EDU SERUMX COLLEGE OF COMMERCE and MANAGMENT

SYLLABUS

Class – BBA I Year

Subject – Fundamental of Account (Elective)

Unit	Topics
UNIT I	**Basic Accounting Concepts**
	- Double Entry System
	- Journal
	- Subsidiary Books
	- Ledger and Trial Balance
	- Final Accounts with Adjustments
UNIT II	**Depreciation and Hire Purchase**
	- Concept of Depreciation
	- Accounting for Depreciation (As per AS-6)
	- Methods of Depreciation:
	- Fixed Instalment Method
	- Diminishing Balance Method
	- Annuity Method
	- Depreciation Fund Method
	- Hire Purchase System (Excluding Hire Purchase Trading Account)
UNIT III	**Single Entry System and Bank Reconciliation**
	- Single Entry System
	- Bank Reconciliation Statement
UNIT IV	**Branch and Departmental Accounts**
	- Branch Accounts
	- Departmental Accounts
UNIT V	**Partnership Accounting**
	- Accounting for Admission of Partners
	- Accounting for Retirement of Partners
	- Accounting for Death of Partners
	- Dissolution of Partnership Firm (including Insolvency)

Unit 1

FUNDAMENTAL PRINCIPLES OF FINANCIAL ACCOUNTING

Definition of Accounting

According to the American Institute of Certified Public Accountants: Accounting is "the art of recording, classifying, and summarizing in a significant way, and in terms of money, all transactions and events that are partly or fully financial, and interpreting the results."

In simpler terms, accounting is both a science and an art of keeping track of all financial transactions, organizing them, summarizing the results, and making sense of them.

Characteristics of Accounting

1. **Science and Art:** Accounting combines scientific principles with practical application.
2. **Focus on Financial Transactions:** It only records events that involve money.
3. **Monetary Terms Only:** All records are in money terms.
4. **Accurate and Systematic Records:** It keeps complete and systematic records.
5. **Analyzes Transactions:** It provides detailed information on financial results.

Objectives of Accounting

1. **Systematic Record-Keeping:** It organizes financial transactions to create statements.
2. **Assess Business Performance:** It shows profits or losses through the income statement (profit & loss account).
3. **Protects Business Assets:** It tracks assets and liabilities, helping manage what the business owes and is owed.
4. **Supports Financial Reporting:** It helps in financial statements like cash flow statements.
5. **Aids Decision-Making:** Accounting gives essential data to help business decisions.

Accounting as Both Science and Art

- **Science:** Accounting has set principles and rules, like the accounting equation (Assets = Liabilities + Equity) and debit-credit rules.
- **Art:** It applies this knowledge practically, like in maintaining daily financial records, making accounting both a science and an art.

Book-Keeping

Book-keeping is the basic task of recording and organizing financial transactions. It involves tracking each transaction to ensure accurate financial records.

Book-Keeping Steps:

1. **Identify Transactions:** Recognize which business activities involve money.
2. **Record Transactions:** Log these transactions in journals.
3. **Create Ledger Accounts:** Post entries from journals to ledgers (a detailed record of transactions).
4. **Balance Ledger Accounts:** Find balances for each ledger.
5. **Prepare a Trial Balance:** Make sure all records balance correctly before creating final accounts.

DIFFERENCE BETWEEN BOOK-KEEPING AND ACCOUNTING

S.No	Basis of Difference	Book-Keeping	Accounting
1	**Transaction**	Trading transactions are recorded in primary books.	Entries written in primary books are checked and verified.
2	**Posting**	Entries are posted in the ledger from journals and subsidiary books.	Postings are checked to ensure they are posted correctly.
3	**Total and Balance**	It includes totaling journals and finding ledger balances.	Final accounts are prepared based on ledger balances.
4	**Objects**	To record all trading transactions systematically.	To analyze the transactions recorded in the books.
5	**Adjustments and Error Correction**	Adjustments and error rectifications are not included in book-keeping.	Adjustments and error rectifications are part of accounting.
6	**Scope**	Narrow scope, limited to recording and basic processing of transactions.	Wide scope, includes recording, classifying, summarizing, and interpreting transactions.
7	**Final Accounts**	Final accounts are not prepared in book-keeping.	Preparation of final accounts is essential in accounting.

Accounting Concepts:

Accounting concepts are the fundamental principles that guide the accounting process. They form the foundation for consistent and accurate financial record-keeping. Here are some key accounting concepts:

1. **Business Entity Concept**
   - Treats the business as separate from its owner.
   - Ensures the business's financial records are distinct from the owner's personal finances.
   - Example: Money invested by the owner in the business is recorded as a liability (capital).
2. **Going Concern Concept**
   - Assumes the business will operate indefinitely.
   - Assets are valued based on purchase price (cost), not market value.
   - Important for differentiating long-term assets from short-term costs.
3. **Dual Aspect Concept**
   - Every transaction has two sides: a debit and a credit.
   - Forms the basis of the double-entry system.
   - Example: Buying furniture increases assets but decreases cash (or increases liabilities if bought on credit).
4. **Historical Cost Concept**
   - Assets are recorded at their purchase cost, not their market value.
   - Ensures consistency and prevents arbitrary valuations.
5. **Money Measurement Concept**
   - Only transactions measurable in money are recorded.
   - Non-financial events, like staff morale, are not included in financial records.
6. **Realization Concept**
   - Revenue is recorded only when a sale is made, not when goods are produced.
   - Prevents premature recognition of income and inflation of profits.
7. **Accrual Concept**
   - Recognizes income and expenses when they are incurred, not necessarily when cash is exchanged.
   - Ensures all earned income and incurred expenses are recorded in the relevant period.
8. **Matching Concept**
   - Matches expenses with the revenue they help to generate.
   - Ensures accurate calculation of profits by aligning expenses with corresponding revenues.
9. **Accounting Period Concept**
   - Divides business operations into regular intervals (usually annually).
   - Allows periodic financial reporting, though shorter periods (like quarters) may be used for internal purposes.
10. **Verifiable Objective Concept**
    - Ensures data is accurate, unbiased, and based on objective evidence.
    - Uses receipts, invoices, and other documents as proof for recorded transactions.

Accounting Conventions: Meaning and Importance

Accounting conventions are customary practices that accountants follow when preparing financial statements. Some of the main conventions include:

1. **Convention of Conservatism**
   - Anticipates possible losses but doesn't record potential gains until they are realized.
   - Example: Inventory is valued at the lower of cost or market value.
2. **Convention of Consistency**
   - Encourages the consistent use of accounting methods over time.
   - Allows for easier comparison of financial statements between periods.
   - Any change in methods should be clearly disclosed.
3. **Convention of Material Disclosure**
   - Important information should be fully disclosed in financial statements.
   - Ensures transparency by including essential details, footnotes, and clarifications.
   - Accountants report significant information and exclude minor details.

Counting Systems

There are several main accounting systems used for financial record-keeping:

1. **Cash System**
   - Records only cash transactions. Credit transactions are noted separately until they are paid.
   - Commonly used by small businesses, professionals, or non-trading organizations where most dealings are in cash.
2. **Mahajani System**
   - An old Indian method of accounting.
   - Uses traditional "Bahis" (accounting books) for recording transactions in various languages like Hindi, Urdu, or regional languages.
   - Based on specific principles, this method is considered systematic and organized.
3. **Single Entry System**
   - Not all transactions are fully recorded; only cash and personal accounts are kept.
   - This method is incomplete and less structured, so it's rarely used in modern accounting.
4. **Double Entry System**
   - Each transaction affects two sides of an account, ensuring debits equal credits.
   - Originated in Italy, this is a complete and scientific method widely used today because it provides a clear and balanced financial picture.

Concept of Double Entry System

The double entry system is widely used in modern accounting because it ensures accuracy by recording every transaction with two sides: a "debit" and a "credit." This system is based on the principle that every business transaction involves two aspects — when you receive something, you give something in return. Each transaction affects two accounts, and for every debit, there is a corresponding credit of an equal amount. This method keeps the books balanced, with total debits equal to total credits.

Evolution of the Double Entry System
The double entry system began in 15th century Italy. In 1494, Italian mathematician Luca Pacioli published a book, "De Composited Scriptures," explaining accounting practices, including the double entry system. In 1543, the book was translated into English, popularizing this method.

Stages of Double Entry System

1. **Record Transactions** – Transactions are recorded in the journal.
2. **Classify Transactions** – Journal entries are posted to the correct ledger accounts, then a trial balance is prepared.
3. **Close Books and Prepare Final Accounts** – At the end of the period, final accounts are prepared, such as the income statement and balance sheet.

Merits of Double Entry System

1. **Detailed Records** – Every transaction is recorded with complete details in two accounts.
2. **Business Insights** – Provides information on assets, liabilities, and capital.
3. **Accuracy Check** – Trial balance helps verify mathematical accuracy.
4. **Reduces Fraud** – Each transaction is recorded twice, making fraud easier to detect.
5. **Profit & Loss Knowledge** – Prepares income statements to show profits or losses.
6. **Financial Position** – Balance sheets reveal the business's financial health.
7. **Useful Comparisons** – Financial statements from different years can be compared for analysis.

Limitations of Double Entry System

1. **Complex Rules** – Learning debit and credit rules can be challenging.
2. **Error Possibilities** – Despite its accuracy, errors can still occur.
3. **Strict Principles** – Small mistakes can impact results.
4. **Costly for Small Businesses** – This system can be too expensive for smaller traders.
5. **Requires Knowledge and Training** – Proper accounting knowledge is essential for accuracy.

Classification of Accounts

Accounts are grouped into three main types: Personal Accounts, Real Accounts, and Nominal Accounts. Each type serves a unique purpose in recording financial information.

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1) Personal Accounts

- These accounts are related to people or organizations.
- **a) Natural Personal Account:** These represent actual people. For example, an account in the name of an individual like Shyam or Gopal.
- **b) Artificial Personal Account:** These are accounts for entities or institutions that act like people in business. For example, accounts for a Club, Insurance Company, or Bank.
- **c) Representative Personal Account:** These accounts represent a person or group indirectly. For example, if rent is due to a landlord, it's recorded in an "Outstanding Rent" account, representing the landlord to whom payment is owed. Similarly, "Outstanding Salaries" represents salaries owed to employees.

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2) Real Accounts

- These are accounts related to assets and things owned by the business.
- **a) Intangible Real Accounts:** These are accounts for assets that cannot be touched but have value. Examples include Goodwill, Patents, and Trademarks.
- **b) Tangible Real Accounts:** These accounts relate to physical items that can be touched and seen, like Furniture, Buildings, or Stock.

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3) Nominal Accounts

- These accounts record income, expenses, gains, and losses.
- **a) Revenue Account:** Accounts for income received, like Rent Received or Interest Received.
- **b) Expenditure Account:** Accounts for expenses or payments made, like Rent Paid, Salary Paid, or Interest Paid.
- At the end of the financial year, balances in nominal accounts are transferred to the Trading Account or the Profit & Loss Account to determine profit or loss.

Rules of Double Entry System

In the double-entry system, every transaction affects two accounts: one account is debited, and the other is credited. Here are the rules:

1. **Personal Accounts**:
    - **Debit** the receiver.
    - **Credit** the giver.
2. **Real Accounts**:
    - **Debit** what comes in.
    - **Credit** what goes out.
3. **Nominal Accounts**:
    - **Debit** all expenses and losses.
    - **Credit** all incomes and gains.

Capital and Revenue Expenditures and Receipts

The **Going Concern Assumption** means a business will continue operating, which allows accountants to separate expenditures and receipts into categories:

1. **Capital Expenditure**:
    - Spent on acquiring or improving long-term assets (like land, buildings, machinery) that provide benefits beyond the current year.
2. **Revenue Expenditure**:
    - Spent to maintain the current productivity or income-generating capacity of the business. These cover costs that benefit only the current period, like salaries, rent, or advertising.
3. **Deferred Revenue Expenditure**:
    - Expenses that provide benefits beyond the current year but for a shorter period than capital expenses (like an advertising campaign). They are usually spread over 3–5 years.
4. **Capital Receipts**:
    - One-time receipts from sources that don't affect daily business operations, like selling assets, owner's investment, or loan funds.
5. **Revenue Receipts**:
    - Income from the normal business operations, like sales revenue, service income, or interest earned.

Accounting Standards

Accounting Standards provide a standard way for businesses to prepare financial statements. These standards ensure consistency and fairness in presenting a company's financial health. They balance the need for uniformity with flexibility for specific situations and changes in the economy. Accounting standards help communicate accurate financial information to interested parties and build trust by reducing confusion and variability in reporting methods.

