PLUS 2

NOTES

Chapter Wise



Part A

ACCOUNTANCY

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CHAPTER 1
ACCOUNTING FOR PARTNERSHIP – BASIC CONCEPTS

Partnership

Partnership is the 'relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all'.

Persons who have entered into partnership with one another are individually called 'partners' and collectively called 'firm'.

Features of Partnership

1. Two or More Persons
2. Partnership is the result of an Agreement
3. The agreement should be to carry on a lawful Business
4. The business of a partnership may be carried on by all the partners or any of them.
5. Sharing of Profit
6. Liability of Partners is unlimited.

Partnership Deed

Written agreement containing the terms and conditions of partnership business is called Partnership deed.

Contents of Partnership Deed

1. The name of the firm and nature of the partnership business
2. Date of commencement of partnership
3. The name and address of partners
4. Amount of capital to be contributed by each partner
5. The ratio for sharing profit and loss among the partners
6. Interest, if any to be allowed on partner's capitals
7. Arrangement of drawings by partners and interest to be charged on drawings
8. The amount of salary or commission payable to partners
9. Valuation of goodwill in case of admission, retirement and death of a partner
10. Procedure for admission, retirement and death of a partner.
11. Procedure for dissolution of partnership firm etc.

Provisions Relevant for Accounting (Rules applicable in the absence of Deed)

(a) Profits and losses are shared equally.
(b) No Interest on Capital .
(c) No Interest on Drawings.
(d) 6%p.a. Interest on loans advanced by partners.
(e) No Remuneration for Firm's Work.

Methods of Maintenance of Capital Accounts of Partners

1. Fixed Capital Method

- The capitals of the partners remain fixed year after year.
- Two accounts are prepared for each partner namely Capital account and Current account.
- Capital account records partners capital contributions and withdrawals out of capital.
- Current Account records all other items like share of profit or loss, interest on capital, drawings, interest on drawings, etc.

Dr Partners Capital account Cr

Date	Particulars	JF	Amount(₹)	Date	Particulars	JF	Amount(₹)
	Bank (permanent withdrawal of capital)		xx		Balance b/d (opening balance)		xx
	Balance c/d (closing balance)		xx		Bank (fresh capital introduced)		xx
			xx				xx

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Dr Partners Current account Cr

Date	Particulars	JF	Amount(₹)	Date	Particulars	JF	Amount(₹)
	Balance b/d (in case of debit opening bal,)		xx		Balance b/d (in case of credit opening balance)		xx
	Drawings		xx		Salary		xx
	Interest on drawings		xx		Commission		xx
	Profit & Loss account		xx		Interest on capital		xx
	Balance c/d (in case of credit closing balance)		xx		Profit & Loss Appropriation (share of profit)		xx
					Balance c/d (in case of debit closing balance)		xx
			xx				xx

Illustration: Anil and Sunil are partners in a firm sharing profits and losses in the ratio of 2:1. Their capital balances as on 1st April 2020 were ₹ 50000 and ₹ 40000 respectively. As per the deed Anil is entitled to get a monthly salary of ₹ 2000 and Sunil a commission of ₹ 15000. Interest on capital is allowed at 5% p.a. Drawings during the year were Anil ₹ 5000 and Sunil ₹ 4000. Interest charged on drawings were Anil ₹ 500 and Sunil ₹ 400. Firm earned a profit of ₹ 30000 during the year after making all the above adjustments. Prepare partners capital account under fixed capital method.

Answer:

Dr Partners Capital account Cr

Date	Particulars	JF	Anil (₹)	Sunil (₹)	Date	Particulars	JF	Anil (₹)	Sunil (₹)
2021 Mar31	Balance c/d		50000	40000	2020 Apr 1	Balance b/d		50000	40000
			50000	40000				50000	40000

Dr Partners Current account Cr

Date	Particulars	JF	Anil (₹)	Sunil (₹)	Date	Particulars	JF	Anil (₹)	Sunil (₹)
2021 Mar31	Drawing		5000	4000	2021 Ma31	Salary		24000	
	Interest on Drawings		500	400		Commission			15000
	Balance c/d		41000	22600		Interest on Capital		2500	2000
						P/L account		20000	10000
			46500	27000				46500	27000

Work sheet

David and Danesh are a partners with a capital of ₹ 70000 and ₹ 80000 respectively on 1st April 2019. They share profits in the ratio of 3:2. The partnership deed provides that they were entitled to get interest at 6% pa on their capital. They are also allowed salary as David ₹ 500 per month and Danesh ₹ 5000 p.a. They made drawings of ₹ 7000 and ₹ 6000 respectively during the year. Interest were charged as David ₹ 350 and Danesh ₹ 400. Profit made b the firm during the year after all the above adjustments were David ₹ 25000. Prepare partners capital account under fixed capital method.

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Date	Particulars	JF	David (₹)	Danesh (₹)	Date	Particulars	JF	David (₹)	Danesh (₹)
.....	Balance c/d		.....	.....	.....	Balance b/d		.....	.....
			.....	.....				.....	.....

Dr Partners Current account Cr

Date	Particulars	JF	David (₹)	Danesh (₹)	Date	Particulars	JF	David (₹)	Danesh (₹)
.....	Drawing		.....	.....	2021 Ma31	Salary		.....	.....
	Interest on Drawings		.....	.....		Interest on Capital		.....	.....
	Balance c/d		.....	.....		P/L account		.....	.....
			.....	.....				.....	.....

2. Fluctuating Capital Method

- Only one account ,i.e., Capital account is prepared for each partner.
- All the adjustments like share of profit and loss, interest on capital, drawings, interest on drawings, salary or commission to partners, etc are recorded directly in the capital accounts.
- Balance in the capital account fluctuates from year to year.

Dr Partners Capital account Cr

Date	Particulars	JF	Amount(₹)	Date	Particulars	JF	Amount(₹)
	Drawings		xx		Balance b/d		xx
	Interest on drawings		xx		Bank (fresh		
	Profit and Loss account		xx		capital introduced)		xx
	(for share of loss)				Salaries		xx
	Balance c/d		xx		Interest on capital		xx
					Profit and Loss Appropriation		
					(for share of profit)		xx
			xx				xx

Illustration:

Anu and Binu are partners sharing profits in the ratio of 5:3. Their capital balances as on 1st April 2019 were ₹ 100000 and ₹ 120000 respectively. According to partnership deed Anu will get ₹ 1000 per month as salary. Binu was entitled to get a commission of ₹ 25000. Interest on capital was allowed at 10% pa. Their drawings during the year were Anur ₹ 10000 and Binu ₹ 15000. Interest on drawings were charged as Anur ₹ 1000 and Binu ₹ 1500. Profit made by the firm during the year after all above adjustments were ₹ 40000. Prepare Partners Capital account under Fluctuating capital method.

Dr Partners Capital account Cr

Date	Particulars	JF	Anu (₹)	Binu (₹)	Date	Particulars	JF	Anu (₹)	Binu (₹)
2020 Mar31	Drawings		10000	15000	2019	Balance b/d		100000	120000
	Interest on drawings		1000	1500	Apr 1				
					2020	Salary		12000	

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	Balance c/d		136000	155500	Ma31	Commission Interest on Capital Profit/Loss account		10000 25000	25000 12000 15000
			147000	172000				147000	172000

Try Yourself:

A and B are partners in a firm with captials of ₹ 90000 and ₹ 80000 respectively on 1st April 2020. They share profits in the ratio of 2:1. A will get a monthly salary of ₹ 2000 and B will get a commission of ₹ 10000 during the year. As per the deed, interest of 10% pa is allowed on capital. Drawings made by the partners during the year were A - ₹ 15000 and B - ₹ 20000. Interest on drawings charged were A - ₹ 1500 and B - ₹ 2000. The firm made a profit of ₹ 45000 during the year after all the above adjustments. Prepare Partners Capital account under the Fluctuating Capital method.

Distinction between Fixed and Fluctuating Capital Accounts:

Basis	Fixed Capital Account	Fluctuating Capital Account
(i) Number of accounts	Two accounts, Capital account and Current account for each partner.	One account, Capital account
(ii) Adjustments	All adjustments for drawings,salary, interest on capital, etc. are made in the current accounts	All adjustments for drawings, salary, interest on capital, etc. are made in the capital accounts
(iii) Fixed balance	Capital balance remain fixed.	Capital balance fluctuate from year to year
(iv) Credit balance	Capital account always shows credit balance	Capital account sometimes shows debit balance

Profit and Loss Appropriation Account : It is an extension of Profit and loss account. It is prepared to ascertain the divisible profits among the partners. It starts with the net profit/net loss of Profit and Loss account. Interest on capitals a, salary, commission etc. are debited and interest on drawings is credited.

Journal entries:

1. Transfer of the balance of Profit and Loss Account
   a) If Net profit
      Profit and Loss account Dr.
         To Profit and Loss Appropriation account
   b) If Net loss
      Profit and Loss Appropriation account Dr.
         To Profit and Loss account
2. Interest on Capital
   (a) For crediting interest on capital to partners' capital account
      Interest on Capital account Dr.
         To Partner's Capital/Current accounts (individually)
   (b) For transferring interest on capital to Profit and Loss Appropriation Account
      Profit and Loss Appropriation account Dr.
         To Interest on Capital account
3. Interest on drawings
   (a) For charging interest on drawings to partners' capital accounts
      Partners Capital/Current account's Dr.
         To Interest on Drawings account

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(b) For transferring interest on drawings to Profit and Loss Appropriation Account

Interest on Drawings account Dr.

To Profit and Loss Appropriation account

4. Partner's Salary

(a) For crediting partner's salary to partner's capital account

Salary to Partner account Dr.

To Partner's Capital/Current account's

(b) For transferring partner's salary to Profit and Loss Appropriation Account

Profit and Loss Appropriation account Dr.

To Salary to Partner's account

5. Partner's Commission

(a) For crediting commission to a partner, to partner's capital account

Commission to Partner account Dr.

To Partner's Capital/Current account's

(b) For transferring commission paid to partners to Profit and Loss Appropriation Account

Profit and Loss Appropriation account Dr.

To Commission to Partners Capital/Current account

6. Share of Profit or Loss after appropriations

(a) If Profit

Profit and Loss Appropriation account Dr.

To Partner's Capital/Current account's

(b) If Loss

Partner's Capital/Current account's Dr

To Profit and Loss Appropriation account

Illustration

Manu and Nanu are partners in a firm sharing profits in the ratio of 3:1. Their capitals on 1st April 2020 were ₹ 60000 and ₹ 70000 respectively. As per partnership deed partners are entitled to interest on capital at 8% pa. Manu was entitled to a salary of ₹ 15000 and Nanu a commission of ₹ 20000. Drawings made by the partners during the year were Manu ₹ 8000 and Nanu ₹ 9000. Interest on drawings were Manu ₹ 800 and Nanu ₹ 900. Profit earned by the firm during the year was ₹ 84300. Prepare Profit and loss appropriation account.

Answer:

Dr Profit and Loss Appropriation Account Cr

Particulars		Amount(₹)	Particulars		Amount(₹)
Interest on Capital			Profit and Loss		84300
Manu	4800		Interest on Drawings		
Nanu	5600	10400	Manu	800	
Salary - Manu		15000	Nanu	900	1100
Commission - Nanu		20000			
Partners' Capital Accounts					
Manu					
Nanu		40000			
		85400			85400

Try Yourself

Suresh and Ragesh are partners in a firm sharing profits in the ratio of 2:1. Their capitals on 1st April 2020 were ₹ 85000 and ₹ 75000 respectively. Partnership deed allowed interest on captial at 10% pa. Suresh were entitled to a salary of ₹ 14000 and Ragesh a commission of ₹ 16000. Drawings during the year were Suresh ₹ 6000 and Ragesh ₹ 7000. Interest on drawings, Suresh ₹

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600 and Ragesh ₹ 700. Firm earned a profit of ₹ 74700 for the year ended 31st March 2021. Prepare Profit and loss appropriation account.

Calculation of Interest on Capital

- No interest is allowed on capital unless it is mentioned in partnership deed.
- Interest on capital is credited to partners capital account at an agreed rate.
- Interest is calculated for the period for which the capital remains in the business during the financial year.

