
**Union Public Service Commission
Employees Provident Fund Organisation**

EPFO

EO/AO & APFC

Study Material

&

Question Bank

Chief Editor

Anand K. Mahajan

Complied & Written By


YCT EPFO Exam Expert Group

Computer Graphics by

Balkrishna, Charan Singh

Editorial Office

12, Church Lane Prayagraj-211002

 **Mob. : 9415650134**

Email : yctap12@gmail.com

website : www.yctbooks.com

© All rights reserved with Publisher

Publisher's Declaration

Edited and Published by A.K. Mahajan for YCT Publication Pvt. Ltd.

and E:Book by APP YCT BOOKS In order to Publish the book,

full care has been taken by the Editor and the Publisher,

still your suggestions and queries are welcomed.

In the event of any dispute, the judicial area will be Prayagraj.

INDEX

■ Accounting and General Accounting Principles	3-43
● Company's Accounts	8
● Partnership.....	15
● Capital and Revenue Profit.....	20
● Previous Year MCQ	22
● Practice MCQ.....	28
■ Insurance	44-54
● Important insurance Plans	48
● Practice MCQ.....	51
■ AUDITING	55-72
● Previous Year MCQ	66
● Practice MCQ.....	67
■ Social Security	73-78
● Previous Year MCQ	74
■ Industrial Relations & Labour Laws	79-108
● Development of Labour Laws In India.....	82
● 12- Payment of Wages Act, 1936.....	86
● Previous Year MCQ	94
● Practice MCQ.....	103
■ Computer Applications	109-144
● Multimedia Projector.....	113
● Introduction to the Internet WWW and Web Browser.....	119
● Computer Note	119
● Previous Year MCQ	129
● Practice MCQ.....	135

Scheme and Syllabus

**Combined Recruitment Test (CRT) for the posts of Enforcement Officers/
Accounts Officers (Item No. 1 above) and Assistant Provident Fund
Commissioner (Item No. 2 above) is as under:-**

(I) Scheme:

- (i) The test will be of two hours duration
- (ii) All questions will carry equal marks.
- (iii) The test will be objective type questions with multiple choices of answer.
- (iv) The medium of the test will be both English and Hindi.
- (v) There will be penalty for wrong answers. Every wrong answer will carry a deduction of one-third of the marks assigned to that question. If no answer is marked for a question, there will be no penalty for that question.

(II) Syllabus:

The syllabus of the Test broadly comprises the following topics:-

- (i) General English- To evaluate candidate's understanding of English language & workman – like use of words.
- (ii) Indian Culture, Heritage and Freedom Movements.
- (iii) Developmental Issues and Present Trends in Indian Economy.
- (iv) Governance and Constitution of India.
- (v) General Science and Basic Knowledge of Computer Applications.
- (vi) Elementary Mathematics, Statistics and General Mental Ability.
- (vii) Industrial Relations, Labour Laws and Social Security in India.
- (viii) Principles of Accountancy, Auditing and Insurance.
- (ix) Current Events of National and International Importance.



Introduction :

Accounting enjoys a remarkable heritage. The history of accounting is as old as civilisation. The seeds of accounting were most likely first sown in Babylonia and Egypt around 4000 B.C. In Greece, accounting was used for apportioning the revenues received among treasuries, maintaining total receipts and payments of government financial transactions.

Accounting practices in India could be traced back to a period when twenty three centuries ago, Kautilya, a minister in Chandragupta's kingdom wrote a book named Arthashastra, which also described how accounting records had to be maintained.

Luca Pacioli's a Franciscan friar (merchant class), book "Summa de Arithmetica, Geometrica, proportion at proportionality" in Venice 1494 is considered as the first book on double entry book-keeping.

Definition of Accounting :

Accounting has been defined as, "the art of recording, classifying and summarizing in a significant manner in terms of money, transactions and events which are, in part at least, of financial character and interpreting the results thereof." American Accounting Association (AAA) defines "Accounting refers to the process of identifying measuring and communicating economic information to permit informed judgments and decisions by users of information."

Objectives of Accounting :

The main objects of accounting are enumerated below :-

Proper Recording of Transactions - The first and foremost object of accounting is to keep record of monetary transaction in a systematic manner.

Determination of Results - Every person or institution is always interested to know the results of his/its monetary transactions at the end of a definite period. So, ascertainment of result of financial transactions is an important object of accounting.

Ascertainment of financial position - Another object of accounting is the ascertainment of debtors and creditors, assets and liabilities and the overall financial position.

Supplying financial information - Accounting provides accounting information to its users in the form of reports, statements, graphs etc.

Defalcation prevented - The object of accounting is the prevention of defalcation of money made through fraud by the officials of the institution as well as control of expenditure.

Necessity and Importance of Accounting :

The necessity of accounting is described below-

Accounting supplies numerical information to the institution relating to its management and administration.

Exact results of the institution are disclosed through accounting.

The firm can ascertain the financial status of the business operation.

Firm can compare the financial position of two/more years.

Proper accounting makes the firm Credible to other party.

Books of accounts are very valuable documents.

Tax authority can assess taxes for the firm using the accounting information.

Book-Keeping -

Book-Keeping is a process of recording business transactions in the books of accounts in a systematic manner.

R.N. Carter has defined, "Book-keeping is the science and art of correctly recording in the books of accounts, all those business transactions that results in transfer of money's worth."

Book-Keeping Vs Accountancy -

Book-keeping deals with identifying and recording financial transaction only whereas accounting refers to the process of summarizing, interpreting and communicating the financial data of an organisation.

Book-keeping is the first stage and it comes immediately after transaction whereas Accounting comes after recording and classification. Accountancy is the next stage after Book-Keeping.

Book-Keeping aims at keeping the record and provides primary information whereas Accountancy aims at finding the profits or losses and gives financial position.

Book-Keeping basically results in Journal and Ledger whereas the results of Accountancy is Profit and Loss A/c and Balance Sheet.

Book-Keeping requires principles of elementary knowledge of journalising and posting whereas Accountancy requires all the Accounting principles.

Book-Keeping records are used by accountant as it provides the basis for accountancy whereas Accounting records are used by owners, managements, government & other stock holders.



Basis of Accountancy (Accounting) -

- (1) **Cash Basis** - Under this system only cash transactions are recorded. In this, income is recorded only when cash is actually received and expenses are recorded when cash is actually paid.
- (2) **Accrual Basis** - An income is recorded when it is earned (whether cash received or not) and expenses are recorded when they become payable. Both cash as well as credit transactions are recorded. This is also called mercantile Basis of Accounting.

Branches of Accounting -

Followings are the branches of Accounting-

Financial Accounting - Financial Accounting is concerned with recording of financial transactions, summarizing and interpreting them and communicating the results. It is original form accounting that ascertains profits earned or loss suffered during a specific period (generally a year) and ascertain the financial position on the date when the accounting period ends.

Cost Accounting -

It is the process of accounting and controlling the cost of product, operating or function. The purpose of this branch of accounting is to ascertain the cost, to control the cost and to communicate information for decision.

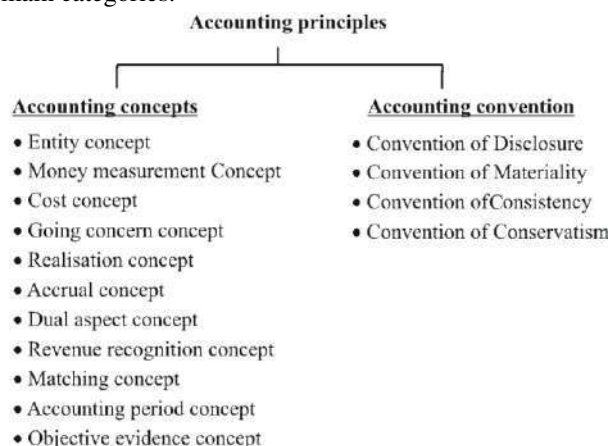
Management Accounting -

It is an accounting for the management i.e. accounting which provides necessary information to the top level management for discharging its functions. Management accounting covers various areas such as cost accounting, budgetary control, inventory control, statistical methods, internal auditing etc. The purpose of this branch of accounting is to supply all information that management may need in taking decisions and to evaluate the impact of its decisions and actions.

Accounting principles -

"Accounting principles are those rules of action or conduct, which are accepted universally by all accountants in recording transactions in the books of accounts".

Accounting principles can be broadly classified into two main categories.



(A) Accounting Concepts -

Entity Concept/Business Entity Concept -

Entity Concept assumes that business has a distinct and Separate entity from its owners. It means that for the purpose of accounting, the business and its owners are to be treated as two separate entities. According to this concept only business transactions are recorded in the business book of accounts. proprietor's personal transactions are not recorded in the books of accounts.