ACCOUNTING STANDARDS ISSUED BY THE ICAI

The Institute of Chartered Accountants of India has thus far issued the following standard effective from the date noted against them

Standard No.	Accounting Standard	Effective Date
AS-1	Disclosure of Accounting Policies	01-04-1991
AS-2	Valuation of Inventories	1-4-1991 (Revised)
AS-3	Cash Flow Statement	1-6-1991 (Revised)
AS-4	Contingencies and Events Occurring After the Balance Sheet Date	01-04-1995
AS-5	Net Profit or Loss for the Period, Prior Items and Changes in Accounting Policies	01-04-1996
AS-6	Depreciation Accounting	01-04-1995
AS-7	Accounting for Construction Contracts	01-04-1991
AS-8	Accounting for Research and Development	01-04-1991
AS-9	Revenue Recognition	01-04-1991
AS-10	Accounting for Fixed Assets	01-04-1991
AS-11	Accounting for the Effects of Changes in Foreign Exchange Rates	01-04-1995
AS-12	Accounting for Government Grants	01-04-1994
AS-13	Accounting for Investments	01-04-1995
AS-14	Accounting for Amalgamation	01-04-1995
AS-15	Accounting for Retirement Benefits in the Financial Statements of Employers	01-04-1995

Standard No.	Accounting Standard	Effective Date
AS-16	Borrowing Costs	01-04-2000
AS-17	Segment Reporting	01-04-2001
AS-18	Related Party Disclosures	01-04-2001
AS-19	Leases	01-04-2001
AS-20	Earnings per Share	01-04-2001
AS-21	Consolidated Financial Statements	01-04-2001
AS-22	Accounting for Taxes on Income	01-04-2002
AS-23	Accounting for Investments in Associates in Consolidated Financial Statements	01-04-2002
AS-24	Discontinuing Operations	01-04-2002
AS-25	Interim Financial Reporting	01-04-2002
AS-26	Intangible Assets	01-04-2003
AS-27	Financial Reporting of Interests in Joint Ventures	01-04-2002
AS-28	Impairment of Assets	01-04-2004
AS-29	Provisions, Contingent Liabilities and Contingent Assets	01-04-2004

JOURNAL

The journal is a key accounting book that every organization, whether small or large, uses. It serves as the foundation of the accounting process.

Definition: A journal is the book of original entry that records transactions in the order they occur. The act of recording these transactions is called **journalizing**.

Structure of a Journal Entry:

- **Date**: When the transaction occurred.
- **Particulars**: The accounts involved in the transaction.
- **L/F**: Ledger Folio (a reference number for tracking).
- **Debit Amount**: The amount to be debited.
- **Credit Amount**: The amount to be credited.

Example Format:

```
r
Copy code
Date          Particulars                        L/F       Debit Amount
Credit Amount
2009
July 25     ………………………….A/c Dr
             To ……………………..A/c
             (……………………………………)
```

COMPOUND JOURNAL ENTRY

Sometimes, multiple transactions of the same type happen on the same day. Instead of making a separate journal entry for each, a combined entry can be made. This is known as a **compound journal entry**.

Example:

```
css
Copy code
Postage A/c Dr.
Stationery A/c Dr.
Cartage A/c Dr.
To Cash A/c
```

DISCOUNT

Types of Discounts:

1. **Trade Discount**:
   - This discount is offered at the time of buying or selling goods to encourage sales.
   - For example, a manufacturer might give a discount to a wholesaler, or a wholesaler might discount a retailer.
   - It is usually a percentage off the sale price (invoice price) and is **not recorded** in the books. Only the net amount (invoice price minus trade discount) is recorded in the journal.
2. **Cash Discount**:
   - This is given when payments are made or cash is received.
   - It is usually a percentage of the amount owed and is intended to encourage timely payment.
   - Cash discounts are recorded in the books because they affect the amounts already recorded.
   - If a debtor receives a cash discount, it is considered a loss and should be debited to the discount account.
   - If a creditor provides a cash discount, it is considered a gain and should be credited to the discount account.

DISTINCTIONS BETWEEN TRADE DISCOUNT AND CASH DISCOUNT

S.No.	Trade Discount	Cash Discount
1	Allowed at the time of making purchases or sales.	Allowed at the time of making payments or receipts of cash.
2	Calculated as a certain percentage on the invoice price of goods purchased or sold.	Calculated as a certain percentage on the amounts due to creditors or amounts due from debtors.
3	Not shown in the books of accounts; only the net amount of purchase or sale is recorded.	Shown in the books: discount allowed is a debit entry, and discount received is a credit entry.
4	Allowed to promote more sales or purchases.	Allowed to encourage parties to make payments on time.

Cash Book:

A **Cash Book** is a record that keeps track of all cash transactions, specifically cash that is received and cash that is paid out. Every time there is a cash-related transaction, it is immediately recorded in the Cash Book. This makes it easier to track cash movement in and out of a business.

The Cash Book is structured like an account with two sides:

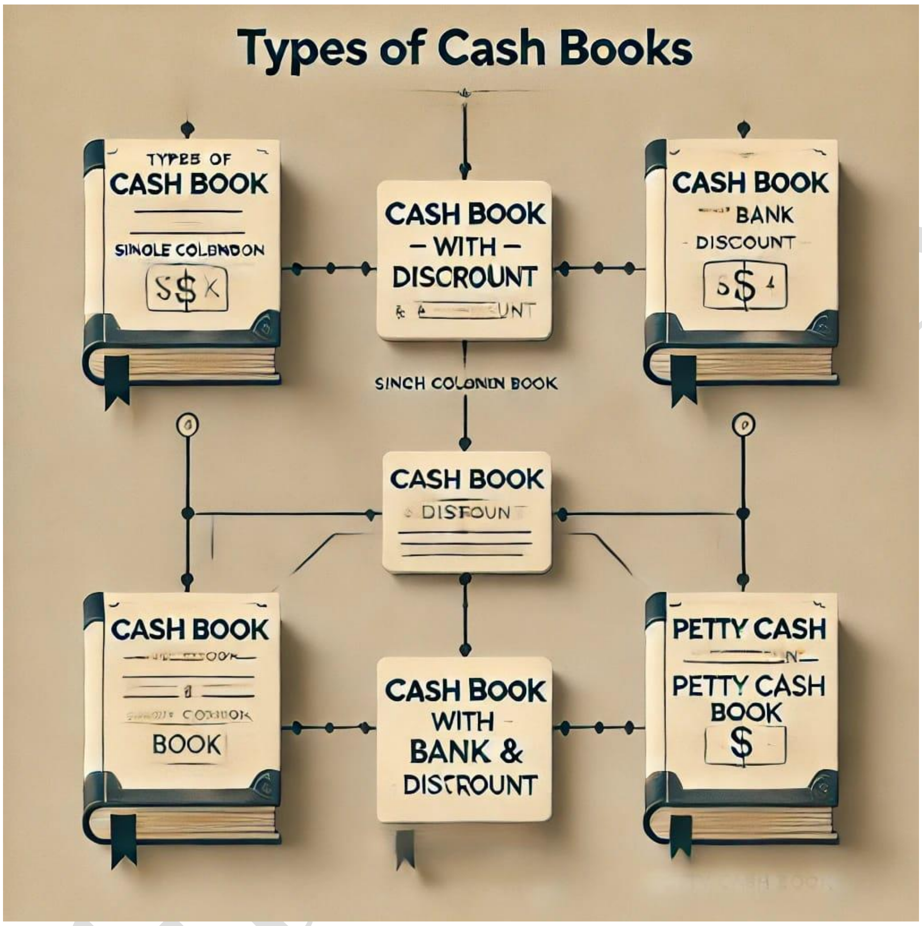
- **Debit Side**: This side records all cash received.
- **Credit Side**: This side records all cash payments.

Key Features of a Cash Book:

1. **Only cash transactions** are recorded in the Cash Book.
2. It acts as both a **journal and a ledger** simultaneously, saving time.
3. **Receipts** are always on the debit side, while **payments** are on the credit side.
4. It only records **cash-related** transactions, not credit transactions.
5. All entries are recorded in the **order they happen**, making it easy to track cash flow.

Types of Cash Books

Cash Books come in several types, each suited to different business needs. Here are the main types:



1. **Single Column Cash Book**
   - This is the simplest form of Cash Book.
   - It only has one column for **cash transactions**.
   - Only cash payments and receipts are recorded here.

Dr. Single				Column Cash Book Cr.			
Date	Particulars	L.F.	Amount Rs	Date	Particulars	L.F.	Amount Rs

2. **Double Column Cash Book**
    - This Cash Book has two columns on each side: **Cash** and **Bank**.
    - It records both cash transactions and bank transactions (like checks received or issued).

Format of Cash Book with Discount Column:

(Dr side)						(Cr side)					
Date	**Particulars**	**L/F**	**Discount Allowed**	**Cash (Dr)**	**Bank (Dr)**	**Date**	**Particulars**	**L/F**	**Discount Received**	**Cash (Cr)**	**Bank (Cr)**

Explanation of Columns

- **Date:** Records the transaction date.
- **Particulars:** Notes the transaction details.
- **L/F (Ledger Folio):** A reference to the ledger page number.
- **Discount Allowed (Dr side):** Records any discounts given by the business.
- **Cash (Dr) and Bank (Dr):** Records incoming cash or bank transactions.
- **Discount Received (Cr side):** Records discounts received by the business.
- **Cash (Cr) and Bank (Cr):** Records outgoing cash or bank transactions.

3. **Triple Column Cash Book**
    - This has three columns on each side: **Cash**, **Bank**, and **Discount**.
    - Besides cash and bank transactions, it also records any discounts received or
    - Given.

Date	**Particulars**	**L/F**	**Discount Allowed**	**Cash (Dr)**	**Bank (Dr)**	**Contra (✓)**	**Date**	**Particulars**	**L/F**	**Discount Received**	**Cash (Cr)**	**Bank (Cr)**	**Contra (✓)**
(Dr side)							(Cr side)						
...	...	...	...	...	...	✓ (if Contra)	...	...	...	...	...	...	✓ (if Contra

4. **Petty Cash Book**
    - A separate Cash Book specifically for small, daily expenses like office supplies or travel fares.
    - These minor expenses are recorded by a Petty Cashier to keep the main Cash Book clear and organized.

Features of Petty Cash Book

- **Cash Received:** The amount given to the petty cashier from the main cashier is recorded on the left side.

- **Expenses Paid:** Payments for small expenses (like postage or office supplies) are recorded on the right side under specific columns for each type of expense.

- **No Credit Balance:** The petty cash book will always show a positive balance, as payments cannot exceed the cash received.

- **Remaining Cash:** The balance in the petty cash book shows how much cash is left on hand.

- **Based on Vouchers:** Transactions are recorded based on vouchers, whether from inside or outside the business.

- **Periodic Totals:** Each expense column is totaled periodically, and these totals are posted to the main ledger.

- **Dual Purpose Book:** The petty cash book acts as both the original record of transactions and the final entry for small expenses.

Receipts				Payments							
Date	Particulars	Cash Book Folio	Total Rs.	Date	Particulars	Voucher No.	Postage Rs.	Conveyance Rs.	Cartage Rs.	Printing & Stationery Rs.	Misc. Items Rs.

Explanation of Columns

- **Receipts Section:**
  - **Date:** Date when petty cash is received from the main cashier.
  - **Particulars:** Description of the receipt (e.g., "Cash Received").
  - **Cash Book Folio:** Reference to the main Cash Book page.
  - **Total Rs.:** Total amount of cash received for petty cash.
- **Payments Section:**
  - **Date:** Date of each petty cash expense.
  - **Particulars:** Description of the expense (e.g., postage, transport).
  - **Voucher No.:** Reference number of the voucher for the transaction.
  - **Postage Rs.:** Amount spent on postage.
  - **Conveyance Rs.:** Amount spent on travel or conveyance.
  - **Cartage Rs.:** Amount spent on carting or moving goods.
  - **Printing & Stationery Rs.:** Amount spent on office supplies.
  - **Misc. Items Rs.:** Amount spent on miscellaneous items.
  - **Total Rs.:** Total payment for each entry in the row.

Advantages of Petty Cash Book

1. **Saves Time:** The chief cashier's time is saved because small expenses are recorded separately in the petty cash book.
2. **Less Work in Posting:**
   - Only a few accounts need to be opened for categories of small expenses.
   - Each column's total (usually monthly) is posted to the ledger, making the process quicker.
3. **Fewer Mistakes:** Mistakes are less likely because the chief cashier regularly checks the petty cash book.
4. **Better Control Over Small Expenses:** Petty expenses stay within a set limit, as the petty cashier cannot spend more than the amount given (imprest).
5. **Prevents Fraud:** Any misuse of funds is limited to the amount of the petty cash balance.
6. **Specialization:** Cash transactions are split between the main cash book and the petty cash book, which improves efficiency.

Posting of Petty Cash Book in the Ledger

1. **Petty Cash Book as Part of Double Entry System:** When the petty cash book is part of the main accounting system, it follows double-entry rules, with each entry affecting both the petty cash and expense accounts.
2. **Petty Cash Book as a Memorandum Book:** If it's used as a record for reference only, it won't affect the main ledger accounts directly but serves to track small expenses without double entry.

Imprest vs. Non-Imprest System of Petty Cash Book

- **Imprest (or Float):** This is the amount given by the main cashier to the petty cashier to cover small expenses for a specific period.
- **Imprest System:** Petty cash is topped up regularly, so the petty cashier starts each period with the same amount.
- **Non-Imprest System:** There's no set amount to maintain; funds are added as needed.