Illustration:

Anand and Balan are partners in a firm. Their capital accounts as on April 01. 2019 showed a balance of ₹ 4,00,000 and ₹ 6,00,000 respectively. On July 01, 2019, Anand introduced additional capital of ₹ 100,000 and Balan ₹ 120,000. On October 01 Anand withdrew ₹ 60,000, and on January 01, 2020 Balan withdraw, ₹ 30,000 from their capitals. Interest is allowed @ 8% p.a. Calculate interest payable on capital to both the partners during the financial year 2019–2020.

Answer:

Interest on Capital of Anand

On Rs.400000 for 3 months = 400000 X 8/100 X 3/12 = 8000
On Rs.500000 for 3 months = 500000 X 8/100 X 3/12 = 10000
On Rs.440000 for 6 months = 440000 X 8/100 X 6/12 = 17600
Interest on capital of Anand = 8000 + 10000 + 17600 = 35600

Interest on Capital of Balan

On Rs.600000 for 3 months = 600000 X 8/100 X 3/12 = 12000
On Rs.720000 for 6 months = 720000 X 8/100 X 6/12 = 28800
On Rs.690000 for 3 months = 690000 X 8/100 X 3/12 = 13800
Interest on capital of Balan = 12000 + 28800 + 13800 = 54600

Try Yourself

Satheesh a partner in firm has a capital of ₹ 80000 on 1st April 2018. On October 1st he withdrew ₹ 10000 from the firm. On 1st January 2019 he introduced an additional capital of ₹ 20000. Calculate interest on capital @ 10% pa for the year ended 31st March 2019.

Calculation of Interest on Drawings

- Interest on drawings is charged only when it is mentioned in the partnership deed.
- Interest is charged at an agreed rate, for the period money remained outstanding from the partners during an accounting year.

(i) When Fixed Amounts is Withdrawn Every Month

(a) When the amount is withdrawn at the beginning of each month: Interest is calculated for a period of 6 1/2 (6.5) months.

$$\text{Interest on Drawings} = \text{Total drawings} \times \frac{\text{Rate}}{100} \times \frac{6.5}{12}$$

b) When the amount is withdrawn at the end of each month: Interest is calculated for a period of 5 1/2 (5.5) months.

$$\text{Interest on Drawings} = \text{Total drawings} \times \frac{\text{Rate}}{100} \times \frac{5.5}{12}$$

(c) When money is withdrawn in the middle of the month: Interest is calculated for a period of 6 months.

$$\text{Interest on Drawings} = \text{Total drawings} \times \frac{\text{Rate}}{100} \times \frac{6}{12}$$

Illustration:

Kamal, a partner in a firm withdrew ₹ 3000 per month from his firm. Interest on drawing were charged @ 6% pa. Calculate interest on drawings:

a) When withdrawals are made on the first day of every month.
b) When withdrawals are made on the last day of every month.

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c) When withdrawals are made in the middle of ever month.

Anwer

a) When withdrawals are made on the first day of every month.

Interest on drawings = Total drawings X Rate/100 X 6.5/12

= 36000 X 6/100 X 6.5/12 = 1170

b) When withdrawals are made on the last day of every month.

Interest on drawings = Total drawings X Rate/100 X 5.5/12

= 36000 X 6/100 X 5.5/12 = 990

c) When withdrawals are made in the middle of ever month.

Interest on drawings = Total drawings X Rate/100 X 6/12

= 36000 X 6/100 X 6/12 = 1080

Try Yourself

Basheer, a partner in a firm withdrew ₹ 4000 per month from his firm. Interest on drawing were charged @ 8% pa. Calculate interest on drawings:

a) When withdrawals are made on the first day of every month.

b) When withdrawals are made on the last day of every month.

c) When withdrawals are made in the middle of ever month.

(ii) When Varying Amounts are Withdrawn at Different Intervals In this case the interest is calculated using the product method. Interest on drawings is calculated as follows:

$$\text{Interest on Drawings} = \text{Sum of the Product} \times \frac{\text{Rate}}{100} \times \frac{1}{12}$$

Illustration

Rekha, a partner in a firm withdrew the following amounts from the firm for personal uses for the year ended 31st March 2020. Partnership deed charges interest on drawings at 8% pa. Calculate interest on drawings.

Date	Drawings (₹)
2019 May 1	5000
2019 August 1	7000
2019 November 1	9000
2020 January1	12000
2020 March 1	18000

Answer:

Date	Drawings	Period	Product
2019 May 1	5000	11	55000
2019 August 1	7000	8	56000
2019 November 1	9000	5	45000
2020 January1	12000	3	36000
2020 March 1	18000	1	18000
			210000

$$\text{Interest on Drawings} = \text{Sum of the Product} \times \frac{\text{Rate}}{100} \times \frac{1}{12}$$

= 210000 X 8/100 X 1/12

= 1400

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Try Yourself

Soumya, a partner in a firm withdrew the following amounts from the firm for personal uses for the year ended 31st March 2021. Partnership deed charges interest on drawings at 6% pa. Calculate interest on drawings.

Date	Drawings (₹)
2020 April 1	8000
2020 July 1	10000
2020 October 1	6000
2020 December 31	4000
2021 March 1	7000

(iv) When Dates of Withdrawal are not mentioned, interest on drawings is calculated for an average period of 6 months.

$$\text{Interest on Drawings} = \text{Total drawings} \times \frac{\text{Rate}}{100} \times \frac{6}{12}$$

Guarantee of Profit to a Partner

Sometimes a partner may be admitted in the firm with a guaranteed minimum amount of profit. The guaranteed amount is given to the new partner when his actual share of profit as per profit sharing ratio is less than the guaranteed amount. The shortage in guaranteed amount is given by the old partners in a specified ratio or by a partner individually.

Illustration

Gireesh and Ganesh are partners in a firm sharing profits in the ratio of 2:3. They admitted Gayathri as a partner in the firm. The new profit sharing ratio of the firm is 3:2:1. Gireesh and Ganesh guaranteed that Gayathri will get a minimum amount of ₹ 20000 as profit every year. During the year 2019 – 20 firm earned a profit of ₹ 90000. Prepare Profit and loss appropriation account.

Answer

Calculation fo share of Profit:

Profit share of Gireesh = 90000 X 3/6 = 45000
Profit share of Ganesh = 90000 X 2/6 = 30000
Profit share of Gaathri = 90000 X 1/6 = 15000
Deficiency in Gaathhri's profit = 20000 – 15000 = 5000
Profit given by Gireesh = 5000 X 2/5 = 2000
Profit given by Ganesh = 5000 X 3/5 = 3000

Dr Profit and Loss Appropriation Account Cr

Particulars		Amount(₹)	Particulars	Amount(₹)
Partners' Capital Accounts			Profit and Loss	90000
Gireesh	45000			
Less: Share in deficiency	2000	43000		
Ganesh	30000			
Less: Share in deficiency	3000	27000		
Gayathri	15000			
Add: Share by Gireesh	2000			
Share by Ganesh	3000	20000		
		90000		90000

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Try Yourself

Sajitha and Rajitha are partners in a firm with a profit sharing ratio of 3:2. They decided to admit Prajitha into the firm with a guaranteed amout of profit of ₹ 25000. The new profit sharing ratio after Prajitha's admission is 4:3:3. Firm earned a profit of ₹ 70000 for the year ended 31st March 2020. Prepare Profit and loss appropriation account.

Questions and Answers

1. Partnership is the result of .....

a) an agreement b) an Act c) law d) None of these

Answer: a) an agreement

2. Minimum number of persons required to form a partnership is .....

a) 50 b) 100 c) 2 d) 4

Answer: c) 2

3. Liability of a partner is .....

a) Limited to the extend of their shares b) Limited to the amount guaranteed

c) Limited to the share of profit d) Unlimited

Answer: d) Unlimited

4. Interest on capital is credited to ..... account.

a) Partner’s drawings b) Partner’s capital c) Partner’s loan d) Partner’s salary

Answer: b) Partner’s capital

5. Interest on drawings is ..... to capital account.

a) Credited b) Debited c) Not considered d) Debited or credited

Answer: b) Debited

6. Each individual in a partnership firm is called as .....

a) Firm b) Shareholders c) Partners d) Members

Answer: c) Partners

7. Partners are collectively called as .....

a) Firm b) Shareholders c) Partners d) Members

Answer: a) Firm

8. In fluctuating capital method all adjustments are recorded in ..... account.

a) Profit and loss appropriation account b) Partner's Capital account

c) Partner's Current account d) Partner's Loan A//c

Answer: b) Partner's Capital account

9. In fixed capital method all adjustments are recorded in ..... account.

a) Profit and loss appropriation account b) Partner's Capital account

c) Partner's Current account d) Partner's Loan A//c

Answer: c) Partner's Current account

10. ..... account is prepared to disrtibute profit or loss among the partners.

a) Profit andl losss account b) Partner's capital account

c) Profit and loss Appropriation account d) Goodwill account

Answer: c) Profit and loss Appropriation account

2 Score Questions

1. Mr. Sandeep a partner in a firm withdrew ₹ 3000 per month from the firm for personal use. Calculate interest on drawings at 6% p.a. when the drawings are made on the firstt day of every month.

Interest on drawings = Drawings X Rate/100 X 6.5/12

= 36000 X 6/100 X 6.5/12 = 1170

2. Define Partnership deed.

Partnership is the ‘relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all.

3 Score Questions:

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1. Capital account of Ajay, a partner in a firm showed a balance of ₹ 200000 on 1st April 2020. On 1st July 2020 he introduced an additional capital of ₹ 50000. He withdrew ₹ 20000 form the firm for personal use on 31st December 2020. Calculate interest on capital of Ajay @ 5% p.a. for the year ended 31st March 2021.

Interest on 200000 for 3 months = 200000 X 5/100 X 3/12 = 2500
Interest on 250000 for 6 months = 250000 X 5/100 X 6/12 = 6250
Interest on 230000 for 3 months = 230000 X 5/100 X 3/12 = 2875
Interest on capital of Ajay = 11625

2. Muneer a partner in a firm withdrew the following amounts duirng the year 2019 – 20.

Date	Amount (₹)
April 30, 2019	8000
July 31, 2019	10000
October 1, 2019	9000
December 31, 2019	12000

Interest on drawings to be charged @ 6% p.a. The books are closed on 31st March every year. Calculate interet on drawings.

Answer:

Date	Drawings	Period	Product
April 30, 2019	8000	11	88000
July 31, 2019	10000	8	80000
October 1, 2019	9000	6	54000
December 31, 2019	12000	3	36000
			258000

Interest on Drawings = Sum of the Product X $\frac{\text{Rate}}{100}$ X $\frac{1}{12}$

= 258000 X 6/100 X 1/12 = 1290

4 Score / 5 Score Questions

1. Distinguish between Fixed Capital Method and Fluctuating Capital Method.

Answer:

Basis	Fixed Capital Account	Fluctuating Capital Account
(i) Number of accounts	Two accounts, Capital account and Current account for each partner.	One account, Capital account
(ii) Adjustments	All adjustments for drawings, salary, interest on capital, etc. are made in the current accounts	All adjustments for drawings, salary, interest on capital, etc. are made in the capital accounts
(iii) Fixed balance	Capital balance remain fixed.	Capital balance fluctuate from year to year
(iv) Credit balance	Capital account always shows credit balance	Capital account sometimes shows debit balance

2. Fill the table given below on the basis of the provisions of Partnership Act in the absence of Partnership deed.

Items	Provisions
(i) Sharing of profits and losses.	?
(ii) Interest on partner's capital.	?
(iii) Interest on Partner's drawings.	?
	?

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(iv) Interest on Partner's loan (v) Salary to a partner.	?

Answer:

Items	Provisions
(i) Sharing of profits and losses.	Equally
(ii) Interest on partner's capital.	No
(iii) Interest on Partner's drawings.	No
(iv) Interest on Partner's loan	6%
(v) Salary to a partner.	N0

3. Kabeer and Sudheer are partners in a firm sharing profits in the ratio of 2:3. Their capitals on 1st April 2019 were ₹ 120000 and ₹ 140000 respectively. As per partnership deed partners are entitled to interest on capital at 6% pa. Sudheer was entitled to a monthly salary of ₹ 1500 and Kabeer a commission of ₹ 24000. Drawings made by the partners during the year were Kabeer ₹ 10000 and Sudheer ₹ 12000. Interest on drawings were Kabeer ₹ 1000 and Sudheer ₹ 1200. Profit earned by the firm during the year was ₹ 70400. Prepare Profit and loss appropriation account.