Money Measurement Concept -

The Money Measurement Concept states that only those transaction and happenings in an organisation which can be expressed in terms of money such as sale of goods or payment of expenses or receipt of income etc are to be recorded in the book of accounts.

Cost Concept -

The cost concept requires that all assets are recorded in the books of accounts at their purchase price, which includes cost of acquisition, transportation, installation and making the asset ready to use. The concept of cost is historical in nature as it is something, which has been paid on the date of acquisition and does not change year after year.

Going Concern Concept -

The concept of going concern assumes that a business firm would continue to carry out its operations indefinitely i.e. for a fairly long period of time and would not be liquidated in the foreseeable future.

Realisation Concept - According to this concept, Income is recorded only when it is realized i.e. either it is received or earned. Revenues are recorded only when sale are affected or the services are rendered. Sales revenues are considered as recognized when sales are effected during the accounting period irrespective of the fact whether cash is received or not.

Accrual Concept - According to this concept, recording of revenues (Incomes) and expenses of a particular accounting period, whether they are received or paid in cash or not. All expenses and revenues related to the accounting period are to be considered irrespective of the fact, the revenues (Incomes) are received in cash or not or expenses are paid in cash or not.

Dual Aspect Concept - It is the foundation or basic principle of accounting. It provides the very basis for recording business transactions into the book-of accounts. This concept states that every transaction has a dual or two-fold effect and should therefore be recorded at two places.

Revenue Recognition (Realisation) Concept- The concept of revenue recognition requires that the revenue for a business transaction should be included in the accounting records only when it is realised.

Matching Concept- According to this concept, the profit of the business is calculated by matching total revenue earned during the year with total expenses incurred during the same period. The difference between the two represents profit or loss.



Accounting period concept- Accounting period concept is based on the theory that all accounting transactions of a business should be divided into equal time periods, which are referred to as accounting periods.

(B) Accounting Convention -

Convention of Disclosure—According to this Convention, the accounts must disclose full and fair information to all material (important) information. The financial position and performance should be disclosed very honestly to all the users. All the information disclosed should be relevant, reliable, comparable and understood by all the concerned authorities.

Convention of Materiality— The Convention of Materiality requires that accounting should focus on material fact. The accountant should attach importance to material (important) details and ignore insignificant (unimportant) details.

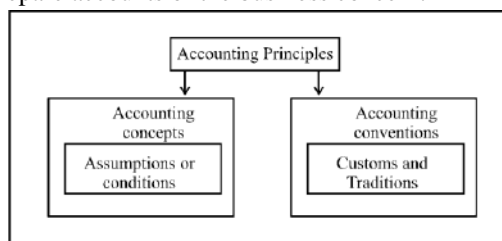
Convention of Consistency/Consistency Concept—Any policy adopted for accounting should be continuous or consistent throughout the business and it need not be changed generally unless and until circumstances demand.

Convention of Conservatism—The Concept of Conservatism (also called 'prudence') provides guidance for recording transactions in the book of accounts and is based on the policy of playing safe. The Concept states that a conscious approach should be adopted in ascertaining income so that profits of the enterprise are not overstated.

Accounting Concept Vs. Accounting Conventions -

Accounting Concepts are assumptions and conditions on which the whole accounting structure stands. These are general guidelines for sound accounting practices.

Accounting Conventions means Customs or traditions which are followed years together to prepare accounts of the business concern.



Generally Accepted Accounting Principles (GAAP)-

Generally Accepted Accounting principles refers to the rules or guidelines adopted for recording and reporting of business transactions in order to bring uniformity in the preparation and presentation of financial statements. These principles are also referred to as concepts and conventions.

Accounting Standards- These are written statements of uniform accounting rules and guidelines in practice for preparing the uniform and consistent financial statements. These standards cannot over ride the provisions of applicable laws, customs, usages, and business environment in the country.

Systems of Accounting—The systems of recording transactions in the book of accounts are generally classified into two types, viz, Double entry system and single entry system.

Double entry system is based on the principle of 'Dual Aspect' which states that every transaction has two effect, where as single entry system is known as incomplete records.

Accounting equation—Accounting equation signifies that the assets of a business are always equal to the total of its liabilities and capital (owner's equity). The equations reads as follows:-

$$A = L + C$$

where,

A = Assets

L = Liabilities

C = Capital

The above equation can also be presented in the following forms as its derivatives to enables the determination of missing figure of capital (C) or Liabilities (L).

$$(i) A - L = C$$

$$(ii) A - C = L$$

Since, the accounting equation depicts the fundamental relationship among the components of the balance sheet, it is also called the Balance sheet equation.

Introduction to Accounts -As per the concept of Double entry system, every business transactions has a two effects, i.e. Debit and Credit. An account as we understand it, as a systematic record of transaction related to a person, prosperity, expenses, or income. Every account has two sides. The left hand side known as the Debit side and the right hand side is known as Credit Side. To debit an account means to record the transaction on debit side and credit an account means to record the transaction on credit side.

Dr.				Cr.			
Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹

Types of Accounts -

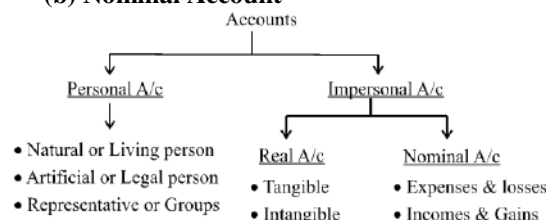
Accounts are classified as follows :-

(I) Personal Account

(II) Impersonal Account

(a) Real Account

(b) Nominal Account



(I) **Personal Account**– Personal Accounts includes the accounts of persons or parties with whom the business deals.

It can be classified into three categories :-

(a) **Natural or Living personal Accounts**–These accounts are related to natural or living persons. e.g. Meena's A/c, Mr. Ray's A/c, Miss Reshma's A/c etc.

(b) **Artificial or Legal Personal Accounts**–These are artificial persons created by provisions of law. These accounts include accounts of corporate (registered) bodies or institutions. e.g., partnership firms, Co-operative societies, Companies, Clubs, Associations, etc.

(c) **Representative or Groups Personal Accounts.** These accounts represents certain person or Groups. e.g.- Capital, Drawing, Debtors, Creditors etc.

(II) **Impersonal Account**–All accounts other than personal accounts are called impersonal account. These are two types of impersonal accounts.

(a) **Real Account**–These accounts relate to all kinds of properties and assets possessed by business.

These are of two types :-

(1) **Tangible Real Accounts**–These accounts consists of assets and properties which can be seen, touched, felt & measured.

e.g.- Cash A/C, Building A/c etc.

(2) **Intangible Real Accounts**–These accounts consists of assets and properties which cannot be seen, touched but they are capable of measurement in terms of money.

e.g.-Goodwill, Copyright, Trade Marks, Patent Right etc.

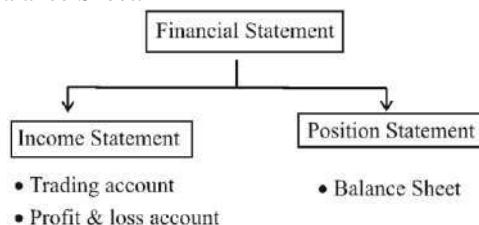
(b) **Nominal Account**–These are the accounts of expenses or losses and incomes or gains. These accounts are called fictitious as they do not represent any tangible asset.

e.g. - Salary A/c, Sales A/c, Electricity A/c etc.

The Three Golden Rules of Accounting -

Types of Accounts	The Golden Rules of Accounting
(1) Real Accounts	Debit : What comes in Credit : What goes out.
(2) Personal Accounts	Debit : The receiver. Credit : The Giver.
(3) Nominal Accounts	Debit : All Expenses and Losses. Credit : All income and gains.

Financial Statements–Financial statements are the statements that are prepared at the end of the accounting period, which is generally one year. These include income statement i.e. Trading and profit & loss account and position statement i.e. Balance Sheet.



Trading Account -

Income statement consists of Trading and Profit & Loss Account. Trading Account is prepared to ascertain the results of the trading activities of the business enterprise.

It shows whether the selling of goods purchased or manufactured has earned profit or incurred loss for the business unit. Cost of goods sold is subtracted from the net sales of the business of that accounting year. In case the total sales value exceeds the cost of goods sold, the difference is called Gross Profit and Vice Versa.

All accounts related to cost of goods sold. Such as opening stock, net purchases i.e. purchase less returns. Outward, direct expenses such as wages, carriage inward etc. and closing stock with net sales i.e. sales minus sales return are taken to the Trading Account. Credit balance shows the gross profit and debit balance shows the gross loss.

Cost of good sold = Opening stock + Net purchases + All direct expenses – closing stock.

