Keshav Memorial Institute of Commerce & Sciences, Narayanaguda

Department of Commerce

Name of the Faculty: B Ujjivani

Subject: Advanced Accounting

Subject Code: DSC301

Credit Points: 5

Stream: B.Com Hons, B.Com Gen, B.Com Computer Applications,B.Com Business Analytics

Semester: III

E-Material: Synopsis

Syllabus:

Paper DSC 301: ADVANCED ACCOUNTING

Objective: *To acquire accounting knowledge of partnership firms and joint stock companies*

UNIT-I: PARTNERSHIP ACCOUNTS-I:
Meaning – Partnership Deed - Capital Accounts (Fixed and Fluctuating) – Admission of a Partner – Retirement and Death of a Partner (Excluding Joint Life Policy)(Including problems)

UNIT-II: PARTNERSHIP ACCOUNTS–II:
Dissolution of Partnership – Insolvency of a Partner (excluding Insolvency of all partners) – Sale to a Company (Including problems)

UNIT-III: ISSUE OF SHARES, DEBENTURES, UNDERWRITING AND BONUS SHARES:
Issue of Shares at par, premium and discount – Pro-rata allotment – Forfeiture and Re-issue of Shares – Issue of Debentures with Conditions of Redemption – Underwriting: Meaning – Conditions- Bonus Shares: Meaning – SEBI Guidelines for Issue of Bonus Shares – Accounting of Bonus Shares(Including problems)

UNIT-IV: COMPANY FINAL ACCOUNTS AND PROFIT PRIOR TO INCORPORATION:
Companies Act 2013: Structure – General Instructions for preparation of Balance Sheet and Statement of Profit and Loss – Part-I: Form of Balance Sheet – Part-II: Statement of Profit and Loss – Preparation of Final Accounts of Companies - Profits Prior to Incorporation- Accounting treatment. (Including problems)

UNIT-V: VALUATION OF GOODWILL AND SHARES:
Valuation of Goodwill: Need – Methods: Average Profits, Super Profits and Capitalization Methods -Valuation of Shares: Need –Net Assets, Yield and Fair Value Methods. (Including problems)

SUGGESTED READINGS:

1. Principles and Practice of Accounting: R.L. Gupta & V.K. Gupta,Sultan Chand & Sons.
2. Advanced Accountancy: Shukla and Grewal, S.Chand& Co.
3. Advanced Accountancy: R.L.Gupta&Radhaswamy, Sultan Chand & Sons.
4. Advanced Accountancy (Vol-II): S.N.Maheshwari&V.L.Maheswari, Vikas.
5. Advanced Accountancy: Dr. G. Yogeshwaran, Julia Allen - PBP
6. Accountancy–III: Tulasian, Tata McGraw Hill Co.
7. Advanced Accountancy: Arulanandam; Himalaya.
8. Accountancy–III: S.P. Jain & K.L Narang, Kalyani Publishers.
9. Guidance Note on the Revised Schedule VI to the Companies Act, 1956, The Institute of Chartered Accounts of India.
10. Advanced Accounting (IPCC): D. G. Sharma, Tax Mann Publications.

Unit-I

Partnership Accounts- I

The Indian Partnership Act, 1932, governs partnerships in India. Here are some basics of the act:

1. **Definition of Partnership**: According to the act, a partnership is the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all.
2. **Partnership Deed**: While not mandatory, it's advisable for partners to have a written agreement known as a Partnership Deed. This deed typically includes details such as profit-sharing ratios, responsibilities of each partner, capital contributions, etc.
3. **Minimum and Maximum Partners**: The act requires a minimum of 2 partners to form a partnership, while the maximum number of partners can't exceed 100 in case of banking and 20 in other cases.
4. **Rights and Duties of Partners**: Partners in a firm have certain rights and duties as defined by the act. This includes the right to participate in the management, access to books and information, and the duty to act in good faith and with the utmost loyalty towards the firm.
5. **Liability of Partners**: Partnerships are typically characterized by unlimited liability, meaning each partner is personally liable for the debts and obligations of the firm. This means that creditors can go after the personal assets of the partners to settle the firm's debts.
6. **Profit Sharing**: The act specifies that profits and losses of the partnership are shared among the partners as per the partnership deed. In the absence of a partnership deed, profits and losses are shared equally among partners.
7. **Management of Partnership**: Unless otherwise agreed, every partner has the right to take part in the management of the partnership business.
8. **Dissolution of Partnership**: The partnership may be dissolved in various ways such as by agreement among partners, by the expiry of the term mentioned in the partnership deed, by mutual consent, by court order, or by the death or insolvency of a partner.

In the context of partnership accounting, the terms "fixed capital method" and "fluctuating capital method" refer to two different approaches for maintaining capital accounts and distributing profits and losses among partners. Here's an overview of each method:

1. **Fixed Capital Method**:
   - In the fixed capital method, partners' capital accounts are maintained based on their initial contributions to the partnership.
   - Each partner's capital account remains fixed unless there are specific agreements or events that trigger changes, such as additional investments, withdrawals, or adjustments based on the partnership agreement.
   - Profits and losses are typically allocated among partners based on their fixed capital contributions, regardless of changes in the partnership's performance or financial position.

- This method provides stability and predictability in the allocation of profits and losses among partners, as each partner's share is determined by their initial investment.

Dr. Cr.

Partners capital account

Date	Particulars	A Rs.	B Rs.	Date	Particulars	A Rs.	B Rs.
	To Cash/Bank A/c (permanent withdrawal of capital	xxx	xxx		By Balance b/d	xxx	xxx
					By Cash/Bank A/c (additional capital introduced)	xxx	xxx
	To Balance c/d	xxx	xxx			**xxx**	**xxx**
		xxx	xxx			xxx	xxx

Date	Particulars	A Rs.	B Rs.	Date	Particulars	A Rs.	B Rs.
	To Balance b/d*	xxx	xxx		By Balance b/d*	xxx	xxx
	To Drawings A/c	xxx	xxx		By Interest on capital A/c	xxx	xxx
	To Interest on drawings A/c	xxx	xxx		By Salary A/c	xxx	xxx
	To Profit and loss appropriation A/c (share of loss)	xxx	xxx		By Commission A/c	xxx	xxx
					By Profit and loss appropriation A/c (share of profit)	xxx	xxx
	To Balance c/d'*	xxx	xxx		By Balance c/d**	xxx	xxx
		xxx	xxx			xxx	xxx

Note : The opening balance may be either credit balance or debit balance for a partner.

2. **Fluctuating Capital Method**:
   - In the fluctuating capital method, partners' capital accounts are adjusted periodically to reflect changes in the partnership's financial position, such as profits, losses, additional investments, and withdrawals.
   - Partners' capital account balances may fluctuate over time based on the partnership's performance and financial transactions.
   - Profits and losses are typically allocated among partners based on their current capital account balances at the time of allocation, rather than their fixed capital contributions.
   - This method allows for a more dynamic and responsive allocation of profits and losses, as partners' shares are adjusted based on their current stake in the partnership.

Dr. **Partners' capital account** Cr.

Date	Particulars	A Rs.	B Rs.	Date	Particulars	A Rs.	B Rs.
	To Cash / Bank A/c (capital withdrawn)	xxx	xxx		By Balance b/d	xxx	xxx
	To Drawings A/c	xxx	xxx		By Cash / Bank A/c (additional capital introduced)	xxx	xxx
	To Interest on drawings A/c	xxx	xxx		By Interest on capital A/c	xxx	xxx
	To Profit and loss appropriation A/c	xxx	xxx		By Salary A/c	xxx	xxx
	(share of loss)	xxx	xxx		By Commission A/c	xxx	xxx
	To Balance c/d	xxx	xxx		By Profit and loss appropriation A/c (share of profit)	xxx	xxx
		xxx	xxx			xxx	xxx

Each method has its advantages and may be suitable for different types of partnerships or business environments.