Features of the Imprest System (in simple terms)

1. **Estimation by Chief Cashier:** The chief cashier estimates how much petty cash will be needed for a set period (like a week or month).
2. **Advance by Chief Cashier:** At the beginning of the period, the chief cashier gives this estimated amount to the petty cashier.
3. **Petty Cash Book Submission:** At the end of the period, the petty cashier submits the petty cash book with all expense records and receipts to the chief cashier.
4. **Review by Chief Cashier:** The chief cashier reviews the petty cash book to ensure all expenses are correct.
5. **Reimbursement of Spent Amount:** After reviewing, the chief cashier reimburses the exact amount spent. This way, the petty cashier starts each new period with the same amount.

Ledger

The **Ledger** is the main book in double-entry accounting. It organizes all the business transactions recorded in other books by sorting them into separate accounts, making it easier to understand the financial position of each account over a certain period.

Characteristics of a Ledger

1. **Principal Book of Accounts:** It's the main book where all accounts are kept.
2. **Index at the Beginning:** The first few pages are reserved for an index to help locate specific accounts easily. These pages aren't numbered.
3. **Separate Pages for Each Account:** Each account has its own page or pages in the ledger, which are called folios.
4. **One Debit, One Credit:** Each transaction involves two entries—one debit and one credit.
5. **Final Book of Entry:** The ledger is the final record in daily bookkeeping.
6. **Organizes Transactions by Account:** Unlike a journal, which lists transactions in order, the ledger groups them by account type, such as Cash, Sales, or Expenses.

Importance of a Ledger

1. **Clear View of Each Account:** Shows all transactions for each account in one place.
2. **Income and Expense Tracking:** Helps keep track of what the business earns and spends.
3. **Financial Position Assessment:** Shows the balance of each account, giving an overview of the financial position.
4. **Accuracy Check:** Helps confirm the accuracy of records.
5. **Profit and Loss Knowledge:** Provides information needed to determine profit or loss.
6. **Time Efficiency:** Saves time by organizing transactions in an easy-to-access format.
7. **Details of Assets:** Shows the current value of the business's assets.
8. **Details of Liabilities:** Shows what the business owes.
9. **Overall Business Status:** Gives a summary of the financial health of the business.
10. **Proof in Business Disputes:** Serves as evidence if there are any disagreements or issues with transactions.

Difference between journal and Ledger

Basis	Journal	Ledger
Definition	The book where all transactions are first recorded in chronological order	The principal book where all journal entries are classified by account
Purpose	To record transactions in detail as they occur	To organize transactions by account for a clear view of balances
Order of Recording	Chronological order (by date)	Classified order (by account)
Type of Entry	Book of original entry (first entry)	Book of final entry
Process	First step in recording transactions	Second step, where transactions are posted from the journal
Effect of Transactions	Shows both debit and credit in a single entry	Shows debit and credit balances separately by account
Balancing	No balancing done in the journal	Each account is balanced at the end of an accounting period
Format	Includes Date, Particulars, L/F, Debit, Credit	Includes Date, Particulars, L/F, Debit, Credit, and Balance
Use	Used to capture initial transaction details	Used to determine the financial position of each account
Reference	Refers to transactions from vouchers	Refers back to the journal through folio numbers

Posting

When the transactions entered in journal are recorded in the ledger, it is called posting. It other words, posting is the process transferring the debits and credits of journal entries to the ledger account. The subject of such posting to have a fixed classified record of various transactions pertaining to each account.

Balancing of ledger Accounts

Assets, liabilities and capital accounts have certain closing balance of the end of accounting period, so their values are to be carried forward to the next accounting period. This is why they are closed as “By Balance b/d” or “To Balance c/d. The balance of those accounts carried forward to the next accounting period, because the firm has to carry on tits business with these assets, liabilities and capital in hand. While closing these accounts we write the ‘Balance c/d’ to show the closing balance of the account. While closing nominal accounts or those accounts which are either an expense or revenue. we do not use the word balance c/d because the balance of these accounts need be carried forward to the next period. Whatever has been paid on account of expenses has been paid once and forever. This is the expense of the business. so it should be directly posted to the debit side of the profit and loss account or trading account. It the same way, account relating to income or gain or revenues are also closed by transfer to profit and loss account. Receipts i.e. rent, interest and discount are revenue of the business, so while closing these accounts their balance will be transferred to profit and loss account.

Subsidiary Book
Preparation of Purchase Day Book

This book is maintained mainly to record credit purchases of goods. The term goods refers to all such commodities and services in which we deal.

Purchase Day Book

- **Purpose:** Records all credit purchases of goods (items the business buys on credit).
- **Entries:** Made based on suppliers’ invoices.

Date	Particulars (Supplier’s Name)	Invoice No.	L.F.	Amount (Rs.)	Net Amount (Rs.)

Posting:

- Each supplier's personal account is credited in the ledger with **“By Purchases A/c.”**
- The total of this book is debited to **Purchases A/c** in the ledger with **“To Sundries as per Purchases Book.”**

2. Sales Book

- **Purpose:** Records all credit sales of goods (excludes cash sales and asset sales).
- **Entries:** Made from invoices issued to customers.

Date	Particulars (Customer's Name)	Invoice No.	L.F.	Amount (Rs.)	Net Amount (Rs.)

Posting:

- Each customer's personal account is debited in the ledger with **"To Sales A/c."**
- The total of this book is credited to **Sales A/c** with **"By Sundries as per Sales Book."**

3. Purchase Return Book (Returns Outward)

- **Purpose:** Records returns of goods previously purchased on credit.
- **Entries:** Made based on debit notes sent to suppliers.

Date	Particulars (Supplier's Name)	Invoice No.	L.F.	Amount (Rs.)	Net Amount (Rs.)

Posting:

- The supplier's account is debited with the amount of the returned goods.

4. Sales Return Book (Returns Inward)

- **Purpose:** Records returns of goods sold to customers on credit.
- **Entries:** Made based on credit notes issued to customers.

Date	Particulars (Customer's Name)	Credit Note No.	L.F.	Amount (Rs.)

- **Posting:**
  - Each customer's account is credited with the amount of goods returned.

5. Bills Receivable Book

- **Purpose:** Keeps a detailed record of bills receivable (money owed to the firm).
- **Entries:** Made when a bill is received from a customer.

Date Received	Drawer	Acceptor	Where Payable	Date of Bill	Term	Due Date	L.F.	Amount (Rs.)	Remark

Posting:

- The drawer's account is credited in the ledger with the bill amount.
- The total of this book is debited to **Bills Receivable A/c** in the ledger.

Bills Payable Book

- **Purpose:** Keeps a detailed record of bills payable (bills the firm owes).
- **Entries:** Made when the firm accepts a bill payable.

Date of Acceptance	To Whom Given	Payee	Where Payable	Date of Bill	Term	Due Date	L.F.	Amount (Rs.)	Remark

Posting:

- The payee's account is debited in the ledger with the bill amount.
- The total of this book is credited to **Bills Payable A/c** in the ledger.

Trial Balance

Meaning: A **Trial Balance** is a list of all the balances in a business's accounts. It includes both debit and credit balances, and the total of the debit side must equal the total of the credit side. This is based on the double-entry accounting principle, where for every debit, there is a corresponding credit. Preparing a trial balance helps ensure that the accounts are arithmetically correct.

Main Characteristics and Uses of a Trial Balance

1. **Tabular Format:** A trial balance is prepared in a table with two columns—one for debit balances and one for credit balances.
2. **Closing Balances:** It shows the closing balances of all accounts at the end of a specific period.
3. **Not an Account:** It is not an account but a summary statement of balances.
4. **Flexibility in Preparation:** It can be prepared on any date as long as the accounts are balanced.

5. **Consolidation:** It consolidates all ledger balances into one place at the end of the period.
6. **Verifying Accuracy:** It helps verify the arithmetic accuracy of the entries made in the ledger; if both sides agree, it indicates the ledger is correct at least mathematically.
7. **Assistance in Financial Reporting:** It aids in preparing financial statements like Trading Account, Profit and Loss Account, and Balance Sheet, which show the financial position of the firm.

Objects of Preparing a Trial Balance

1. **Check Arithmetic Accuracy:** If the debit and credit totals are equal, it indicates that the books are at least arithmetically correct.
2. **Identify Casting Errors:** It helps in identifying errors in the casting of subsidiary records.
3. **Detect Posting Errors:** Errors in posting from subsidiary records to the ledger can be found.
4. **Balance Verification:** It helps find errors in balancing ledger accounts.
5. **Verification of Schedules:** It verifies the correctness of debtor and creditor schedules.

Limitations of a Trial Balance

While a trial balance is useful, it does not guarantee that the accounts are completely accurate. Here are some errors that a trial balance cannot detect:

1. **Errors of Omission:** If a transaction is not recorded at all, it will not affect the trial balance since both sides are missing the entry.
2. **Errors of Commission:** If an item is posted to the correct side but the wrong account, the trial balance may still balance.
3. **Errors in Subsidiary Books:** If the wrong amount is recorded in subsidiary books, the trial balance won't catch this mistake.
4. **Compensating Errors:** If one account has an excess debit that is offset by an under-debit in another account, the trial balance can still agree.
5. **Errors of Principle:** If accounting principles are not followed (e.g., misclassifying expenses as capital), the trial balance won't indicate these issues.
6. **Compensatory Errors:** Similar to compensating errors, if there are mistakes on one side that are matched by equal mistakes on the other side, the trial balance will still appear correct.

Methods of Preparation of Trial Balance

1. Total Method

Under the **Total Method**, the debit and credit totals of each ledger account are recorded in the trial balance. Below is the format for preparing a trial balance using this method.

Trial Balance (As on …………….)

Title of Accounts	L.F.	Debit Total Rs.	Credit Total Rs.
Cash			
Accounts Receivable			
Inventory			
Prepaid Expenses			
Accounts Payable			
Loans Payable			
Capital			
Sales Revenue			
Expenses (e.g., Rent)			
Miscellaneous Income			
Total		**Total Rs.**	**Total Rs.**

In this format:

- **Title of Accounts:** Lists all accounts from the ledger.
- **L.F. (Ledger Folio):** Reference column for locating the accounts in the ledger.
- **Debit Total Rs.:** Total debits for each account.
- **Credit Total Rs.:** Total credits for each account.

Balance Method

Under the **Balance Method**, only the balances of each account from the ledger are recorded in the trial balance. Below is the format for preparing a trial balance using this method:

Trial Balance (As on …………….)

Title of Accounts	**L.F.**	**Debit Balance Rs.**	**Credit Balance Rs.**
Cash			
Accounts Receivable			
Inventory			
Prepaid Expenses			
Accounts Payable			
Loans Payable			
Capital			
Sales Revenue			
Expenses (e.g., Rent)			
Miscellaneous Income			
Total		**Total Rs.**	**Total Rs.**

In this format:

- **Title of Accounts:** Lists all accounts from the ledger.
- **L.F. (Ledger Folio):** Reference column for locating the accounts in the ledger.
- **Debit Balance Rs.:** Shows the balance for accounts with a debit balance.
- **Credit Balance Rs.:** Shows the balance for accounts with a credit balance.

Total cum Balance Method

The **Total Cum Balance Method** is a combination of the Total Method and the Balance Method. Below is the format for preparing a trial balance using this method:

Trial Balance (As on …………….)

Title of Accounts	L.F.	Debit Total Rs.	Credit Total Rs.	Debit Balance Rs.	Credit Balance Rs.
Cash					
Accounts Receivable					
Inventory					
Prepaid Expenses					
Accounts Payable					
Loans Payable					
Capital					
Sales Revenue					
Expenses (e.g., Rent)					
Miscellaneous Income					
Total		**Total Rs.**	**Total Rs.**	**Total Rs.**	**Total Rs.**

In this format:

- **Title of Accounts:** Lists all accounts from the ledger.
- **L.F. (Ledger Folio):** Reference column for locating the accounts in the ledger.
- **Debit Total Rs.:** The total debits for each account.
- **Credit Total Rs.:** The total credits for each account.
- **Debit Balance Rs.:** The ending balance for accounts with a debit balance.
- **Credit Balance Rs.:** The ending balance for accounts with a credit balance.

Final Accounts

Final accounts are essential for every business to determine its profitability and financial position at the end of a financial year. Here's a simplified breakdown of the process and the components of final accounts:

Purpose of Final Accounts

- **Determine Profit or Loss:** Businesses want to know how much profit they made or how much loss they incurred during the year.
- **Income Tax and Financial Planning:** Final accounts are needed for tax payments, assessing financial health, distributing dividends, and planning for the future.

Process of Preparing Final Accounts

1. **Record Transactions:** All business transactions are first recorded in the journal or subsidiary books.
2. **Post to Ledger:** Transactions from the journal are posted into the ledger accounts.
3. **Prepare Trial Balance:** A trial balance is then prepared to ensure that total debits equal total credits.
4. **Prepare Final Accounts:** Finally, final accounts are prepared based on the trial balance and additional information.