Gross Profit = Net Sales – Cost of goods sold

Format of Trading Account

(Trading Account)

(for the year ending)

Dr.		Cr.	
Particulars	Amount Rs.	Particulars	Amount Rs.
To Opening stock		By Sales :	
To purchases (Less) :		(Less) : Sales Returns	
Purchase Returns		By Closing stock	
To Direct Expenses :		By Gross loss transferred to Profit and Loss Account	
Carriage Inward			
Freight Wages			
Fuel & Power			
Excise Duty			
Factory Rent			
Heating & Lighting			
Factory Rent & Insurance			
work managers salary			
To Gross profit transferred to profit and Loss A/c			

Gross profit = Net Sales – Cost of goods sold

Gross loss = Cost of goods sold – Net sales



Profit & Loss Account -

As the trading account is prepared to ascertain the Gross profit or Gross loss of the trading activities of the business.

But these are not the final results of business operations of an enterprise. Apart from direct expenses, there are indirect expenses also. These may be conveniently divided into office and administrative expenses, selling and distribution expenses, financial expenses, depreciation and maintenance charge etc.

So, the another account is prepared in which all indirect expenses and revenues from sources other than sales are written.

This account when balanced shows profit (or loss). This account is termed as profit and loss account.

The profit shown by this account is called 'net profit' and if it shows loss it is known as 'net loss'.

Format of Profit and Loss Account - Profit and Loss A/c of M/S (for the year ended)

Dr.		Cr.	
Particulars	Amount Rs.	Particulars	Amount Rs.
To Gross Loss b/d	-	By Gross profit b/d	-
To Salaries	-	By Discount Received	-
To Rent, Rates & taxes	-	By Commission Received	-
To Insurance premium	-	By Dividend Received	-
To Advertising Commission paid	-	By Interest on Investment	-
To Discount Allowed	-	By Rent Received	-
Repairs & Renewals	-		
To Bad Debts			
To Establishment charges		By Net Loss transferred to capital account	
To Travelling Expenses			
To Bank Charges			
To Sales			
To Tax/Value added tax			
To Depreciation on fixed assets			
To Net profit transferred to Capital Account			

Balance Sheet (position statement) -

Position statement or Balance sheet is another basis of financial statement. Balance sheet is a statement prepared on a particular date, generally at the end of accounting year to ascertain the financial position of the entity.

It consists of assets on the one hand and liabilities on the other.

In the words of Francis R. Steal, "Balance sheet is a screen picture of the financial position of a going business at a certain moment".

In the words of Freeman, "A Balance sheet is an item wise list of assets, liabilities and proprietorship of a business at a certain date. "Financial position of a business is the list of assets owned by the business and the claims of various parties against these assets. The statement prepared to show the financial position is termed as Balance sheet.

There is no prescribed form of a Balance Sheet in which it should be prepared by a sole proprietary business or a partnership firm. However, an order is generally maintained in which assets and liabilities are written.

(a) Liquidity order

(b) Permanency order

(Liquidity order) Balance sheet of M/s (As on)

Liabilities	Amount Rs.	Assets	Amount Rs.
Bank overdraft		Cash in hand	
Outstanding expenses		Cash at bank	
Bill payables		Prepaid expenses	
Sundry Creditors		Investments (shorts term)	
Loans		Bill Receivables	
Capital (Add) Net Profit (Less) drawings		Sundry Debtors	
		Closing stock	
		Investments	
		Furniture	
		Plant & Machinery	
		Land & Building	
		Goodwill	

Classification of Assets and Liabilities -

Assets and Liabilities are of various types. These can be classified as under :-

(a) **Fixed assets**—These are the assets that are purchased for permanent i.e. long term use and these help the business to earn revenue.

Example :- Building, Machinery, Motor Vehicle etc.



- (b) **Current Assets**—These are the assets which are acquired by the business either for resale or for converting them into cash. These are normally realised within a period of one year. Eg:- Cash in hand, bill receivable, debtors etc.
- (c) **Tangible Assets**—These are the assets that can be seen, touched and have certain volume, Building machinery, goods etc. are tangible assets.
- (d) **Intangible Assets**— Assets which can neither be seen nor touched and have no volume are called intangible assets. Patents, trademark, goodwill etc. are the examples of such assets.
- (e) **Liquid Assets**—These are the assets which are either in cash or can be easily converted into cash. E.g. - Cash, stock etc.
- (f) **Wasting Assets**—These are the assets which exhaust or reduce in value by their use. mines, quarries, etc come under this category.
- (g) **Fictitious assets**—These are not real assets. These are the items of such expenses and losses which have not been written off in full. E.g. preliminary expenses etc.

Liabilities—

Liabilities can be classified as follows :-

- (a) **Long term liabilities**—These are the liabilities which are not payable during the current accounting year. Generally, the funds raised through such means are used for purchase of fixed assets.
- (b) **Current Liabilities**—These are the liabilities which are payable during the current year. These include Bank Overdraft Trade Creditors etc.
- (c) **Owner's Funds**—The amount owing to the proprietor or proprietors is called owner's funds. As per business entity concept this is a liability of the business. Apart from capital it also includes undistributed profits and reserves.

Company's Accounts

Company—The word 'company' has no strictly technical or legal meaning. It may be described to imply an association of persons for same common object or objects. The purposes for which people may associate themselves are multifarious and include economic as well as non-economic objectives.

Used in the aforesaid sense, the word 'company' in simple terms, may be described to mean a voluntary association of persons who have come together for carrying on some business and sharing the profits there from.

Definition of a Company :-

Section 2(20) of the companies Act, 2023 defines— A company to mean a company incorporated under this Act or under any previous company law.

Chief Justice Marshall—"A corporation is an artificial being, invisible, intangible, existing only in contemplation of the law. Being a more creation of law is

possesses only the properties which the charter of its creation confers upon its either expressly or as incidental to its very existence."

Prof. Haney— "A company is an artificial person created by law, having separate entity with a perpetual succession and common seal."

Features of a company— A company may be viewed as an association of person who contribute money or money's worth to a common inventory and use it for a common purpose. It is an artificial person having separate legal entity distinct from its members and has a common seal used for its signature. Thus it has certain special features.

Body corporate— A company is formed according to the provisions of law enforced from time to time. Generally, in India the companies are formed and registered under Companies Law except in the case of Banking and Insurance companies for which a separate law is provided for.

Separate Legal Entity—A company has a separate legal entity which is distinct and separate from its members. It can hold and deal with any type of property. It can enter into contracts and even open a bank account in its own name.

Limited Liability—The liability of the members of the company is limited to the extent of unpaid amount of the shares held by them.

Kinds of companies—The companies can be classified into the following three categories.

- (i) **Companies limited by shares** : In this case the liability of its members is limited to the extent of the nominal value of shares held by them.
- (ii) **Companies Limited by Guarantee** : In this case, the liability of its members is limited to the amount they undertake to contribute in the event of the company being wound up. Thus, the liability of the members will arise only in the event of its winding up.
- (iii) **Unlimited company** : When there is no limit on the liability of its members, the company is called an unlimited company.

On the basis of the number of members, companies can be divided into three categories as follow.

- (i) Public company
- (ii) Private company
- (iii) One person company (OPC)

Share capital of a company—A company being an artificial person, cannot generate its own capital which has necessarily to be collected from several persons. These persons are known as shareholders and the amount contributed by them is called share capital.

Categories of share capital—The share capital of the company can be classified as follows.

Authorised capital : The share capital is the amount of share capital which a company is authorised to issue by its Memorandum of Association. The company cannot raise more than the amount of capital as specified



in the Memorandum of Association. It is also called nominal or Registered capital.

Issued capital : It is that part of the authorised capital which is actually issued to the public for subscription including the shares allotted to vendors and the signatories to the company's memorandum.

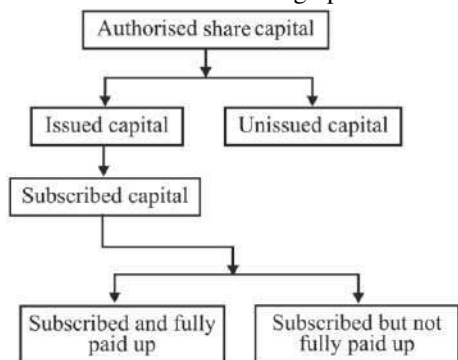
Subscribed capital : It is that part of the issued capital which has been actually subscribed by the Public. When the share offered for public subscription are subscribed fully by the public the issued capital and subscribed capital would be the same. It may be noted that ultimately, the subscribed capital and issued capital are the same because if the number of share, subscribed is less than what is offered, the company allot only the number of shares for which subscription has been received.

Called up capital—It is that part of the subscribed capital which has been called up on the shares. The company may decide to call the entire amount or part of the face value of the shares.