A Profit and Loss (P&L) Appropriation Account, also known as an Income and Expenditure Account or an Appropriation Account, is a financial statement that shows how the net profit or loss of a business entity has been appropriated or distributed among various stakeholders such as shareholders, retained earnings, reserves, etc.

The purpose of the P&L Appropriation Account is to provide a clear picture of how the profits or losses of the business are being distributed or allocated among different parties. It helps stakeholders understand how the company is managing its earnings and whether it is reinvesting profits for future growth or distributing them to shareholders.

Dr. **Profit & Loss Appropriation A/c** Cr.

Particulars	Rs.	Particulars	Rs.
To Interest on loan from Partner	xxx	By Net Profit as per Profit & Loss A/c	xxx
Interest on Capital	xxx	Interest on Drawings	xxx
Salary on Commission to Partners	xxx		
Transfer to Reserve	xxx		
Net Profit Transferred to Capital/Current Account of Partners	xxx		
	xxx		xxx

The admission of a partner in a partnership, as per the Partnership Act of 1932 (which governs partnerships in India), involves several steps and considerations. Here's a general overview:

1. **Consent of Existing Partners:** The existing partners must consent to the admission of a new partner. Unanimous consent is typically preferred, but the partnership agreement may specify a different requirement.
2. **Agreement:** A new partnership agreement or an amendment to the existing partnership agreement is usually made to reflect the terms and conditions of the admission of the new partner. This agreement outlines the rights, responsibilities, profit-sharing ratios, capital contributions, etc., of the new partner.
3. **Valuation of the Firm:** If the new partner is required to contribute capital to the partnership, the value of the partnership's assets and liabilities may need to be assessed to determine the appropriate capital contribution.
4. **Capital Contribution:** The new partner typically contributes capital to the partnership, either in the form of cash, assets, or goodwill. The amount of capital contributed may vary depending on the terms agreed upon in the partnership agreement.
5. **Public Notice:** In some jurisdictions, the admission of a new partner may require public notice to be given to creditors and the general public. This helps protect the interests of existing creditors who may have claims against the partnership.
6. **Documentation:** Legal documentation, such as a partnership deed or an amended partnership deed, is prepared to formalize the admission of the new partner. This document should outline the terms and conditions of the partnership, including the rights and obligations of all partners.

- A revaluation account is a financial account used to record changes in the value of assets or liabilities of a business, typically as a result of a revaluation process. This process involves reassessing the carrying amount of assets and liabilities to reflect their fair market value. The purpose of revaluation is to ensure that the financial statements provide a more accurate representation of the company's financial position.

Revaluation Account

Dr. Particulars	Amount Rs.	Particulars	Amount Rs. Cr.
To Assets a/c (Individually, for decrease in the value)	xxx	By Assets a/c (Individually for increase in the value)	xxx
To Liabilities a/c (Individually, for increase in liability)	xxx	By Liabilities a/c (Individually, for decrease in the value)	xxx
To Provision for Bad Debts a/c (for anticipated loss on debts not required)	xxx	By Provision forbad Debts a/c (for provision for bad debtors to be created)	xxx
To Profit (balancing figure, xxx be debited to old partners transferred to old partners capital/current a/cs) A's capital / current a/c xx B's capital/current a/c xx		By Loss (balancing figure to capital /current a/cs) A's capital/current a/c xx B's capital / current a/c xx	xxx
	xxx		xxx

Note: If credit side total is more than the Debit side total, the difference is profit, vice versa is loss.

Illustration:

3. A and Bare partners sharing profits and losses in the ratio of 7:3. Following was the bala[nce] sheet as on 31 March, 2020.

Liabilities		Amount Rs.	Assets	Amount Rs.
Creditors		25,000	Cash at Bank	25,000
Bills payable		15,000	Debtors	30,000
Capitals			Stock	20,000
	A- 80,000		Furniture	15,000
	B- 40,000	1,20,000	Machinery	30,000
			Buildings	40,000
		1,60,000		1,60,000

On the above date the assets and liabilities are to be revalued as under;

a) Depreciate Machinery by 10%.

b) Stock to be depreciated by 5%.

c) Create a provision for bad debts at 5% on debtors.

d) The value of buildings to be appreciated by 20%.

e) Creditors are to be increased by Rs.1000.

Give necessary Journal entries to record the changes in the value of assets & liabilities and Prepare the Revaluation account, and Partners capital accounts.

Solution :

Journal Entries in the Books of A and B

Date	Particulars	L.F	Debit Rs.	Credit Rs.
2015 Mar 31	Revaluation a/c Dr To Machinerya/c (Being the value of Machinery depreciated by 10% ie $30,000 \times \frac{10}{100}$)		3,000 --	-- 3,000
	Revaluation a/c Dr To Stock a/c (Being the value of stock reduced by 5%) $\left(20,000 \times \frac{5}{100}\right)$		1,000 --	-- 1,000

Particulars		Debit Rs.	Credit Rs.
Revaluation a/c Dr		1,500	--
To Provision for Bad Debts a/c		--	1,500
(Being a provision for Bad Debts created @ 5% on debtors)			
Buildingsa/c Dr		8,000	--
To Revaluation a/c		--	8,000
(Being appreciation in the value of Buildings credited to Revaluation a/c)			
Revaluation a/c Dr		1,000	--
To Creditors a/c		--	1,000
(Being creditors increased)			

Date	Particulars	L.F	Debit Rs.	Credit Rs.
	Revaluation a/c Dr		1,500	--
	To A's Capital a/c			1,050
	To B's Capital a/c			450
	(Being profit on revaluation transferred to capital a/cs of old partners in their old profit sharing ratio)			

Dr. **Revaluation Account** Cr.

Particulars		Amount Rs.	Particulars	Amount Rs.
To Machinerya/c		3,000	By Buildingsa/c	8,000
To Stock a/c		1,000		
To Provision for Bad Debts a/c		1,500		
To Creditors a/c		1,000		
To A's capital a/c	1050			
To B's capital a/c	450	1,500		
(profit 1500 transferred to A & Bin their old profit sharing ratio)				
$A = 1500 \times \frac{7}{10} = 1050$				
$B = 1500 \times \frac{3}{10} = 450$		8,000		8,000

Dr. **A and B Capital Accounts** Cr.

Particulars	J.F	A Amount Rs.	B Amount Rs.	Particulars	J.F	A Amount Rs.	B Amount Rs.
To Balance c/d		81,050	40,450	By Balance b/d	F	80,000	40,000
				By Revaluation a/c		1,050	450
		81,050	40,450			81,050	40,450
				By Balance b/d		81,050	40,450

The death or retirement of a partner in a partnership brings about significant changes to the structure, ownership, and operations of the business. Here's an overview of the typical steps and considerations involved in such situations:

1. **Notification:** In the case of death, the partnership should be notified immediately, and appropriate steps should be taken to address the situation. If retirement is planned, the

partner should provide advance notice to the other partners according to the terms of the partnership agreement.

2. **Valuation:** The value of the deceased or retiring partner's interest in the partnership needs to be determined. This usually involves assessing the partnership's assets, liabilities, and any goodwill or intangible assets. The partnership agreement may specify a method for valuation, such as using book value, fair market value, or a predetermined formula.
3. **Settlement:** The partnership agreement typically outlines the terms for settling the departing partner's interest. This may involve a lump sum payment, installment payments over time, or the transfer of assets to the departing partner.
4. **Financial Statements:** The departure of a partner may require adjustments to the partnership's financial statements. The partnership's balance sheet should reflect the changes in ownership and capital contributions resulting from the departure.
5. **Legal Documentation:** Legal documents such as a retirement agreement or a buyout agreement may be drafted to formalize the terms of the departure. These documents should specify the rights and obligations of both the departing partner and the remaining partners.

