

# LAST-HOUR CRAM SHEET · Accountancy

CBSE Class 12 Accountancy (055) · Theory 80 +  
Project 20 · Read this in the 60 minutes before you  
walk in

## A. The Paper at a Glance

| Part                                       | Unit | Marks     | Chapters                                                                                                              |
|--------------------------------------------|------|-----------|-----------------------------------------------------------------------------------------------------------------------|
| <b>A — Partnership Firms and Companies</b> | 1    | <b>36</b> | Partnership: fundamentals, goodwill, change in ratio, admission, retirement/death, dissolution ← <b>biggest block</b> |
|                                            | 2    | <b>24</b> | Companies: share capital, debentures                                                                                  |
| <b>B — Financial Statement Analysis</b>    | 3    | <b>12</b> | Financial statements, ratios                                                                                          |
|                                            | 4    | <b>8</b>  | Cash flow statement                                                                                                   |
| <b>Project / Practical</b>                 |      | <b>20</b> | Theory total = <b>80 marks</b> , 3 hours                                                                              |

**STRATEGY** Unit 1 alone is 36 of 80. If

time is short, master partnership first — admission, retirement and dissolution between them are worth more than the whole of Part B.

**SECTION STRUCTURE — from the official 2026-27 sample paper**

| Questions      | Each           | How many | Worth     |
|----------------|----------------|----------|-----------|
| 1–16 and 27–30 | 1 mark         | 20       | 20        |
| 17–20, 31, 32  | 3 marks        | 6        | 18        |
| 21, 22, 33     | 4 marks        | 3        | 12        |
| 23–26, 34      | <b>6 marks</b> | 5        | <b>30</b> |

34 questions,  $20 + 18 + 12 + 30 = 80$ .

*Part B is either/or — Analysis of Financial Statements or Computerised Accounting, never both.*

*The six-markers alone are 30 of 80. If you are short of time in the exam, secure those first.*

*Changed for 2026-27 — check this against any older guide: internal choice is now given in 2 three-mark, 2 four-mark and 2 six-mark questions. Last session it was 7 one-mark, 2 three-mark, 1 four-mark and 2 six-mark. There is no longer any choice on the 1-mark questions, and there is one more four-marker with a choice. The paper still prints “no change in the Question Paper Design” on page 1, so do not take that line as evidence.*