Paid up capital—It is that portion of the called up capital which has been actually received from the shareholders. When the shareholders have paid all the call amount, the called capital is the same to the paid up capital.

Uncalled capital : That portion of the subscribed capital which has not yet been called up. As stated earlier, the company may collect this amount any time when it needs further funds.

Reserve capital : A company may reserve a portion of its uncalled capital to be called only in the event of winding up of the company. Such uncalled amount is called 'Reserve capital of the company. It is available only for the creditors on winding up of the company.



Nature and classes of shares : As per the Companies Act, a company can issue two types of shares.

(1) Preference shares : According to Section 43 of the Companies Act, 2013, a preference share is one which fulfills the following conditions :

- That is carries a Preferential right to dividend to be paid either as a fixed amount payable to preference shareholders or an amount calculated by a fixed rate of the nominal value of each share before any dividend is paid to the equity shareholders.

- That with respect to capital it carries or will carry on the winding up of the company, the preferential right to the repayment of capital before anything is paid to entity shareholders.

(2) Equity shares : According to Section 43 of the Companies Act, 2013, an equity share is a share which is not a preference share. In other words shares which do not enjoy any preferential right in the payment of dividend or repayment of capital, are termed as equity/ordinary shares.

Accounting Treatment : Journal entry is as follows:

(1) On application :

Bank A/c Dr.

To share Application A/c.

(Amount received on application forshares @ Rs. _____ per share)

For Transfer of Application Money

Share Application A/c Dr.

To share capital A/c

(Application money on _____ shares allotted/transferred to share capital.)

(2) On allotment : The allotment of shares implies a contract between the company and the applicants who now become the allottees and assume the status of shareholders.

- For Amount Due on Allotment

Share Allotment A/c _____ Dr

To Share capital A/c

(Allotment money due on _____ shares allotted transferred to share capital)

- For receipt of allotment money.

Bank A/c _____ Dr

To share allotment A/c

(Allotment money received on ____ share @ Rs. ____ per share)

(3) For call amount :

- For amount due on call.

Share call A/c _____ Dr (individually)

To share capital A/c (individually)

(Call money due on ____ share @ Rs. ____ per shares)

- For receipt of call Amount.

Bank A/c _____ Dr. (individually)

To share call A/c (individually)

(Call money received)

(4) For Money Refunded on Rejected Application:

Share Application A/c _____ Dr

To Bank A/c

(Application money returned or rejected application for _____ shares)

(5) For Adjustment of Excess Application Money.

Share Application A/c _____ Dr.

To share allotment A/c.

(Application money on _____ shares @ Rs. ____ per shares adjusted to the amount due on allotment).

Calls in Arrears: When any shareholder fails to pay, the amount due on allotment or on any of the calls. Such amount is known as calls in arrears or unpaid calls. Calls in arrears represent the debit balance of all the calls account.



Accounting treatment:

Calls in Arrears A/c Dr.
 To shares first call A/c
 To share second and final call A/c.
 To share allotment A/c
 (Calls in arrears brought into account)

On receipt of the call amount together with interest.

Bank A/c _____ Dr.
 To calls in Arrears A/c
 To interest A/c
 (Calls in arrears received with interest)

Calls in Advance: Sometimes shareholders pay a part or the whole of the amount of the calls not yet made. The amount received from the shareholders is known as "calls in advance". The amount received in advance is a liability of the company and should be credited to call 'calls in Advance Account.' The amount received will be adjusted towards the payment of calls as and when they becomes due. Table F of the Companies Act provides for the Payment of Interest on calls in Advance at a rate not exceeding 12% per annum.

(i) Journal entry is recorded for the amount of calls to Advance.

Bank A/c _____ Dr.
 To calls in Advance A/c.
 (Amount received on calls in Advance)

Over-Subscription of shares.

There are instance when applications for more shares of a company are received than the number offered to the public for subscription. This usually happens in respect of shares issue of well managed and financially strong companies and is said to be a case of over subscription. In such a condition three alternatives are available to the directors, to deal with the situation.

- (i) They can accept some application in full and totally reject the others.
- (ii) They can make a pro-rata allotment to all.
- (iii) They can adopt a combination of the above two alternatives which happens to be the most common course adopted in practice.

Note : There may be some applicants who are not allotted any shares. The application money received from these application is returned to them. Following entry is passed for this purpose.

Share application A/c. _____ Dr.
 To Bank A/c.
 (Application money returned)

Under Subscription : Under subscription is a situation where number of shares applied for is less than the number for which applications have been invited for subscription.

Issue of shares at a premium : It is quite common for the shares of financially strong and well managed companies to be issued at a premium. When a company issues a share of amount more than the nominal or par values of shares. This type of share is called shares at a

premium. The premium amount is credited to a separate account, called 'Securities Premium Account' and is shown under the title 'Equity and Liabilities' of the company's balance sheet under the head 'Reserve and surplus'. It can be used for the following five purposes :

- (i) To issue fully paid bonus shares to the extent not exceeding unissued share capital of the company.
- (ii) To write off preliminary expenses of the company.
- (iii) To write off the expenses of, or commission paid or discount allowed on any securities of the company.
- (iv) To pay premium on the redemption of preference shares or debentures of the company.
- (v) Purchase of its own shares (ex : buy back of shares)

Accounting treatment for the Securities Premium:

- (i) For Premium Amount called with Application Money
 - (a) Bank A/c _____ Dr.
 To Share Application A/c.
 (Money received on application for – shares @ Rs. ____ per Share including premium)
 - (b) Share Application A/c _____ Dr.
 To Share Application A/c.
 To Securities Premium Reserve A/c
 (Transfer of application money to share capital and Securities Premium Account)
- (ii) Premium Amount called with Allotment Money
 - (a) Share Allotment A/c. _____ Dr.
 To Share Capital A/c.
 To Securities Premium Reserve A/c.
 (Amount due to allotment of shares @) Rs. ____ per share including premium)
 - (b) Bank A/c. _____ Dr.
 To Share Allotment A/c.
 (Allotment money received including premium)
- (iii) Premium amount called with call money.
 - (a) Share Application A/c. _____ Dr.
 To Share Capital Reserve A/c.
 To Securities Premium A/c.
 (Amount due on 1st/2nd call @ Rs. ____ per share including premium)
 - (b) Bank A/c. _____ Dr.
 To Share Call A/c.
 (Call money received including premium)

Issue of shares at a discount : When the shares of a company are issued at a discount when an amount of share less than the nominal or par value of shares. The difference between the nominal value and issue price representing discount on the issues of shares.

Forfeiture shares : A company can forfeit it its share, cancel its allotment and treat the amount already received thereon as forfeited to the company within the



framework of the provisions in its articles. These provisions are usually based on Table F which authorise the directors to forfeit the shares for non-payment of calls made.

Accounting treatment :

- (a) Forfeiture of shares issued at par :
 Share capital A/c. _____ Dr.
 To share forfeiture A/c.
 To share allotment A/c.
 To share calls A/c. (individually)

(Shares forfeited for non-payment of allotment money and calls made)

Forfeiture of shares issued at a premium : If shares were initially issued at a premium and the premium amount has been fully realised, but some of the shares are forfeited due to non-payment of call money, the accounting treatment for forfeiture shall be on the same pattern as in securities premium account is not to be debited at the time of forfeiture if the premium has been received in respect of the forfeited shares and the amount of forfeiture shall be excluding premium amount.

(i) The journal entry to record the forfeiture of shares issued at a premium on which premium has been fully received :

- Share capital A/c. _____ Dr.
 To share forfeiture A/c.
 To share allotment A/c.
 To share calls A/c. (individually)

(Shares forfeited for non-payment of allotment money and calls made.)

(ii) The journal entry to record the forfeiture of shares issued at a premium on which premium has not been fully received :

- Share capital A/c. _____ Dr.
 Securities Premium Reserve A/c. _____ Dr.
 To share forfeiture A/c.
 To Share Allotment A/c.
 To Share Calls A/c. (individually)

(Shares forfeited for non-payment of allotment money and calls made)

Re-issue of forfeited shares—The directors can either cancel or re-issue the forfeited shares. In most cases, they reissue such shares which may be at par, at premium or at a discount. Forfeited shares may be re-issued as fully paid at a par, premium, discount.

Accounting treatment of re-issued of forfeited shares :

- Bank A/c. _____ Dr.
 Share forfeiture A/c. _____ Dr.
 To share capital A/c.
 (Re-issued of _____ shares at Rs. ____ per share as fully paid)

Share forfeited account should be transferred to capital reserve account by journal entry.

- Share forfeiture A/c. _____ Dr.
 To Capital Reserve A/c
 (Profit on re-issue of forfeited shares)

Buy-back of shares : When a company purchase its own shares. It is called Buy-back shares : Section 68 of the Companies Act, 2013 provides that the company can buy their own shares from either of the following sources.