Unit-II

Partnership-II

The dissolution of a partnership refers to the process of ending the partnership business. It involves winding up the affairs of the partnership, liquidating its assets, paying off its liabilities, and distributing any remaining assets among the partners. Here's an overview of the steps involved in the dissolution of a partnership:

1. **Partnership Agreement:** The first step is to review the partnership agreement to understand the provisions related to dissolution. The agreement may outline specific circumstances under which the partnership can be dissolved and the procedures to be followed.
2. **Unanimous Consent or Legal Grounds:** Depending on the partnership agreement and the relevant laws, the partnership may be dissolved by unanimous consent of the partners or due to specific legal grounds such as expiration of the partnership term, death or incapacity of a partner, bankruptcy of a partner, or judicial decree.
3. **Notice to Creditors and Other Stakeholders:** Once the decision to dissolve the partnership is made, notice should be given to creditors, suppliers, customers, employees, and other relevant parties. This allows them to assert any claims they may have against the partnership.
4. **Inventory of Assets and Liabilities:** An inventory of the partnership's assets and liabilities should be prepared to determine the value of the partnership's net assets available for distribution to the partners.
5. **Liquidation of Assets:** The partnership's assets are liquidated, which may involve selling assets such as inventory, equipment, and real estate. The proceeds from the sale of assets are used to pay off the partnership's debts and liabilities.
6. **Payment of Creditors:** The partnership's creditors are paid from the proceeds of asset liquidation. This includes paying off outstanding loans, accounts payable, and other liabilities.
7. **Distribution of Remaining Assets:** After all debts and liabilities are paid off, any remaining assets are distributed among the partners according to their respective

ownership interests as outlined in the partnership agreement. If there are any surplus funds, they are distributed among the partners in proportion to their capital contributions or profit-sharing ratios.

8. **Filing Dissolution Documents:** Depending on local laws and regulations, formal dissolution documents may need to be filed with the appropriate government authorities, such as the state's secretary of state office or a similar agency.
9. **Final Tax Returns:** The partnership must file final tax returns with the relevant tax authorities, reporting its income, expenses, and assets during the dissolution period.
10. **Termination of Business Operations:** Once all legal and financial obligations are fulfilled, the partnership's business operations are officially terminated.

- A Realisation Account is a temporary account used in partnership accounting during the process of winding up or dissolving a partnership. It is created to record the realization of assets, payment of liabilities, and the distribution of remaining assets among the partners.

Here's how it typically works:

1. **Transfer of Assets:** When a partnership is dissolved, its assets are sold or transferred to convert them into cash. The proceeds from the sale of these assets are recorded on the debit side of the Realisation Account.
2. **Payment of Liabilities:** Simultaneously, the partnership's liabilities, including creditors, outstanding expenses, loans, etc., are paid off. The payments made to settle these liabilities are recorded on the credit side of the Realisation Account.
3. **Realisation of Assets and Settlement of Liabilities:** As the assets are sold and liabilities are paid off, the Realisation Account keeps track of these transactions until all assets are converted into cash, and all liabilities are settled.
4. **Distribution of Surplus or Settlement of Deficit:** After settling all liabilities, any remaining balance in the Realisation Account represents the surplus or deficit. If there is a surplus, it is distributed among the partners in accordance with their profit-sharing ratio. If there is a deficit, it is borne by the partners in the same ratio.
5. **Transfer to Partners' Capital Accounts:** Once the Realisation Account is balanced, the surplus (if any) is transferred to the partners' capital accounts. This effectively closes the Realisation Account and completes the process of winding up the partnership.

Format of Realisation Account

Dr. **Realisation Account** Cr.

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
Land and Building	xxx	Sundry creditors	xxx
Plant and Machinery	xxx	Bills payables	xxx
Furniture and Fittings	xxx	Bank overdraft	xxx
Bills receivables	xxx	Outstanding expenses	xxx
Sundry debtors	xxx	Provision for doubtful debts	xxx
Cash/Bank	xxx	Cash/Bank (sale of assets)	xxx
(payment of liabilities)		Partner's capital account	xxx
Cash/Bank	xxx	(assets taken by the partner)	
(payment of unrecorded liabilities)		Loss (transferred to partners capital accounts)	xxx
Partner's capital account	xxx		
(liability assumed by the partner)			
Profit (transferred to partners' capital account's in their profit sharing ratio)	xxx		
Total	**xxxx**	**Total**	**xxxx**

Illustration:

1. Nayana and Arushi were partners sharing profits equally Their Balance Sheet as on Ma 31, 2015 was as follows:

Balance Sheet of Nayana and Arushi as on March 31, 2012

Liabilities		Amount (Rs)	Assets	Amount (Rs.)
Capitals:			Bank	30,000
Nayana	1,00,000		Debtors	25,000
Arushi	50,000	1,50,000	Stock	35,000
Creditors		20,000	Furniture	40,000
Arushi's current account		10,000	Machinery	60,000
Workmen Compensation Fund		15,000	Nayana's current account	10,000
Bank overdraft		5,000		
		2,00,000		**2,00,000**

The firm was dissolved on the above date:

1. Nayana took over 50% of the stock at 10% less on its book value, and the remaining stock was sold at a gain of 15%. Furniture and Machinery realised for Rs.30,000 and Rs.50,000 respectively;
2. There was an unrecorded investment which was sold for Rs. 25,000;
3. Debtors realised 90% only and Rs. 1,200 were recovered for bad debts written-off last year;
4. There was an outstanding bill for repairs which had to be paid for Rs.2,000.

Record necessary journal entries and prepare ledger accounts to close the books of the firm.

Solution :

Books of Nayana and Arushi Journal

Date	Particulars		L.F.	Debit Amount	Credit Amount
	Realisation A/c	Dr.		1,60,000	
	To Debtors				25,000
	To Stock A/c				35,000
	To Furniture A/c				40,000
	To Machinery A/c				60,000
	(Assets transferred to Realisation Account)				
	Creditors A/c	Dr.		20,000	
	Bank overdraft A/c	Dr.		5,000	
	To Realisation A/c				25,000
	(Liabilities transferred to Realisation Account)				
	Realisation A/c	Dr.		27,000	
	To Bank A/c				27,000
	(Creditors, Bank overdraft, Outstanding repair bill paid)				
	Bank A/c	Dr		1,57,825	
	To Realisation A/c				1,57,825
	(Assets sold and bad debts recovered)				
	Nayana's Capital A/c	Dr.		15,750	
	To Realisation A/c				15,750
	(Half stock take over by Nayana at 10% less)				
	Realisation A/c	Dr.		15,575	
	To Nayana's Current A/c				5,788
	To Arushi's Current A/c				5,787
	(Realisation profit transferred to partner's current account)				
	Workman Compensation Fund A/c	Dr.		15,000	
	To Nayana's Current A/c				7,500
	To Arushi's Current A/c				7,500
	(Compensation fund transfered to partners' Current account)				
	Arushi Current A/c	Dr.		23,287	
	To Arushi's Capital A/c				23,287
	(Current account balance transferred to Capital account)				
	Nayana Capital A/c	Dr.		12,462	
	To Nayana's Current A/c				12,462
	(Current account balance transferred to Capital account)				
	Nayana's Capital A/c	Dr.		87,538	
	Arushi's Capital A/c	Dr.		73,287	
	To Bank A/c				1,60,825
	(Final amounts due to partners paid)				

Dr. **Realisation Account** Cr.

Particulars		Amount	Particulars		Amount
			Creditors		20,000
Debtors	25,000		Bank overdraft		5,000
Stock	35,000		Bank:		
Furniture	40,000		Investment	25,000	
Machinery	60,000	1,60,000	Furniture	30,000	
Bank:			Machinery	50,000	
Creditors	20,000		Debtors (90%)	31,500	
Bank overdraft	5,000		Stock:	20,125	
Outstanding bill	2,000	27,000	Bad debts		
Profit transferred to:			recovered	1,200	1,57,825
Nayana's capital	5,788		Nayana's capital		
Arushi's capital	5,787	11,575	(stock taken over)		15,750
		1,98,575			1,98,575

Dr. **Partners' Current Accounts** Cr.