Answer:

Dr Profit and Loss Appropriation Account **Cr**

Particulars		Amount(₹)	Particulars		Amount(₹)
Interest on Capital			Profit and Loss		70400
Kabeer	7200		Interest on Drawings		
Sudheer	8400	15600	Kabeer	1000	
Salary - Sudheer		18000	Sudheer	1200	2200
Commission - Kabeer		24000			
Partners' Capital Accounts					
Kabeer	6000	15000			
Sudheer	9000				
		72600			72600

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CHAPTER 2
RECONSTITUTION OF A PARTNERSHIP FIRM - ADMISSION OF A PARTNER

Reconstitution of partnership

Any change in the relation between partners is called reconstitution of partnership. It takes place in the following circumstances.

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

Admission of a partner

Inclusion of a person as a partner in to the existing firm is called admission of a partner.

Rights of a new partner

1. Right to share the assets of the partnership firm; and
2. Right to share the profits of the partnership firm.

Accounting adjustments at the time of admission of a new partner

1. Calculation of New profit sharing ratio;
2. Calculation of ratios (New ratio and Sacrificing ratio);
3. Treatment of goodwill;
4. Revaluation of assets and Reassessment of liabilities;
5. Distribution of accumulated profits (reserves); and
6. Adjustment of partners' capitals

Sacrificing Ratio

The ratio in which the old partners agree to sacrifice their share of profit in favour of the incoming partner is called sacrificing ratio.

Sacrificing ratio = Old ratio – New ratio

Illustration

Anil and Vishal are partners sharing profits in the ratio of 3:2. They admitted Sumit as a new partner for 1/5 share in the future profits of the firm. Calculate new profit sharing ratio of Anil, Vishal and Sumit.

Solution

Let total profit	= 1	Old ratio = 3:2
Sumit's share	= 1/5	
Remaining share	= 1 – 1/5 = 4/5	
Anil's new share	= 4/5 x 3/5 = 12/25	
Vishal's new share	= 4/5 x 2/5 = 8/25	
New ratio	= 12/25 : 8/25: 1/5	
	= 12/25 : 8/25 : 5/25	
	= **12:8:5**	

Illustration

A and B are partners sharing profits in the ratio of 3:2. They admit C as a new partner for 1/5th share in the future profits of the firm which he gets equally from Akshay and Bharati. Calculate new profit sharing ratio of A, B and C.

C's share	= 1/5
A's sacrifice	= 1/5 x 1/2 = 1/10
B's sacrifice	= 1/5 x 1/2 = 1/10
Sacrificing ratio	= 1/10 : 1/10
New ratio	= Old ratio – Sacrificing ratio
A's new share	= 3/5 – 1/10 = 6/10 – 1/10 = 5/10

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B's new share = 2/5 – 1/10 = 4/10 – 1/10 = 3/10
New ratio = 5/10 : 3/10 : 1/5
= 5/10 : 3/10 : 2/10
= **5:3:2**

Illustration

Rohit and Mohit are partners in a firm sharing profits in the ratio of 3:2. They admit Bijoy as a new partner for 1/4 share in the profit. The new profit sharing ratio will be 3:3:2. Calculate the sacrificing ratio of Rohit and Mohit.

Sacrificing ratio = Old ratio – New ratio
Rohith sacrifice = 3/5 – 3/8 = 24/40 – 15/40 = 9/40
Mohith sacrifice = 2/5 – 3/8 = 16/40 – 15/40 = 1/40
Sacrificing ratio = 9/40 : 1/40 = 9:1

Try Yourself

Amar and Bahadur are partners in a firm sharing profits in the ratio of 3:2. They admitted Mary as a new partner for 1/4 share. The new profit sharing ratio between Amar and Bahadur will be 2:1:1. Calculate their sacrificing ratio.

Goodwill

Goodwill is the value of the reputation of a firm in respect of the profits expected in future over and above the normal profits.

Factors Affecting the Value of Goodwill

1. Nature of business
2. Location
3. Efficiency of management
4. Market situation
5. Special advantages such as import license, patent etc.

Need for Valuation of Goodwill

1. Change in the profit sharing ratio among the existing partners;
2. Admission of new partner;
3. Retirement of a partner;
4. Death of a partner; and
5. Amalgamation of partnership firms.

Methods of Valuation of Goodwill

1. Average Profits Method
2. Super Profits Method
3. Capitalisation Method

Average Profits Method

Under this method, the goodwill is valued at agreed number of 'years' purchase of the average profits of the past few years.

Average profit = Total profits / No. of years profit
Value of goodwill = Average profit x No. of years purchase

Illustration

The profit for the five years of a firm are Rs. 4,00,00, Rs. 3,50,00,Rs. 4,50,00; Rs. 4,45,00 and Rs. 5,05,00. Calculate goodwill of the firm on the basis of 4 years purchase of 5 years average profits.

Solution

Average profits = Total profits / No. of years profits
= 215000 / 5
= 43000
Value of goodwill = 43000 x 4 = 172000

Super Profit Method:

Super Profits means the excess of the actual profits over and above the normal return expected on investment in similar class of business.

Super Profit = Actual Profit – Normal Profit.

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Normal Profit = Capital Employed x Normal Rate of Return / 100
Value of Goodwill = Super Profit x Number of year's profit

Illustration

The capital of the firm is Rs.200000 and normal rate of return is 10%. The average profits of the firm is Rs.30000. Calculate the value of goodwill at 3 years purchase of the super profits of the firm.

Average profit = 30000
Normal profit = Capital x normal rate / 100
= 200000 x 10/100 = 20000
Super profit = Average profit – normal profit
= 30000 – 20000 = 10000
Value of goodwill = 10000 x 3
= **30000**

Try Yourself

The capital employed in a firm is Rs.250000 and normal rate of return is 10%. The profits of the firm for the last 3 years were Rs.50000, Rs.40000 and Rs.30000. Calculate the value of goodwill at 4 years purchase of the super profits of the firm.

Capitalisation Method

1. Capitalisation of average profit
   Value of capitalisation = Average profit x 100/Normal rate
   Value of goodwill = Value of capitalisation – Capital employed (Net assets)
2. Capitalisation of super profit
   Super Profit = Actual Profit – Normal Profit.
   Normal Profit = Capital Employed x Normal Rate of Return / 100
   Value of Goodwill = Super Profit x 100/Normal rate

Treatment of Goodwill

1. Goodwill premium paid to the old partners privately, no entry is to be passed in the books of the firm
2. New partner brings cash for goodwill.
   Cash Account Dr
   To Old Partners' Capital Account

Try Yourself

Rajan and Sajan are partners in a firm sharing profits and losses in the ratio of 3:2. They admit Sojan into partnership with 1/5 share in the profits. He brings in Rs. 30,000 as his capital. He also brings in the necessary amount for his share of goodwill. On the date of admission, the goodwill is valued at Rs. 60,000 Record the necessary journal entries in the books of the firm.

Treatment of Accumulated Profits and Losses

Accumulated profits or losses are to be transferred to the old partners capital accounts in their old profit sharing ratio.

1. For transferring accumulated Profits

General Reserve / Reserve Fund account Dr.
To Old Partners' Capital account

2. For Debiting accumulated Losses

Old Partners' capital account Dr.
To Profit and Loss account

Illustration

Anu and Achu are partners in a firm sharing profits in the ratio of 3:2. They admit Manu as a new partner. On that date there was a balance of Rs. 20,000 in general reserve and a debit balance of Rs. 10,000 in the profit and loss account of the firm. Pass necessary journal entries.

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Solution:

Journal entries -

1. General reserve	*Dr 20000*		
To Anu's capital account		*12000*	
To Achu's capital account		*8000*	
2. Anu's capital account	*Dr 6000*		
Achu's capital account	*Dr 4000*		
To P&L account		*10000*	

Try Yourself

Sheena and Smitha are partners in a firm sharing profits equally. They admit Beena as a new partner. At that time, there was a balance of Rs. 30,000 in general reserve and a debit balance of Rs. 9,000 in the profit and loss account of the firm. Pass necessary journal entries.

Revaluation of Assets and Liabilities

Revaluation Account is prepared to ascertain the profit or loss on revaluation of assets and liabilities. Decrease in assets, Increase in liabilities and unrecorded liabilities are debited in this account. Increase in assets, decrease in liabilities and unrecorded assets are credited in this account. The profit or loss on revaluation is transferred to the capital account of all partners including retiring partners in their old profit sharing ratio.

Format:



Dr **Revaluation Account** **Cr**

Decrease in assets	xxxxxx	Increase in assets	xxxxxx
Increase in liabilities	xxxxxx	Decrease in liabilities	xxxxxx
Capital account - (Profit)	xxxxxx	Capital account - (Loss)	xxxxxx
	xxxxxx		xxxxxx

Dr **Revaluation Account** **Cr**

ആസ്തിയിലെ കുറവ്	xxxxxx	ആസ്തി വർദ്ധിച്ചാൽ	xxxxxxx
ബാധ്യത വർദ്ധിച്ചാൽ	xxxxxx	ബാധ്യത കുറഞ്ഞാൽ	xxxxxxx
കാപിറ്റൽ അക്കൗണ്ട് (ലാഭം)	xxxxxx	കാപിറ്റൽ അക്കൗണ്ട് (നഷ്ടം)	xxxxxxx
	xxxxxx		xxxxxxx



Illustration

Given below is the Balance Sheet of A and B, who are carrying on partnership business as on March 31,2021. A and B share profits in the ratio of 2:1.

Balance Sheet of A and B as at March 31, 2021

Liabilities	Amount	Assets	Amount
Bills Payable	10,000	Cash in hand	10,000
Sundry creditors	58,000	Cast at bank	40,000
Outstanding expenses	2,000	Sundry debtors	60,000
Capitals -		Stock	40,000
A 180000		Plant and machinery	1,00,000
B 150000	3,30,000	Building	1,50,000
	4,00,000		400000

C is admitted as a partner on the date of the balance sheet on the following terms:

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1. C will bring in Rs 1,00,000 as his capital and Rs 50,000 as his share of goodwill for 1/4 share in profits.
2. Plant is to be appreciated to Rs 1,20,000 and the value of buildings is to be appreciated by 10%.
3. Stock is reduced by Rs 4,000.
4. A provision for doubtful debts is to be created at 5% of debtors.
5. Creditors were unrecorded to the extend of Rs 1,000.

Prepare Revaluation Account.

Solution

Dr **Revaluation account** **Cr**

Stock	4000	Plant	20,000
Provision for bad debts	3000	Buildings	15,000
Creditors	1000		
Capitals -			
A 19000	27000		
B 8000			
	35,000		35000

Questions and Answers

1. Any change in the existing agreement between partners amounts to……..of a partnership firm
   Ans. Reconstitution.
2. As a result of…….. existing agreement of partners comes to an end and a new agreement is formed.
   Ans. Reconstitution.
3. While transferring reserve of the firm on reconstitution, amount to be credited to....……
   Ans. Old partner's capital account.
4. At the time of admission of a partner in a firm, unrecorded assets will be .....…….
   Ans. Credited to Revaluation account
5. Share of goodwill brought in by new partner in cash is called ...……..
   Ans. Premium
6. At the time of admission of a partner in a firm, unrecorded liability will be .....…….
   Ans. Debited to Revaluation account.
7. On admission of a partner, goodwill brought in cash has to be credited to existing partners in ---------- ratio.
   Ans. Sacrificing ratio
9. Sacrificing ratio is calculated on ----------of a partner.
   Ans. Admission
10. What are the different occasions (modes) in which reconstitution of a firm takes place?
    Ans. a. Change in profit sharing ratio, Admission, retirement/death of a partner.
11. What are the 2 main rights acquired by a new(Incoming) partner?
    Ans. a. Right to share assets of the firm.
    b. Right to share profit/loss of the firm.
12. Write any 3 accounting adjustments on admission of a partner
    Ans. a. Capital of new partner.
    b. New profit sharing ratio and sacrificing ratio
    c. Treatment of goodwill
13. Write journal entry required to record capital brought in by new partner
    Ans. Cash/ Other assets account Dr.
    To new partners capital
14. What are the factors affecting(influencing) value of goodwill?
    a. Nature of business b. Efficiency of management c. Location d. Market
15. What are the circumstances(occasions or need) for the valuation of goodwill?
    Ans. a. Change in profit sharing ratio. b. Admission/Retirement/Death of a partner. c. Dissolution

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16. A and B are equal partners in a firm. C joins the firm for ¼ share in the profits. He brings Rs.25000 for capital and Rs.10000 for share of goodwill. Show journal entry.

