
2	Opening Stock	Direct Expenses	None
3	Profit & Loss Account	Direct Income	None
4	Stock at the Beginning	Current Assets	Inventory

Ledger Creation

To create a ledger account select the option Create Account from Master Menu.

Master-Create account

Display Ledger Accounts

Report → Ledger → Account Name → Select the name of ledger → View

Editing Ledger Accounts :

Master- Edit accountants

Deleting Ledger Accounts:

Master-Edit account-Select ledger -Delete

Voucher Entry

Recording transactions through voucher is called voucher entry.

Voucher Type	Used To Record	Shortcut Keys
Receipts	To record receipt of cash or Cheque	F4
Payments	All payment made by cash or cheque	F5
Sales	Cash and credit sales of goods	F6
Purchase	Cash and credit purchase of goods or raw materials	F7
Contra	Deposits or withdrawals of cash from bank or transfer of funds from one bank to another and transfer of cash to petty cash	F8
Journal	Rectification entries or transfer or adjustment entries purchase or sale of fixed assets on credit	F9
Sales Return	Return of goods by a customer	Ctrl+1
Purchase Return	Return of goods to supplier	Ctrl+2
Credit Note	Reduction in the amount due from a customer or for allowances	Ctrl+3
Debit Note	Reduction in the amount payable to a supplier or for allowances	Ctrl+4

Chapter 5 DATABASE MANAGEMENT SYSTEM

Database - A database is a systematic collection of data.

Database management system (DBMS): It is a software that enables users to create and maintain a database
eg: MS Access, Oracle, LibreOffice Base etc.

Components of DBMS:

- * **Data** - Data mens facts
- * **Hardware** - It consists of input/output device, money
- * **Software** - It operates the hardware and interacts with users
- * **Users** - Persons who seek information firm the database

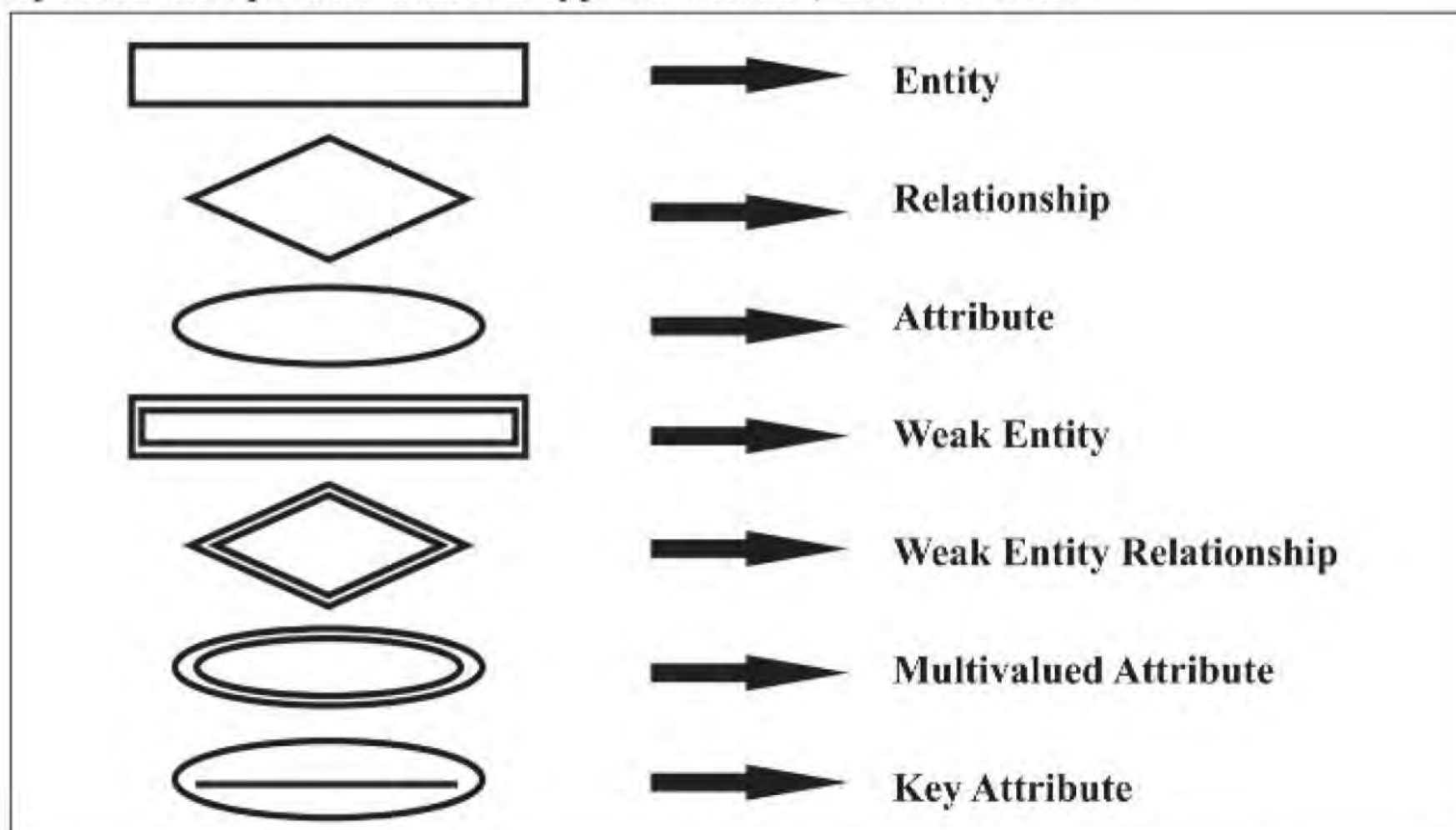
LibreOffice Base: It is used to Create, store and manage database

- * **Table** - Tables are used to store data in a database
- * **Field** - A column of the table is called field
- * **Record** - It is a collection of related filed
- * **File** - A file is a collection of record
- * **Entity**- Anything in the real world with independent existence
- * **Attributes** - These are additional characteristics that further describe an entity
eg:- Height, Weight, DoB etc
- * **Primary key** - It is a field in a table which uniquely identifies each row / record in a table
- * **Foreign key** - It defining the relationship between two tables

Components of LibreOffice Base:

1. **Tables** - Tables are used to store data in a database
2. **Queries** - It is used to manipulate database content
3. **Forms** - The interface that allows the user to input, retrieve and manipulate data
4. **Reports** - Presenting the information stored in a database

Symbols to represent different types of entities, attributes etc.



Data Types in LibreOffice Base

FIELD NAME	DATA TYPE
EMP ID	Text (VARCHAR)
EMP NAME	Text (VARCHAR)
EMP SEX	Text (VARCHAR)
EMP DOB	Data (DATE)
EMP SALARY	Number [NUMERIC]
EMP DA	Number [NUMERIC]
EMP HRA	Number [NUMERIC]

Creating Table: Two Ways of Creating Tables are

1. Create Table in design view and
2. Create Table using table wizard

Creating table in design view:

Step 1 - Create and name the data base

Application → Office → LibreOffice Base → Create new database → Next → Finish

Step 2 - Create and name the table

Select 'create table in design view'- Enter field name and its type

Step 3 - Set Primary Key

Step 4 - Save the Table with suitable name

Step 5 - Enter data in the newly created Table