Date	Particulars	J.F.	Nayana (Rs.)	Arushi (Rs.)	Date	Particulars	J.F.	Nayana (Rs.)	Arushi (Rs.)
	Balance b/d		10,000			Balance b/f			10,000
	Realisation		15,750			Workmen Compensation Fund		7,500	7,500
	Arushi's capital			23,287		Realisation (profit)		5,788	5,787
						Nayana's Capital		12,462	
			25,750	23,287				25,750	23,287
	Nayana's current account		12,462			Balance b/d		1,00,000	50,000
	Bank		87,538	73,287		Arushi's current account			23,287
			1,00,000	73,287				1,00,000	73,287

Dr. **Bank Account** Cr.

Date	Particulars	J.F.	Amount (Rs.)	Date	Particulars	J.F.	Amount (Rs.)
	Balance b/d		30,000		Realisation		27,000
	Realisation		1,57,825		Nayana's capital		87,538
					Arushi's capital		73,287
			1,87,825				1,87,825

- The insolvency of a partner in a partnership can have significant legal, financial, and operational implications for the partnership and its remaining partners. Here's how it may be handled:

1. **Review Partnership Agreement:** The partnership agreement should be reviewed to understand the provisions related to insolvency. It may outline procedures for handling the insolvency of a partner, including buyout clauses, the distribution of assets, and the admission of new partners.
2. **Notification:** If a partner becomes insolvent, the partnership should be notified promptly. The insolvent partner may also need to notify the partnership and relevant authorities of their insolvency.
3. **Assessment of Impact:** The remaining partners need to assess the impact of the insolvent partner's situation on the partnership's operations, finances, and liabilities. This may involve reviewing contracts, agreements, and financial obligations that the insolvent partner was involved in.
4. **Buyout or Settlement:** Depending on the partnership agreement and applicable laws, the remaining partners may have the option to buy out the insolvent partner's interest in the partnership. This could involve negotiating a settlement amount or arranging for the transfer of the insolvent partner's share of assets and liabilities.
5. **Continuation or Dissolution:** If the partnership agreement allows for the admission of new partners, the remaining partners may choose to admit a new partner to replace the insolvent partner. Alternatively, if the partnership cannot continue without the insolvent partner, it may need to be dissolved.

- In the Garner vs. Murray case, the court held that a trustee cannot use their position to profit personally or to benefit someone other than the beneficiaries. Specifically, the rule prohibits a trustee from making secret profits or engaging in self-dealing transactions without the beneficiaries' knowledge and consent.
- The rule essentially imposes a duty of loyalty and impartiality on trustees, requiring them to act solely in the beneficiaries' best interests and to avoid any conflicts of interest. If a trustee breaches this duty by engaging in self-dealing or making secret profits, they may be held personally liable for any resulting losses to the beneficiaries.
- The Garner vs. Murray rule is an important principle in trust law and is often cited in cases involving allegations of breach of fiduciary duty by trustees or other fiduciaries. It underscores the importance of transparency, honesty, and integrity in fiduciary relationships, ensuring that beneficiaries' interests are protected and upheld.

- The sale of a partnership typically involves one or more partners selling their ownership interest in the partnership to another individual or entity. Here's a general overview of the process:

1. **Agreement among Partners:** Before initiating the sale process, partners must review the partnership agreement to determine if there are any provisions related to the sale of partnership interests. The agreement may outline procedures, restrictions, and approvals required for the sale.
2. **Valuation of Partnership Interest:** The partners involved in the sale, along with any potential buyers, should agree on the valuation of the partnership interest being sold.

Valuation methods may include the book value method, income-based method, or market-based method, depending on the partnership's agreement and industry standards.

3. **Search for Buyers:** Partners looking to sell their interest may search for potential buyers within their network or industry. Alternatively, they may engage a business broker or advisor to help find suitable buyers.

Illustration :

PROBLEMS

Mahesh, Ramesh and Lokesh were partners in Mahi Vardhan and co. sharing profits and losses in the ratio of 2:1:2. They decided to convert their business into private limited company with effect from 1st January 2019, on which date their balance sheet stood as under:

Liabilities		Rs.	Assets	Rs.
Partners Accounts:			Goodwill	16,000
Mahesh	5,000		Motorcar	10,000
Lokesh	17,000	22,000	Debtors	16,000
Loan from Lokesh		10,000	Commission receivable	2,000
Bank O.D.		6,000	Stock	8,000
Creditors		12,000	Cash	2,000
Bills Payable		10,000	Ramesh's account	6,000
		60,000		**60,000**

All assets (except cash and commission receivable which is irrecoverable) and all outside liabilities are taken over by the company for a consideration of ? 40,000 to be discharged through allotment of 4,000 equity shares of ? 10 each, treated as fully paid in the limited company. Prepare necessary accounts to close the books of the firm.

Dr. **Realisation A/c** Cr.

Particulars	Amount	Amount	Particulars	Amount	Amount
To Sundry Assets:			By Sundry Liabilities:		
Goodwill	16,000		Bank O.D	6,000	
MotorCar	10,000		Creditors	12,000	
Stock	8,000		Bills Payable	10,000	28,000
Debtors	16,000	50,000	By Purchasing co.'s A/c		40,000
To Profit on Realisation					
[Partner's Capitals]:					
Mahesh $\left(18000 \times \frac{2}{5}\right)$	7,200				
Ramesh $\left(18000 \times \frac{1}{5}\right)$	3,600				
Lokesh $\left(18000 \times \frac{2}{5}\right)$	7,200	18,000			
		68,000			**68,000**

Capital Account

Dr. Cr.

Particular	Mahesh Rs.	Ramesh Rs.	Lokesh Rs.	Particular	Mahesh Rs.	Ramesh Rs.	Lokesh Rs.
To balance b/d	-	6,000	-	By balance b/d	5,000	-	17,000
To commission receivable (2:1 : 2)	800	400	800	By Realisation a/c (Profit)	7,200	3,600	7,200
To Shares in Purchasing Co. (2: 1 : 2)	16,000	8,000	16,000	By Cash	4,600	10,800	-
To Cash	-	-	7,400				
	16,800	**14,400**	**24,200**		**16,800**	**14,400**	**24,200**

Cash Account

Dr. Cr.

Particulars		Amount	Particulars	Amount
To balance b/d		2,000	By Lokesh's loan a/c	10,000
To Capital Accounts:			By Lokesh's capital a/c	7,400
Mahesh	4,600			
Ramesh	10,800	15,400		
		17,400		**17,400**

Working Notes

Apportionment of Commission and Shares among partners in the ratip^fl :2

Basis of Apportionment	Mahesh's Share	Rameih's Share	Lokesh's Share
Commission	$2{,}000 \times \frac{2}{5} = 800$	$2{,}000 \times \frac{1}{5} = 400$	$2{,}000 \times \frac{2}{5} = 800$
Shares (4000 shares @ Rs. 10)	$40{,}000 \times \frac{2}{5} = 16{,}000$	$40{,}000 \times \frac{1}{5} = 8{,}000$	$40{,}000 \times \frac{2}{5} = 16{,}000$

Unit-III

Issue of Shares, debentures, underwriting bonus shares

When a company decides to issue shares, it can do so at different price points relative to the nominal or face value of the shares. These price points are typically categorized as issuing shares at par, at a premium, or at a discount.

1. **Issue at Par**: When shares are issued at par, it means they are sold at their nominal or face value. For example, if the face value of a share is Rs10, and the company issues shares at par, each share will be sold for Rs10.
2. **Issue at Premium**: If shares are issued at a premium, it means they are sold at a price higher than their face value. This premium represents additional value perceived by investors. For instance, if the face value of a share is Rs10 and the company issues shares at a premium of Rs2, each share will be sold for Rs12.
3. **Issue at Discount**: Conversely, issuing shares at a discount means they are sold at a price lower than their face value. This could be done for various reasons, such as attracting investors or incentivizing existing shareholders to participate in the offering. Using the same example, if the face value of a share is Rs10 and the company issues shares at a discount of Rs2, each share will be sold for Rs8.