## B. Every Formula in One Place

### PARTNERSHIP

**Sacrificing Ratio = Old Share – New Share**

**Gaining Ratio = New Share – Old Share**

**Interest on Capital = Opening Capital × Rate × Period**

**Interest on Drawings = Total Drawings × Rate × (Avg months / 12)**

**Hidden Goodwill = (New Partner's Capital × Reciprocal of share) – Net Worth**

**Deceased partner's profit = Last year's profit × (Period / 12) × His share**

### GOODWILL

**Average Profit Goodwill = Average Profit × Years' Purchase**

**Normal Profit = Capital Employed × Normal Rate ÷ 100**

**Super Profit = Average Profit – Normal Profit**

**Super Profit Goodwill = Super Profit × Years' Purchase**

**Capitalised Value = Average Profit × 100 ÷ Normal Rate**

**Capitalisation Goodwill = Capitalised Value – Capital Employed**

**Capitalisation of Super Profit = Super Profit × 100 ÷ Normal Rate**

#### **RATIOS — LIQUIDITY & SOLVENCY**

**Current Ratio = Current Assets ÷ Current Liabilities (2:1)**

**Quick Ratio = (CA – Inventory – Prepaid) ÷ CL (1:1)**

**Debt-Equity = Debt ÷ Shareholders' Funds (2:1)**

**Proprietary Ratio = Shareholders' Funds ÷ Total Assets**

**Total Assets to Debt = Total Assets ÷ Long-term Debt**

**Interest Coverage = Profit before Interest & Tax ÷ Interest**

#### **RATIOS — TURNOVER & PROFITABILITY**

**Inventory Turnover = Cost of Revenue ÷ Average Inventory**

**Trade Receivables Turnover = Net Credit Revenue ÷ Avg Trade Receivables**

**Trade Payables Turnover = Net Credit Purchases ÷ Avg Trade Payables**

**Working Capital Turnover = Revenue ÷ Working Capital**

**Gross Profit Ratio = GP ÷ Revenue × 100**

**Operating Ratio = (Cost of Revenue + Operating Exp) ÷ Revenue × 100**

**Operating Profit Ratio = 100 – Operating Ratio**

**ROI = Profit before Interest, Tax & Dividend ÷ Capital Employed × 100**

**Capital Employed = Shareholders' Funds + Non-Current Liabilities**

## C. Rules You Must Not Get Wrong

### MEMORISE EXACTLY

- Interest on partner's **LOAN = CHARGE** (P&L A/c), 6% if silent. Interest on **CAPITAL = APPROPRIATION**.
- Deed silent → profits **EQUAL**, no interest on capital, no interest on drawings, no salary.
- **AS 26**: only **purchased** goodwill is recorded. Self-generated goodwill is **never** raised.
- Existing goodwill in the books → write off among **ALL** old partners in **OLD** ratio first.
- Premium for goodwill is credited in the **SACRIFICING** ratio; on retirement, debited in the **GAINING** ratio.
- Reserves and Revaluation profit/loss are **ALWAYS** shared in the **OLD** ratio.
- Dissolution: tangible asset value not given → **book value**. Intangible not given → **NIL**.
- Never transferred to Realisation A/c: **Cash/Bank**, fictitious assets, reserves, partners' own accounts, partner's loan.

- Payment order on dissolution: **Creditors** → **Partner's loan** → **Capital**.
- Forfeiture: Debit Capital by **CALLED-UP**, Credit Forfeiture by **RECEIVED**.
- Premium **not** received at forfeiture → **DEBIT Securities Premium**. Received → leave it alone.
- Max discount on reissue = **amount forfeited on those shares**. Surplus → **Capital Reserve**.
- Debenture interest is on **FACE** value, and is a **CHARGE**.
- Loss on issue of debentures → write off **in year of allotment**: Securities Premium first, then P&L (AS 16).
- Cash flow (non-financial co.):  
**Interest/Dividend RECEIVED = Investing**; **Interest/Dividend PAID = Financing**.
- Common-size: B/S base = **Total Assets**; P&L base = **Revenue from Operations**.

D. Which Account? — the one-second decision

Situation

Account to open

|                                          |                                                     |
|------------------------------------------|-----------------------------------------------------|
| Change in ratio / admission / retirement | <b>Revaluation A/c</b> — profit in <b>old ratio</b> |
| Firm is dissolved                        | <b>Realisation A/c</b> — all assets at book value   |
| Assets to remain at old values           | <b>Memorandum Revaluation A/c</b>                   |
| Retiring partner not paid at once        | <b>Retiring Partner's Loan A/c</b>                  |
| Partner dies                             | <b>Executor's A/c + P&amp;L Suspense A/c</b>        |
| Deficiency guaranteed to a partner       | Adjust through <b>Capital A/cs</b> , no new account |

## E. Master Question Triggers

wording → what to do

| Question wording                       | Action                               | Ch |
|----------------------------------------|--------------------------------------|----|
| "deed is silent"                       | Apply Act defaults                   | 1  |
| "drew at the beginning of every month" | 6.5 months                           | 1  |
| "drew at the end of every month"       | 5.5 months                           | 1  |
| "guaranteed minimum profit"            | Distribute, then transfer deficiency | 1  |
| "profits show a rising trend"          | Weighted average goodwill            | 2  |
| "normal rate of return" given          | Super profit method                  | 2  |
| "stock overvalued in 2023"             | Less in 2023, <b>add</b> in 2024     | 2  |
| "C admitted for 1/4", nothing else     | Sacrifice in <b>old ratio</b>        | 4  |