Components of Final Accounts

1. **Manufacturing Account:** This account shows the cost of producing goods for sale.
2. **Trading and Profit & Loss Account:** This account summarizes the revenues and expenses, showing whether the business made a profit or a loss.
3. **Balance Sheet:** This is a snapshot of the business's financial position at the end of the period, listing assets, liabilities, and owner's equity.

Key Points to Consider While Preparing Final Accounts

- **Debit Items in Trial Balance:**
  - **Expenses:** These are recorded on the debit side.
    - **Revenue Expenses:** Short-term expenses that provide benefits in the current year (e.g., wages, rent) are debited to the Trading Account or Profit & Loss Account.
    - **Capital Expenditure:** Long-term expenses that benefit multiple years (e.g., buildings, machinery) are recorded as assets on the Balance Sheet.

- **Credit Items in Trial Balance:**
    - **Incomes and Liabilities:** These appear on the credit side.
        - **Capital Receipts:** These are liabilities and are included on the liabilities side of the Balance Sheet.
        - **Revenue Receipts:** These are incomes from business activities.
            - **Direct Incomes:** Income directly related to the core business (e.g., sales) is credited to the Trading Account.
            - **Indirect Incomes:** Income not directly related to main activities (e.g., rent, interest) is credited to the Profit & Loss Account.

Trading Account

The Trading Account calculates the gross profit or loss of a business. It is typically prepared as part of the Profit and Loss Account.

Trading Account Format

Trading Account for the Year Ending ___________

Particulars	Rs.	Rs.
To Opening Stock		
To Purchases:		
Less: Returns Outward		
To Wages		
To Carriage		
To Fuel		
To Motive Power		
To Octroi		
To Import Duty		
To Clearing Charges		
To Dock Charges		
To Stores Consumed		
To Royalty based on Production		
To Manufacturing Expenses		
To Gross Profit c/d (Balancing Figure)		
By Sales:		
Less: Returns Inward		
By Goods Sent on Consignment		
By Closing Stock		
By Gross Loss c/d (Balancing Figure)		

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Profit and Loss Account

This account determines the net profit or loss after accounting for all indirect expenses and incomes.

Profit and Loss Account Format

Profit and Loss Account for the Year Ending ___________

Particulars	Rs.	Rs.
To Gross Loss		
To Office Salaries & Wages		
To Office Rent, Rates and Taxes		
To Office Printing and Stationery		
To Office Lighting		
To Insurance Premium		
To Repairs & Maintenance		
To Postage & Telegram		
To Legal Expenses		
To Trade Expenses		
To Audit Fees		
To Telephone Expenses		
To General Expenses		
To Bank Charges		
To Discount Allowed		
By Gross Profit		
By Discount Received		
By Bad Debts Recovered		
By Income from Investment		
By Commission Received		
By Interest on Deposits		
By Profit on Sale of Fixed Assets		
By Apprenticeship Premium		
By Interest on Drawings		
To Net Loss (Transferred to Capital Account)		
To Interest on Capital		
To Interest on Loan		
To Discount or Rebate on Bills of Exchange		
To Carriage Outward		
To Freight Outward		
To Bad Debts		
To Entertainment Expenses		

To Travelling Expenses		
To Cost of Samples		
To Catalogue Expenses		
To Salesmen's Salaries		
To Expenses and Commission		
To Advertising Expenses		
To Depreciation on Fixed Assets		
To Loss on Sale of Fixed Assets		
To Net Profit (Transferred to Capital Account)		

Balance Sheet

This document shows the financial position of a business at a specific date, detailing assets and liabilities.

Balance Sheet Format

Balance Sheet as on 31 March ___________

Liabilities	Rs.	Assets	Rs.
Capital		**Fixed Assets:**	
Long-term Liabilities		Patent	
Debentures		Goodwill	
Bank Loan		Land and Building	
Current Liabilities:		Plant & Machinery	
Advance Income		Furniture and Fixtures	
Outstanding Expenses		**Current Assets:**	
Bank Overdraft		Short-term Investments	
Bills Payable		Prepaid Expenses	
Creditors		Accrued Income	
Unearned Income		Debtors	
		Closing Stock	
		Bank Balance	
		Cash Balance	

Closing Entries

At the end of the accounting period, closing entries are made to finalize accounts.

Procedure for Closing Entries

1. **For Direct Expenses:**
   - **Trading Account Dr.**
   - **To Opening Stock Account**
   - **To Purchases Account**
   - **To Sales Returns Account**
   - **To Wages Account**
   - **To Carriage Inward Account**
2. **For Sales and Purchase Returns:**
   - **Sales Account Dr.**
   - **Purchase Returns Account Dr.**
   - **To Trading Account**
3. **For Gross Profit or Loss:**
   - **Gross Profit:**
     - **Profit Trading Account Dr.**
     - **To Profit and Loss Account**
   - **Loss:**
     - **Loss Profit and Loss Account Dr.**
     - **To Trading Account**
4. **For Indirect Expenses:**
   - **Profit & Loss Account Dr.**
   - **To Salaries Account**
   - **To Commission Account**
   - **To Discount Allowed Account**
   - **To Advertisement Account**
5. **For Indirect Income and Gains:**
   - **Interest Earned Account Dr.**
   - **Discount Account Dr.**
   - **Commission Account Dr.**
   - **Dividend Account Dr.**
   - **To Profit & Loss Account**
6. **For Net Profit or Net Loss:**
   - **Net Profit:**
     - **Profit & Loss Account Dr.**
     - **To Capital Account**
   - **Net Loss:**
     - **Capital Account Dr.**
     - **To Profit & Loss Account**

Adjustments at a glance

S.No.	Adjustments	Entry	Effects on Trading and Profit & Loss Account	Effects on Balance Sheet
1	Closing Stock	Closing Stock A/c Dr. To Trading A/c	Credited to Trading A/c	Shown on assets side
2	Outstanding Expenses (Expenses still unpaid)	Expenses A/c Dr. To O/s Exp. A/c	Add to concerned expense on debit side	Shown on liabilities side
	O/S Exp. in Trial Balance (of last year)	O/S Exp. A/c To Expenses A/c	Deducted from concerned expenses on debit side	-
	O/S Exp. in Trial Balance (of current year)	-	-	Shown on liabilities side
3	Prepaid Expenses	P.P. Expenses A/c Dr. To Expenses A/c	Deducted from concerned expenses on debit side	Shown on assets side
	P.P. Exp. in Trial Balance (of last year)	Expenses A/c Dr. To P.P. Exp. A/c	Added to concerned expenses on debit side	-
	P.P. Exp. in Trial Balance (of current year)	-	-	Shown on assets side
4	Accrued Income	Acc. Income A/c Dr. To Income A/c	Added to concerned income on credit side of P & L A/c	Shown on assets side
	Acc. Income in Trial Balance (of last year)	Income A/c Dr. To Acc. Income A/c	Deducted from concerned income on credit side of P & L A/c	-
	Acc. Income in Trial Balance (of current year)	-	-	Shown on assets side

5	Unearned Income	Income A/c Dr. To Unacc. Income A/c	Deducted from concerned income on credit side of P & L A/c	Shown on liabilities side
	Unacc. Income in Trial Balance (of last year)	Unacc. Income A/c Dr. To Income A/c	Added to concerned income on credit side of P & L A/c	-
	Unacc. Income in Trial Balance (of current year)	-	-	Shown on liabilities side
6	Depreciation	Depreciation A/c Dr. To Assets A/c	Shown on the debit side of P & L A/c	Deducted from concerned asset on assets side
	Dep. in Trial Balance	-	Debited to P & L A/c	-
7	Interest on Capital/Loan	Int. on Cap./Loan A/c Dr. To Cap./Loan A/c	Shown on the debit side of P & L A/c	Added to capital/Loan on liabilities side
8	Interest on Drawings	Drawings A/c Dr. To Int. on Drawings	Shown on the credit side of P & L A/c	Deducted from capital on liabilities side
9	Credit Purchases Not Recorded	Purchase A/c Dr. To Creditor's A/c	Added to purchases on the debit side of Trading A/c	Added to creditors on liabilities side
10	Credit Purchases Return Not Recorded	Creditor's A/c Dr. To P/R A/c	Deducted from purchases on the debit side	Deducted from creditors on liabilities side
11	Credit Sales Not Recorded	Debtor's A/c Dr. To Sales A/c	Added to sales on the credit side of Trading A/c	Added to debtors on assets side
12	Credit Sales Returns Not Recorded	S/R A/c Dr. To Debtor's A/c	Deducted from sales on the credit side of Trading A/c	Deducted from debtors on assets side
13	Goods Given as Charity	Charity/Adv. A/c Dr. To Purchases	Deducted from purchases/credited to Trading A/c	Shown on the debit side of P & L A/c
14	Drawings of Goods by Owner	Drawings A/c Dr. To Purchases/Trading A/c	Deducted from purchases credited to Trading A/c	Deducted from capital on liabilities side

15	Goods Stolen/Damaged	Ins. Co. A/c Dr. P & L A/c Dr. To Purchases/Trading A/c	Rs. 10,000 deducted from purchases/credited to Trading A/c; Rs. 4,000 debited to P & L A/c	Rs. 6,000 shown on assets side as Insurance Co.
16	Goods in Transit	Goods in Transit A/c Dr. To Trading A/c	Credited to Trading A/c	Shown on assets side
	If not included in Purchases	Purchases A/c Dr. To Creditor's A/c Goods in Transit A/c Dr. To Trading A/c	Credited to Trading A/c	Shown on assets side
17	Goods Sold on Approval Basis	Sales A/c Dr. To Customer	Rs. 600 deducted from sales on the credit side of Trading A/c	Rs. 600 deducted from debtors on assets side
	Stock on Approval A/c Dr. To Trading A/c	Rs. 500 shown on credit side of Trading A/c	Rs. 500 shown on assets side	
18	Purchase of Assets Not Recorded	Assets A/c Dr. To Vendor	Shown on assets side	Shown on liabilities side
	Wrongly Included in Purchases	Asset A/c Dr. To Purchases A/c	Deducted from purchases on debit side of Trading A/c	Shown on assets side
	Installation Charges Included in Wages	Asset A/c Dr. To Wages A/c	Deducted from wages on debit side of Trading A/c	Added to the concerned asset on assets side
	Depreciation on the Above Asset	Depreciation A/c Dr. To Asset A/c	Debited to P & L A/c	Deducted from the asset on assets side
19	Over/Under Valuation of Stock	Over Valuation of Opening Stock	Capital A/c Dr. To Op. Stock/Trading A/c	Deducted from capital on liabilities side
	Under Valuation of Opening Stock	Op. Stock/Trading A/c	Added to opening stock or debited to Trading A/c	Added to capital on liabilities side
	Over Valuation of Closing Stock	Trading A/c Dr. To Cost Stock A/c	Deducted from closing stock or debited to Trading A/c	Added to closing stock

20	Personal Use of Business Assets	Drawings A/c Dr.	-	Liabilities Rs. 700 deducted from capital
		To Car Exp. A/c		
		To Car Dep. A/c		
21	Cheque/B/R Received from Debtors	Bank/B/R A/c Dr.	-	Assets Side: Deducted from debtors; Added to Bank/B/R
		To Debtor's A/c		
22	Dishonour of Cheque/B/R from Debtors	Debtor's A/c Dr.	-	Assets Side: Added to debtors; Deducted from Bank
		To Bank/B/R A/c		
23	Dishonour of Discounted/Endorsed B/R	Debtor's A/c Dr.	-	Assets side: Added to debtors; Deducted from bank on assets side/added to creditors on liabilities side
		To Bank/Creditors'		
24	Discounting of a B/R Due Next Year	-	-	Liabilities side: Shown below total in inner column as contingent liabilities
25	Deposit from Debtor Wrongly Deducted	Debtor's A/c Dr.	-	Assets side: Added to debtors; Liabilities side: Added to creditors
		To Deposit from Debtors A/c		
26	Settlement with Creditors	If Payment Recorded but Discount Not	Creditors A/c Dr.	Liabilities side: Rs. 400 deducted from creditors
			To Discount	
	If Entire Transaction Omitted	Creditors A/c Dr.	Liabilities side: Rs. 400 deducted from creditors; Asset side: Rs. 320 deducted from ban	
		To Bank A/c		
		To Discount		

UNIT-2

Depreciation Accounting

Concept of Going Concern: Businesses operate under the assumption that they will continue to function in the foreseeable future. This means assets are divided into **fixed assets** (used for a long time, like machinery) and **current assets** (short-term assets, like cash).

What is Depreciation?

- **Definition**: Depreciation is the decrease in value of a fixed asset over time due to use, wear and tear, or obsolescence. It reflects how much of the asset's value has been used up during a specific accounting period.

Key Features of Depreciation

1. **Applies to Fixed Assets**: Depreciation is calculated on fixed assets but not on land.
2. **Based on Book Value**: It's calculated on the asset's book value (after previous depreciation), not its market value.
3. **Permanent Charge**: Once depreciation is recorded, it permanently reduces the asset's value.
4. **Continuous Process**: Depreciation is calculated regularly over the asset's useful life.
5. **Gradual Reduction**: The asset's value decreases steadily over time.
6. **Cost Allocation**: It spreads the cost of an asset over its useful life.

