ADVANCED ACCOUNTING

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LECTURER IN COMMERCE

GDCW-NALGONDA

Contents:

PARTNERSHIP ACCOUNTS- I

Features of Partnership Accounts-1:-

- There must be atleast two persons to form a partnership.Maximum is ten persons in case of a banking business and twenty in case of other business.
- There must be an agreement between the partners.Such an agreement can be either oral or in writing.
- The firm must be engaged in lawful business.

CAPITAL ACCOUNTS:-

Fixed capital Accounts:

When the partners agree that the amount of the capital contributed by them shall remain fixed and shall not be reduced or increased during the term of Partnership,the capital accounts are said to be fixed.

Fluctuating Capital Accounts:

When all adjustments regarding intrest on capital, salary commission profit or loss is made in capital accounts,the balance of the capital will be fluctuating from year to year .Hence they are known as Fluctuating Capital Accounts.

Admission of Partner:

When additilonal capital or managerial skill or both are required in a business,a new partner may be admitted into partnership firm.

From the accounting point of view,the following matters should be considered.

a. Treatment of good will

b. Revaluation of assets and liabilities

c. Adjustment regarding accumulated profit or losses

d. Change in Profit sharing ratio.

e. Adjustment of capitals in proportion to profit sharing ratio.

Profarma of Profit &Loss Appropriation A/c:

Dr. **Profit and loss appropriation account** Cr.

Particulars	₹	Particulars	₹
To Interest on partners' capital A/c	xxx	By Profit and loss A/c *	xxx
To Partners' salary A/c	xxx	By Interest on partners'	
To Partners' commission A/c	xxx	drawings A/c	xxx
To Partners' capital/current A/c (Profit)	xxx		
	xxx		xxx

Profarma of Fixed capital Accounts:

Dr. **Partners' Capital Account** **Cr.**

Date	Particulars	Bragathish ₹	Naresh ₹	Date	Particulars	Bragathish ₹	Naresh ₹
	To Balance c/d	**4,50,000**	**6,00,000**		By Balance b/d	4,00,000	6,00,000
					By Bank A/c (Additional capital)	50,000	-
		4,50,000	6,00,000			4,50,000	6,00,000
					By Balance b/d	4,50,000	6,00,000

Dr. **Partners' Current Account** **Cr.**

Date	Particulars	Bragathish ₹	Naresh ₹	Date	Particulars	Bragathish ₹	Naresh ₹
	To Balance b/d	-	15,000		By Balance b/d	20,000	-
	To Drawings A/c	45,000	60,000		By Profit and loss appropriation A/c (share of profit)	80,000	1,20,000
	To Interest on drawings A/c	2,000	3,000				
	To Balance c/d	**90,000**	**1,10,000**		By Interest on capital A/c	20,000	30,000
					By Commission A/c	17,000	-
					By Salary A/c	-	38,000
		1,37,000	1,88,000			1,37,000	1,88,000
					By Balance b/d	90,000	1,10,000

Profarma of Fluctuating Capital Accounts:-

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

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

THE- END

PARTNERSHIP ACCOUNTS -II

Accounting Treatment:-

- Whenever a form is dissolved ,a special account called **"Realisation Account"** is prepared to know the net gain or net loss on the realisation of assets and settlement of liabilities .

The following entries are passed:

FOR TRANSFER OF ASSETS:

Realisation A/c Dr

To Asset Accounts

FOR TRANSFER OF LIABILITIES TO THIRD PARTIES:-

Liability A/c Dr

Provision A/c Dr

To Realisation A/c

Insolvency Of Partner:-

- Insolvency refers to the situation in which a firm or individual is unable to meet financial obligations to creditors as debts become due. Before beginning legal insolvency proceedings, the firm or individual may get involved in making an informal arrangement with their creditors, such as crafting alternative payment options.
- An insolvent firm may decide to file for bankruptcy protection, which is a court order that oversees the liquidation of the company's assets. Insolvency is a state of financial distress, whereas bankruptcy is a legal proceeding.