|                                             |                                          |    |
|---------------------------------------------|------------------------------------------|----|
| Capital + share given, goodwill not given   | <b>Hidden goodwill</b>                   | 4  |
| "could not bring his share of goodwill"     | New partner's Capital Dr.                | 4  |
| "A and B take C's share equally"            | Gaining ratio <b>1:1</b>                 | 5  |
| "died on 30 June"                           | P&L Suspense A/c                         | 5  |
| "A was allowed ₹5,000 for expenses"         | Debit Realisation with <b>5,000 only</b> | 6  |
| "unrecorded asset sold"                     | Bank Dr. → Realisation Cr.               | 6  |
| "allotted in the ratio 3:2"                 | Pro-rata; excess to allotment            | 7  |
| "premium had not been received"             | <b>Debit</b> Securities Premium          | 7  |
| "issued at discount, redeemable at premium" | Loss = discount + redemption premium     | 8  |
| "under which head is X shown?"              | Give <b>head AND sub-head</b>            | 9  |
| "effect on current ratio?"                  | 3-step; Increase/Decrease/No change      | 10 |
| "depreciation charged"                      | <b>Add back</b> in operating             | 11 |
| "profit on sale of machinery"               | Less in operating; proceeds to investing | 11 |

## F. How to Write for Marks

| Marks    | What the examiner wants                                              |
|----------|----------------------------------------------------------------------|
| <b>1</b> | One line. A formula, a term, or a yes/no with the reason.            |
| <b>3</b> | Working note + the answer. Format matters less than the calculation. |

|               |                                                                                                                                      |
|---------------|--------------------------------------------------------------------------------------------------------------------------------------|
| <b>4</b>      | Proper account format with <b>Dr/Cr headings</b> , plus <b>WN1, WN2</b> below.                                                       |
| <b>6</b>      | Full format, ruled columns, all working notes, and the closing balance check.                                                        |
| <b>Always</b> | <b>Show the formula before substituting.</b> Method marks are awarded for a visible calculation even when the final figure is wrong. |

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**THE THREE CHECKS THAT SAVE QUESTIONS** — 1. Past adjustment / single-entry table must net to **ZERO**. 2. On dissolution, **Cash/Bank A/c** must close at nil. 3. In a cash flow statement,  **$A + B + C + \text{Opening Cash} = \text{Closing Cash}$** . Each takes ten seconds and each catches the error that would otherwise cost the whole answer.

# Chapter 1 · Partnership Fundamentals

CBSE Class 12 Accountancy (055) · Part A · Unit 1

= 36 marks (the largest unit in the paper) ·

Ultimate Revision Sheet

## 60-SECOND RECALL

|                            |                                                                                                                                                                            |
|----------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Definition</b>          | Relation between persons who have agreed to share the profits of a business carried on by <b>all or any of them acting for all</b> . — Indian Partnership Act, 1932, Sec 4 |
| <b>Features (5)</b>        | Two or more persons · Agreement · Lawful business · Profit sharing · <b>Mutual agency</b>                                                                                  |
| <b>No deed → defaults</b>  | Profit share <b>EQUAL</b> · Interest on capital <b>NIL</b> · Interest on drawings <b>NIL</b> · Salary <b>NIL</b> · Interest on partner's loan <b>6% p.a.</b>               |
| <b>Killer rule</b>         | Interest on partner's <b>LOAN = CHARGE</b> (P&L). Interest on <b>CAPITAL = APPROPRIATION</b> (P&L Appropriation).                                                          |
| <b>Fixed capital</b>       | <b>TWO</b> accounts: Capital (never changes) + Current. Capital A/c is <b>always Cr.</b>                                                                                   |
| <b>Fluctuating capital</b> | <b>ONE</b> account. Everything goes into Capital A/c.                                                                                                                      |

## 1. Meaning & Features

### WRITE THIS VERBATIM

**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. — Section 4, Indian Partnership Act, 1932

1. **Two or more persons** — minimum 2; maximum **50** (Companies Act 2013, Rule 10).
2. **Agreement** — partnership arises from an **agreement**, not from status or operation of law.
3. **Lawful business** — must carry on a legal business with a profit motive.
4. **Profit sharing** — profits (and losses) shared in an agreed ratio.
5. **Mutual agency** — **the real test of partnership**. Every partner is both an **agent** (can bind the firm) and a **principal** (bound by others' acts).