Causes of Depreciation

1. **Usage**: Regular use of assets like machinery leads to wear and tear.
2. **Time**: Assets lose value over time, even if not used (e.g., leasehold properties).
3. **Obsolescence**: New technologies or methods make old assets less useful.
4. **Depletion**: Natural resources (like minerals) get exhausted through extraction.
5. **Accidents**: Damage from accidents can reduce asset value.
6. **Market Changes**: Changes in demand can lower an asset's market value.

Importance of Depreciation

1. **True Profit/Loss**: It helps determine the actual profit or loss of a business.
2. **Accurate Financial Reporting**: Assets must be reported at their true value, considering depreciation.
3. **Asset Replacement**: Helps save for replacing assets when they become obsolete.
4. **Cost Calculation**: It is crucial for calculating the correct production costs.
5. **Prevents Misrepresentation**: Prevents overstating profits, which can mislead stakeholders.
6. **Tax Computation**: Accurate depreciation helps calculate tax liabilities correctly.

Factors Affecting Depreciation Calculation

1. **Total Cost of the Asset**: Includes purchase price plus additional costs (shipping, installation).
2. **Estimated Useful Life**: The period an asset is expected to be usable (e.g., 10 years).
3. **Estimated Scrap Value**: The value of the asset at the end of its useful life.

Methods of Charging Depreciation

1. **Fixed Instalment Method**:
    - A fixed amount is charged each year until the asset's value is zero or its scrap value.
    - **Formula**:
        - Without scrap value: Total Cost / Useful Life
        - With scrap value: (Total Cost - Scrap Value) / Useful Life
2. **Diminishing Balance Method**:
    - Depreciation is calculated on the remaining book value of the asset at the beginning of each year. This means the depreciation amount decreases each year.
    - Suitable for assets whose maintenance costs increase with age (like machinery).

Difference between Fixed Installment and Reducing Balance Method

Basis	Fixed Installment Method	Reducing Balance Method
1. Calculation of Depreciation	Depreciation is calculated on the original cost.	Depreciation is calculated on the remaining balance (opening book value) of the asset.
2. Variation in Dep. Amount	Amount of annual depreciation remains the same.	Amount of annual depreciation keeps decreasing.
3. Balance at the End of Life	Balance of asset account is either zero or equal to scrap value at the end of life.	Balance of the asset can never be equal to zero.
4. Rate of Depreciation	Rate of depreciation is not kept high.	Rate of depreciation is normally kept high.
5. Burden on Profit & Loss	Burden of repairs and depreciation is not equitable.	Burden to total cost of running the asset is almost equitable.
6. Applicability	Suitable for assets of less value and shorter life.	More suitable for assets that lose utility gradually and incur heavy repair costs.
7. Validity	Not approved by income tax laws.	Approved by tax laws, and tax rebate is given on depreciation calculated by this method.
8. Practicability	Same depreciation is charged even when the asset value is low.	As utility of the asset reduces, the amount of depreciation keeps decreasing.

Journal Entries for Depreciation

1. When an Asset is Purchased

- **Entry:**

  css
  Copy code
  Asset A/c Dr
  To Cash/Bank

  - This entry records the purchase of an asset, increasing the asset account and decreasing cash or bank balance.

2. When Depreciation is Charged

- **Entry:**

  Depreciation on Asset A/c Dr
  To Asset A/c

  - This entry reflects the depreciation expense for the asset, decreasing the asset's value.

3. When Depreciation is Transferred to the Profit and Loss Account

- **Entry:**

  P&L A/c Dr
  To Depreciation A/c

  - This entry moves the depreciation expense to the Profit and Loss account, recognizing it as a loss.

4. When an Asset is Sold at a Profit

- **Entry:**

  Cash/Bank A/c Dr
  To P&L A/c
  To Asset A/c

  - This entry records cash received from the sale, recognizes the profit in the Profit and Loss account, and removes the asset from the books.

5. When an Asset is Sold at a Loss

- **Entry:**

  Cash/Bank A/c Dr
  P&L A/c Dr
  To Asset A/c

- This entry shows cash received from the sale, records the loss in the Profit and Loss account, and removes the asset from the books.

Journal Entries for Depreciation with Provision

1. For Providing Depreciation

- **Entry:**

  Depreciation A/c Dr
  To Provision for Depreciation A/c

  - This entry recognizes the depreciation expense and creates a provision for future depreciation.

2. For Transferring Depreciation to the Profit and Loss Account

- **Entry:**

  P&L A/c Dr
  To Depreciation A/c

  - Similar to before, this moves the depreciation expense to the Profit and Loss account.

3. When an Asset is Sold

- **Entry:**
  - **a. To remove the provision for depreciation:**

    Provision for Depreciation A/c Dr
    To Asset A/c

  - **b. If there is a profit or loss on the sale of the asset:**
    - **If Profit:**

      css
      Copy code
      Asset A/c Dr
      To P&L A/c

- **If Loss:**

  P&L A/c Dr
  To Asset A/c

  - This section deals with recording the asset's removal and recognizing any profit or loss from the sale.

Alternate Method

- **Asset Disposal Account:**
  - Instead of directly using the asset account for sales, you can open an Asset Disposal account to manage sales transactions and the associated profits or losses separately.

Change of Method of Depreciation

1. **From Straight-Line to Diminishing Balance:**
   - When switching from the straight-line method to the diminishing balance method, calculate depreciation based on the reduced balance of the asset from the date of the change.
2. **From Diminishing Balance to Straight-Line:**
   - If changing from the diminishing balance method to the straight-line method, charge depreciation on the original cost of the asset starting from the change date.
3. **Retrospective Effect:**
   - Changes can be made effective from a previous date (retrospective effect). This means adjustments for any extra or less depreciation charged before the change need to be considered. According to Accounting Standard AS-6, such changes should be applied retrospectively rather than immediately.

Various Depreciation Methods

1. **Annuity Method:**
   - Treat the amount spent on an asset as an investment. Calculate interest on this amount each year and transfer it to the asset account while crediting the depreciation account. This method considers both depreciation and the interest lost from not investing that money elsewhere.
2. **Depreciation Fund Method:**
   - Invest the depreciation amount in government securities each year. The returns from these securities compound over time. At the end of the asset's life, sell all securities to fund the asset's replacement. The asset remains recorded at its original cost, and depreciation isn’t deducted from its value.

3. **Depreciation Repairs & Renewals Fund Method:**
    - Estimate the total costs related to an asset (depreciation, scrap value, repairs) and transfer this estimated amount to the Profit and Loss (P&L) account in equal installments each year. When the asset is disposed of, transfer any remaining fund balance to the asset account.
4. **Insurance Policy Method:**
    - Instead of investing in securities, take out an insurance policy that covers the cost of renewing the asset. Pay a fixed premium annually, and the insurance payout will be used for asset renewal.
5. **Revaluation Method:**
    - At the end of each year, have an expert revalue the asset. Any reduction in value is charged as depreciation, but increases in value are ignored. The depreciation account is debited, and the asset account is credited with the reduction amount.
6. **Sum of the Years' Digits Method:**
    - Calculate the estimated cost of the asset minus its scrap value. Sum the years of the asset's useful life (for example, 5 + 4 + 3 + 2 + 1 = 15). Use this total to determine how much depreciation to charge in each year, with more being charged in earlier years.
7. **Machine Hour Rate Method:**
    - Estimate the total life of the machinery in hours. Calculate the total depreciation (cost minus scrap value) and divide it by the total estimated hours of operation. This gives you the depreciation per hour of use.
8. **Depletion Method:**
    - Estimate future profits expected from an asset and divide the investment in that asset by the expected profit. This calculates depreciation based on how much profit the asset will generate over time.

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Difference between Reserves & Provisions

Basis of Difference	Reserve	Provision
1. Meaning	A reserve is meant for meeting unanticipated situations.	A provision is created for some specific object.
2. Mode of Creation	A reserve is created only out of profit; it cannot be created without sufficient profit.	A provision is a charge against profit; it can be created even if there is no profit.
3. Time of Creation	A reserve is created after ascertaining the profit.	A provision is created before ascertaining the profit or loss of a business.
4. Object	The object of creating reserves is to strengthen the financial position of the business and to increase working capital.	The object of making provisions is to arrange funds for known liabilities.
5. Utilization	Reserves can be used for the payment of any liability or loss.	Provisions can only be utilized for the purpose for which they were created.
6. Distribution	General reserves are available for the distribution of profits, e.g., as dividends.	Provisions cannot be utilized for the distribution of profit, e.g., as dividends.
7. Place in Accounting	Reserves show excess of assets over liabilities.	A provision does not show excess assets over liabilities but helps determine the real valuation of assets.
8. Presenting in Balance Sheet	Reserves are always on the liabilities side of the balance sheet.	Provisions are shown as a deduction from their related asset or on the liability side.

Accounting for Hire Purchase

Definition:
A hire purchase system allows a buyer to acquire goods by paying for them in installments over time, rather than paying the full price upfront. The buyer receives the goods immediately but technically does not own them until all payments are made.

Key Points of a Hire Purchase Agreement:

1. **Hire Purchase Price:** This is the total amount the buyer (hirer) agrees to pay for the goods over the course of the agreement. It includes any initial deposit but excludes penalties or damages for any breaches.

2. **Cash Price:** This is the price at which the hirer could buy the goods outright, without the hire purchase system.

3. **Agreement Details:** The agreement must specify:
   - The hire purchase price.
   - The cash price of the goods.
   - The start date of the agreement.
   - The number of installments, their amount, and when they are due.
   - A description of the goods.
4. **Parties Involved:**
   - **Hirer:** The person who gets possession of the goods under the hire purchase agreement.
   - **Owner:** The person who owns the goods and allows the hirer to use them.
   - **Guarantor:** A person who guarantees the hirer's obligations under the agreement.

Characteristics of Hire Purchase:

- **Credit Purchase:** The goods are bought on credit.
- **Instalment Payments:** The total price is paid in multiple installments over time.
- **Immediate Delivery:** The buyer gets the goods right away.
- **Usage Rights:** The hirer can use the goods while making payments.
- **Termination Right:** The hirer can end the agreement at any time.

Accounting Entries for Hire Purchase

When accounting for hire purchase transactions, the following entries are typically made:

1. **At the time of Purchase:**
   - **Goods Account (Asset)**: Debit with the cash price of the goods.
   - **Hire Purchase Liability**: Credit with the total hire purchase price.
2. **When an Installment is Paid:**
   - **Hire Purchase Liability**: Debit with the amount of the installment paid.
   - **Cash/Bank Account**: Credit with the same amount.
3. **For Interest on Hire Purchase Liability:**
   - **Interest Expense Account**: Debit with the interest portion of the installment.
   - **Hire Purchase Liability**: Credit with the same amount.
4. **At the End of the Hire Purchase Term:**
   - **Hire Purchase Liability**: Debit with the remaining liability.
   - **Goods Account**: Credit to remove the asset from the books (if fully paid).

Unit – 3

Bank Reconciliation Statement

Definition:
Bank reconciliation is the process of comparing and matching the balance in an organization's cash book with the balance shown in the bank statement. It helps to identify any discrepancies between the two records.

Purpose:
A bank reconciliation statement should be prepared regularly to:

- Ensure the accuracy of the cash book and bank statement.
- Check for delays in payments and receipts.
- Identify any transactions recorded in the bank but not in the cash book, and vice versa.

Reasons for Differences

The differences between the bank statement and the cash book may arise from:

1. **Transactions in the Bank Statement Not in Cash Book:**
   - Dishonored cheques.
   - Bank charges or fees.
   - Interest earned.
   - Standing orders and direct payments by customers.
2. **Transactions in the Cash Book Not in Bank Statement:**
   - Outstanding cheques (cheques written but not yet cashed).
   - Outstanding deposits (money deposited but not yet reflected in the bank statement).
3. **Errors:**
   - Mistakes made while recording in the cash book or the bank statement.

Formats of Bank Reconciliation Statement

1. **Reconciliation of Cash Book Balance to Bank Statement Balance:**
   Start with the cash book balance and adjust for outstanding items to arrive at the bank statement balance.
2. **Common Corrected Balance:**
   Reconcile both the cash book balance and bank statement balance to arrive at a common corrected balance.

Why Cash Book and Pass Book Balances Differ

- **Bank Actions Not Communicated:** The bank might process some transactions (like fees) without informing the organization.
- **Time Lag:** There may be delays in recording transactions in either the cash book or the bank statement.
- **Errors:** Both the bank and the organization might make errors in their records.

Single Entry System

Definition:
The single entry system refers to an accounting method where only one aspect of a transaction is recorded, typically focusing on cash and personal accounts, rather than maintaining a complete double-entry system.