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CHAPTER : 3
RECONSTITUTION OF A PARTNERSHIP FIRM – RETIREMENT/DEATH OF A PARTNER

Retirement or death of a partner also leads to reconstitution of a partnership firm. On the retirement or death of a partner the remaining partners may continue the business with a new agreement.

Ascertaining the Amount Due to Retiring/ Deceased Partner

The sum due to the retiring partner (in case of retirement) and to the legal representatives (in case of death) includes:

1.Credit balance of his capital account
2. Credit balance of his current account (if any)
3. His share of goodwill
4. His share of accumulated profits or reserves
5. His share in the profit on revaluation of assets and liabilities.
6. His share of profits up to the date of retirement/death;
7. Interest on his capital, if any, up to the date of retirement/death
8.Salary/commission, if any, due to him up to the date of retirement/death.

Deductions to be made from capital of Retiring or Deceased partner

The following deductions should be made from retired or deceased partner's share:

1. Debit balance of his current account (if any)
2. His share of goodwill to be written off, if necessary
3. His share of accumulated losses
4. His share of loss on revaluation of assets and liabilities
5. His share of loss up to the date of retirement/death
6. His drawings up to the date of retirement/death
7. Interest on drawings, if any, up to the date of retirement/death.

Work Sheet

Identify whether the given items are to be debited or credited in the Capital Account of a Retiring Partner by Put tick mark(√) in the relevant column:

No	Items	Debited	Credited
(a)	Share of accumulated losses		
(b)	Interest on capital up to the date of retirement		
(c)	Share in the profit on revaluation		
(d)	Interest on drawings up to the date of retirement		
(e)	Share of goodwill		

Accounting Adjustments on Retirement

Accounting aspects involved on retirement of a partner are as follows:

1. Ascertainment of new profit sharing ratio and gaining ratio
2. Treatment of goodwill
3. Revaluation of assets and liabilities
4. Adjustment in respect of unrecorded assets and liabilities
5. Distribution of accumulated profits and losses
6. Ascertainment of share of profit or loss up to the date of retirement
7. Adjustment of capital, if required
8. Settlement of the amounts due to retired partner.

New Profit Sharing Ratio

New profit sharing ratio is the ratio in which the remaining partners will share future profits after the retirement of any partner. The new share of each of the remaining partner will consist of his own share in the firm plus the share acquired from the retiring partner.

New Ratio = Old Ratio + Gain of partner

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Illustration: A, B and C are partners sharing profits in the ratio of 3:2:1. 'A' retires and his share is taken up by B and C in the ratio of 3:2. Calculate the new profit sharing ratio.

Solution:

$$\text{B's gain} = \frac{3}{6} X \frac{3}{5} = \frac{9}{30} \qquad \text{C's gain} = \frac{3}{6} X \frac{2}{5} = \frac{6}{30}$$

$$\text{B's new share} = \frac{2}{6} + \frac{9}{30} = \frac{10+9}{30} = \frac{19}{30}$$

$$\text{C's new share} = \frac{1}{6} + \frac{6}{30} = \frac{5+6}{30} = \frac{11}{30}$$

$$\text{New Ratio (B: C)} = \frac{19}{30} : \frac{11}{30} = 19:11$$

Gaining Ratio

The ratio in which the continuing partners have acquired the share from the retiring partner is called the gaining ratio. Normally, the gaining ratio of the remaining partners will be the same as their old profit sharing ratio.

Gaining Ratio = New Ratio – Old Ratio

Illustration

A, B and C are partners sharing profits in the ratio 4:3:2. 'A' retires; 'B' and 'C' decided to share profits in future in the ratio of 5:3. Calculate the Gaining Ratio

Solution:

$$\text{Old Ratio = A:B:C = 4:3:2}$$

$$\text{New Ratio = B: C = 5:3}$$

$$\text{Gain of B} = \frac{5}{8} - \frac{3}{9} = \frac{45-24}{72} = \frac{21}{72}$$

$$\text{Gain of C} = \frac{3}{8} - \frac{2}{9} = \frac{27+16}{72} = \frac{11}{72}$$

$$\text{Gaining Ratio (B : C)} = \frac{21}{72} : \frac{11}{72} = 21:11$$

Worksheet

Maya, Neha and Tina are partners sharing profits in the ratio of 5:3:2. Give new profit sharing ratio in the following cases, in the absence of any agreement between the partners.

No	Particulars	Continuing Partners	New Ratio
(a)	If Maya retires from the firm	Neha : Tina	
(b)	If Neha retires from the firm	Maya : Tina	
(c)	If Tina retires from the firm	Maya : Neha	

Worksheet

Show the following items in the correct side of the given Revaluation Account:

(a) Increase in assets
(b) Increase in liabilities
(c) Decrease in assets
(d) Decrease in liabilities
(e) Unrecorded Assets
(f) Unrecorded liabilities

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Dr. **Revaluation Account** **Cr.**

Particulars	JF	Amount	Particulars	JF	Amount

Adjustment of Accumulated Profits and Losses

The following journal entries are required:

(i) For transfer of reserves

Reserves account Dr.
To All Partners' Capital account's

(Reserves transferred to all partners' capital account's in old profit sharing ratio).

(ii) For transfer of accumulated profits

Profit and Loss account Dr.
To All Partners' Capital account

(Accumulated profits transferred to all partners' capital account's in old profit sharing ratio)

(ii) For transfer of accumulated losses

All Partners' Capital account Dr.
To Profit and Loss account

(Accumulated loss transferred to all partners' capital accounts in their old profit-sharing ratio)

Worksheet

A, B and C were equal partners in a firm. On 31/03/2021, C decided to retire from the firm. On the date of retirement, the Balance Sheet shows General Reserve of Rs. 60,000 and accumulated loss of Rs. 30,000. From the adjusting entries given in the journal, fill in the blanks by giving the appropriate accounts:

Journal

Date	Particulars	JF	Debit (Rs.)	Credit (Rs.)
31/03/2021	General Reserve account Dr.		60,000	
	To.....			20,000
	To.....			20,000
	To.....			20,000
	(Reserves shared in the old ratio 1:1:1)			
	A's Capital account Dr.		.....	
,,	B's Capital account Dr.		.....	
	C's Capital account Dr.		.....	
	To.....			30,000

Disposal of Amount Due to Retiring Partner

1. Amount paid in cash immediately.
2. Amount transferred to loan account.
3. Partly paid in cash and the balance transferred to loan account.

The following journal entries are required in these cases:

1. When retiring partner is paid cash in full.

Retiring Partners' Capital account Dr.
To Cash/Bank account

2. When retiring partners' whole amount is treated as loan.

Retiring Partners' Capital account Dr.

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To Retiring Partners' Loan account

3. When retiring partner is partly paid in cash and the remaining amount treated as loan.

Retiring Partners' Capital account Dr.
To Cash/Bank account
To Retiring Partners' Loan account

Partner's Loan Account

Worksheet

Anil, Binil and Sunil were partners in a firm. On retirement of Anil, Rs. 1,20,000 were due to him from the firm. The firm is unable to pay this amount immediately on retirement. They agreed to pay of the amount in 3 equal annual instalments along with 10% interest p. a. on the outstanding balance. Fill up the blank items in the given Loan account of the retiring partner.

Anil's Loan Account

Year	Particulars	Rs.	Year	Particulars	Rs.
1	Cash/Bank (Installment + Interest)	……	1	Anil's capital account	1,20,0000
	Balance c/d	80000		Interest (10%)	……...
		1,32,000			**1,32,000**
2	Cash/Bank	……	2		……...
	Balance c/d	40000		Balance b/d	8000
		88,000		Interest	**88,000**
3	Cash/Bank	……	3		40000
				Balance b/d	……...
		44,000		Interest	**44,000**

Questions and Answers

One Score Questions

1. X, Y and Z were partners sharing profits in the ratio of 4:2:1. After the retirement of 'X', the business continues with the same set of books. In the absence of any agreement, the new profit sharing ratio will be:

(a) 4 : 3 (b) 4 : 1 (c) 1 : 1 (d) 2 : 1

Answer: (d) 2 : 1

2. Retiring partner's share of goodwill is debited to remaining partners capital account in-

(a) Old ratio (c) Sacrificing ratio (d) New ratio

Answer: (b) Gaining ratio

3. If the firm is not in a position to pay cash immediately, the credit balance in the capital account of a retired partner is transferred to-

(a) Partners Current account (b) Partners Loan account
(c) Revaluation account (d) Profit and Loss Suspense account

Answer: (b) Partners Loan account

4. Retired partner's share in the accumulated profit is debited in.....

(a) Profit and Loss account (b) Partners Capital account
(c) Revaluation account (d) Partners Current account

Answer: (a) Profit and Loss account

5. Which among the following should be credited to an outgoing partner?

(a) Share of Revaluation loss (b) Share of Reserve
(c) Share of Accumulated loss (d) Interest on Drawings

Answer: (b) Share of Reserve

6. Whose Capital Accounts are debited for adjusting the share of goodwill to a retired partner?

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(a) Sacrificing Partners (b) Gaining Partners
(c) Outgoing partners (d) All partners
Answer: (b) Gaining Partners

7. Unless otherwise agreed upon, the gaining ratio of continuing partners will be same as.....between them.
Answer : Old ratio

8. The ratio in which the continuing partners have acquired the share of profit from the retiring partners is called.....
(a) Gaining ratio (b) Sacrificing ratio (c) Old ratio (d) New ratio
Answer: (a) Gaining ratio

9. The sum due to a retiring partner includes-
(a) His share of goodwill (b) His share of gain of revaluation
(c) His share of accumulated profits (d) All of these
Answer: (d) All of these

10. At the time of retirement of a partner, goodwill appears in the books of firm should be written off in the ……..ratio.
Answer: Old ratio

11. On retirement of a partner,, the unpaid electricity bill, unrecorded in the books should be-
(a) Credited in the Revaluation account (b) Credited in the Income account
(c) Debited in the Revaluation account (d) Credited in the Expense account
Answer: (c) Debited in the Revaluation account

12. Which of the following is credited in the Revaluation Account, at the time of retirement of a partner?
(a) Decrease in assets (b) Increase in assets
(c) Increase in liabilities (d) Unrecorded liabilities
Answer: (b) Increase in assets

Two Score Questions

1. List out any four items to be debited to the capital account of a deceased partner.
Answer: (a) Share of revaluation loss, (b) Share of loss up to date of death
(c) Share of accumulated loss, (d) Interest on drawings up to date of death etc. (any four)

2. Anna, Balu and Cini are equal partners in a firm. 'Cini' retires and the Balance Sheet shows Rs.36,000 as balance of Profit & Loss account on the asset side. Give the journal entry for adjusting this item.

Answer:

Anna's Capital account	Dr. 12000	
Balu's Capital account	Dr. 12000	
Cini's Capital account	Dr. 12000	
To Profit and Loss account		36000

Three Score Questions

1. X, Y, and Z share profit in the ratio 4:3:1. On X’s death, his share is taken by Y and Z equally. Calculate the new ratio, after X's death.
Answer: Gain of partners = 4/8 x 1/2 = 4/16 = 2/8
Y's new share = 3/8 + 2/8 = 5/8
Z's new share = 1/8 + 2/8 = 3/8
New ratio = 5:3

2. Ajith, Benny and Ciril were partners in a firm sharing profits in the ratio of 3 : 2 : 1. Ajith retires and the continuing partners decided to share future profits equally. Calculate the gaining ratio of Benny and Ciril.
Answer: Benny's gain = 1/2 – 2/6 = 1/6
Ciril's gain = 1/2 – 1/6 = 2/6
Gaining Ratio = 1:2

3. A, B and C are partners sharing profits and losses in the ratio of 5:3:2 respectively. ‘A’ retires

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from the firm on 1st April 2021. After his retirement, his capital account shows a credit balance of Rs.1,35,000 after the necessary adjustments made. Give journal entries, if

(a) Amount due is paid off immediately.

(b) Amount due is not paid immediately.

Answer: (a) C's capital account Dr 1,35,000

To Bank account 1,35000

(The amount due is paid to C)

(b) C's capital account Dr 1,35,000

To C's Loan account 1,35,000

(The amount due to C is transferred to C's loan account)

Four Score Questions

1. P, Q and R were partners in a firm by sharing profits in the ratio of 3 : 2 : 1. Q retires from the firm. At that time, firm's Balance Sheet includes General Reserve of Rs. 60,000 and debit balance of Profit and Loss Account of Rs. 30,000.