**EXAMINER TRAP** If a 1-mark question asks for the **real / conclusive test** of partnership, the answer is **mutual agency** — not profit sharing. A person may share profits without being a partner (e.g. an employee on commission).

## 2. Partnership Deed & the Act's Default Rules

A **partnership deed** is the written agreement among partners. It is **not compulsory**, but in its absence the Indian Partnership Act 1932 applies.

| Matter                                        | If the deed is silent                                                    |
|-----------------------------------------------|--------------------------------------------------------------------------|
| <b>Profit sharing ratio</b>                   | <b>EQUAL</b> , regardless of capital contributed                         |
| <b>Interest on capital</b>                    | <b>NOT allowed</b>                                                       |
| <b>Interest on drawings</b>                   | <b>NOT charged</b>                                                       |
| <b>Salary / commission to a partner</b>       | <b>NOT allowed</b>                                                       |
| <b>Interest on partner's loan to the firm</b> | <b>6% per annum</b> — and it is a <b>CHARGE</b> , payable even in a loss |
| <b>Admission of a new partner</b>             | Only with the <b>consent of ALL</b> existing partners                    |

### THE SINGLE BIGGEST TRAP IN THIS CHAPTER

#### Charge vs Appropriation.

- Interest on partner's **LOAN** @6% → **CHARGE** → debited to Profit & Loss A/c → paid even if there is a loss.
- Interest on **CAPITAL**, salary, commission → **APPROPRIATION** → debited to P&L Appropriation A/c → allowed only out of profits.

Getting this backwards loses the whole question, because the profit figure carried down changes.

### 3. Fixed vs Fluctuating Capital

| Basis                | FIXED capital                                                          | FLUCTUATING capital                         |
|----------------------|------------------------------------------------------------------------|---------------------------------------------|
| No. of accounts      | <b>Two</b> — Capital A/c and Current A/c                               | <b>One</b> — Capital A/c only               |
| Capital balance      | Stays <b>unchanged</b> unless fresh capital is introduced or withdrawn | <b>Changes every year</b>                   |
| Where adjustments go | Interest, salary, drawings, profit share → <b>Current A/c</b>          | All of them → <b>Capital A/c</b>            |
| Can it be negative?  | Capital A/c is <b>ALWAYS Credit</b> . Current A/c may be Dr or Cr.     | Capital A/c <b>may show a Debit</b> balance |
| If method not stated | <b>Assume FLUCTUATING</b> — this is the default in the exam            |                                             |

## 4. Profit & Loss Appropriation Account

### STAGE 1 — P&L A/c

#### CHARGES

Rent paid to a partner  
Interest on partner's **LOAN**  
Manager's commission  
All business expenses

deduct first

#### NET PROFIT

what is left to share

### STAGE 2 — Appropriation A/c

#### APPROPRIATIONS

Interest on **CAPITAL**  
Salary / commission  
Transfer to Reserve  
Profit shared out

A **CHARGE** is deducted **whether or not there is profit** — it is a cost of doing business.

An **APPROPRIATION** is only a distribution of profit — no profit, nothing to appropriate.

The pair that catches everyone:

Interest on partner's **LOAN** → **CHARGE** (P&L A/c), fixed at **6% p.a.** if the deed is silent

Interest on partner's **CAPITAL** → **APPROPRIATION**, and **NOT** allowed at all if the deed is silent

Two accounts, two stages. Put an item in the wrong stage and every figure after it is wrong.

### FORMAT — REPRODUCE EXACTLY Profit & Loss

### Appropriation A/c for the year ended ...

| Particulars                                          | ₹          | Particulars                                      | ₹          |
|------------------------------------------------------|------------|--------------------------------------------------|------------|
| To Interest on Capital A/c<br>A ...<br>B ...         | ...        | By Profit & Loss A/c<br>(net profit transferred) | ...        |
| To Partner's Salary / Commission A/c                 | ...        | By Interest on Drawings A/c<br>A ... B ...       | ...        |
| To Reserve / General Reserve A/c                     | ...        |                                                  |            |
| To Profit transferred to Capital A/cs<br>A ... B ... | ...        |                                                  |            |
|                                                      | <b>XXX</b> |                                                  | <b>XXX</b> |

Order on the debit side is fixed: Interest on Capital → Salary/Commission → Reserve → Profit shared.