- (a) Existing equity shareholders on a proportionate basis
 (b) Open market
 (c) Odd-lot shareholders
 (d) Employees of the company.

The company can buy back its own shares either from the free reserves, securities premium or from the proceeds of any shares or other specified securities. A company has following procedures have been lead down for buy back of shares :

- (a) The articles of the association must authorise the company for the buy back of shares.
 (b) A special resolution must be passed in the companies. Annual General Body meeting.
 (c) The amount of buy back of shares in any financial year should not exceed 25% of the paid up capital and free reserves.
 (d) The debt-equity ratio should not be more than a ratio of 2 : 1 after the buy back.
 (e) All the shares of buy back should be fully paid up.
 (f) The buy back of the shares should be completed within 12 months from the date of passing the special resolution.
 (g) The company should file a solvency declaration with the Registrar and SEBI which must be signed by at least two directors of the company.

Issue of Debentures : In addition to raising of capital by issue of shares, a company requiring funds on long term basis, may borrow money by issue of debentures. A debenture issued by a company is usually in the form of a certificate, given under the seal of the company. Thus a debenture is a written acknowledgement of a debt taken by the company as these are issued under the seal of the company.

According to Section 2(30) of the Companies Act, 2013 'Debenture'. Includes Debenture Inventory, Bonds and any other securities of a company whether constituting a change on the assets of the company or not.

Distinction between shares and Debentures.

Ownership : (1) A share represents ownership of the company whereas a debenture is only acknowledgement of debt.

(2) A share is a part of the owned capital whereas a debenture is a part of borrowed capital.

Return : (1) The return on shares is known as dividend while the return on debenture is called interest.

(2) The rate of return on shares may vary from year to year depending upon the profits of the company but the rate of interest on debentures is prefixed.



(3) Repayment : Normally, the amount of shares is not returned during the life of the company, whereas generally, the debentures are issued for a specified period and repayable on the expiry of that period.

(4) Voting rights : Shareholders enjoy voting rights whereas debentures are generally secured and carry a fixed or floating charge over the assets of the company.

Characteristics or features of debentures :

- (i) A debenture is issued by a company in the form of a certificate, which is a written acknowledgement of debt taken by the company.
- (ii) A debenture is issued under the seal of the company.
- (iii) It contains a contract for the repayment of principal sum at a specified date.
- (iv) As per Companies Act, 2013 no company is allowed to issue debentures having a maturity date of more than 10 years from the date of issue. However, a company engaged in infrastructure projects can issue debentures for more than 10 years but not exceeding 30 years.

Bond : It is very much similar to that of debenture. Traditionally, bonds had been issued by the government but now a days these are also being issued by various semi-government organisations. Main distinction between debenture and bond is with respect to the rate of interest.

Types of Debentures :

(i) Secured or Mortgage Debentures : These debentures are those which are secured either on particular assets of the company called fixed charge or on all assets of the company in general, called a floating charge. Fixed charge denies the company from dealing with mortgaged assets, whereas the floating charge does not prevent the company from using the assets.

(ii) Unsecured or Naked Debentures : These debentures are those which are not given any security. The holders of such debentures are treated as unsecured creditors at the time of liquidation of the company.

(iii) Registered debentures : Names and addresses of the holders of such debentures are recorded in a register of the company called, "Register of Debentureholders". Such debentures are not freely transferable. The transfer of such debentures requires the execution of a proper transfer deed. Principal amount and interest on such a debenture is paid to the person whose name appears in the company's register.

(iv) Bearer Debentures : Names and addresses of the holders of such debentures are not recorded in the company and these debentures are transferable by mere delivery.

(v) Redeemable Debentures : Redeemable debentures are those debentures which will be repaid by the company either in lump sum at the end of a specified period or by instalments during the lifetime of the company. Most of the debentures are generally of this type.

(vi) Irredeemable or perpetual debentures : Irredeemable debentures are those debentures which are not repayable by the company during its life time. These debentures are repayable only at the time of liquidation of the company.

(vii) Convertible Debentures : Convertible debentures are those debentures which are convertible into equity shares or other securities at a stated rate of exchange either at the option of debenture holders or at the option of the company after a specified period. When only a part of the amount of debenture is convertible into shares, such debentures are called 'partly convertible Debentures :

Issue of Debentures : Debentures may be issued either at par, or at a premium or at a discount. There are no restrictions on the issue of debentures at discount. The rate of discount is also to be decided by the directors. Following entries will be passed on the issue of debentures (assuming that the debentures carry 12% interest).

(1) On receipt of application money :

Bank A/c. _____ Dr.

To 12% Debenture Application A/c.

(Application money received)

(2) On transfer of application money to Debenture Account.

12% Debenture Application A/c. _____ Dr.

To 12% Debentures A/c.

(Application money transferred)

(3) On refund of money to totally rejected applications :

12% Debenture Application A/c. _____ Dr.

To Bank A/c.

(Application money returned on rejected application)

(4) On the transfer of surplus application money on partially accepted applications.

12% Debenture Application A/c. _____ Dr.

To 12% Debenture Allotment A/c.

(Transfer of excess application money to allotment A/c.)

(5) On making allotment money due :

12% Debenture Allotment A/c. _____ Dr.

To 12% Debentures A/c.

(Allotment money due)

(6) On receipt of allotment money :

Bank A/c. _____ Dr.

To 12% Debenture Allotment A/c.

(Allotment money received)

(7) On making the call money due :

12% Debenture First call A/c. _____ Dr.

To 12% Debentures A/c.

(First call money due)



(8) On receipt of call money :

Bank A/c. _____Dr.

To 12% Debenture First call A/c.

(First call money received)

Note : Similar entries may be made for the second call and final call.

1. Issue of Debentures at par : When the debentures are issued at same price, their face value, they are said to have been issued at par. For example, if a debenture of ₹ 100 is issued at ₹ 100.

2. Issue of Debenture at premium : When the debenture are issued at more than their face value. They are said to have been issued at premium. For example if a debenture of ₹ 100 is issued at ₹ 110, ₹ 10 is the premium, which is a gain to the company. This premium should not be treated as a revenue profit as it is not an income arising from the normal course of business operations. It is a capital profit and should, therefore, be used in writing off the capital losses such as discount on issue of shares and debentures, premium on redemption of debentures, preliminary expenses, goodwill, patents etc.

3. Issue of Debentures, at Discount : When the company issues debentures at a price which is less than their face or nominal value, the debentures are said to have been issued at a discount. There are no restrictions in the companies Act regarding the maximum limit for discount on debentures.

Note : Treatment of Discount/Loss on issue of debentures. As per AS-16, borrowing costs and discount on issues or premium on redemption relating to borrowing could be amortized over loan period.

Unamortized portion of such expenses be shown on the assets side of the balance sheet under the head current/Non-current assets' Depending on whether the amount will be amortized in the Next 12 months or thereafter.

Issue of Debentures for consideration other than cash—A company purchases some assets from the vendor and instead of paying the vendor in cash, the company may decide to issue debentures to the vendor in payment of purchases for consideration. Such an issue of debentures to vendors is known as issue of debentures for consideration other than cash.

Journal entries :

(i) On the Purchase of assets :

Assets A/c. _____Dr.

To vendor's A/c.

(ii) For the issue of debentures to vendor at par.

Vendor's A/c. _____Dr.

To Debentures A/c.

(iii) For the issue of debentures to vendor at premium.

Vendor's A/c. _____Dr.

To Debentures A/c.

To Securities Premium Reserve A/c.

(iv) For the issue of debentures to vendor at discount.

Vendor's A/c. _____Dr.

Discount on Debentures A/c. _____Dr.

To Debentures A/c.

INTEREST ON DEBENTURES

Interest on debentures is usually paid half-yearly. Interest on debentures is a charge against the profits of the company. It has to be regularly even if the company suffers a loss or does not earn profit. The rate of interest payable on debentures is pre fixed on debentures. As per income Tax Act a company is required to deduct income tax at the prescribed rate from the gross amount of debenture interest before any amount is paid to the debenture holders. The tax thus deducted is to be deposited in Government Account on behalf of the debenture holders.

(i) Interest accrued and due : If a company pays interest on debentures half yearly on 30th June and 31st December while preparing the balance sheet on 31st March, 2004. If the interest for the period ending 31st December 2003 remains unpaid it will be called 'interest accrued but due'.

(ii) Interest accrued but not due : If a company pays interest on debentures half yearly on 30th June and 31st December, while preparing the balance sheet on 31st March, 2004, the interest for the period from 1st January 2004 to 31st March, 2004 will be called 'interest accrued but not due'.