Each approach has its implications:

- Issuing shares at a premium can indicate strong investor demand and confidence in the company's prospects. It also helps the company raise more capital per share sold.
- Issuing shares at a discount may dilute the existing shareholders' ownership more than issuing at par or at a premium. However, it can also be seen as a way to quickly raise capital or to reward existing shareholders.
- Issuing shares at par is the simplest method and ensures that the company receives the full-face value of each share sold, without diluting existing shareholders' ownership or offering additional incentives to new investors.

Companies typically make these decisions based on their current financial situation, market conditions, and strategic objectives.

Journal Entries for Issue of Shares

1. For receiving application moneys

Bank Account	Dr.	(With the money)
To Share Application A/c		received on application

2. For transferring the application money to share capital

Share Application A/c	Dr.	(with the application
To Share Capital A/c money		on shares allotted)

3. For the amount due towards allotment.

Share Allotment A/c	Dr.	(with the amount due on
To Share Capital A/c		Shares allotted)

4. On receipt of allotment money.

Bank A/c	Dr.	(with amount received on
To Share Allotment A/c		allotment)

5. For the amount due towards First Call

Share First Call A/c	Dr.	(with the amount due on
To Share Capital A/c		First Call)

6. On receipt of First Call Money

Bank A/c	Dr.	(with the amount received
To Share First Call A/c		on First Call).

Similarly entries are made for second and final calls. Each time entries are made first for the amount due and then for the amount received.

Pro rata allotment, also known as pro rata rights or pro rata subscription rights, refers to the practice of allotting securities to existing shareholders in proportion to their existing ownership stakes in the company.

When a company decides to issue additional shares through a right offering, it offers existing shareholders the opportunity to purchase additional shares in proportion to their current holdings. This means that if a shareholder owns 10% of the company's shares before the rights offering, they will have the opportunity to purchase 10% of the new shares being issued.

Forfeiture and reissue of shares occur when a shareholder fails to comply with certain obligations, leading to the cancellation of their shares, which are then reissued to new or existing shareholders. Here's how it typically works:

1. **Forfeiture**: Share forfeiture happens when a shareholder fails to fulfill their obligations, such as paying for the shares they subscribed to. This failure could be due to non-payment of calls (the installment payments on shares) or breaching other terms of the share agreement.
2. **Reissue**: Once the shares are forfeited, the company can reissue them to new or existing shareholders. The reissuance process may involve offering the shares to existing shareholders on a pro rata basis or selling them to new investors through a private placement or public offering.

Issuing debentures is another way for companies to raise funds. Debentures are long-term debt instruments used by corporations and governments to borrow money from investors.

Underwriting of shares is a process where an investment bank or a group of investment banks, known as underwriters, commit to purchasing a company's shares from it directly and then reselling them to investors or the public. This process is typically used during initial public offerings (IPOs) or secondary offerings.

Here's how the underwriting process generally works:

1. **Selection of Underwriters**: The company planning to issue shares selects one or more investment banks to act as underwriters. These underwriters will assist the company in structuring the offering, determining the offering price, and selling the shares to investors.
2. **Due Diligence**: The underwriters conduct due diligence on the company to assess its financial condition, business prospects, and potential risks. This helps them evaluate the company's valuation and determine the terms of the offering.
3. **Agreement**: The company and the underwriters negotiate the terms of the underwriting agreement, including the underwriters' commitment to purchase the shares from the company at a predetermined price and the fees they will receive for their services.
4. **Registration**: The company files a registration statement with the relevant regulatory authorities, such as the Securities and Exchange Commission (SEC) in the United States, to register the shares for sale to the public. The registration statement contains detailed information about the company and the offering.
5. **Marketing and Pricing**: The underwriters work with the company to market the offering to potential investors, including institutional investors, retail investors, and other interested parties. They help set the offering price based on investor demand, market conditions, and the company's valuation.
6. **Allocation and Distribution**: Once the offering price is determined, the underwriters allocate the shares among investors who have placed orders to purchase them. They may allocate shares based on various factors, such as investor demand, the size of their orders, and their relationship with the underwriters.
7. **Stabilization**: After the shares begin trading on the stock exchange, the underwriters may engage in stabilization activities to support the share price and maintain orderly trading. This can include purchasing additional shares in the market to offset selling pressure or underwriting syndicate members agreeing not to sell their shares for a specified period.
8. **Settlement**: Finally, the underwriters settle the transaction with the company by purchasing the shares at the agreed-upon price and delivering the proceeds to the company. The shares are then transferred to the investors who purchased them.

Underwriting shares provides companies with a way to raise capital and access the public markets, while also providing investors with confidence in the offering through the underwriters' commitment to purchase the shares. However, underwriting fees and the risk of under-subscription are factors that companies must consider when choosing this method of raising capital.

Under the Companies Act, 2013, bonus shares can be issued by a company subject to certain regulations and procedures. Bonus shares are additional shares distributed to existing shareholders at no additional cost, in proportion to their current shareholdings. Issuing bonus shares does not involve raising new capital from the market but rather redistributes the company's reserves or retained earnings into additional shares.

Here are the key provisions regarding the issue of bonus shares under the Companies Act, 2013:

1. **Authorization**: The issuance of bonus shares must be authorized by the company's Articles of Association. If the Articles do not provide for the issuance of bonus shares, they must be amended through a special resolution of the shareholders.
2. **Source of Bonus Issue**: Bonus shares can be issued out of the company's:
    - Free reserves: Profits earned by the company that are not already earmarked for any specific purpose, such as dividends or reserves required by law.
    - Securities premium account: Additional funds received by the company in excess of the nominal value of its shares, which are maintained as a premium account.
3. **Approval**: The issuance of bonus shares requires approval from the company's board of directors. If the bonus issue results in a reduction of the company's net worth, approval from the shareholders in a general meeting is required.
4. **Capitalization of Profits**: The company must have sufficient accumulated profits or reserves available for capitalization into bonus shares. These profits or reserves are capitalized by transferring them to the company's share capital account.
5. **Shareholder Approval**: Shareholders' approval is required for the capitalization of reserves and the issuance of bonus shares. This approval is obtained through an ordinary resolution passed at a general meeting of the shareholders.

Unit- IV

COMPANY FINAL ACCOUNTS AND PROFIT PRIOR TO INCORPORATION

Preparing a statement of profit and loss (P&L) and balance sheet in accordance with the Companies Act, 2013 involves following specific guidelines and formats mandated by the Act and accounting standards. Here are general instructions to prepare these financial statements:

Statement of Profit and Loss (P&L):

1. **Revenue Recognition**: Recognize revenue in accordance with the revenue recognition principles outlined in the Companies Act, 2013 and applicable accounting standards (e.g., Indian Accounting Standards, or Ind AS).
2. **Expenses Classification**: Classify expenses into appropriate categories such as cost of goods sold, operating expenses, finance costs, and exceptional items.
3. **Depreciation and Amortization**: Recognize depreciation and amortization expenses based on the useful lives of assets and the applicable depreciation methods (e.g., straight-line method, reducing balance method).
4. **Exceptional Items**: Disclose exceptional or non-recurring items separately in the P&L statement.
5. **Taxation**: Calculate and disclose income tax expense based on applicable tax laws and regulations.
6. **Earnings per Share (EPS)**: Calculate and disclose basic and diluted earnings per share as per the Companies Act, 2013.
7. **Comparative Figures**: Present comparative figures for the previous period for meaningful analysis.
8. **Format**: Prepare the statement of profit and loss in the prescribed format specified by the Companies Act, 2013 and relevant accounting standards.