**TRAP** P&L A/c vs P&L Appropriation

A/c. Rent to a partner, interest on partner's loan, manager's commission and all business expenses go in the P&L A/c (charges). Only interest on capital, partner's salary/commission, reserve transfer and profit distribution go in the Appropriation A/c.

## 5. Interest on Capital — When Profit is Insufficient

**Interest on Capital = Opening Capital × Rate × Period**

Opening capital must be worked back when only the closing figure is given:

**Opening Capital = Closing Capital – Additional Capital + Drawings – Profit already credited**

| Situation             | Treatment                                |
|-----------------------|------------------------------------------|
| Loss                  | No interest on capital is allowed at all |
| Profit ≥ interest due | Full interest allowed                    |

|                                               |                                                                                                                         |
|-----------------------------------------------|-------------------------------------------------------------------------------------------------------------------------|
| <b>Profit &lt; interest due</b> , deed silent | Interest is <b>restricted to the available profit</b> and distributed in the <b>ratio of interest due</b> (not the PSR) |
| Deed says interest is a <b>charge</b>         | Full interest allowed <b>even in a loss</b> ; debited to P&L A/c                                                        |

## 6. Interest on Drawings

### THE THREE CASES — know which formula applies

| When drawings are...                         | Average period                |
|----------------------------------------------|-------------------------------|
| <b>Equal amount, beginning</b> of each month | <b>6.5 months</b>             |
| <b>Equal amount, end</b> of each month       | <b>5.5 months</b>             |
| <b>Equal amount, middle</b> of each month    | <b>6 months</b>               |
| Equal, <b>beginning of each quarter</b>      | <b>7.5 months</b>             |
| Equal, <b>end of each quarter</b>            | <b>4.5 months</b>             |
| <b>Unequal amounts / irregular dates</b>     | Use the <b>Product Method</b> |
| <b>Date not given</b>                        | Take <b>6 months</b> average  |

**Interest on Drawings = Total Drawings × Rate × (Average months / 12)**

**Product Method:** Interest = ( $\Sigma$  of Amount × Months) × Rate × 1/12

### WORKING NOTE — SHOW THIS, IT CARRIES MARKS

Even if the final figure is wrong, a clearly labelled working note earns method marks. Always write:

$$\text{WN1: Interest on A's drawings} = 60,000 \times 6/100 \times 6.5/12 = ₹1,950$$

Never write a bare number in the ledger with no supporting calculation.

## 7. Guarantee of Profit

A partner may be guaranteed a **minimum profit**. If his actual share falls short, the **deficiency** is borne by the guaranteeing partner(s).

### STEPS — follow in this order

1. Distribute profit among all partners in the normal PSR.

2. Compare the guaranteed partner's share with the guaranteed amount.

3. Deficiency = Guaranteed amount - Actual share.

4. Recover the deficiency from the guarantor(s):

- guarantee by **one** partner → he alone bears it

- guarantee by **all** → borne in their **remaining PSR**
- a **specified ratio** is given → use that ratio

**TRAP** When the guaranteed partner's actual share **exceeds** the guarantee, **no adjustment is made**. Students often force the guaranteed figure anyway and lose the mark.

## 8. Past Adjustments

Errors found after the accounts are closed — interest on capital omitted, salary not given, wrong ratio used. Corrected through a **single adjusting entry**.

### **METHOD — the adjustment table**

| Particulars                                  | A     | B     | C     |
|----------------------------------------------|-------|-------|-------|
| Amount that <b>should have been</b> credited | ...   | ...   | ...   |
| Amount <b>already</b> credited (wrongly)     | (...) | (...) | (...) |
| <b>Difference</b> → Dr or Cr                 | ...   | ...   | ...   |

The net of all differences must be **ZERO**. If it is not, the table is wrong — check before writing the entry.