Sale to a Company:

- Often, a partnership firm converts itself into a joint stock limited company or sells its business to an existing one. Realisation Account will be opened and assets transferred to it, so also liabilities (but not if liabilities are not assumed by the company).
- Whatever the company pays as consideration will be credited to the Realisation Account. If expenses are incurred by the firm, the amount will be debited to the Realisation Account. If the creditors are taken over by the company, no further treatment is necessary beyond transferring them to the credit of Realisation Account.

1. **LUMP SUM METHOD.**
2. **NET PAYMENT METHOD**
3. **NET ASSETS METHOD.**

THE-
END

COMPANY ACCOUNTS

Characteristics of Company Accounts:

- A company has the following essential characteristics:
- **Voluntary association:** A company is a voluntary association of persons. No law can compel persons to form a company.
- **Separate legal entity:** Company is an artificial person. It has a separate legal entity which is separate and distinct from its members.
- **Common seal:** A company may have a common seal which can be affixed on the documents.
- **Perpetual succession:** A company continues for ever. Its continuity is not affected by the changes in its members. It can be wound up only by law.
- **Limited liability:** The liability of the shareholders of the company is limited to the extent of face value of the shares held by them.
- **Transferability of shares:** The shares of a company are freely transferable except incase of a private company.

Preference Shares:

- Preference shares, more commonly referred to as preferred stock, are shares of a company's stock with dividends that are paid out to shareholders before common stock dividends are issued. If the company enters bankruptcy, preferred stockholders are entitled to be paid from company assets before common stockholders.

Distinction Between Preference and Equity Shares:

Basis of Comparison	Equity Shares	Preference shares
Meaning	Equity shares are the ordinary shares of the company. It represents the part ownership of the shareholder in the company.	Preference shares are the shares that carry preferential rights over payment of dividend and repayment of capital.
Payment of dividend	Dividends are paid to equity shareholders only after settlement of all the other liabilities. The shareholder may not get any dividends at the time of loss. Also, they have no right to get arrears of dividends.	Preference shareholders are paid dividends in preference over equity shareholders. Cumulative preference shareholders have the right to get arrears of dividends.
Rate of Dividend	The rate of dividend is not fixed, hence it is fluctuating year after year.	The rate of dividend remains fixed every year.
Voting rights	Equity shareholders enjoy voting rights in the general meeting.	Preference shareholders do not have any voting rights in the general
Convertibility	Equity shares can never be converted.	Preference shares can be converted into equity shares.
Repayment of capital	In the event of winding up of the company, the equity shareholders are repaid at the last, only after settling all the other liabilities.	In the event of winding up of the company, preference shares are repaid before equity shares.
Redeemability	Equity shares are not redeemable.	Preference shares are redeemable.

Call in Arrears :

Date	Particulars		L.F.	Debit ₹	Credit ₹
	1. On receipt of application money Bank A/c To Equity share application A/c	Dr.		xxx	xxx
	2. On allotment of shares to transfer share application money Share application A/c To Equity share capital A/c	Dr.		xxx	xxx
	3. On refund of application money for rejected applications Equity share application A/c To Bank A/c	Dr.		xxx	xxx
	4. For allotment money due Equity share allotment A/c To Equity share capital A/c	Dr.		xxx	xxx
	5. On receipt of allotment money Bank A/c To Equity share allotment A/c	Dr.		xxx	xxx
	6. On making call for the call money due Equity share call A/c To Equity share capital A/c	Dr.		xxx	xxx
	7. On receipt of call money Bank A/c To Equity share call A/c	Dr.		xxx	xxx

Pro-rate Allotment:

Pro-rata allotment of shares is opted by the Company when there is an oversubscription. The excess application money is adjusted towards the sum due on allotment.

For refund of application money:

Share Application A/c Dr.

To Bank A/c

For transfer of application money to Allotment/calls

Share Application A/c Dr.

To Share Allotment A/c

To Share Calls A/c/Calls paid in advance.