Note—Both the types of accrued interest will be shown in the current liabilities in the balance-sheet.

Journal entries are passed for interest on debentures :

(i) When interest is due and tax is deducted at source (TDS)

Interest on Debentures A/c. _____Dr.

To Debenture holders A/c.

To TDS A/c.

(Interest due to debenture holders and the deducted at source)

(ii) When interest is paid to the debenture holders:

Debenture holders A/c. _____Dr.

To Bank A/c.

(Payment of interest)

(iii) On payment of tax deducted at source.

TDS A/c. _____Dr.

To Bank A/c.

(Depositing the amount of TDS in Government Account)

(iv) On transfer of debenture interest to statement of profit and loss at the end of the year :

Statement of profit & Loss A/c. _____Dr.

To interest A/c.

(Interest transferred to statement of P/L A/c.)

Redemption of Debentures :

Redemption of debentures means repayment of the amount of debentures to debenture holders. In other



words redemption refers to discharge of liability on account of debentures by repaying the due amount of debentures.

Sources of Finance for the Redemption of Debentures

Amount required for the redemption of debentures. May be managed by a company from the following sources.

- (i) Redemption from the proceeds of fresh issue of shares and debentures.
- (ii) Redemption of Debentures out of capital.
- (iii) Redemption of Debentures out of profits.

SEBI Guidelines for redemption of debentures :

- (i) The creation of Debenture Redemption Reserve (DRR) is obligatory only for non-convertible debentures and non convertible portion of partly convertible debentures.
- (ii) A company shall create DRR equivalent to at least 25% of the amount of debentures issued before starting the redemption of debentures :

Exemptions to the Rule of creating DRR :

Following categories of companies are exempt from creating DRR :

- (1) All India Financial Institutions (AIFIs) regulated by Reserve Bank of India :
- (2) Other Financial Institutions regulated by R.B.I.
- (3) Banking companies for both public as well as privately placed debentures.
- (4) Housing Finance Companies registered with the National Housing Bank :

Note : Debenture Redemption Reserve is shown on the Equity and Liabilities part of the Balance-sheet under the head "shareholders Fund" and sub-head 'Reserves and surplus'. When all the debentures have been redeemed. Debenture Redemption Reserve Account is closed by transferring the amount to General Reserve. The entry passed is –

Debenture Redemption Reserve A/c. _____ Dr.
To General Reserve A/c.

Methods of Redemption of Debentures :

- (1) Lump-sum payment at the end of fixed period.
- (2) Redemption of Debentures in installments.
- (3) By the purchase of own debentures in the open market.
- (4) By conversion into shares.

(1) Lump-sum payment at the end of fixed period– Under this method, the company redeems whole of its debentures in one lump-sum at the expiry of a specified period, at maturity date of the debentures or earlier at the option of the company.

The journal entries in this method are–

- (i) At the beginning of financial year (upto 30th April)

Debenture Redemption Investment A/c. _____ Dr.
To Bank A/c.

- (ii) At the time of redemption on encashing investment

Bank A/c. _____ Dr.

To Debenture Redemption Investment A/c.

- (iii) On transfer of projects from surplus instatement of P&L

Surplus in instatement of profit & Loss A/c. _____ Dr.

To Debenture Redemption Reserve A/c.

- (iv) On redemption of debentures :

- (a) Debentures A/c. _____ Dr.

To Debenture holders A/c.

- (b) Debenture holders A/c. _____ Dr.

To Bank A/c.

- (v) When all the debentures are redeemed :

Debenture Redemption Reserve A/c. _____ Dr.

To General Reserve A/c.

(2) Redemption of debentures in Installments by drawing of lots :

In this method, the debentures are redeemed in annual installments and debentures are redeemed at par or at a premium, according to the terms of issue. This procedure is known as “drawing by lots”.

(3) Redemption of debentures by the purchase of own debentures in the open market :

A company can, if authorized by its articles of association, redeem its debentures by purchasing them in the open market. Open market means purchasing own debentures from the stock market. This procedure is usually adopted by the company only when its debentures are quoted at a discount on the stock exchange.

Note–(1) It is assumed that the company has sufficient balance in Debenture Redemption Reserve before initiating the purchase of debentures for cancellation. Hence, unless otherwise stated, there is no need to create DRR in this method.

(2) Also assume that required investment @ 15% has been made. Hence there is no need to make investment.

(4) Redemption by conversion into shares : At the time of issue of debentures a company gives the debenture holders a privilege that they can get their debentures converted into shares after the expiry of a specified period. This facility is provided to attract more public to apply for the debentures at the time of issue. Such debentures are called convertible debentures.

Rules Application to conversion of debentures :

SEBI Guidelines require that where the conversion is to be made at or after 18 months from the date of allotment but before 36 months, any conversion in part or whole shall be optional on the part of the debenture holders. The premium amount and the time of conversion shall be fixed at the time of issue.

Note–There is no requirement of creating a ‘Debenture Redemption Reserve in case of redemption by conversion since no cash outflow will take place.



Accounting treatment :

Debentures A/c. _____ Dr.

To Debenture holders A/c.

Debenture holders A/c. _____ Dr.

To share capital A/c.

Note—If the new shares are issued at a premium, the entry will be—

Debenture holders A/c. _____ Dr.

To Share Capital A/c.

To Securities Premium Reserve A/c.

Accounting for issue of Debentures considering the terms and conditions of Redemption.

(1) When debentures are issued at par and are redeemable at par :

For Issue—

(a) Bank A/c. _____ Dr.

To Debenture Application & Allotment A/c.

(b) Debenture Application & Allotment A/c. _____ Dr.

To Debentures A/c.

For Redemption :

(a) Debentures A/c. _____ Dr.

To Debenture holders A/c.

(b) Debenture holders A/c. _____ Dr.

To Bank A/c.

(2) When debentures are issued at a discount and are redeemable at Par :

For issue :

(a) Bank A/c. _____ Dr.

To Debenture Application & Allotment A/c.

(b) Debenture Application & Allotment A/c. _____ Dr.

Discount on issue of debentures A/c. _____ Dr.

To Debenture A/c.

For redemption

(a) Debentures A/c. _____ Dr.

To Debenture holders A/c.

(b) Debenture holders A/c. _____ Dr.

To Bank A/c.

(3) When debentures are issued at a premium and are redeemable at par :

For issue :

(a) Bank A/c. _____ Dr.

To Debenture Application & Allotment A/c.

(b) Debenture Application & Allotment A/c. _____ Dr.

To Debentures A/c.

To Securities Premium Reserve A/c.

For redemption

(a) Debentures A/c. _____ Dr.

To Debenture holders A/c.

(b) Debenture holders A/c. _____ Dr.

To Bank A/c.

(4) When debentures are issued at par and are redeemable at a premium :

For Issue

(a) Bank A/c. _____ Dr.

To Debenture Application & Allotment A/c.

(b) Debenture Application & Allotment A/c. _____ Dr.

Loss on Issue of Debentures A/c. _____ Dr.

To Debenture A/c.

To Premium on Redemption of Debentures A/c.

For redemption :

Debentures A/c. _____ Dr.

Premium on Redemption of Debentures A/c. _____ Dr.

To Debentures A/c.

Debenture holders A/c. _____ Dr.

To Bank A/c.

(5) When debentures are issued at a discount and are redeemable at a premium :

For Issue—

(a) Bank A/c. _____ Dr.

To Debenture Application & Allotment A/c.

(b) Debenture Application & Allotment A/c. _____ Dr.

Loss on issue of Debentures A/c. _____ Dr.

To Debentures A/c.

To Premium on Redemption of Debentures A/c.

For redemption—

(a) Debentures A/c. _____ Dr.

Premium on Redemption of debentures A/c. _____ Dr.

To Debenture holders A/c.

(b) Debenture holders A/c. _____ Dr.

To Bank A/c.

Partnership

Meaning

Partnership is a form of organization where two or more people come together to establish business and share its profits. Each person is known as partner of the firm and the name under which business is carried on is known as "Firm Name".

According to section 4 of Indian Partnership Act, 1932

"The relation between persons who have agreed to share the profits of a business carried on by all or anyone of them acting for all"

The characteristics of partnership are as follow.

- **Two or more person** – There must be a minimum number of two partners required to constitute a partnership firm
- **Agreement** – Partnership is product of agreement between persons who have agreed to share profit or losses of the firm. It is worthwhile to note that this agreement can be both in written as well as oral form, but avoid disputes/clashes people tend to make it in written form.



- **Business** – It is also a necessary factor for existence of partnership. Mere joint ownership of a property does not constitute a partnership but operation of business must be there.
- **Mutual Agency** – This is most important element in the partnership firm as the definition of partnership says "carried on by all or any of them acting for all."
It means that each partner is principle as well agent of other partners. He can bind every partners by his acts and is also bound by acts of other partners of the firm.
- **Liability** – Every partner is jointly and severally liable to the third party for the acts of the firm and the liability of every partner is unlimited which means that their private property can be claimed to pay off firms debt.