Key Features of Accounts from Incomplete Records

1. **Personal Accounts Maintenance:**
   Only personal accounts (debtors and creditors) are kept; real accounts (assets, liabilities) are often neglected.
2. **Dependence on Original Vouchers:**
   To calculate profits or losses, businesses rely heavily on original documents like invoices.
3. **Lack of Legal Recognition:**
   This system is not recognized by tax authorities, making it less formal.
4. **Cost-Effective:**
   Fewer books and simpler records mean lower accounting costs.

Advantages of Accounting from Incomplete Records

- **Simplicity:** Easy to maintain and understand.
- **Economical:** Requires fewer resources and is less expensive.
- **Suitable for Small Traders:** Ideal for small businesses or professionals who don’t need complex records.
- **Tax Evasion Potential:** It may be used to minimize taxable income due to incomplete records.

Disadvantages

- **Lack of Impersonal Accounts:** Only personal accounts are maintained; assets and expenses are not tracked.
- **No Trial Balance:** Not all transactions are recorded, making it impossible to prepare a trial balance.
- **Inadequate Business Statistics:** The system encourages inaccuracies, which can lead to fraud or mismanagement.

Difference Between Double Entry System and Accounts from Incomplete Records			
S.No.	**Basis of Difference**	**Double Entry System**	**Accounts from Incomplete Records**
1	**Recordings of Both Aspects**	Both sides of every transaction (debit and credit) are recorded.	In some cases, both sides are recorded; in others, only one side is recorded.
2	**Types of Accounts**	All types of accounts are maintained: personal, real, and nominal.	Only personal accounts and cash accounts are maintained.
3	**Trial Balance**	A trial balance is prepared to check the accuracy of records.	A trial balance cannot be prepared due to incomplete records.
4	**Adjustments**	Adjustments for errors and omissions are made regularly.	No adjustments are made for inaccuracies or omissions.
5	**Proof**	Records can be treated as proof of transactions if needed.	Records are not considered reliable proof in case of disputes.
6	**Expense**	More expensive due to the complexity and the number of accounts maintained.	Less expensive since fewer accounts are kept and maintained.

UNIT -4

Department Accounts Explained Simply

When a large organization is divided into different parts or departments, it's important to understand which department is making money and which one is losing it. To do this, separate accounts are kept for each department, and at the end of the year, individual profit and loss accounts (P&L accounts) are prepared for each.

Methods of Keeping Departmental Accounts

There are two main methods for keeping departmental accounts:

1. **Unit Wise Method**: Each department is treated as an independent unit. Separate books of accounts are maintained for each department, and at the end of the year, final accounts are prepared for each one.
2. **Columnar Method**: All departments' entries are recorded together, but each department has its own column. A total column is also added to show the overall figures.

Preparing Departmental Final Accounts

When preparing departmental trading and profit & loss accounts, the same rules apply as for general trading and P&L accounts. Here's how it works:

- A separate column is created for each department on both the debit (expenses) and credit (income) sides.
- A total column is also included.
- Each item is placed in the column corresponding to the relevant department, and the totals from each department are summed in the total column.
- This process helps in determining the profit or loss of each department and the overall profit or loss of the business.

Balance Sheet

The balance sheet is prepared for the entire business, not separately for each department.

Allocating Departmental Expenses

Expenses related to a specific department should be charged directly to that department. If an expense doesn't belong to any particular department, it can be shared among departments using certain rules. Some expenses, like interest on loans or general management salaries, are typically charged to the overall profit and loss account instead of being divided among departments.

Inter-Departmental Transfers

When one department sells goods or services to another, this is treated like a normal sale. Here's how it works:

- The transferring department records this as a sale, and the receiving department records it as a purchase.
- If goods are transferred at cost price, there's no need for any adjustments for unrealized profits (profits not yet realized because the goods haven't been sold to outside customers).
- If the goods are transferred at a selling price, then adjustments for unrealized profit need to be made. This profit is held in a "reserve" until it is actually realized.

Journal Entry for Unrealized Profit:

- When unrealized profit is identified, you would make the following journal entry:
    - **Debit**: General Profit & Loss Account
    - **Credit**: Reserve/Provision for Unrealized Profit or Stock Reserve

In the following year, you will reverse this entry to clear the reserve.

Calculating Stock Reserve: To find out the stock reserve amount, you can use these formulas based on how profit is calculated:

1. **If the profit percentage is given on the selling price**:

   Stock Reserve=(Percentage×Amount of Stock100)\text{Stock Reserve} = \left(\frac{\text{Percentage} \times \text{Amount of Stock}}{100} \right)Stock Reserve=(100Percentage×Amount of Stock)

2. **If the profit percentage is given on cost price**:

   Stock Reserve=(Percentage×Amount of Stock100+Rate of Profit)\text{Stock Reserve} = \left(\frac{\text{Percentage} \times \text{Amount of Stock}}{100 + \text{Rate of Profit}} \right)Stock Reserve=(100+Rate of ProfitPercentage×Amount of Stock)

Branch Accounts

Many businesses open branches in different locations—within the same city, other cities, across the country, or even in foreign countries—to sell their products.

What Are Branch Accounts?
Branch Accounts are records kept in the main office's books that track all financial activities related to each branch.

Why Maintain Branch Accounts?

1. **Track Branch Profit or Loss:** We can know how well each branch is doing in terms of profit or loss.
2. **Branch Control:** Helps the main office oversee and manage each branch better.
3. **Know the Business's Overall Financial Position:** By combining head office and branch records, the company can get a full picture of its finances.
4. **Estimate Branch Needs:** Helps predict what each branch will need in terms of goods and cash.
5. **Suggest Ways to Improve Branch Performance:** Branch accounts provide insights to improve efficiency.
6. **Legal Compliance:** For companies, keeping branch records is required by law (Companies Act, 1956).

Specimen of Branch Account in Head Office Books

Debit (Dr.)	Amount (Rs.)	Credit (Cr.)	Amount (Rs.)
To Balance b/d (Opening Liabilities)		By Balance b/d (Opening Liabilities)	
To Balance b/d		By Cash A/c	
Opening Stock		By Goods Supplied to Branch (Return)	
Opening Petty Cash		By Assets (Closing Balance)	
Opening Assets		Stock at Branch a/c (Closing)	
To Goods Supplied to Branch		Petty Cash at Branch a/c (Closing)	
To Cash (Expenses) a/c		By General P & L A/c (if profit)	
To Liabilities (Closing)			
To General P & L A/c (if Loss)			

Incorporating Branch Trial Balance in Head Office Books

When each branch sends its Trial Balance to the Head Office, the Head Office records this information in its own books. This process is called the **Incorporation of Branch Trial Balance**. To do this, the Head Office divides the Trial Balance into different sections.

Methods of Incorporation

1. **Stock and Debtors Method**
    - Under this method, the Head Office opens specific accounts to manage branch details:
        - **Branch Stock Account**: Tracks stock held by the branch.
        - **Goods Sent to Branch Account**: Records goods sent to the branch.
        - **Branch Debtors' Account**: Records amounts owed to the branch.
        - **Branch Expenses Account**: Tracks branch expenses.
        - **Branch Adjustment Account**: Adjusts branch records.
        - **Stock Reserve Account**: Accounts for reserve stock.
        - **Branch Profit & Loss Account**: Records profit or loss for the branch.
2. **Independent Branch**
    - Some branches operate with more freedom; they receive goods from the Head Office but may also manufacture or buy goods independently. Although they are independent, they must report to the Head Office.

Steps for Incorporating Items from the Branch Trial Balance into the Head Office Books

(a) Items for Trading and Profit and Loss Account

- **Opening Stock, Purchases, and Direct Expenses**:
    - Entry:
      Branch Trading A/c … Dr. To Branch A/c
    - This entry brings in opening stock, purchases, goods received from Head Office, and direct expenses like carriage.
- **Sales and Closing Stock**:
    - Entry:
      Branch A/c … Dr. To Branch Trading A/c
    - This entry brings in sales and the branch's closing stock.
- **Gross Profit and Loss**:
    - If there is a profit:
      Branch Trading A/c … Dr. To Branch P & L A/c
    - If there is a loss:
      Branch P & L A/c … Dr. To Branch Trading A/c
- **Indirect Expenses (Salaries, Rent, etc.)**:
    - Entry:
      Branch P & L A/c … Dr. To Branch A/c
    - Records branch indirect expenses like salaries, rent, or bad debts.

- **Revenue Income**:
  - Entry:
    Branch A/c … Dr. To Branch P & L A/c
  - Records income earned by the branch, like interest or other revenue sources.
- **Net Profit or Loss**:
  - If there is a net profit:
    Branch P & L A/c … Dr. To General P & L A/c
  - If there is a net loss:
    General P & L A/c … Dr. To Branch P & L A/c

(b) Branch Assets and Liabilities

- **For Branch Assets**:
  - Entry:
    Branch Cash A/c … Dr. Branch B/R A/c … Dr. Branch Debtors A/c … Dr. Branch Furniture A/c … Dr. Branch Stock in Trade A/c … Dr. To Branch A/c
  - This entry brings in all assets owned by the branch, like cash, debtors, furniture, and stock.
- **For Branch Liabilities**:
  - Entry:
    Branch A/c … Dr. To Branch Liabilities A/c
  - This entry brings in branch liabilities.

Closing Entry at the Start of a New Year

- At the beginning of a new year, after transferring all branch assets and liabilities, this closing entry is made:
  - Branch A/c … Dr. To Branch Assets A/c Branch Liabilities A/c … Dr. To Branch A/c

UNIT-5

Admission of a New Partner in a Partnership Firm

In a partnership, a new partner can join the business if all existing partners agree. This new partner is given a share of the profits of the firm. Partnerships have rules about the number of partners:

- For a banking business: **Minimum 2 and maximum 10** partners.
- For other businesses: **Minimum 2 and maximum 20** partners.

Why Admit a New Partner?

A new partner may be brought in for several reasons:

1. **To bring in more capital** for business expansion.
2. **To gain new skills** for better management and business operations.
3. **To handle an increased workload** due to business growth.
4. **To help the business grow** and make progress.
5. **To reduce competition** by joining forces.
6. **For various other business needs**.

Accounting Issues When a New Partner Joins

When a new partner joins, the firm needs to make some accounting adjustments:

1. **New Profit Sharing Ratio**: Calculate how profits will be shared between all partners (old and new).
2. **Goodwill Valuation**: Calculate the goodwill (reputation value) of the firm.
3. **Revalue Assets and Liabilities**: Adjust the value of assets and liabilities to reflect the current market.
4. **Transfer Reserves and Undistributed Profits**: Share any reserves, profits, or losses among old partners before the new partner joins.
5. **Write Off Fictitious Assets**: Remove any fictitious assets (assets that have no real value).
6. **Adjust Capital Accounts**: Adjust old partners' capital accounts to fit with the new partner's capital.
7. **Calculate New Partner's Capital**: Work out the new partner's capital based on the old partners' contributions.
8. **Adjust for Life Insurance Policy**: Make adjustments if the firm has a joint life insurance policy.

Sharing Profits with the New Partner

When a new partner joins, they receive a share of the total profit, and the remaining profit is divided among the existing partners. Since the new partner is getting a share of the profits, the old partners' shares will change.

Key Terms

New Profit Sharing Ratio:
This is the ratio used to divide future profits among all partners, both old and new. The new profit sharing ratio depends on how much each old partner decides to "sacrifice" from their original share.

Formula:
New Profit Sharing Ratio = Old Profit Sharing Ratio – Sacrificing Ratio

Sacrificing Ratio:
The "sacrificing ratio" shows how much each old partner gives up to provide a profit share to the new partner. This ratio is important when the new partner brings in cash as goodwill. The goodwill amount is then divided among the old partners based on their sacrificing ratio.

Formula:
Sacrificing Ratio = Old Profit Sharing Ratio – New Profit Sharing Ratio

Why the Sacrificing Ratio Matters:
The sacrificing ratio determines how the goodwill brought in by the new partner is divided among the old partners. If only one partner has sacrificed, that partner receives the entire goodwill amount.

Difference between New Profit Sharing Ratio and Sacrificing Ratio

Basis of Difference	New Profit Sharing Ratio	Sacrificing Ratio
Meaning	Ratio used to distribute future profits among all partners (old and new).	Share of profit given up by old partners in favor of the new partner.
Scope	Includes both old and new partners.	Includes only old partners.
Objects & Use	Used to distribute future profits among all partners.	Used to divide goodwill (in cash) brought by the new partner among old partners.
Calculation	New Profit Sharing Ratio = Old Profit Sharing Ratio – Sacrificing Ratio.	Sacrificing Ratio = Old Profit Sharing Ratio – New Profit Sharing Ratio.

Calculating the Sacrificing Ratio, Old Profit Sharing Ratio & New Profit Sharing Ratio

When a new partner is admitted, the old partners need to adjust their profit-sharing ratios to accommodate the new partner. There are several ways they can do this:

1. **In Their Old Profit Sharing Ratio**
2. **By Sacrifice of Any Partner**
3. **In Equal Ratio**
4. **In Unequal Ratio**

Let's look at each method with examples.

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1. In Their Old Profit Sharing Ratio

If the old partners give the new partner's share based on their original profit-sharing ratio, each partner sacrifices in line with their existing shares.