Balance Sheet:

1. **Assets Classification**: Classify assets into current assets and non-current assets based on their liquidity and holding period.
2. **Liabilities Classification**: Classify liabilities into current liabilities and non-current liabilities based on their maturity and settlement period.
3. **Equity**: Present equity shareholders' funds, including share capital, reserves, and surplus.
4. **Non-Current Assets**: Provide detailed disclosures for non-current assets such as property, plant, and equipment, intangible assets, and investments.
5. **Non-Current Liabilities**: Disclose long-term borrowings, deferred tax liabilities, and other non-current liabilities separately.
6. **Current Assets and Liabilities**: Present current assets and liabilities separately, including inventories, trade receivables, trade payables, and short-term borrowings.
7. **Comparative Figures**: Include comparative figures for the previous period to facilitate analysis and comparison.
8. **Format**: Prepare the balance sheet in the prescribed format specified by the Companies Act, 2013 and relevant accounting standards.

Additional Instructions:

- Ensure compliance with the disclosure requirements specified by the Companies Act, 2013, and relevant accounting standards.
- Use accurate and consistent accounting policies and estimates in preparing the financial statements.
- Review the financial statements for accuracy, completeness, and compliance with regulatory requirements before finalization.

Following these instructions will help ensure that the statement of profit and loss and balance sheet are prepared in accordance with the Companies Act, 2013 and provide relevant, reliable, and comparable financial information to stakeholders.

Where compliance with the requirements of the Act including Accounting Standards as applicable to the companies require any change in treatment or disclosure including addition, amendment, substitution or deletion in the head or sub-head or any changes, in the financial statements or statements forming part thereof, the same shall be made and the requirements of this Schedule shall stand modified accordingly.

(2) The disclosure requirements specified in this Schedule are in addition to and not in substitution of the disclosure requirements specified in the Accounting Standards prescribed under the Companies Act, 2013. Additional disclosures specified in the Accounting Standards shall be made in the notes to accounts or by way of additional statement unless required to be disclosed on the face of the Financial Statements. Similarly, all other disclosures as required by the Companies Act shall be made in the notes to accounts in addition to the requirements set out in this Schedule.

(3) (i) Notes to accounts shall contain information in addition to that presented in the Financial Statements and shall provide where required

a) narrative descriptions or disaggregation’s of items recognised in those statements; and

b) Information about items that do not qualify for recognition in those statements. (ii) Each item on the face of the Balance Sheet and Statement of Profit and Loss shall be cross-referenced to any related information in the notes to accounts. In preparing the Financial Statements including the notes to accounts, a balance shall be maintained between providing excessive detail that may not assist users of financial statements and not providing important information as a result of too much aggregation.

4.1.3 PART I - Form of Balance Sheet

Name of the Company ....

Balance Sheet as at ....

(Rupees in .....)

Particulars	Notes. Reference No.	Figures as at the end of current the reporting period	Figures as at the end of previous reporting period
I. EQUITY AND LIABILITIES			
1) Shareholders' funds			
(a) Share capital			
(b) Reserves and surplus			
(c) Money received against share warrants			
2) Share application money pending allotment			
3) Non-current liabilities			
(a) Long-term borrowings			
(b) Deferred tax liabilities (Net)			
(c) Other Long term liabilities			
(d) Long-term provisions			
4) Current liabilities			
(a) Short-term borrowings			
(b) Trade payables			
(c) Other current liabilities			
(d) Short-term provisions			
II. ASSETS			
Non-current assets			
1) (a) Fixed assets			
(i) Tangible assets			
(ii) Intangible assets			
(iii) Capital work-in-progress			
(iv) Intangible assets under development			
(b) Non-current investments			
(c) Deferred tax assets (net)			
(d) Long-term loans and advances			
(e) Other non-current assets			
2) Current assets			
(a) Current investments			
(b) Inventories			
(c) Trade receivables			
(d) Cash and cash equivalents			
(e) Short-term loans and advances			
(f) Other current assets			
TOTAL			

See accompanying notes to the financial statements.

4.4 Part II - Form Of Statement of Profit And Loss

Name of the Company ....

Profit and loss statement for the year ended .... (Rupees in........)

Particulars	Note No.	Figures as at the current reporting period	Figures as the previous reporting period
I. Revenue from operations		xxx	xxx
II. Other income xxx		xxx	
III. Total Revenue (I + II)		xxx	xxx
IV. Expenses:			
Cost of materials consumed		xxx	xxx
Purchases of Stock-in-Trade		xxx	xxx
Changes in inventories of finished goods work- in-progress and Stock-in-Trade Employee benefits expense		xxx	xxx
Finance costs			
Depreciation and amortization expense Other expenses			
Total expenses		xxx	xxx
V. Profit before exceptional and extraordinary items and tax (III-IV)		xxx	xxx
VI. Exceptional items		xxx	xxx
VII. Profit before extraordinary items and tax (V -VI)		xxx	xxx
VIII. Extraordinary Items		xxx	xxx
IX. Profit before tax (VII-VIII)		xxx	xxx
X Tax expense:			
(1) Current tax		xxx	xxx
(2) Deferred tax		xxx	xxx
XI Profit (Loss) for the period from continuing operations (VII-VIII)		xxx	xxx
XII Profit/(loss) from discontinuing operations		xxx	xxx
XIII Tax expense of discontinuing operations		xxx	xxx
XIV Profit/(loss) from Discontinuing operations (after tax) (XII-XIII)			
XV Profit (Loss) for the period (XI + XIV)		xxx	xxx
XVI Earnings per equity share:			
(1) Basic		xxx	xxx
(2) Diluted		xxx	xxx

ILLUSTRATION 5. The following is the Trial Balance of R Ltd. as on Dec. 31, 2016 :

	Dr. ₹	Cr. ₹
Stock	12,500	–
Sales		40,000
Purchases	34,500	
Wages	5,000	
Discount	700	500
Salaries	750	
Rent	495	
General Expenses	1,705	
Surplus Account as at 1-1-2016		1,503
Dividend paid	900	
Capital, 1,000 shares of ₹ 10 each		10,000
Debtors and Creditors	3,750	1,750
Machinery	2,900	
Cash	1,620	
Reserve		11,550
Bad Debts	483	
	65,303	65,303

Prepare Statement of Profit & Loss and Balance Sheet after taking into account the following information :

(*a*) Stock ₹ 30,000. (*b*) Purchases include ₹ 500 machinery purchased on 1-7-2016. (*c*) On 31-12-2016 goods worth ₹ 3,000 were sold to a customer. He has taken away the goods. But no entry is recorded. (*d*) Directors declare 10% of final dividend. (*e*) Income Tax ₹ 3,000. (*f*) Transfer to Reserve Fund ₹ 2,000.

SOLUTION

R Ltd.
STATEMENT OF PROFIT AND LOSS
for the year ending December 31, 2016

Particulars			*Note No.*	*Amount* ₹
I. Revenue from Operations (Sales)				43,000 (40,000 + 3,000)
II. Other Income (Discount)				500
III. Total Revenue (I + II)				43,500
IV. Expenses :		₹		
Purchases (₹ 34,500 – ₹ 500)		34,000		
Changes in Inventories of Finished Goods :	₹			
Opening Stock	12,500			

			Note No.	₹
Closing Stock	30,000			
		17,500		16,500
Employee Benefits Expense			1	5,750
Finance Cost				—
Depreciation and Amortisation Expense				—
Other Expenses			2	3,383
Total Expenses				25,633
V. Profit before Tax (III – IV)				17,867
VI. Tax Expense (Income Tax)				3,000
VII. Profit after Tax (V – VI)				14,867