THE-
END

COMPANY FINAL ACCOUNTS
AND PROFIT PRIOR TO INCORPORATION

Books Of Accounts:

- As per Section 2(13) of Companies Act, "books of account" includes records maintained in relation to:
- all sums of money received and expended by a company and matters in relation to which the receipts and expenditure take place;
- all sales and purchases of goods and services by the company;
- the assets and liabilities of the company; and
- the items of cost as may be prescribed under section 148 in the case of a company which belongs to any class of companies specified under that section;

Profarma of Balance Sheet:-

Problems on Balance Sheet of a Company as per Revised Schedule III of the Companies Act 2013

FORMAT OF BALANCE SHEET

BALANCE SHEET of ....Company Limited as on 31st March..........

Particulars	Note No.	Amount (Rs.)
I.EQUITY AND LIABILITIES		
1 Shareholders' Funds:		
(a) Share Capital		
(b) Reserves and surplus		
(c) Money received against share warrants		(Not to be evaluated)
2 Share Application Money pending allotment:		(Not to be evaluated)
3 Non - Current Liabilities:		
(a) Long-term borrowings		
(b) Deferred Tax Liabilities (Net)		(Not to be Evaluated)
(c) Other Long Term Liabilities		(Not to be Evaluated)
(d) Long-term provisions		
4 Current Liabilities:		
(a) Short-term borrowings		
(b) Trade payables		
(c) Other current liabilities		
(d) Short-term provisions		
TOTAL [1 +2+3+4]		
II.ASSETS		
1Non-Current Assets:		
(a)**Fixed Assets**		
(i) Tangible Assets		
(ii) Intangible Assets		
(b)**Non-Current Investments**		
(c) **Long Term Loans &Advances**		
(d) **Other Non-Current Assets**		
2Current Assets:		
(a) Current investments		
(b) Inventories		
(c) Trade receivables		
(d) Cash and cash equivalents		
(e) Short-term loans and advances		
(f) Other current assets		
TOTAL [1 + 2]		

Form of Statement of Profit and Loss:

Profit&Loss Statement	2020 prior year
Revenue	
Sales Revenue	$42 000,00
Less: Sales Returns	
Less: Discounts and Allowances	
Service Revenue	$2 700,00
Interest Revenue	
Other Revenue	$900,00
Total Revenue & Gains	**$38 400,00**
Expenses	
Advertising	$300,00
Delivery/Freight Expense	$900,00
Depriciation	$7 500,00
Insurance	$400,00
Interest	$1 800,00
Office Supplies	$1 100,00
Rent/Lease	$5 800,00
Maintenance and Repairs	$200,00
Travel	$75,00
Wages	$7 000,00
Utilities/Telephone Expenses	$670,00
Other Expenses	$200,00
Total Expenses	**$25 945,00**
Income before tax	**$12 455,00**
Income tax expense	$1 080,00
Net Profit (Loss)	**$11 375,00**

Discount On Issue Of Shares and Discount:

In general, share means a portion of a larger thing. Similarly, in real market share is a small proportion of the total amount of capital of the enterprise. Shares form the major source of any company’s finance in this present world.The issue of shares at a discount means the issue of the shares at a price less than the face value of the share. For example, if a company issues share of Rs.100 at Rs.90, then Rs.10 (i.e. Rs 100—90) is the amount of discount.

THE-
END

VALUATIONOF GOOD WILL AND SHARES.

Definition of GoodWill:

- Goodwill is an intangible asset that is associated with the purchase of one company by another. Specifically, goodwill is the portion of the purchase price that is higher than the sum of the net fair value of all of the assets purchased in the acquisition and the liabilities assumed in the process.