Example:

- **Old Partners**: Ram, Shyam, and Mohan
- **Old Ratio**: 3:2:1
- **New Partner**: Hari, with a share of 1/8

Solution:

1. Calculate the remaining share after giving Hari's 1/8:
   - Remaining share = 1 - 1/8 = 7/8
2. Distribute this remaining 7/8 among Ram, Shyam, and Mohan in the ratio 3:2:1.
   - Ram's new share = 36×78=2148\frac{3}{6} \times \frac{7}{8} = \frac{21}{48}63×87=4821
   - Shyam's new share = 26×78=1448\frac{2}{6} \times \frac{7}{8} = \frac{14}{48}62×87=4814
   - Mohan's new share = 16×78=748\frac{1}{6} \times \frac{7}{8} = \frac{7}{48}61×87=487
3. Hari's share = 1/8 or 6/48.

New Ratio:

- Ram : Shyam : Mohan : Hari = 21:14:7:6

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2. By Sacrifice of Any Partner

If only one partner gives up their share for the new partner, then only that partner's share is affected.

Example:

- **Old Partners**: Ram, Shyam, and Mohan
- **Old Ratio**: 3:2:1
- **New Partner**: Hari, taking his entire share from Ram.

Solution:

1. Ram sacrifices 1/8 of his share for Hari.
2. Ram's new share = 36−18\frac{3}{6} - \frac{1}{8}63−81

New Ratio:

- Ram : Shyam : Mohan : Hari = (Ram's adjusted share):2:1:1/8

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3. In Equal Ratio

All partners give up an equal share to accommodate the new partner.

Example:

- **Old Partners**: Ram, Shyam, and Mohan
- **Old Ratio**: 3:2:1
- **New Partner**: Hari, with a 1/8 share taken equally from all.

Solution:

1. Each partner gives up 13×18=124\frac{1}{3} \times \frac{1}{8} = \frac{1}{24}31 ×81=241 of their share.
2. Adjust each partner's share accordingly.

New Ratio:

- Ram's share = 36−124\frac{3}{6} - \frac{1}{24}63−241
- Shyam's share

Goodwill

Goodwill is an intangible asset that represents the extra value a business has due to its ability to earn higher profits in the future. This value can vary based on different factors and is unique to each business.

Characteristics of Goodwill:

1. **Intangible Asset**: Goodwill cannot be seen or touched.
2. **Dependent on Business Reputation**: Goodwill's value is based on the business's name, reputation, and popularity.
3. **Inseparable from Business**: Goodwill is tied to the business and ends if the business closes.
4. **Can Be Sold**: Unlike fictitious assets, goodwill can be bought or sold.
5. **Based on Many Factors**: It's affected by location, owner reputation, employees, product popularity, and more.

Types of Goodwill:

- **Cat Goodwill**
- **Dog Goodwill**
- **Rat Goodwill**
- **Goodwill of Strange Nature**

Factors Affecting the Value of Goodwill:

1. **Location** of the business.
2. **Nature** of the business.
3. **Risk** and **uncertainty** in the business.
4. **Monopoly** or unique position in the market.
5. **Management quality**.
6. **Owner's reputation** and personality.
7. **Amount of capital** invested.
8. **Trademark popularity**.
9. **Profit volume**.
10. **Other factors** like government policy, market conditions, and consumer buying power.

Goodwill Accounting as per AS-10 and AS-26 (by ICAI):

1. **Only Purchased Goodwill**: Goodwill that was bought can be recorded in the accounts.
2. **Self-Generated Goodwill**: If goodwill is created by the business itself (not bought), it should be adjusted through the partners' capital accounts and not shown on the balance sheet.

Methods of Valuing Goodwill

1. Average Profit Method

- **Formula**: Goodwill = Total Profit / Number of Years × Years of Purchase

2. Super Profit Method

- **Normal Profit**: Capital invested × Rate of normal profit ÷ 100
- **Super Profit**: Actual profit - Normal profit
- **Goodwill** = Super Profit × Number of Years of Purchase

3. Annuity Method

If the firm expects super profits for a certain number of years, the present value of these profits is calculated.

- **Formula**: Goodwill = Super Profit × Present Value of Re. 1 (using annuity tables)

4. Capitalization Method

This method capitalizes average profits at the normal rate of return and compares it with net assets.

- **Total Firm Value** = (Average Profit ÷ Normal Rate of Return) × 100
- **Net Assets** = Total Assets (excluding fictitious assets) – Outside Liabilities
- **Goodwill** = Total Firm Value - Net Assets

Journal Entries for Capital Contribution by a New Partner:

1. **If the new partner brings capital in cash**:
    - **Entry**:

      vbnet
      Copy code
      Cash/Bank A/c Dr.
      To New Partner's Capital A/c
      (Being cash brought in by new partner as capital)

2. **If the new partner brings capital in the form of assets**:
   - **Entry**:

     vbnet
     Copy code
     Assets A/c Dr.
     Purchases (Goods) A/c Dr.
     To New Partner’s Capital A/c
     (Being assets and goods brought in by new partner as capital)

Accounting Treatment of Goodwill on admission of Partner

Transaction	Journal Entry
1. New partner pays goodwill privately (outside the business)	No journal entry
	(As the amount does not enter the business, it is not recorded in the firm's books)
2(a). New partner brings goodwill in cash	Cash/Bank A/c Dr.
	To Premium A/c
	(Cash brought by new partner as goodwill/premium for their profit share)
2(b). Distribution of goodwill to old partners in sacrificing ratio	Premium A/c Dr.
	To Old Partners' Capital A/cs (in sacrificing ratio)
	(Premium credited to old partners' capital accounts in their sacrificing ratio)
3. Old partners withdraw their share of goodwill (fully/partially)	Old Partners' Capital A/cs Dr.
	To Cash/Bank A/c
	(Amount of premium withdrawn by old partners)
4. New partner does not bring goodwill in cash, calculate goodwill based on profit-sharing ratio	

4.1. No goodwill account raised	New Partner’s Capital A/c Dr.
	To Old Partners' Capital A/cs (in sacrificing ratio)
	(New partner’s share of goodwill debited to their capital account, credited to old partners in sacrificing ratio)
4.2. Goodwill account raised and closed	Goodwill A/c Dr.
	To Old Partners' Capital A/cs (in old ratio)
	(Goodwill A/c raised upon new partner's admission)
	All Partners' Capital A/cs Dr.
	To Goodwill A/c
	(Goodwill A/c written off in the new profit-sharing ratio)
5. Writing off existing goodwill shown in balance sheet in old profit-sharing ratio	Old Partners' Capital A/cs Dr. (in old profit-sharing ratio)
	To Goodwill A/c (balance sheet)
	(Existing goodwill written off by old partners in profit-sharing ratio)
6. Combined entry for 2(a) and 2(b) – Directly crediting goodwill to old partners	Cash/Bank A/c Dr.
	To Old Partners' Capital A/cs (in sacrificing ratio)
	(Premium brought by new partner directly credited to old partners in sacrificing ratio)

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REVALUATION ACCOUNT

When a new partner is admitted sometimes revaluation is made of all the assets and liabilities of the old firm. Excesses and deficits of assets and liabilities are transferred to an account known as Revaluation Account or Profit and Loss Adjustment account.

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Decrease in value of Assets (Individually)	√	By Increase in value of Assets (Individually)	√
To Reserve for Bad and Doubtful Debts (Individually)	√	By Decrease in value of Liabilities (Individually)	√
To Increase in value of Liabilities (Individually)	√	By Unrecorded Assets (e.g., Unrecorded Investments, prepaid expenses)	√
To Unrecorded Liabilities (e.g., Outstanding expenses)	√	By Cash/Bank A/c (Sale of unrecorded asset)	√
To Cash/Bank A/c (Payment of unrecorded liability)	√		
To Reserve for Discount on Creditors A/c	√		
To Profit transferred to Old Partners' Capital A/cs (in old ratio) *(Balancing figure)*	√	By Loss transferred to Old Partners' Capital A/cs (in old ratio) *(Balancing figure)*	√

Depreciation of Assets:

- **Journal Entry**:
  Profit & Loss Adjustment A/c / Revaluation A/c Dr.
  To Various Assets A/c (for depreciation in value)
- **Explanation**: When an asset loses value, the depreciation is adjusted in the books.

2. Appreciation of Assets:

- **Journal Entry**:
  Various Assets A/c Dr. (for the appreciation in value)
  Prepaid Expenses A/c Dr.
  Reserve for Discount on Creditors A/c Dr.
  To Profit & Loss Adjustment A/c / Revaluation A/c
- **Explanation**: When assets increase in value, their value is adjusted, and adjustments for prepaid expenses and creditors' discounts are made.

3. Reduction in Liabilities:

- **Journal Entry**:
  Particular Liabilities A/c Dr.
  To Profit & Loss Adjustment A/c / Revaluation A/c
- **Explanation**: When liabilities decrease, this is recorded.

4. Increase in Liabilities:

- **Journal Entry**:
  Profit & Loss Adjustment A/c / Revaluation A/c Dr.
  To Particular Liabilities A/c
- **Explanation**: When liabilities increase, this is recorded.

5. Unrecorded Assets:

- **Journal Entry**:
  Particular Unrecorded Asset A/c Dr.
  To Profit & Loss Adjustment A/c / Revaluation A/c
- **Explanation**: Any unrecorded asset (not previously listed in the balance sheet) is adjusted.

6. Sale of Unrecorded Asset:

- **Journal Entry**:
  Cash/Bank A/c Dr.
  To Profit & Loss Adjustment A/c / Revaluation A/c
- **Explanation**: If an unrecorded asset is sold, the sale amount is recorded.

7. Unrecorded Liabilities:

- **Journal Entry**:
  Profit & Loss Adjustment A/c / Revaluation A/c Dr.
  To Particular Unrecorded Liabilities A/c
- **Explanation**: Any unrecorded liability (not previously listed) is adjusted.

8. Payment of Unrecorded Liability:

- **Journal Entry**:
  Profit & Loss Adjustment A/c / Revaluation A/c Dr.
  To Cash/Bank A/c
- **Explanation**: When an unrecorded liability is paid, the payment is recorded.

Profit or Loss on Revaluation:

- After all the above adjustments, you calculate the balance of the **Profit & Loss Adjustment A/c** or **Revaluation A/c**.
  - **Profit**: If the credit side is higher, it's a profit.
  - **Loss**: If the debit side is higher, it's a loss.

Distribution of Profit/Loss Among Old Partners:

1. **If Profit**:
   - **Journal Entry**:
     Profit & Loss Adjustment A/c / Revaluation A/c Dr.
     To Old Partners' Capital A/c (Share profit according to their old ratio)
2. **If Loss**:
   - **Journal Entry**:
     Old Partners' Capital A/c Dr.
     To Profit & Loss Adjustment A/c / Revaluation A/c (Share loss according to their old ratio)

Opening of Accounts When a New Partner Joins:

When a new partner joins, the following accounts are opened:

1. **Profit and Loss Adjustment A/c or Revaluation A/c** – for adjusting any revaluation changes.
2. **Old Partners' Capital A/c** – for the capital of the existing partners.
3. **New Partner's Capital A/c** – for the capital contribution of the new partner.
4. **Goodwill A/c** – if goodwill is being recorded.
5. **Cash/Bank A/c** – if any money is paid by the new partner.

Transfer of Reserves, Undistributed Profit & Loss into Partners' Capital Accounts:

When a new partner joins or during any changes, some reserves, profits, or losses are transferred into the **Old Partners' Capital Accounts**. Here's how it is done in simple terms:

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1. Transferring Profits and Reserves to Old Partners' Capital Accounts:

If the firm has reserves or profits, such as the **Profit and Loss A/c**, **General Reserve**, **Reserve Fund**, **Contingency Fund**, etc., they need to be transferred to the old partners' capital accounts according to their old profit-sharing ratio.

- **Journal Entry**:
  - **Debit**: Profit and Loss A/c, General Reserve A/c, Reserve Fund A/c, Contingency Fund A/c
  - **Credit**: Old Partners' Capital A/c
    (Explanation: All profits or reserves are transferred to the old partners' capital accounts in the old profit-sharing ratio.)

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2. Transferring Losses to Old Partners' Capital Accounts:

If there are any losses shown in the balance sheet (on the asset side), these are distributed among the old partners' capital accounts in their old profit-sharing ratio.

- **Journal Entry**:
  - **Debit**: Old Partners' Capital A/c
  - **Credit**: Profit and Loss A/c
    (Explanation: Losses are transferred to the old partners' capital accounts in the old profit-sharing ratio.)

Amortization of Fictitious Assets:

Fictitious assets (like deferred revenue expenses, preliminary expenses, etc.) are non-tangible assets that are not real assets but need to be written off over time. These are also adjusted in the old partners' capital accounts.

- **Journal Entry**:
  - **Debit**: Fictitious Assets A/c
  - **Credit**: Old Partners' Capital A/c
    (Explanation: The fictitious assets are written off and distributed to the old partners' capital accounts in their old profit-sharing ratio.)