(a) What represents the debit balance of Profit and Loss Account?

(b) Pass journal entries to share both these amounts among the partners.

Answer: (a) Accumulated loss or undistributed loss

(b) Journal Entries:

(i) General Reserve account Dr. 60,000

To P's Capital account 30,000

To Q's Capital account 20,000

To R's Capital account 10,000

(ii) P's Capital account Dr. 15,000

Q's Capital account Dr. 10,000

R's Capital account Dr. 5,000

To P& L account 30,000

2. A, B, and C are equal partners in a firm. 'B' retires from the firm on 1st April 2019. On the date of his retirement Rs. 68,000 were due to him. They agreed to pay Rs. 8,000 immediately and balance will be paid in three equal yearly instalments together with interest @ 10% p.a. on the unpaid balance. Prepare B's Loan Account till the amount is fully paid off.

Answer: **B's Loan Account**

1	Cash/Bank	26000	1	X's capital account	60000
	Balance c/d	40000		Interest	6000
		66000			**66000**
2	Cash/Bank	24000	2	Balance b/d	40000
	Balance c/d	20000		Interest	4000
		44000			**44000**
3	Cash/Bank	22000	3	Balance b/d	20000
				Interest	2000
		22000			**22000**

3. A and B and C were partners in the ratio of 3:2:1. C retires from the firm on 01/04/2021. The assets and liabilities of the business as on the date were:

	Rs.
Cash in hand	3,000
Debtors	12,000
Stock	15,000

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Furniture	10,000
Machinery	30,000
Creditors	20,000

The following terms were agreed up by the partners regarding the revaluation of assets and liabilities:

(a) Value of stock is reduced by 10%.
(b) Machinery is appreciated by 10%.
(c) Furniture is revalued at Rs. 9,000.
(d) A provision for doubtful debts is to be created on debtors at 5%.
(e) Outstanding electricity bill Rs. 200.
(f) Unrecorded investment worth Rs.1000is to be accounted.
(g) A creditor of Rs. 100 is not likely to claim his money.
Prepare the Revaluation Account on retirement of 'C'.

Revaluation Account

Particulars	**Rs.**	**Particulars**	**Rs.**
Stock	1500	Machinery	3000
Furniture	1000	Investments	1000
Provision for D/D	600	Creditors	100
Electricity Bill	200		
A's Capital account	600		
B's capital account	200		
	4100		**4100**

4. A, B and C are equal partners in a firm Mr.'C' retires from the firm. Explain the important accounting adjustments to be made in the books of the firm, in connection with his retirement.

Answer: Accounting adjustments on retirement of partner:

(a) Calculation of new ratio based on the gain of continuing partners.
(b) Treatment of goodwill
(c) Adjustment of accumulated profits or losses
(d) Revaluation of Assets and liabilities
(e) Disposal of amount due to retiring partner
(f) Adjustment of capital of continuing partners. (any four with brief explanation)

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CHAPTER - 4
DISSOLUTION OF FIRM

Dissolution of Partnership Firm

When the partnership between all the partners of a firm comes to an end it is called dissolution of partnership firm .In the case of dissolution of firm all assets are realised and all liabilities are paid off

Dissolution of Partnership

When the relation of partnership among different partners changes without affecting the entity of the firm, it is called dissolution of partnership. Dissolution of partnership takes place in the case of admission, retirement, death etc.

Difference between dissolution of firm and dissolution of partnership

Basis of difference	Dissolution of Partnership	Dissolution of firm
Termination of Business	The business is not terminated	The business is terminated
Economic relationship	Economic relation between partners continues	Economic relation between partners comes to an end
Preparation of Balance sheet	A new balance sheet is prepared	New Balance Sheet is not prepared
Closure of books	The books of accounts are not closed	The books of accounts are closed

Modes of dissolution of firm

Dissolution of a firm take place in different ways . They are-

1. Dissolution by agreement
2. Compulsory dissolution
3. Dissolution on happening of certain contingencies
4. Dissolution by notice
5. Dissolution by Court

Realisation account

Realisation account is a nominal account prepared to know the profit or loss on realisation of assets and payment of liabilities. It is prepared at the time of dissolution of firm.

Journal Entries

1.For closing Assets account

Realisation account Dr

To Assets account (Except Cash , Bank and fictitious assets)

2. For closing liabilities

Liabilities account Dr

To Realisation account

3. For sale of assets

Cash account Dr

To Realisation account

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4. For assets taken over by partners
Partner's capital account Dr
To Realisation account
5. For payment of liabilities
Realisation account Dr
To cash account
6.For liability taken over by partner
Realisation account Dr
To Partner's capital account
7. For Realisation expense paid by firm
realisation account Dr
To Cash account
8. When partner agrees to pay Realisation expenses on behalf of firm
Realisation account Dr
To Partner's Capital account
9.For the amount realised from unrecorded assets
Cash account Dr
To Realisation account
10.Unrecorded assets taken over by partner
Partner's capital account Dr
To Realisation account
11.For the payment of unrecorded liability
realisation account Dr
To Cash account
12.Unrecorded liabilities taken over by partner
Relaisation account Dr
To Partner's Capital account
13. For closing realisation account
a) If Profit
realisation account Dr
To Partners Capital account
b) If Loss
Partners Capital account Dr
To Realisation account

Differences between Revaluation account and Realisation account

Revaluation account	realisation account
Prepared at the time of Admission , Retirement or death of Partner	Prepared at the time of dissolution of firm
Records increases or decreases in the value of assets	Assets and Liabilities are shown at their book value
Firm continues even after its preparation	Firm is dissolved after its preparation

Questions and Answers

1. Realisation Account is a …….account.
2. When realisation expenses are paid by a partner on behalf of firm , ……. account is debited
3. Loss on realisation is debited to ……account
4. When the relation between all the partners come to an end , it is called.....
5. Debit balance of Realisation accounts shows.....

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6. The profit on realisation is transferred to ……..account

7. On dissolution of partnership firm the amount paid for unrecorded liability should be debited to ……account

Ans: 1. Nominal account 2.Realisation account 3.Partners Capital 4. Dissolution of firm 5. Loss on Realisation 6.Partners's Capital account 7. Realisation Account

1.Write the journal entries for the payment of realisation expenses of a firm in the following circumstances

1. When realisation expense is paid by a partner on behalf of firm
2. When realisation expenses is paid by firm

Ans: 1) Realisation account Dr
To Partner's Capital account
2) Realisation account Dr
To Cash account

2. Write the journal entries for recording the following transactions at the time of dissolution of a firm.

a) Assets realized Rs 36000

b) Liability paid by Ashok , a partner Rs 4000

c) Realisation expenses paid by firm Rs 1000

d) Furniture taken by Sunil , a partner Rs 5000

Ans:

a) Cash account Dr 36000
To Realisation account 36000
b) Realisation account Dr 4000
To Ashok's Capital account 4000
c) Realisation account Dr 1000
To Cash account 1000
d) Sunil's Capital account Dr 5000
To Realisation account 5000

3. Mention any 4 ways of dissolution of firm.

Ans : 1. Dissolution by agreement
2. Compulsory dissolution
3. Dissolution on happening of certain contingencies
4. Dissolution by notice

4. Kamal and Viaml are partners sharing profits in the ratio 3:2.They dissolved the firm on 31/3/2017. Give journal entries in the following cases

- Liabilities were paid at Rs 7500
- Stock was taken over byVimal at Rs 4500
- Realisation expenses paid by Kamal Rs 600
- Total assets realized Rs 80,000
- An unrecorded asset taken over by kamal for Rs 2500

Ans : **Journal**

Date	Particulars	L/F	Amount(Cr)	Amount (Dr)
1	realisation account Dr To Cash account (Liabilities were paid)		7500	7500

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2	Vimal's Capital account Dr To Realisation account (Stock taken over by Vimal)		4500	4500
3	Realisation account Dr To Kamal's Capital account (Realisation expenses paid by kamal)		600	600
4	Cash account Dr To realisation account (Assets Realised)		80000	80000
5	Kamal's Capital account Dr To Realisation account (Assets taken over by kamal)		2500	2500

5.Anil and Amal are partners sharing profits and losses equally. Their Balance sheet as on 31/03/2019

BALANCE SHEET as on 31/03/2019

Liabilities	Amount	Assets	Amount
Creditors	10000	Bank	12000
		Debtors	10000
Capital account	16000	Stock	8000
Anil	11000	Furniture	7000
Amal			
	37000		37000

The firm was dissolved on the date of balance sheet .Assets realized as follows Furniture and Stock realised Rs 9000 and Rs 7000 respectively .Debtors Rs 8,500. Creditors were paid Rs 8000 .Realisation expenses Rs 500. Prepare realisation Account

Realisation Account

Particulars	Amount	Particulars	Amount
Debtors	10000	Creditors	10000
Stock	8000	Cash (9000+8500+7000)	24500
Furniture	7000		
Cash (Creditors)	8000		
Cash (Expense)	500		
Capital account			
Anil 500			
Amal 500	1000		
	34500		34500

Try your Self

1. What journal entries would you pass for the following transactions of the firm of A and B.

a) Realisation expenses Rs 600 paid by A

b) B agreed take over Machinery Rs 5000

c) An unrecorded assets Rs 1000

d) Profit on realisation Rs 4000 shared among partners

e) Liabilities were paid off Rs 8500

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2. Binoy , Jincy and Stephen are partners sharing profits in the ratio 2:1:1.They dissolved the firm on 31/3/2019. Give journal entries in the following cases

a) Creditors were paid at Rs 8600
b) Stock was taken over by Binoy at Rs 10000
c) realisation expenses paid by Jincy Rs 1500
d) Total assets realized Rs 120000
e) Total liabilities paid Rs 36500

3.Arya and Anil are partners sharing profits and losses in the ratio 3:2. Their Balance sheet as on 31/03/2018

BALANCE SHEET as on 31/03/2018

Liabilities	Amount	Assets	Amount
Capital account		Bank	10000
Arya	20000	Cash	5000
Anil	10000	Debtors	7000
Creditors	10000	Stock	8000
		Machinery	10000
	40000		40000

The firm was dissolved and Assets realized as Machinery Rs 9000 , Debtors Rs 6,500 ,Stock Rs 8,500 .Creditors were paid Rs 9000 Realisation expenses Rs 800 paid by Arya. Prepare realisation account.

4. From the following information, prepare Realisation account.

Assets except cash Rs.120000
Outside liabilities Rs.40000
Cash realised from assets Rs.117000
Realisation expenses Rs.1000

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PART - B
COMPUTERISED ACCOUNTING
Contents

1. Overview of Computerised Accounting
2. Spreadsheet
3. Use of Spreadsheet in Business Applications
4. Graphs and Charts for Business Data
5. Accounting Software Package – GNUKhata
6. Database Management System

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CHAPTER- 1
OVERVIEW OF COMPUTERISED ACCOUNTING SYSTEM

Computerised Accounting System(CAS)

Computerised Accounting System refers to the process of accounting with the help of Computers and Accounting software.

Components of CAS

a. Procedure b. Datac. People d. Hardware e. Software

Features of Computerised Accounting System (CAS)

1. Simple and Integrated
2. Accuracy and Speed
3. Scalability (Flexibility)
4. Transparency and control
5. Reliability

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

Types of Codes

1. Sequential Code

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

Codes	Accounts
AC001	Purchase Account
AC002	Sales Account

2. Block Codes

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

Codes	Account Group
001 – 500	Direct Expense
501 – 1000	Indirect Expense
1001 – 1500	Direct Income
1501 – 2000	Indirect Income

3. Mnemonic Codes

A mnemonic code consists of alphabets or abbreviations as symbols to codify an Account.

E.g. Salary Account can be coded as 'SLR',
Building Account can be coded as 'BLD',
Trivandrum – TVM, Delhi – DEL, Bangalore – BLR, Kannur– KNR

Security Features of CAS Software

a. Password Security
b. Data Audit
c. Data Vault

Advantages of CAS

1. Timely generation of reports and information in desired format.
2. Alterations and addition in transactions are easy
3. Ensures effective control over the system
4. Confidentiality of data is maintained

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Limitations of CAS

1. Faster obsolescence of technology necessitates investments in shorter period of time.
2. Data may be lost or corrupted due to power interruptions.
3. Data are prone (subject) to hawking.