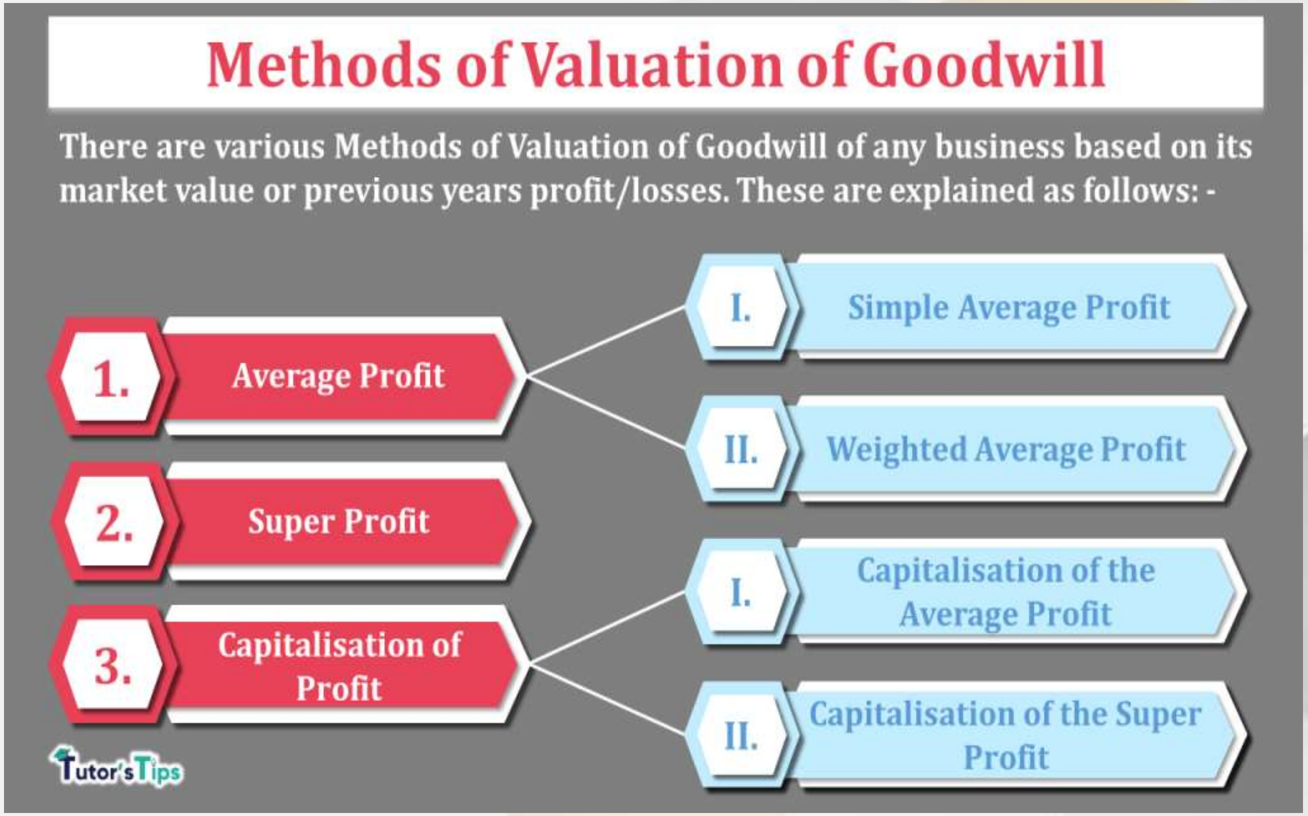
Features Of GoodWill:

- Despite the various definitions, goodwill must feature the following:
- Be an intangible asset which cannot be seen;
- It cannot be separated from the business like a physical asset can;
- Its value is not relative to any investment amounts or costs;
- This value is subjective and depends on the person (customer) judging it; and
- It is subject to wild and unpredictable fluctuations in response to externalities.

Need For Valuation Of GoodWill:

- The need for valuation of goodwill arises at the time of:
- Change in the profit sharing ratio amongst the existing partners
- Admission of a new partner
- The retirement of a partner
- Death of a partner
- Dissolution of a firm where business is sold as going concern.
- Amalgamation of partnership firms.

Methods Of Valuation Of GoodWill And Shares:



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