Accompanying Notes to the Statement of Profit & Loss

1. Employee Benefits Expense

	₹
Wages	5,000
Salaries	750
	5,750

2. Other Expenses

	₹
Rent	495
Discount	700
General Expenses	1,705
Bad Debts	483
	3,383

R Ltd.
BALANCE SHEET
as at December, 31, 2016

	Note No.	₹
I. Equity and Liabilities		
(1) *Shareholder's Funds*		
(*a*) Share Capital	A	10,000
(*b*) Reserves and Surplus	B	26,020
(2) *Non-current Liabilities*		—
(3) *Current Liabilities*		
Creditors		1,750
Income Tax Payable		3,000
Dividend Payable		1,000
Total		41,770
II. Assets		
(1) *Non-current Assets*		
Machinery (₹ 2,900 + ₹ 500)		3,400
(2) *Current Assets*		
Stock		30,000
Debtors (₹ 3,750 + ₹ 3,000 for sale not recorded)		6,750
Cash		1,620
Total		41,770

Accompanying Notes to the Balance Sheet

A. Share Capital			₹
Authorised Capital : Shares of ₹ 10 each			
Paid-up Capital : 1,000 Shares of ₹ 10 each			10,000
B. Reserves and Surplus		₹	₹
Reserve		11,550	
Add :Transferred from Surplus A/c		2,000	
			13,550
Surplus Account		₹	
as on 1-1-2016		1,503	
Add : Profit for they year		14,867	
		16,370	
	₹		
Less :Dividend Paid during the year	900		
Final Dividend	1,000		
Transfer to Reserve	2,000		
		3,900	
			12,470
			26,020

Profit Prior to Incorporation:

Under the Companies Act, 2013, the treatment of profit prior to incorporation is not explicitly addressed. The Act primarily deals with the legal framework governing the formation, operation, and regulation of companies in India. However, accounting standards issued by the Institute of Chartered Accountants of India (ICAI), particularly Indian Accounting Standard (Ind AS) 1 - Presentation of Financial Statements, provide guidance on the presentation and disclosure of financial information.

According to Ind AS 1, a company's financial statements should present fairly its financial position, financial performance, and cash flows. While there is no specific provision regarding profit prior to incorporation, the accounting principles generally require that financial statements reflect accurate and reliable information about the entity's financial affairs.

In practice, profit prior to incorporation is typically treated as follows:

1. **Disclosure**: Companies may choose to disclose profit prior to incorporation in their financial statements, particularly in the notes to the financial statements or in a separate schedule, to provide transparency regarding the entity's financial history.
2. **Accounting Treatment**: The profit prior to incorporation may be accounted for separately from post-incorporation profits to distinguish between the two periods. It is usually recorded as part of the initial capital contribution or reserves, depending on how it is utilized after incorporation.
3. **Utilization**: The profit prior to incorporation, if retained by the company, may be used for various purposes such as contributing to the initial capital, settling incorporation expenses, or funding initial operations. The utilization of such profit should be disclosed in the financial statements.

Proforma Regarding Basis of Allocation of Various Items

Particulars	Basis of Allocation
A. Sales based items :	Sales Ratio
Gross Profit	
Selling Expenses	
Advertisement	
Commission on Sales	
Cash Discount	
Bad Debts	
Carriage Outwards	
Packing and Distribution	
B. Times based items :	
Rent	Time Ratio
Salary	
Insurance	
Interest	
Electricity Charges	
Offfce Expenses	
Postages Expenses	
Audit Fees	
C. Subsequent Period items :	
Director Fees	
Discount on Shares	
Interest on Debentures Dividends	
D. Prior Period items :	
Salary to Partners	
Interest on Capital	

Illustration:

period.

2. New Ventures Ltd. was incorporated on 1st July, 2016 with an authorised capital of 5,00 equity shares of Rs. 10 each to take over the running business of Rundown Brothers as from 1st April, 2016.

Following is the summarised Statement of Profit and Loss for the year ended 31st March, 2017:

	Rs.	Rs.
Sales		
1st April, 2016 to 30th June, 2016	6,000	
1st July, 2016 to 31st March, 2017	19,000	
		25,000
Cost of sale for the year	16,000	
Administrative expenses	1,768	
Selling commission	875	
Goodwill written off	200	
Interest paid to vendors (Loan repaid on 1st August, 2016)	373	
Distribution expenses (60 per cent variable)	1,250	
Preliminary expenses written off	330	
Debenture interest	320	
Depreciation	444	
Directors' fees	100	
		21,660
Net Profit		3,340

The company deals in one type of product. The unit cost of sales was reduced by 10 per cent in the post incorporation period as compared to the pre-incorporation period in the year.

You are required to apportion the net profit amount between pre-incorporation and post-incorporation period showing the basis of apportionment.

Solution :

Statement of Profit And Loss of New Venture Ltd.
for the year ending 31st March, 2017

	Basis of Allocation	Prior to Incorporation Rs.	After Incorporation Rs.
I. Revenue from Operations (Sales)	Actual	6,000	19,000
II. Other income		Nil	Nil
III. Total Revenue		6,000	19,000
IV. Expenses:			
Cost of Sales (1)	60:171	4,156	11,844
Employee Benefits Expense (Administration Expenses)	Time (1 : 3)	442	1,326
Finance Cost: Interest to Vendors	Time (3:1)	280	93
Debenture Interest	Post	—	320
Depreciation and Amortisation Expense :			
Depreciation	Time (1 :3)	111	333
Goodwill Written Off	Post	—	200
Preliminary Expenses Written Off	Post	—	330
Other Expenses :			
Selling Commission Sales	6:19	210	665
Distribution Expenses :			
Fixed	Time 1:3	125	375
Variable	Sales 6:19	180	570
Directors' Fees	Post	—	100
Total Expenses		5,504	16,156
V. Net Profit (III - IV)		–	2,844
Capital Profit (III - IV)		496	-

Working Note :

(1) Cost of sales ratio is calculated as under:

Suppose the sale price is Rs. 1 per unit

Pre-incorporation sales : Post-incorporation sales 90

$$6{,}000 : 19{,}000 \times \frac{90}{100} = 6{,}000 : 17{,}100 \text{ or } 60 : 171.$$

Unit-V

VALUATION OF GOODWILL AND SHARES

Goodwill represents the intangible value of a business, often stemming from factors like brand reputation, customer loyalty, employee talent, and proprietary technology. Here's why businesses might need to value goodwill and methods for doing so:

Need for Valuation:

1. **Mergers and Acquisitions (M&A)**: When one company acquires another, it's essential to understand the value of the acquired company's goodwill. This helps in determining a fair purchase price and assessing the overall financial health of the transaction.
2. **Financial Reporting**: Goodwill needs to be reported on the balance sheet, and its accurate valuation is crucial for providing stakeholders with a true picture of the company's financial position.
3. **Impairment Testing**: Companies are required to periodically assess whether the recorded value of goodwill is impaired. Accurate valuation helps in determining impairment charges and ensuring compliance with accounting standards.
4. **Loan Collateral**: Goodwill can sometimes be used as collateral for loans. Lenders may require a valuation to assess the value of this intangible asset.

Methods of Valuation of Goodwill

The choice of the method of goodwill valuation depends entirely on the partners or the partnership deed when they have made it.

1. Average Profits Method

i] Simple Average: Under this method, the goodwill is valued at the agreed number of years of purchase of the average profits of the past years. Goodwill = Average Profit x No. of years' of purchase

ii] Weighted Average: Under this method, the goodwill is valued at an agreed number of years of purchase of the weighted average profits of the past years. We use the weighted average when there exists an increasing or decreasing trend in the profits giving the highest weight to the current year's profit.

- Goodwill = Weighted Average Profit x No. of years' of purchase
- Weighted Average Profit = Sum of Profits multiplied by weights/ Sum of weights

2. Super Profits Method

(i) The Number of Years Purchase Method: Under this method, the goodwill is valued at the agreed number of years of purchase of the super profits of the firm.

- Goodwill = Super Profit x No. of years of purchase
- Super Profit = Actual or Average profit – Normal Profit
- Normal Profit = Capital Employed x (Normal Rate of Return/100)

(ii) Annuity Method: This method considers the time value of money. Here, we consider the discounted value of the super profit.