Partnership Deed

Partnership deed is a document that contains all rules and regulations, as well as terms and conditions that affect relationship among partners. This deed can be altered be prepared as per provision of 'stamp act' and preferably registered with the Registrar of Firms.

Contents of Partnership deed

- Name and Addresses of the firm and its main business.
- Name and Address of all partners.
- Amount of capital to be contributed by each partner.
- The Accounting period of firm.
- The date of commencement of partnership.
- Rules Regarding operation of bank Accounts.
- Profit and Loss sharing ratio.
- Rate of interest on capital, loan, drawing etc.
- Mode of Auditor appointment, if any.
- Salaries, commission, etc, if payable to any partner.
- The rights, duties, liabilities of each partner.
- Treatment of loss arising out of insolvency of one or more partners.
- Settlements of accounts on dissolution of the firm.
- Method of settlement of disputes among the partners.
- Rules of be followed in case of admission, retirement, death of a partner.
- Any other matter relating to conduct of business

Rules Applicable in Absence of Partnership Deed

Following Rules are applicable in case of Absence of partnership deed among partners.

- (i) **Profit Sharing Ratio** – Profit and losses are equally divided among partners irrespective of capital contributed by them.
- (ii) **Interest on capital** – No interest on capital shall be allowed to partners.
- (iii) **Interest on Drawing** – No interest on drawing is charged on partner.

- (iv) **Salary to partner** – No salary is paid to the partner whether he has taken part in the conduct of business or not.
- (v) **Interest on Loan** – Interest @ 6% P.A. is paid to the partner loan to firm and this interest is paid even if there are losses.
- (vi) **Participation** – Each partner can participate in the conduct of business.

Need for Providing Interest on Capital

Interest on capital is the money provided by firm to partners on their capital contribution at the rate agreed in the deed. However if the deed is silent then no interest on capital is provided to partners. The reasons for providing Interest on capital is as follow.

- (a) Sometimes Partner's decide to share profit equally irrespective of their capital contribution in the firm in such cases the partner with more capital gets equal profit. So to compensate this loss interest of capital is provided.
- (b) Sometimes partner share profit in a specific ratio and their capital contribution remains equal them also in such condition interest on capital compensates the partner with share.

Calculation of interest on capital

Interest on capital is charged on the opening capital of partner's. Following entry is passed for the distribution of interest on capital.

On Allowing Interest on Capital.

Interest on capital A/c Dr.

To partner's capital A/c

(Being interest provided to partner)

On closure of Interest on capital.

Profit and Loss Appropriation A/c Dr.

To Interest on capital Ac/

(Being Interest on capital transferred to P & L Appropriation Account)

Goodwill

According to Lord Eldon

"Goodwill is nothing more than the probability that the old customers will resort to the old place."

It is intangible asset of business because it has no physical existence. There are two types of goodwill in business.

1. **Purchased Goodwill** – It is a goodwill which comes into books of accounts through purchase consideration. When a business purchases another business then excess of liabilities over assets is referred to as goodwill.
2. **Inherent Goodwill** – It is self generated goodwill of business by virtue of hard work and time.

Methods of valuation of goodwill.

- (1) **Average Profit Method** – This methods calculates goodwill on the basis of past year profits. The averages of such profits is multiplied by number of year purchased to find out goodwill.

Goodwill = Average Profit × Number of years of purchase



2. **Super Profit Method** – This method calculates goodwill on the basis of above the average profit earned in the same industry. For example a firm named X earns a profit of ₹ 50,000 in a industry for capital investment of ₹ 1,00,000. However, the average profit earned in the industry for the same is 25%. Therefore it is earning super profit of 50,000 – 25,000 = 25,000

At last, Goodwill is calculated by multiplying number of purchase.

- (a)
$$\text{Normal profit} = \frac{\text{Capital invested} \times \text{Normal rate of return}}{100}$$
- (b) Super Profit = Actual or average profit – Normal profit
- (c) Goodwill = Super profit × No. of years purchased.

3. **Capitalisation Method** – It consist of two methods for calculation of goodwill.

(i) **Capitalisation of Average profit method** – Under this method first average profit is calculated and then the capital needed for earning such profit with the help of normal rate of return. This value is called capitalised value of average profit. And at last actual capital employed in the business is deducted from capitalised value of average profit of find goodwill of business.

Capitalised value of average profits

$$= \text{Average Profit} \times \frac{100}{\text{Normal Rate of Return}}$$

(ii) **Capitalisation of Super Profit Method** – Under this method, firstly super profit is calculated then the capital needed for earning such super profit. The amount so calculated is the amount of goodwill.

$$\text{Goodwill} = \text{Super Profit} \times \frac{100}{\text{Normal Rate of Return}}$$

Capital Account of partner

Under partnership firm, A separate capital account for every partner is opened for recording various transactions such as interest on capital, interest on drawing, distribution of profits or reserves etc. However, they are maintain under two types

- I. **Fixed Capital Account** - Under this method, two accounts are opened namely current account and capital account. Current account records all transactions of business such as interest on capital ' interest on drawing, undistributed profit whereas capital account records only transaction related to opening capital, closing capital, additional capital etc.
- II. **Fluctuating capital account** - Under this method only one account is prepared namely capital

account .It records all entries of business itself and the capital of business goes on changing from time to time throughout the year.

Admission of a Partner

According to Indian Partnership Act, 1932, A new partner can only be admitted into firm with the consent of all existing partners unless otherwise agreed upon.

Need for Admission of New partner.

A new partner may be admitted into business due to following reasons.

- For expansion of business when more funds are needed.
- For admitting a person with high reputation in society to increase goodwill of business.
- To admit a person with high and efficient managerial skills to manage business.

Following factors are taken into account at the time of admission of partner.

1. **Profit Sharing Ratio** – After admission of a partner, the new profit sharing ratio among partner is calculated

(i) **Gaining Ratio** – It is excess of new ratio over old ratio so that a partner get more profit than before he was earning.

Gaining ratio = New ratio – old ratio

(ii) **Sacrificing ratio** – It is excess of old ratio over new ratio so that a partner is getting less profit than before he was earning.

Sacrificing ratio = Old Ratio – New Ratio

2. **Accounting treatment of goodwill** – The incoming partner brings in his amount of share of goodwill to compensate the sacrificing partner.

Following entry are passed in this regard.

- Cash/Bank A/c Dr.
To Premium for goodwill A/c.
(Being goodwill bought by new partner)
- Premium for goodwill A/c Dr.
To Sacrificing Partner Capital A/c
(Being amount of Premium credited to old partner capital account)
when goodwill is withdrawn by partner then following entry is passed.
- Existing Partner's capital A/c Dr.
To Bank A/c
(Being amount of goodwill withdrawn by existing partner)

Revaluation of assets and liabilities.

At the time of admission of partner, Asset and Liabilities of business are revalued for that a revaluation account is prepared.

Dr.		Revaluation Account		Cr.	
Particulars	₹	Particulars	₹		
To Increase in value of Liabilities.	xxx	By Increase in value of Assets.	xxx		
To Decrease in value of Assets.	xxx	By Decrease in value of liabilities	xxx		
To unrecorded liabilities	xxx	By Unrecorded assets	xxx		
To profit on revaluation	xxx	By Loss on Revaluation	xxx		

Treatment of Reserve and Accumulated Profit or Losses.

If there is any reserve fund, or accumulated profit or loss then it must be transferred to old partners in their old profit sharing ratio.

General Reserve A/c Dr.

Reserve fund A/c Dr.

Profit and Loss A/c Dr.

To old Partner capital A/c.

If there are any specific reserve such as work men compensation reserve or investment fluctuation reserve it also must be transferred to old partner capital account is old ratio.

Workmen Compensation Reserve A/c Dr.

Investment Fluctuation Reserve A/c Dr.

To old partner capital A/c

Retirement of partner.

A partner has right to retire from firm with his consent after giving due notice in advance. The outgoing partner is entitled to get following amount of his share.

- Share in Reserve** – The outgoing partner is entitled to get his share in the business of firm so that his share in reserve or undistributed profit is credited in his account.
- Share in Goodwill** – The retiring partner share of goodwill is credited to this capital account.
- Share in Revaluation of Assets and Liabilities** – The Assets and Liabilities of business are revalued at the time of retirement of partner and his share of profit/loss is credited/debited to his account.
- Share in Profit** – An outgoing partner also gets his shares in profit upto the date of retirement. The total amount due to the outgoing partner is either paid to him in cash or credited to his loan account.