Summary in Simple Terms:

1. Any profits or reserves the firm has are **added** to the old partners' capital accounts.
2. Any losses or fictitious assets are **deducted** from the old partners' capital accounts.
3. All these adjustments are made according to the old partners' profit-sharing ratio.

Retirement of a Partner

A **partnership** is an agreement between at least two people who share profits and responsibilities in a business. When one of the partners decides to leave the partnership, it's called **retirement**. A partner can retire for many reasons, and they need to give a **6-month notice** before they leave, as per the **Indian Partnership Act, 1932**.

Reasons for Retirement:

A partner might decide to retire for any of the following reasons:

- **Health issues** (disease or physical weakness)
- **Old age**
- **Disputes with other partners**
- **Desire to start a different business**
- **Any other personal reason**

How to Calculate the Amount Payable to the Retiring Partner:

When a partner retires, they are entitled to receive their share of the firm's assets and profits. To calculate how much the retiring partner gets, we look at their **capital account** on the date of retirement. This account includes all the following:

Credit Side of Capital Account (What the Retiring Partner is Entitled to):

1. **Share of Goodwill:** The retiring partner's share of the goodwill (the firm's reputation or value).
2. **Share of Profits/Reserves:** Their share in any profits, reserves (like general reserve), or undistributed profits that belong to the firm.
3. **Share in Revaluation Profits:** If assets or liabilities of the firm are revalued, the retiring partner gets their share of the profit.
4. **Interest on Capital/Salary/Commission:** Any outstanding interest, salary, or commission that was owed to the partner.
5. **Share in Net Profit:** The share of any profits earned between the last balance sheet date and the retirement date.
6. **Share in Joint Life Insurance Policy:** If the firm has a joint life insurance policy, the retiring partner gets their share of its value.

Debit Side of Capital Account (What the Retiring Partner Owes):

1. **Share of Losses:** The retiring partner's share in any losses (like from the revaluation of assets).
2. **Drawings and Interest on Drawings:** Any amounts the retiring partner has withdrawn or borrowed from the firm.
3. **Share in Net Loss:** The retiring partner's share of any losses that occurred between the last balance sheet date and their retirement.

Final Payment to the Retiring Partner:

Once all the above items are accounted for in the **capital account**, the **remaining balance** (if any) is the amount the retiring partner is entitled to. This can be paid:

- **In Cash** (if the firm has enough funds), or
- **Transferred to Loan Account** (if there isn't enough cash).

Retiring Partners Capital Account

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
	To Profit and Loss A/c (Dr.)				**By Balance b/d**		
	To Profit and Loss Adjustment A/c or Revaluation A/c (Loss)				**By Profit and Loss A/c (Cr.)**		
	To Drawing A/c				**By Undistributed Profit**		
	To Interest on Drawing A/c				**By Reserve**		
	To Retiring Partner's Loan A/c				**By Reserve Fund**		
	To Cash or Bank A/c (Balancing Figure)				**By General Reserve**		
					By Profit & Loss Adjustment A/c or Revaluation A/c (Profit)		
					By Interest on Capital A/c		
					By Joint Life Policy A/c		

Full Payment to Retiring Partner

- **Payment in Cash or Bank**:
  If the full payment is made in cash or from the bank balance, the entry is:

  Retiring Partner's Capital A/c Dr.
  To Cash/Bank A/c
  (Being full payment made to retiring partner)

- **Payment by Taking a Loan from Bank**:
  If the firm takes a loan from the bank to make the payment:
  - First, record the loan:

    Bank A/c Dr.
    To Bank Loan A/c
    (Being loan taken from the bank for payment to retiring partner)

  - Then, make the full payment:

    Retiring Partner's Capital A/c Dr.
    To Cash/Bank A/c
    (Being full payment made to retiring partner)

2. Inadequate Cash Balance

If the firm does not have enough cash or bank balance, the remaining amount is contributed by the continuing partners:

- **Bringing Additional Capital by Continuing Partners**:

  Cash/Bank A/c Dr.
  To Remaining Partners' Capital A/cs
  (Being additional amount brought by remaining partners to make payment to retiring partner)

- **Full Payment to Retiring Partner**:

  Retiring Partner's Capital A/c Dr.
  To Cash/Bank A/c
  (Being full payment made to retiring partner)

3. Part Payment to Retiring Partner

If the firm cannot pay the full amount upfront, part of the amount is paid, and the rest is transferred to the retiring partner's loan account:

Retiring Partner's Capital A/c Dr.
To Cash/Bank A/c

(Being part payment made and balance transferred to loan account)

4. Transferring Total Amount to Loan Account

If the total amount payable is transferred to the retiring partner's loan account (due to cash shortage):

Retiring Partner's Capital A/c Dr.
To Retiring Partner's Loan A/c
(Being balance of capital account transferred to loan account)

- **Interest on Loan**: If interest is due on the loan, record:

  Interest A/c Dr.
  To Retiring Partner's Loan A/c
  (Being interest due on retiring partner's loan account)

- **Payment of Interest**: When the interest is paid, record:

  Retiring Partner's Loan A/c Dr.
  To Cash/Bank A/c
  (Being interest paid to retiring partner on due amount)

5. Payment in Installments

If the total amount is paid in installments, the balance is transferred to the loan account, and interest is calculated:

- **Interest Due on Outstanding Amount**:

  Interest A/c Dr.
  To Retiring Partner's Loan A/c
  (Being interest due on balance of loan account)

- **Payment of Installment with Interest**:

  Retiring Partner's Loan A/c Dr.
  To Cash/Bank A/c
  (Being installment paid, including interest)

These entries are repeated until the full amount is paid off.

6. Payment by Annuity

If the payment to the retiring partner is made through annuity (a fixed annual payment over a number of years), the accounting works as follows:

- **Transfer of Balance to Annuity Suspense Account**:

  Retiring Partner's Capital A/c Dr.
  To Annuity Suspense A/c
  (Being balance transferred to annuity suspense account)

- **Interest on the Annuity**:

  Interest A/c Dr.
  To Annuity Suspense A/c
  (Being interest due on balance of annuity account)

- **Payment of Annuity**:

  Annuity Suspense A/c Dr.
  To Cash/Bank A/c
  (Being payment made by annuity)

ACCOUNTING PROBLEMS AT THE TIME OF RETIREMENT OF A PARTNER

At the time of retirement of a partner following accounting problems require adjustments:

1. Calculation of Goodwill.
2. Accounting of Goodwill.
3. Revaluation of assets and liabilities of the firm.
4. Transfer of reserve, undistributed profit and profit and loss account to capital a/c.
5. Writing off fictitious assets.
6. Adjustment of capital.
7. Adjustment of joint life insurance policy.
8. Payment in installments

Meaning of New Profit & Loss Ratio, Gaining Ratio of the Partners New Profit and Loss Ratio :

The ratio in which the future profit or loss shall be distributed among the continuing partners after retirement of a partner, is called as new profit and loss ratio. New profit and loss sharing ratio is calculated to avoid mutual conflicts and disputes. Gaining Ratio : Ratio in which continuing partners receive share of retiring partners is called gaining ratio. Gaining ratio can be determined by subtracting old profit and loss sharing ratio from new profit and loss sharing ratio. Gaining Ratio=New Profit & Loss Sharing Ratio – Old Profit & Loss Sharing Ratio Gaining ratio is calculated after retirement or death of a partner in partnership firm. In case of retirement, it is necessary to calculate gaining ratio for opening goodwill account with the share of retiring partner or accounting for goodwill without opening goodwill account. The calculation of new profit and loss ratio and gaining ratio is shown in the following table :

Distinction between Sacrificing Ratio and Gaining Ratio
There are following theoretical and practical differences between sacrificing ratio and gaining ratio:

Basis of Difference	Sacrificing Ratio	Gaining Ratio
1. Meaning	Old partners sacrifice their share in favor of the new partner. This sacrifice ratio is called the Sacrificing Ratio.	When a partner dies or retires, the remaining partners gain a larger share of profits. This increase in share is called the Gaining Ratio.
2. Calculation	Sacrificing Ratio = Old Profit & Loss Ratio – New Profit & Loss Ratio.	Gaining Ratio = New Profit & Loss Ratio – Old Profit & Loss Ratio.
3. Time of Computation	Computed at the time of admission of a new partner.	Computed at the time of death or retirement of a partner.
4. Objective	To distribute the goodwill brought by the new partner among the old partners based on their sacrificing ratio.	To make payments to the retiring partner for their share of goodwill, which is paid by the continuing partners.
5. Adjustment of Goodwill	For adjusting goodwill, the old partners' capital accounts are credited.	For adjusting goodwill, the continuing partners' capital accounts are debited.

Goodwill Accounting:

1. **Goodwill at the time of partner's retirement**:
    - **Goodwill cannot be raised** in the firm's books unless money is paid for it.
    - **Internally generated goodwill** (the goodwill that arises from the firm's reputation, customer loyalty, etc.) is **not recorded in the books** as no money is exchanged for it.
    - **Only purchased goodwill** (when a new partner buys into the business or a retiring partner is paid for their share of goodwill) should be recorded.
2. **Retiring partner's share in goodwill**:
    - A retiring partner's share of goodwill is paid by the continuing partners. The amount of goodwill is recorded in the books and adjusted among the **continuing partners' capital accounts**.

Adjustment of Joint Life Policy (JLP):

1. **What is a Joint Life Policy?**
    - A **Joint Life Policy (JLP)** is an insurance policy taken by the partnership firm covering the lives of all partners.
    - If any partner dies or if the policy matures, the **sum insured** is paid by the insurance company.

2. **When Premium is Treated as Revenue (Expense):**
    - If the premium paid is considered a **revenue expense** (like rent or salaries), **JLP won't appear in the balance sheet**.
    - When a partner retires, the firm will check the **surrender value** of the JLP (the amount the firm would get if they surrender the policy before the term ends or if a partner dies).
    - The **surrender value** is divided among the **capital accounts of all partners** in their **profit-sharing ratio**.
    - **Entry for Surrender Value**:
        - If the surrender value is not received from the insurance company, **the JLP account** is debited and **partners' capital accounts** are credited.
        - If the surrender value is received and the JLP account is closed, the value is credited to **partners' capital accounts**.
3. **When Premium is Treated as Capital Expenditure (Asset):**
    - If the premium paid on the JLP is treated as **capital expenditure (asset)**, it appears in the **balance sheet** at the **surrender value**.
    - When a partner retires:
        - If the JLP continues to appear in the balance sheet, no further entry is made.
        - If the JLP account is closed, the surrender value is written off among the **remaining partners** in the **new profit-sharing ratio**.
    - **Closing of JLP**:
        - If the JLP is closed (removed from the balance sheet), it is written off by the **remaining partners** in their new profit-sharing ratio.

Partnership Accounts: Death of a Partner (Including Joint Life Policy)

Introduction:

- When a partner dies, the partnership continues, but it is treated as a **reconstitution** of the firm (not a dissolution). The business continues according to the partnership deed or, if there's no deed, as per the **Indian Partnership Act, 1932**.
- The **executor** (the person responsible for handling the deceased partner's affairs) will receive the amount due to the deceased partner.
- The accounting treatment for a deceased partner is similar to a retiring partner, but the share of profit needs to be calculated for the period between the last balance sheet date and the date of death.

Calculation of Total Amount Payable to the Executors of the Deceased Partner:

The amount due to the **executors** is determined by calculating the following:

What is Included (Added) in the Amount Payable:

1. **Credit Balance of Capital and Current Accounts**: The money the deceased partner had in the firm.
2. **Share in Goodwill**: The partner's share in the goodwill of the firm, calculated as of the date of death.
3. **Share in Undistributed Profit**: This includes profits not yet distributed (e.g., retained earnings, profits in the profit & loss account, reserves, etc.).
4. **Share in Profit on Revaluation**: Any profit made from revaluing the firm's assets and liabilities on the date of death.
5. **Outstanding Amounts Due**: If the deceased partner was entitled to any salary, commission, interest on capital, etc., those amounts are included.
6. **Share in Net Estimated Profit**: This is the partner's share of the firm's profits for the period between the last balance sheet date and the date of death.
7. **Share in Joint Life Policy**: The deceased partner's share in the Joint Life Policy (if applicable).
8. **Loans to the Firm**: Any loan the deceased partner gave to the firm, along with interest due.

What is Subtracted (Deducted) from the Amount Payable:

1. **Debit Balance of Capital or Current Account**: If the deceased partner had any negative balance in their capital or current account.
2. **Share in Undistributed Loss**: The partner's share in any accumulated loss (e.g., losses in the profit and loss account or other losses shown in the firm's balance sheet).
3. **Share in Loss on Revaluation**: If the revaluation of assets and liabilities at the date of death resulted in a loss, the deceased partner's share is subtracted.

4. **Drawings and Interest on Drawings**: If the deceased partner had any drawings (money taken from the firm), along with any interest due on those drawings.
5. **Share in Net Estimated Loss**: The partner's share in the firm's estimated loss for the period between the last balance sheet date and the date of death.
6. **Loan to the Deceased Partner**: If the firm had given any loan to the deceased partner, along with any interest due on that loan.