QUESTIONS

1. KNR for Kannur is an example of :
    a) Sequential code b) Mnemonic code
    c) Block code d) None
2. What is not an advantages of a computerised accounting system?
    a) High speed b) Reliability
    c) High training cost d) Accurate
3. Which among these, cannot be treated as limitation of computerised accounting system?
    a) Security breach b) Staff opposition
    c) Automated document production d) Cost of training
4. Additional security through data encryption is provided in :
    a) Password security b) Data audit
    c) Data vault d) All of these
5. Find the odd one out with regard to components of a computerised accounting system.
    a) Datab) People c) Report d) Procedure

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CHAPTER 2
SPREADSHEET

A spreadsheet is an electronic sheet of paper consists of several rows and columns. Horizontal vectors are rows and vertical vectors are columns. It is used to record, process and compare numerical and financial data. The commonly used spreadsheet software are LibreOffice Calc, Lotus 1-2-3, MS Excel and Quattro Pro.

Basic Concepts of a Spreadsheet

- ✓ A file is called as a workbook, which is a collection of worksheets.
- ✓ By default a workbook consists of one worksheet, Sheet1.
- ✓ We can add more sheets in a work book.
- ✓ At a time only one worksheet is active and the user can make operations in that worksheet.
- ✓ A worksheet consists of rows and columns. Rows are numbered serially as 1,2,3,4…… and columns are identified by alphabets such as A,B,C, ……. AA, ……..
- ✓ The intersection of a row and a column is called a Cell. A Cell is identified by a unique Cell Address containing column name and row number. Eg: C5 -the cell in the Column C and row number 5.

LibreOffice Calc

Spreadsheet program working on Linux operating system. It is included in LibreOffice Package, which is a Free and Open Source Software (FOSS).

Features of LibreOffice Calc

a) **Easy Calculation:** Lot of tools are available to perform complex calculations on different data spread across the sheet.

b) What-If Calculations: Allow the users to predict the changes in the results on the basis of changes in certain conditions.

c) Serves as a Database: Helps to store large number of data in different sheets.

d) Arranging Data: Data stored in the sheet can be reorganised according to the needs of the users. Stored data can be customised by filtering, formatting, sorting, etc.

e) Dynamic Charts: Different types of charts available in the application facilitates the various needs of the users. Inbuilt charts and graphs are available for the presentation of data.

Components of LibreOffice Calc

a) **Rows and Columns:** A worksheet consists of rows and columns. Rows are numbered serially as 1,2,3,4…… from top to bottom and columns are identified by alphabets such as A,B,C, ……. AA, …….. from left to right.

b) Cell: In spread sheet data are recorded in cells. The intersection of a row and a column is called a Cell. A Cell is identified by a unique Cell Address containing column name and row number. Eg: C5 -the cell in the Column C and row number 5.

c) Range: Range is a group of cells. A range may contain a single cell or many cells. Range is specified by giving the name of first and last cells. Eg. A2:A10 represents range starting from A2 to A10.

Naming Range: It is the process of giving name to a range. This range name can be used in formula and functions instead of cell references. Steps for naming:

- Enter the data in the worksheet.
- Select the range to be named.
- Data ⟶ Define Range
- Give a name to the range in the window and click Add button.

Spreadsheet Operations

Starting LibreOffice Calc

1. Applications ⟶ Office ⟶ LibreOffice Calc

Operating with Worksheet

1. Open a Worksheet

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a) Open a New Workbook
File ⟶ New OR Use the icon on the toolbar. (Ctrl+N)
b) Open an Existing Workbook
File ⟶ Open OR Use the icon on the toolbar. (Ctrl+O)

2. Save a Workbook
File ----> Save / Save As OR Use the icon on the toolbar. (Ctrl+S) / (Ctrl+ Shift+S)
Enter the name of file and click on Save button
a) The file is saved with an extension of .ods
3. Delete a Worksheet
a) Place the mouse on the Sheet tab and click on the Right button of Mouse.
b) Select Delete sheet from the displayed window. OR
Edit ⟶ Sheet ⟶ Delete (Active sheet is deleted)
4. Rename a Worksheet
a) Place the mouse on the Sheet tab and click on the Right button of Mouse
b) Select Rename sheet from the displayed window and type new name. OR
a) Place the mouse on the Sheet tab and double click on the Mouse.
b) Type the name and press Enter key. OR
Format ⟶ Sheet ⟶ Rename (Active sheet is renamed)
5. Add a Worksheet
In LibreOffice Calc, we can add new worksheets in addition to the default one sheet.
a) Place the mouse on the Sheet tab and click on the Right button of Mouse.
b) Select Insert sheet from the displayed window.
c) We can insert a sheet Before and After the current sheet. OR
Insert ⟶ Sheet (A sheet is inserted after the current sheet)
6. Close a Workbook (വർക്ക്ബുക്ക് അടയ്ക്കുക)
File ⟶ Close
7. Quit LibreOffice Calc (ലിബ്രെ ഓഫീസ് കാൽക്കിൽനിന്നു പുറത്തുപോകുക)
File ⟶ Exit LibreOffice

Data Used in Worksheet : Values, Labels and Formulas

Cell Reference

i) **Relative Cell Reference**–When a formula is copied from one cell to another, the cell referred in the formula will change automatically to reflect the new location.
ii) **Absolute Cell Reference** – The cell reference in the formula is not changed when it is copied to another cell. In absolute cell reference, the column letter and row number are surrounded by dollar sign($).Eg. - A4.
iii) **Mixed Cell Reference**–The column letter or row number remains constant when a formula is copied from one cell to another cell. Eg - $A4, here column letter will not change, but the row number will change when the formula is copied.

Functions in LibreOffice Calc - In Calc, there are 12 categories of functions. The functions used in Computerised Accounting are –

Date and Time Function

a) **TODAY**–Shows today's date in the cell. Here today's date is system date.
Syntax : =TODAY()
b) **NOW**- Shows Current date and time in the cell. Here also shows system date and time.
Syntax: =NOW()
c) **DAY** – Shows the day of a date as an integer from 1 to 31.
Syntax: =DAY(Cell reference)

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d) **MONTH** - Shows the month of a date as an integer from 1 to 12.
Syntax: =MONTH(Cell reference)

e) **YEAR** - Shows the year of a date as an integer from 1900 to 9999.
Syntax: =YEAR(Cell reference)

f) **DATEVALUE**–Converts a date into corresponding serial number. By default 31 December 1899 is given the serial number 1.
Syntax: =DATEVALUE("Date")

g) **DATE** - Returns the value in date format.
Syntax: =DATE(Year, Month, Date)

1. Logical Function

a) **IF Function -** The IF function is used to test a specified condition. This function gives first value if the condition is true and gives second value if the condition is false.
Syntax : =IF(Logical test, Value if true, Value if false)
Eg: =IF(C8="Married", "Yes","No")

Nested IF - In nested IF, more IF functions are used to check different conditions at the same time.
Eg: =IF(E1<80, IF(E1<60, IF(E1<40, "Fail", "Passed"), "Second Class"), "First Class").

b) **AND -** The AND function evaluates all the mathematical expression located in other cell. The result will be True, if all the conditions in the formula are true. The result will be False, if any of the conditions in the formula is not true.
Syntax : =AND(Logical test1, Logical test2, …….)
Eg: =AND(A1>50, B1>50, C1>50)

c) **OR -** The OR function evaluates at least one mathematical expression located in other cell. The result will be True, if any of the conditions in the formula is true. The result will be False, if all the conditions in the formula are not true.
Syntax : =OR(Logical test1, Logical test2, …….)
Eg: =OR(A1>50, B1>50, C1>50)

3) Mathematical Function -

Some of the mathematical functions applicable business are as follows:

a) **SUM -** This function is used to find out the sum of values stored in cells.
Syntax: =SUM(cell1, Cell2, Cell3, …….)
=SUM(Range)
=SUM(Range Name)
Eg: 1. =SUM(B2, C2, D2, E2,F2)
2. =SUM(B2:F2)
3. If the range is named as "Total", then =SUM(Total)

b) Autosum - The autosum icon (∑) on toolbar can be used to find sum of values in adjacent cells.
- First select the range of cells to be added.
- Click on Autosum icon(∑) from the toolbar.

c) SUMIF - This function adds the values in a range of cells as per the specified criteria.
Syntax: =SUMIF(Range, Criteria, Sum range)
i. Range – Range of cells to evaluate.
ii. Criteria – It is the conditions to be evaluated.
iii. Sum range – Actual range of cells to add.
Eg: Total salary of employees whose name is started with "S" is calculated by
=SUMIF(A2:A6, "S*", B2:B6)

Statistical Functions:

a) ROUND - This function is used to round off a fractional number to a specified number of digits.
Syntax: =ROUND(Number, Num digits)
=ROUND(Cell reference, Num digits)

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Eg: ROUND(43567.298721, 2) - the result will be 43567.30

b) ROUNDUP – Used to round a number up away from zero.
Eg: ROUNDUP(567.123, 0) – Result will be 568.

c) ROUNDDOWN – Used to round a number down towards zero.
Eg: ROUNDDOWN(567.123, 0) – Result will be 567

d) COUNT - This function is used to find the number of cells containing numbers in a range of cells. Here number includes date and time.
Syntax: =COUNT(Range of cells)
Eg: COUNT(A1:B10)

e) COUNTA - Count all cells in the range except empty cells. It counts cells containing numbers, text, logical values and error.
Syntax: =COUNTA(Range of cells)

f) COUNTBLANK - Count the empty cells in the given range. This function is used to find the number of cell that contains no data.
Syntax: =COUNTBLANK(Range of cells)

g) COUNTIF - This function is used to find the number of cells in a range that satisfies a given criteria. Here text values and blank cells are not considered.
Syntax: =COUNTIF(Range of cells, Criteria)
Eg: =COUNTIF(C2:C52, >=40)

h) AVERAGE - This function is used to find the average of values in a range of cells.
Syntax: =AVERAGE(Rangee)
Eg: =AVERAGE(B2:B10)

i) MIN - Used to find the lowest values from a range of cells.
Syntax: =MIN(Range)
Eg: =MIN(B2:B10)

j) MAX - Used to find the highest values from a range of cells.
Syntax: =MAX(Range)
Eg: =MAX(B2:B10)

Questions and Answers

1 Score Questions

1. A file in a spreadsheet is known as .....
a) Note book b) Work book c) Work sheet d) None of these
Answer: b) Work book

2. A work book is a collection of .....
a) Cells b) Rows c) Columns d) Work sheets
Answer: d) Work sheets

3. In a workbook, ... work sheets are available by default.
a) 1 b) 2 c) 3 d) 4
Answer: a) 1

4. Intersection of a column and a row is called .....
a) Data b) Cell c) Sheet d) Workbook
Answer: b) Cell

5. Name of defualt sheet in a workbook is .....
a) Sheet A b) Sheet2 c) Sheet1 d) None of these

6. ..... is a group of cells in a worksheet.
a) Workbook b) Spreadsheet c) Range d) None of these
Answer: c) Range

7. LibreOffice Calc is a ..... software.
a) Presentation b) Spreadsheet c) Database d)Text document
Answer: b) Spreadsheet

8. A formula in a work sheet begins with a .....
a) Plus Sign b) Minus Sign c) Equal to Sign d) Dot

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Answer: c) Equal to Sign

9. ..... identfies the location of a cell in a spreadsheet.

a) Range b) Sheet c) Workbook d) Cell reference

Answer: d) Cell reference

10. By default cell reference is .....

a) Absolute b) Relative c) Mixed d) None of these

Answer: b) Relative

11. Find the odd one.

a) DATE b NOW c) SUM d) TODAY

Answer: c) SUM

12. Dolar sign prefixed on the column and row names in a formula is .....

a) Absolute cell reference b) Relative cell reference

c) Mixed cell reference d) None of these

Answer: b) Relative cell reference

13. Pre-defined formula in a spreadsheet is .....

a) Function b) Cell reference c) Range d) Sheet

Answer: a) Function

2 Score Questions

1. Write the functions for the following in a spreadsheet.

a) Number of cell having no values in the range A1 to A10

b) Numner of cells containing any values in the range A1 to A10

Answer: a) =COUNTBLANK(A1:A10) b) =COUNTA(A1:A10)

2. Identify the type of data used to enter the following items in a spreadsheet.

a) Name of a person b) Age of a person

Answer: a) Label b) Value

3. Write function to display the followings in to cell B3.

a) System date b) System date and time

Answer: a) =TODAY() b) =NOW()

3 Score Question

1. How to give name to a range in a spreadsheet?

Answer:

- Enter the data in the worksheet.
- Select the range to be named.
- Data ⟶ Define Range

Give a name to the range in the window and click Add button.