The following deductions are also made to him before making any payment.

- His share of accumulated losses (if any)
- His share of loss on revaluation (if any)
- His Drawing.
- His interest on drawing

Death of Partner

In event of a death of partner, the same accounting treatment follows as in case of retirement of partner.

However the amount due to the partner is credited to his executor account.

Dissolution of partnership firm

According to section 39 of The Partnership Act, 1932 the dissolution of partnership between all the partners of a firm is called dissolution of partnership firm.

This leads to end of business of the firm and selling its assets and disposing liabilities plus payment of the claims of partners are done.

Dissolution of Partnership v/s Dissolution of Partnership Firm – One thing to be noted is that there is difference between dissolution of partnership and dissolution of partnership firm.

Dissolution of partnership means change in relation between partners. This happens due to following reasons.

- Change in profit sharing ratio
- Admission of partner
- Retirement of partner
- Death of partner
- Completion of project
- Death of partner
- Completion of project
- Expiry of period of partnership

In such cases, the partnership with changed rule goes on but in case of dissolution of partnership firm, the partnership business comes to an end.

Types of Dissolution of partnership firm.

1. Dissolution by Agreement - A firm in such cases is dissolved.

- with consent of all partners.
- In accordance with contract with partners.

2. Compulsory Dissolution– This Dissolution happens in the following cases.

- when all or one except all partner become insolvent.
- when the business of firm becomes illegal.

3. Dissolution by Notice – This happens in case of partnership at will, In such cases any partner can give notice to other partner seeking dissolution of firm.

4. Dissolution by court – Under some circumstances court may order dissolution of partnership firm such as.

- when partner become incapable of performing his duties.
- when partner become insane.

5. Happening of certain contingencies – Under this case, the partnership if constituted for fixed term, may get terminated on expiry of such term.

Realisation Account

This account is prepared to ascertain the profit or loss on realisation of asset and payment of liabilities. All the asset of business except cash in hand and cash at bank



are transferred to this account and all external liabilities of business are also transferred.

It also accounts for realisation of Assets and Payment of Liabilities as well as realisation expenses. The balance at

Dr.

Realisation A/c.

Cr.

Particulars	₹	Particulars	₹
To Intangible Assets	xxx	By Bank Loan mortgage	xxx
To Land and Building	xxx	By Sundry creditors	xxx
To Plant and Machinery	xxx	By Bills Payable	xxx
To Furniture and Fitting	xxx	By Bank overdraft	xxx
To Loan to other Parties	xxx	By Outstanding expenses	xxx
B/R	xxx	By Provision for Doubtful Debts	xxx
To Sundry Debtor	xxx	By Cash/bank	xxx
To Cash	xxx	(Sales of Assets)	xxx
(Payment of Liabilities)	xxx	By Partner capital account	
To Cash/Bank		(Asset taken by partner)	xxx
(Payment of unrecorded liabilities)	xxx	(Loss)	
To Partner capital account	xxx	Transferred to partner capital account	xxx
To Investment	xxx	(Loss)	
(Liability assumed by partner)	xxx	Transferred to partner investment	
To Profit (Transferred to partner capital account in PSR)		Fluctuation Fund	
Total			
	xxxx		xxxx

2. **Partner's Loan Account** – Suppose, if there is any partner loan appearing in the books of the firm, it will be paid-off after paying all outside liabilities. Following entry is passed for that.

Partner loan A/c Dr.

To Bank A/c

(Being partner's loan paid off.)

3. **Partner's Capital Account** – After that profit or loss on realisation is transferred to capital account of partners along with undistributed reserve funds and then their accounts are closed in following manner.

(i) when to clear debit balance, partners are required to bring in cash

Cash/Bank A/c Dr.

To Partner's Capital

(Being cash Brought by partner)

(ii) when a partner are paid the credit balance of their account.

Partner Capital A/c Dr.

To Cash A/c

(Being money paid to partner)

4. **Cash Account** – At last this account is prepared in which total receipts and total payment are recorded where both sides of this account should be equal.

Capital and Revenue Receipts

1. Capital receipts are receipts which do not arise out of normal course of business. Examples of such receipts are sale of fixed assets, and raising of loan etc. Such receipts are not treated as income of the enterprise.

the end denotes profit or loss on realisation which is transferred to partner's capital account in their profit sharing ratio.

Revenue receipts are receipts which arise during the normal course of business, sale of goods, rent from tenants, dividend received etc, are some of the examples of revenue receipts. They are the items of incomes of the business entity.

The differences between capital receipts and revenue receipts are-

Basis	Capital receipts	Revenue receipts.
Meaning	The amount received in form of capital introduced, loan taken and sale proceeds of the fixed assets is known as capital receipts.	The amount received mainly by selling of goods and service is known as revenue receipts.
Nature	These are of capital nature and hence are not treated as items of income of the business.	These are of revenue nature and hence are treated as items of income of the business.
Shown	Capital receipts are shown on the liabilities side of balance sheet.	Revenue receipts are shown at the credit of either trading account or profit and loss account.

Source	Receipt that do not arise during the normal course of business.	Receipt that arise during normal course of business.
Occurrence	These are of non-reducing in nature.	These are recurring in nature.
Examples	Sale of fixed assets, capital contribution and loan taken etc. are some example of capital receipts.	Profit on sale of assets. Sale of goods. Interest received on loans (advanced) royalty, etc. are some examples of revenue receipts.

Capital and Revenue Profit

Revenue profits are those profits that are earned in the normal and ordinary course of business i.e.. Through regular sales of goods or by way of income from investment. Capital profits, on the other hand, are those profits which are not earned in the course of regular trading. Such profits arise as a result of

- (i) Selling some fixed assets at a profit or
- (ii) Shares issued at a premium.

The revenue profits are credited to profit and loss account whereas the capital profits are transferred to capital to capital reserve and shown in the balance sheet.

Capital and Revenue Losses:

Revenue losses are those losses that arise during the normal course of business. The capital losses are losses which arise on account of the sale of some fixed assets or on issue of shares at a discount. Capital losses are not shown in the Profit and Loss account. They are generally set off against capital profit. However, if the amount of capital loss heavy and capital profits are not available for writing it off, the same is spread over a number of years. It will be written off in installments.

Meaning of Depreciation:

Depreciation may be described as a permanent, continuing and gradual shrinkage in the book value of fixed assets. It is based on the cost of assets consumed in a business and not on its market value.

Accounting standard-6 issued by The Institute of chartered Accountants of India (ICAI) defines depreciation as "a measure of the wearing out. Consumption or other loss of value of depreciable assets arising from use, effluxion of time or obsolescence through technology and market change. Depreciation is allocated so as the charge fair proportion of depreciable amount in each accounting period during the expected useful life of the asset. Depreciation Includes amortisation of assets whose useful life is pre-determined."

According to Institute of Cost and Management Accounting, London (ICMA) terminology "The depreciation is the diminution in intrinsic value of the asset due to use and/or lapse of time."

Features of Depreciation:

1. Decrease in the book value of fixed assets.
2. Non-Cash Expenses.
3. Charge against Profit.
4. Tax benefit.
5. It is a continuing process.

Methods of Calculating Depreciation Amount:

As per Accounting Standard-6, the selected depreciation method should be applied consistently from period to period charge in depreciation method may be allowed only under specific circumstances.

1. Straight line method: It is also called fixed Installment method because the amount of depreciation remains constant from year to year over the useful life of the assets. According to this method, a fixed and an equal amount is charged as depreciation in every accounting period during the life time of an assets. The amount annually charged as depreciation is such that it reduces the original cost of the asset to its scrap value, at the end of its useful life.

The depreciation amount to be provided under this method is computed by using the following formula-

$$\text{Depreciation} = \frac{\text{Cost of assets} - \text{estimated net residual value}}{\text{Estimated useful life of the assets}}$$

Rate of depreciation under Straight line method is the percentage of the total cost of the assets to be charged as depreciation during the useful lifetime of the assets.

Rate of depreciation is calculated as follow-

$$\text{Rate of depreciation} = \frac{\text{Annual depreciation amount}}{\text{Acquisition cost}} \times 100$$

Advantages of straight line method:

Straight line method has certain advantages which are stated below-

This method is suitable for those assets whose useful life can be estimated accurately and where the use of the asset is consistent from year to year such as leasehold building.

It is very simple, easy to understand and apply Simplicity makes it a popular method in practice.

Asset can be depreciated up to the net scrap value or zero value. Therefore, this method makes it possible to distribute full depreciable cost over useful life of the asset.

Limitations of Straight Line method:

This method is based on the faulty assumption of same amount of the utility of an asset in different accounting years;

With the passage of time, work efficiency of the asset decreases and repair and maintenance expense Increases. Hence, under this method, the total amount