- Goodwill = Super Profit x Discounting Factor

3. Capitalization Method

(i) Capitalization of Average Profits: Under this method, the value of goodwill is calculated by deducting the actual capital employed from the capitalized value of the average profits on the basis of the normal rate of return.

- Goodwill = Normal Capital – Actual Capital Employed
- Normal Capital or Capitalized Average profits = Average Profits x (100/Normal Rate of Return)
- Actual Capital Employed = Total Assets (excluding goodwill) – Outside Liabilities

(ii) Capitalization of Super Profits: Under this method, Goodwill is calculated by capitalizing the super profits directly.

- Goodwill = Super Profits x (100/ Normal Rate of Return)

  Illustration:

4. The Balance sheet of ABC Ltd. as on 31st March 2019 is an under.

Liabilities	Amount(Rs)	Assets	Amount(Rs)
Equity capital 10,000 Shares of Rs. 100 each	10,00,000	Goodwill	50,000
Reserves	64,40,000	Buildings	10,00,000
P and L a/c	60,000	Machinery	4,00,000
10% debentures	4,00,000	Investments in 10% Govt. bonds	5,00,000
Current liabilities	3,00,000	Current assets	4,10,000
		Preliminary exp.	40,000
	24,00,000		24,00,000

The average profit of the company after tax is Rs.3,50,000. The market value of buildings is Rs. 12,00,000 and machinery Rs. 3,50,000. Expected rate of return on investment is 15% calculate the value of goodwill on the basis of 3 years purchase of super profits.

Particular	Amount(Rs)	Amount(Rs)
Assets		
Buildings	12,00,000	
Machinery	3,50,000	
Current assets	4,10,000	
Total (A)		**19,60,000**
Less: Liabilities:		
10% debentures	4,00,000	
Current libilities	3,00,000	
Total (B)		**7,00,000**
Capital employed (A - B)		12,60,000
Average point	3,50,000	
Less: Non - trading income:		
[Interest on Investment 10%, 5,00,000 × $\frac{10}{100}$ = 50,000]	50,000	
Average Profit after Adjustment	3,00,000	
Less: 1/2 of the current year profit (3,00,000 × 1/2 = 1,50,000)		
Average Capital Employed	1,50,000	1,50,000
		11,10,000

Calculation of Super Profit

Super Profit = Average Profit after adjustment - Normal Profit

Normal Profit = Average capital employed × Rate of return

Normal profit = 11,10,000 × 15%

= Rs. 1,66,500

Super Profit = 3,00,000 - 1,66,500

= Rs. 1,33,500

Calculation of Goodwill

Goodwill = Super profit × Number of years of Purchase

= 1,33,500 × 3 = Rs. 4,00,500.

Valuation of shares

Method 1) Net Asset Method:

This is also known as Balance Sheet Method or Intrinsic Method or Break-up Value Method or Valuation of Equity basis or Asset Backing Method. Here the emphasis is on the safety of investment as the investors always need safety for their investments. Under this method, net assets of the company are divided by the number of shares to arrive at the net asset value of each share.

Where Goodwill is Not Considered

The following is the balance sheet of laxmi company limited as on *31-03-2009*.

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Share capital :		Fixed assets	15,00,000
10% 10,000 preference	10,00,000	Current assets	6,50,000
shares of Rs.100each	10,000	equity shares of	10,00,000
Preliminary expresses	25,000	Rs. 100 each	
Sundry creditors	1,50,000		
Bills payable	25,000		
	21,75,000		**21,75,000**

The fixed assets are revalued Rs. 16,50,000 and current assets are revalued at Rs. 7,00,000. Find out the value of share under assets backing method.

Solution :

Valuation of Shares

Particular	Amount (Rs)	Amount (Rs)
Assets :		
Fixed Assets	16,50,000	
Current Assets	7,00,000	
Gross value of Assets		**23,50,000**
Less : Liabilities :		
Sundry ceditors	1,50,000	
Bills payable	25,000	
Net value of Assets		**21,75,000**
Less : Preference shares		**10,00,000**
Net assets available to equity shareholders		**11,75,000**

$$\text{Value of each equity share} = \frac{\text{Net Assets available to Equity shareholders}}{\text{Number of equity shares}}$$

$$\text{Value of each share} = \frac{11,75,000}{10,000} = \text{Rs. } 117.5$$

Thus, the value of each share under net asset 6s backing method is Rs. 117.50.

Method 2) Yield Method:

Under the Net Asset Method, the weightage is given on the safety of the investment. One, who invests money on shares, always needs safety. Even if the return is low, safety is always looked upon. At the same time under the yield method, the emphasis goes to the yield that an investor expects from his investment. The yield, here we mean, is the possible return that an investor gets out of his holdings—dividend, bonus shares, right issue. If the return is more, the price of the share is also more. Under this method the valuation of shares is obtained by comparing the expected rate of return with normal rate of return.

2. From the following Balance Sheet of Ajantha Ltd. Find out the value of Share :

Liabilities	Rs.	Assets	Rs.
Share capital in shares of R. 10each	4,50,000	Fixed Assets	10,00,000
Reserve	5,50,000	Investments	80,000
Profit & loss A/c	60,000	Current Assets	1,60,000
6% Debentures	1,00,000	Preliminary expenses	20,000
Current liabilities	1,00,000		
	12,60,000		12,60,000

Solution :

Particular	Amount(Rs)	Amount(Rs)
Assets :		
Fixed Assets	10,00,000	
Investments	80,000	
Current Assets	1,60,000	12,40,000
Gross Value of Assets		12,40,000
Less : Liabilities :		
6% Debentures	1,00,000	
Current liabilities	1,00,000	2,00,000
Net Assets available of equity shareholders		**10,40,000**

$$\text{Value of each share} = \frac{\text{Amount available to equity shareholders}}{\text{Number of Equity shares}}$$

$$= \frac{10,40,000}{45,000}$$

Value of each share = Rs. 23.11

Method 3 Fair Value Method:

There are some accountants who do not prefer to use Intrinsic Value or Yield Value for ascertaining the correct value of shares. They however, prescribe the Fair Value Method which is the mean of Intrinsic value and Yield Value method and the same provides a better indication about the value of shares than the other methods.

Fair Value = (Intrinsic Value + Yield Value)/2

2. From the following information, calculate fair value of share.

Asset backing method

Fully paid share = 180 Partly paid share = 165

Yield basis method

Fully paid share = 152

Partly paid share = 102.

Solution :

Fair Value of Share

$$= \frac{\text{Share value as per net asset backing method + share value as per yield basis method}}{2}$$

$$\text{Fully Paid Share} = \frac{180+152}{2} = \frac{332}{2} = \text{Rs. } 166$$

$$\therefore \text{ Partly Paid Share} = \frac{165+102}{2} = \frac{267}{2} = \text{Rs. } 133.50$$

Thus, fair value of full paid share is Rs. 166 and partly paid share is Rs. 133.50.

Important questions:

Advanced Accounting Sem-III Important questions.

Unit-1

- Prepare Revaluation account, Capital account and difference between Sacrificing ratio and gaining ratio.
- Admission of a partner.
- Death of a partner.
- Retirement of a partner.
- Meaning, Defination and features of partnership.

Unit-2

- Dissolution of partnership.
- Insolvency of a partner.
- Sale of a firm to a Company.

Unit - 3

1. Issue of shares, forfeiture of shares and reissue of forfeited shares.
2. Issue of debentures, Redemption of debenture out of profits.
3. Sinking fund, own debentures.

4. Underwriting of shares and debentures.
5. Types of Underwriting
6. Bonus shares.

Unit - 4

1. Prepare final accounts. (Statement of P&L & Balance Sheet).
2. Prepare final accounts with various adjustments.
3. Profit prior to incorporation.
4. Loses prior to incorporation.
5. Calculate the profit earn by the Company in pre - and post incorporation.

Unit - 5.

1. Valuation of Goodwill under different methods.
2. Valuation of shares under different methods.