2. Write the procedure to rename a sheet in a spreadsheet.

Answer:

a) Place the mouse on the Sheet tab and click on the Right button of Mouse

c) Select **Rename sheet** from the displayed window and type new name. **OR**

c) Place the mouse on the Sheet tab and double click on the Mouse.

d) Type the name and press Enter key. **OR**

Format ⟶ **Sheet** ⟶ **Rename** (Active sheet is renamed)

3. Write the functions for the following in a spreadsheet.

a) Sum of values from B1 to B10

b) Sum of values greater than 100 in the range B1 to B10.

Answer:

a) =SUM(A1:A10) b) =SUMIF(A1:A10, ">100")

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4. Match the following.

A	B
Logical function	Mathematical function
Statistical function	IF
SUM	COUNT

Answer:

A	B
Logical function	IF
Statistical function	COUNT
SUM	Mathematical function

5. Match the following.

A	B
Intersection of Row and Column	Collection of cells
Range	File in spreadsheet
Workbook	Cell

Answer:

A	B
Intersection of Row and Column	Cell
Range	Collection of cells
Workbook	File in spreadsheet

6. Explain the components of LibreOffice Calc.

Answer:

a) **Rows and Columns:** A worksheet consists of rows and columns. Rows are numbered serially as 1,2,3,4…… from top to bottom and columns are identified by alphabets such as A,B,C, ……. AA, ……. from left to right.

b) Cell: In spread sheet data are recorded in cells. The intersection of a row and a column is called a Cell. A Cell is identified by a unique Cell Address containing column name and row number. Eg: C5 -the cell in the Column C and row number 5.

c) Range: Range is a group of cells. A range may contain a single cell or many cells. Range is specified by giving the name of first and last cells. Eg. A2:A10 represents range starting from A2 to A10.

7. Explain any three features of LibreOffice Calc.

Answer:

a) Easy Calculation: Lot of tools are available to perform complex calculations on different data spread across the sheet.

b) What-If Calculations: Allow the users to predict the changes in the results on the basis of changes in certain conditions.

c) Serves as a Database: Helps to store large number of data in different sheets.

(Any 3

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CHAPTER 3
USE OF SPREADSHEET IN BUSINESS APPLICATIONS

Spreadsheet can be used for a number of purposes in business, some of them are Payroll Accounting, Asset Management and Loan Repayment Schedule.

Payroll Accounting

Payroll is a statement prepared to show the calculation of remuneration (Salary) to employees in an organization

Components of Payroll

a. Basic Pay (BP)
b. Dearness Allowance (DA)
c. House Rent Allowance (HRA)
d. Transport Allowance (TA / TRA)

Deductions :-

3. Professional Tax (PT)
4. Provident Fund (PF)
5. Tax Deductions at Source (TDS)
6. Recovery of Loan Instalment (LOAN)

Gross Pay (GP) (Total Earnings) = BP+DA+HRA+TA Total Deductions (TD) = PT+PF+TDS+LOAN Net Pay (NP) = GP - TD

Asset Accounting

There are two methods for charging depreciation; they are Straight Line Method (SLN) and Written Down Value method (DB).

Straight Line Method

Under this method fixed amount of depreciation is charged on asset every year. The following is the syntax.

Syntax: =SLN(Cost, Salvage, Life)

Cost – Purchase Value + Other Expenses such as Transportation charges, installation charges, Pre-operating expenses etc.

Salvage – Scrap value after the life of asset.

Life – It indicates the life period of asset.

Eg. An asset purchased for Rs. 90000 and its installation cost is Rs. 10000. The useful life of the asset is 10 years, at the end of which it will bring a salvage value of Rs.20000.

=SLN(100000,20000,10)

* If the values are entered in different cells, instead of the amount, the cell address can be used in the formula

Written Down Value Method (WDV)

Written Down Value method uses the current book value as the base for calculating depreciation for the next period.

Syntax: =DB(cost, salvage, life, period, months)

- **Cost –** The original cost of the asset.
- **Salvage –** The salvage value after the life period.
- **Life –** Life period of asset.
- **Period –** The year for which the depreciation is calculated, say 1st year , 5th year etc.

. **Months –** (This is Optional) It is the number of months in the first year

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Illustration

An asset that costs Rs. 1,00,000. The salvage value is Rs.8,000. It has an effective life of 10 years. The depreciation for the first year, assuming that there are 12 months in first year (i.e.; the asset was purchased on the opening day of the financial year) is calculated by the following formula:

=DB(100000,8000,10,1,12)

Questions and Answers:

1 Score Question

1. ..... is a statement prepared to show the calculation of remuneration (Salary) to employees in an organization.

a) Loan repayment schedule b) Asset accounting
c) Payroll d) None of these

Answer : c) Payroll

2. Which of the following is not included in the Gross pay?

a) Basic Pay b) Dearness Allowance c) HRA d) PF

Answer: d) PF

3. HRA is 10% of Basic Pay. Basic Pay is entered in cell C5. Write the formula to be entered in D5 to calculate HRA.

a) c5*10% b) =C5*10% c) C5/10% d) =C5+10%

Answer: b) =C5*10%

4. ..... is the amount realised at the end of the useful life of an asset.

a) Acquisition cost b) Installation cost c) Scrap value d) Total cost

Answer: c) Scrap value

5. The firm decided to charge a fixed amount of depreciation on the asset every year. Identify the function used in spreadsheet to find it.

a) DB b) PV c) SUM d) SLN

Answer: d) SLN

6. ..... function is used in spreadsheet to find the depreciation under Written Down Value method.

a) DB b) SLN c) PMT d) NPV

Answer: a) DB

7. ..... function helps to find out the amount of periodic instalments of loans and advances.

a) SLN b) PMT c) DB d) RATE

Anwer: b) PMT

8. NET PAY = ----------

a) Gross Pay+ Total Deduction b) Gross pay – Total Deductions
c) Gross pay x Total deduction d) None of these

Ans: b) Gross Pay – Total deductions

2. Score Questions:

1. Details of an employee is given in a spreadsheet as below:

	A	B	C	D	E
1	Name	Basic Pay	DA	HRA	Gross Pay
2	Das	85000	.....	1500	.....

DA – 10 of Basic Pay

Write the formula to calculate: a) DA b) Gross Pay.

Answer: a) =B2*10% b) = B2+C2+D2

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2. Details of an asset is given in a spreadsheet as below:

	A	B	C	D	E	F	G	H
1	Asset	Purchase Price	Installation Cost	Transportation Cost	Total Cost	Salvage Value	Life Time	Depreciation
2	Plant	85000	5000	2000	.....	7000	10	.....

Write the formula to Calculate:

a) Total Cost

b) Depreciation under Straight Line method

Answer: a) =B2+C2+D2

b) =SLN(E2,F2,G2)

3 Score Questions:

1. Write the syntax of the following:

a) SLN b) DB c) PMT

Answer:

a) =SLN(Cost, Salvage, Life)

b) =DB(Cost, Salvage, Life, Period,Month)

c) =PMT(Rate, NPER, PV, [FV], Type)

4 Score Questions:

1. Match Column A with Column B

A	B
Loan repayment schedule	Gross pay
Straight Line method	PMT
Written Down Value method	SLN
Payroll	DB

Answer

A	B
Loan repayment schedule	PMT
Straight Line method	SLN
Written Down Value method	DB
Payroll	Gross pay

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CHAPTER 4
GRAPHS AND CHARTS FOR BUSINESS DATA

A graph is a pictorial representation of data, which has at least two dimensional relationship. A graph has at least two axis, i.e, X and Y. Horizontal axis is X axis and vertical axis is Y axis.

Types of Graphs and Charts

a) **Column Chart** :Used to compare values across different categories. Eg. Profit made by different types of products for various years. Data is represented by vertical bars. X-axis shows categories and Y-axis shows values.

b) **Line Chart :** The line chart shows data changes for a certain period of time. In other words, the line chart is good for determining trends.

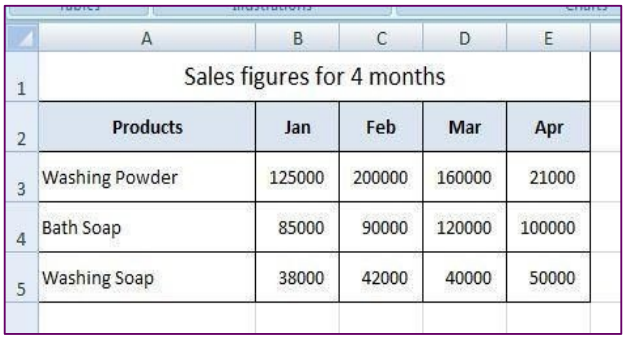
c) **Pie Chart :** Used to show the contribution of each value to total value. It contains only one data series.

d) **Bar Chart :** Used to compare multiple values. Data is represented by horizontal bars.

e) Area Chart : Used to show the differences between various sets of data over a period of time.

Steps to Create Charts

1. Enter the data in a spreadsheet with column headers and row headers.



	A	B	C	D	E
1	Sales figures for 4 months				
2	**Products**	**Jan**	**Feb**	**Mar**	**Apr**
3	Washing Powder	125000	200000	160000	21000
4	Bath Soap	85000	90000	120000	100000
5	Washing Soap	38000	42000	40000	50000

2. Select the range including column headers and row headers.
3. Select **Insert → Object → Chart** OR **Insert → Chart** Click on Chart Icon in the panel.
4. Data Range – Tick the options **First row as label** and **First column as label.**
5. Click on Finish.

Elements of a Chart

1. Chart Area – Entire area of the chart, which includes labels, data, axis etc.
2. Plot Area – It is the area in which the actual data is plotted.
3. Data Point – A symbol that represents the data, it may be a bar, pie, line, bubble etc.
4. Data Series – A group of data points.
5. Axis – A line that serves as a major reference for plotting data. X-axis, Y-axis and Z-axis.
6. Chart and Axis Title – A label or title added to the chart. Eg. Chart Title, X- Axis Title, - Axis Title etc.
7. Legend – They are the indicators of data items. It is shown in the form of colours or symbol
8. Data Label – Additional information about a data marker to identify the details of data point in a data series.

Advantages of Charts and Graphs

1. Visually appealing
2. Easy to read the data

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3. Quick analysis and interpretation of data with a little time
4. To know the trends easily
5. To grasp the data quickly
6. A large volume of information can be exhibited through charts easily

Questions and Answers:

1 Score Question

1. ..... is a pictorial representation of data.
   a) Function b) Operators c) Graph d) Formula

Answer: c) Graph

2. A graph has at least ..... axis.
   a) 2 b) 3 c) 1 d) 4

Answer: a) 2

3. ..... is used to show the trend of sales of a business over a period of time.
   a) Bar Chart b) Line Chart c) Column Chart d) Pie Chart

Answer: b) Line Chart

4. Legend in a chart shows
   a) Categories of data b) A part of information shown in the chart
   c) Individual values plotted in a chart d) Entire chart including all elements

Answer: b) A part of information shown in the chart

5. ..... represents the entire chart including all the elements.
   a) Plot area b) Chart area c) Data point d) Data label

Answer: b) Chart area

4/5 Score Questions

1. What are the advantages of Charts and Graphs?

Answer:

Advantages of Charts and Graphs:

1) Create visual appeal.
2) Read the data easy
3) Analyse and interact the data quickly.
4) Know the trends easily.
5) Grasp the data quickly.
6) Present huge volume of data easily within a limited space.

2. Explain any Four elements of chart.

Answer:

i. **Chart Area** - Entire chart including all elements. Area within the rectangular outline.
ii. **Data Point** – Individual values plotted in a chart and represented by bars, columns, lines or other shapes are known as Data Markers. Data markers of same color forms a Data Series
iii. **Legend** – An identifier of a part of information shown in the chart.
iv. **Chart and Axis Title** –Descriptive title given to the chart and axis. (An 4 points)

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CHAPTER 5
ACCOUNTING SOFTWARE PACKAGE – GNUKhata

GNUKhata is a free and flexible software for accounting and inventory management

Features

1. Free and open source accounting software
2. Based on double entry principle
3. All financial reports can be prepared
4. Account for Profit and nonprofit making organizations are available

Creation Of organisation

Steps :-

1 open GNU Khata application
Application → Office → GNUkhata

2. Create organisation select the required Case to give organization's name (Upper. case , Lower case Etc)
3. Organisation type(profit or non-profit organization)
4. Financial year
   Enter opening financial period. Closing financial period will be displayed automatically .
5. Select for any one of 4 modes of operations(Accounting only,Accounting and invoicing , Invoicing with bill wise accounting , Inventory with invoicing and bill wise accounting)
6. Press proceed button to move to next screen , then
   Create username
   Create password
   Confirm password
   Enter security questions and answers
7. Enter : Create login

Groups and Sub-Groups

Grouping of account is a method of organizing the large number of ledger accounts into sequential arrangement for recording and summarisation of accounting data. GNUKhata has predefined Groups and Sub-Groups.

They are:

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1 .Balance Sheet Groups
2. Profit & Loss / Income & Expenditure Account Group

1.Balance sheet Groups in GNUKhata:

Sl No	Group Name	Sub Group Name
1	Capital	None
2	Current Assets	Bank, cash loans and advances sundry debtors,Bills receivables
3	Current Liabilities	Provisions., Creditors for expense ,sundry creditors for purchase assets
4	Fixed Assets	Land and building, Machinery, Furniture
5	Investments	Investments in bank deposit ,investment shares etc
6	Loans(Assets)	None
7	Loans (Liabilities)	Secured and Unsecured Loan
8	Miscellaneous Expense	None
9	Reserves	None

2.. Profit & Loss / Income & Expenditure Account Group

Sl No	Group Name	Sub Group Name
1	Direct Expense	None
2	Direct Income	None
3	Indirect expense	None
4	Indirect Income	None

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System generated ledger Accounts in GNU Khata

There are 4 System generated ledger accounts in GNU Khata

Sl No	Account Name	Group Name	Sub Group Name
1	Closing Stock	Current Assets	Inventory
2	Opening Stock	Direct Expense	---
3	Stock at the beginning	Current Assets	Inventory
4	Profit and Loss Account	Direct Income	----

How to create ledger accounts in GNU khata

Steps ;_

1.Open GNU Khata application

Application →Office →GNUkhata

2. Go to Master →Create account
3. Select group name and Sub group name
4..Enter the name of Account and Press Save Button

Types of Vouchers in GNU Khata

Sl no	Voucher Type	Purpose	Function Key
1	Receipt	For recording receipt of cash or cheque	F4
2	Payment	For recording payments made by cash or cheque	F5
3	Sales	For recording cash sales and credit sales	F6
4	Purchase	For recording cash purchases and credit purchases	F7
5	Contra	For recording deposits or withdrawal of cash from bank	F8
6	Journal	For recording rectifying entries, transfer entries, purchase of fixed asset on credit sale	F9
7	Sales return	for recording return of goods from customers	Ctrl+1
8	Purchase return	For recording return of goods to suppliers	Ctrl+2
9	Credit Note	For recording the reduction of amount payable by customer	Ctrl+3
10	Debit Note	For recording the reduction of amount payable	

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		to suppliers	Ctrl+4

Questions

Fill in the blanks

1. …….is a free and open source software for accounting (……..
   GNU Khata
2. ……..is the path for starting GNU Khata.
   Application →Office →GNUkhata
3. Amount received by way of cash or cheque is recorded in GNU Khata by using …….voucher
   Receipt Voucher (F4)
4. Short cut key for activating credit note is ……
   Ctrl+3
5. The sub group 'Plant and Machinery' comes under ….....group
   Fixed Assets

Questions and Answers

1. Identify the group and sub group under which the following ledger accounts are to be created

1. Carriage inward
2. Drawings
3. Commission received
4. Depreciation

Ans:

Sl No	Ledger Account	Group	Sub Group
1	Carriage Inward	Indirect Expense	None
2	Drawings	Capital	None
3	Commission received	Indirect Income	None
4	Furniture	Fixed Assets	Furniture

2. Question :- .Enter the following transactions through voucher entry
   01/01/2019 Started Business Rs 300000
   02/012019 Bought furniture 10000
   05/01/2019 Paid wages Rs 5000
   06/01/2019 Deposited Cash in to Bank Rs 20000
   07/01/2019 Paid Rent Rs 8000
   08/01/2019 Bought goods from Anil Rs 10000
   09/01/2019 Received commission Rs 2000
   12/012019 Goods returned to Anil Rs 500
   13/01/2019 Sold goods to Amal Rs 3000
   14/01/2019 Withdrew cash from Bank Rs 5000

Answ:

₹0.00	**Account name**	**Group**	**Sub Group**	**Voucher**	**Key**	**Dr/ Cr**	**Amount**
01/01/2019	Cash	Current Assets	Cash	Receipt	F4	Dr	300000

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	Capital	Capital	None			Cr	
02/01/2019	Furniture Cash	Fixed Assets Current Assets	Furniture Cash	Payment	F5	Dr Cr	10000
05/01/2019	Wages Cash	Direct Expenses Current Assets	None Cash	Payment	F5	Dr Cr	5000
06/01/2019	Bank Cash	Current Assets Current Assets	Bank Cash	Contra	F8	Dr Cr	20000
07/01/2019	Rent Cash	Indirect Expenses Current Assets	None Cash	Payment	F5	Dr Cr	8000
08/01/2019	Purchase Anil	Direct Expense Current Liability	None Creditors for purchase	Purchase	F7	Dr Cr	10000
09/01/2019	Cash Commission	Current Assets Indirect Income	Cash None	Receipt	F4	Dr Cr	2000
12/01/2019	Anil Purchase Return	Current Liability Direct Income	Creditors for purchase None	Purchase Return	Ctrl+ 2	Dr Cr	500
13/01/2019	Amal Sales	Current assets Direct Income	Sundry Debtors None	Sales	F6	Dr Cr	3000
14/01/2019	Cash Bank	Current assets Current assets	Cash Bank	Contra	F8	Dr Cr	5000

Try yourself

3. Fill the series as per hind given

Transaction	**Voucher Type**	Function Key
Salary Paid	Payment	F5
Deposited in to Bank	----------	----------
Interest received	----------	----------
Sold goods	----------	----------

6. Enter the following transactions through voucher entry

01/04/2020 Started business with Rs 250000
02/04/2020 Bought goods 10000
05/04/2020 Paid Rent Rs 5000
06/04/2020 Deposited Cash in to Bank Rs 12000
07/04/2020 Sold goods to Amal Rs 7000
10/04/2020 Received commission Rs 1800
14/04/2020 Returned goods by Amal Rs 1000
16/04/2020 Withdrew cash from Bank Rs 500

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CHAPTER 6
DATABASE MANAGEMENT SYSTEM (DBMS)

DBMS: Meaning

A data base is a collection of data that is organised, so that its contents can easily be accessed, managed and updated.

DBMS is a programme that enables the user to create and maintain a database. Software packages like LibreOffice Base, MS Access, Oracle, SQL Server etc. are very popular in dealing with database.

Database Components

The important components of a relational database design are as follows:

(a) Entities

The object for which data will be collected is called entity. Entities are represented through Tables. Employee, Student, Account etc. may be the examples of entities.

(b) Attributes

The features that describe an entity are called attributes. Emp_ID, Emp_Name, Emp_Sex, Emp_Address etc may be the attributes of the entity 'Employee'.

(c) Identifier

An attribute which contains unique values for identifying the entity instance is known as identifier or key attribute. For eg. Emp_ID can be used to identify the Employee details.

(d) Relationship

Relationship is a logical linkage between two entities that describes how the entities are associated with each other.

Worksheet-1

Identify the database components from the given hints:

Description	Database components
(a) They are represented through Tables.	
(b) The features that describe an entity.	
(c) Key attribute in the main or master table.	
(d) Logical linkage between two entities.	

LibreOffice Base

LibreOffice Base is a database software which provides a graphical interface for working with databases. It is a free and open-source software.

Database Objects of LibreOffice Base

The four database objects in LibreOffice Base are as follows:

(a) Table

Tables are used to store the data about a specific entity.

(b) Forms

They are used to enter data into a Table.

(c) Query : The word 'query' means a request for information. A database query is a request for data from a database.

(d) Reports

A database report is the formatted result of database queries and contains useful data for decision-making and analysis.

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Worksheet -2

Identify the relevent database objects in LibreOffice Base from the given descriptions:

Description	Database objects
(a) Store the data about a specific entity.	
(b) User friendly interface to insert data into a table.	
(c) A request for data from a database.	
(d) The formatted result of database queries	

Creation of Database in LibreOffice Base

A new data base can be created by the following path:

Applications → Office → LibreOffice Base

Choose the 'Create a new database' option from the appeared window and select 'Next'. Click on 'Finish' button to proceed for saving the file. Save the file after giving a suitable name to the database. The file will be saved with the extension 'odb'.

Creation of Tables in LibreOffice Base

There are three options in the task panel for creating tables.

1. Create table in Design View
2. Use Wizard to create table
3. Create view

Create Tables in Design View

The steps to create tables in design view are explained below:

1. **Choosing the option from database panel:** Click on Tables option from database panel and choose the 'Create table in Design View' option.
2. **Giving Field Name**
3. **Choosing Field Type**
4. **Setting Field Properties**
5. **Giving Description**
6. **Setting Primary Key**
7. **Saving the Table**

One Score Questions

1. The data type to be selected for entering date birth of an employee in a DBMS is.....

(a) Text (b) Date (c) Time (d) Number

Answer: (b) Date

2. The free and open source database software is:

(a) LibreOffice Base (b) MS Access (c) Oracle (d) LibreOffice Calc

Answer: (a) LibreOffice Base

3. Organised collection of data is called……

Answer: Database

4. The software that allows creation and maintenance of database is:

(a) Spreadsheet (b) Word processor (c) DBMS (d) Language processor

Answer: (c) DBMS

5. The different features of an entity are called……..

Answer: Attributes

6. The data storage element in a database is:

(a) Tables (b) Forms (c) Queries (d) Reports

Answer: (a) Tables

7. The key fields used to establish relationship between two tables are called…….

Answer: Primary key or identifier

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8. The interface that allows the user to input data in a database is:
(a) Tables (b) Forms (c) Queries (d) Reports
Answer: (b) Forms

Two Score Questions

1. List out any four popularly used DBMS for business applications.
Answer: LibreOffice Base, MS Access, Oracle, SQL Server etc.

2. State the importance of key fields or identifier with the help of an example.
Answer: An attribute which contains unique values for identifying the entity instance is known as identifier or key attribute. For eg. Emp_ID can be used to identify the Employee details.

3. Write short notes on:
(a) DBMS (b) Primary key
Answer: (a) DBMS: It is a programme that enables the user to create and maintain a database. It is a general purpose software package that facilitates constructing and manipulating database for different applications.
(b) Primary key : The key attribute in the main or master table is called 'Primary Key'. For eg., Emp_ID in 'Employee' Table is primary key.

4. Briefly explain the procedure for creating a database in LibreOffice Base.
Answer: A new data base can be created by the following path:
Applications → Office → LibreOffice Base
Choose the 'Create a new database' option from the appeared window and select 'Next'.
Click on 'Finish' button to proceed for saving the file.

5. What are the objects available in database panel of LibreOffice Base.
Answer: (a) Table(b) Forms(c) Query(d) Reports

6. Describe the steps for setting a primary key.
Answer: To set the primary key, the following steps are required:
(a) Select and right click on the empty box just to the name of the field to be designated as the primary key field.
(b) In the appeared popup menu, click on the 'Primary Key' option. Now a key symbol will appear near the concerned field name.

Three Score Questions

1. Explain the steps in creating an employees data table in a DBMS.
Answer: 1. Choosing the option from database panel , 2. Giving Field Name ,
3. Choosing Field Type, 4. Setting Field Properties, 5. Giving Description
6. Setting Primary Key, 7. Saving the Table.

2. What do you understand by DBMS? Describe in brief the function of 'Tables', 'Query', 'Forms' and 'Reports' object of Base/Access program?
Answer: Meaning of DBMS, Brief explanation of (a) Table(b) Forms(c) Query(d) Reports.

****

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