**Adjusting entry:** partner(s) with an *excess credit* are **Debited**; partner(s) short are **Credited**.

## 9. Case-Study / Question Triggers

what the wording is really asking

| If the question says...                       | Do this                                                                      |
|-----------------------------------------------|------------------------------------------------------------------------------|
| "the deed is silent" / "no partnership deed"  | Apply the six default rules (equal PSR, no interest, loan @6%)               |
| "partner advanced a loan to the firm"         | Interest 6% p.a., <b>CHARGE</b> to P&L A/c, not appropriation                |
| "capitals are fixed"                          | Open <b>Current A/c</b> as well; keep Capital A/c unchanged                  |
| "nothing is said about capital method"        | Assume <b>fluctuating</b>                                                    |
| "profit is insufficient to allow interest"    | Restrict interest to available profit, share in <b>ratio of interest due</b> |
| "interest on capital is a charge"             | Allow in full <b>even in loss</b> ; goes to P&L A/c                          |
| "drew ₹X at the beginning of every month"     | Average period <b>6.5 months</b>                                             |
| "drew ₹X at the end of every month"           | Average period <b>5.5 months</b>                                             |
| "drawings on different dates / unequal"       | <b>Product method</b>                                                        |
| "guaranteed a minimum of ₹X"                  | Distribute normally first, then transfer the <b>deficiency</b>               |
| "omitted / wrongly recorded in earlier years" | <b>Past adjustment</b> table, then one adjusting entry                       |

|                          |                                                            |
|--------------------------|------------------------------------------------------------|
| "rent paid to a partner" | <b>Charge</b> — P&L A/c, <b>not</b> appropriation          |
| "manager's commission"   | <b>Charge</b> — deduct <b>before</b> the Appropriation A/c |

## MOST-ASKED BOARD QUESTIONS

1. [6M] Prepare the P&L Appropriation A/c and Partners' Capital A/cs.
2. [4M] Calculate interest on drawings by the product method / average period.
3. [4-6M] Guarantee of profit to a partner — distribute and pass the entry.
4. [3-4M] Past adjustment — prepare the table and pass the single adjusting entry.
5. [3M] Distinguish between fixed and fluctuating capital accounts.
6. [1M] At what rate is interest on a partner's loan allowed when the deed is silent? → **6% p.a.**
7. [1M] What is the real test of partnership? → **Mutual agency**

**THE HABIT THAT SCORES** — In every numerical, write WN1, WN2, WN3 below the account. Examiners award

method marks for a visible calculation even when the final figure is wrong. A correct answer with no working scores less than a wrong answer with clear working.

# Chapter 2 · Goodwill — Nature and Valuation

CBSE Class 12 Accountancy (055) · Part A · Unit 1

= 36 marks · Ultimate Revision Sheet

## 60-SECOND RECALL

|                      |                                                                                                                             |
|----------------------|-----------------------------------------------------------------------------------------------------------------------------|
| <b>Definition</b>    | The <b>value of the reputation</b> of a firm which enables it to earn <b>higher profits</b> than the normal rate of return. |
| <b>Nature</b>        | <b>Intangible</b> asset — but <b>NOT fictitious</b> . It has a realisable value.                                            |
| <b>3 methods</b>     | <b>Average Profit · Super Profit · Capitalisation</b>                                                                       |
| <b>Super Profit</b>  | Average Profit – Normal Profit                                                                                              |
| <b>Normal Profit</b> | $\text{Capital Employed} \times \text{Normal Rate of Return} \div 100$                                                      |
| <b>AS 26 rule</b>    | <b>Only purchased goodwill</b> is recorded. <b>Self-generated goodwill is NEVER recorded.</b>                               |

## 1. Meaning & Nature

**WRITE THIS VERBATIM**

*Goodwill is the value of the reputation of a firm built over time, which enables it to earn higher profits than the normal rate of return earned by other firms in the same business.*

**Nature:** goodwill is an **intangible asset**, not a fictitious asset. A fictitious asset (like deferred revenue expenditure) has **no realisable value**; goodwill **can be sold** along with the business.

**GUARANTEED 1-MARKER** "Is goodwill a fictitious asset?" → **No. It is an intangible asset**, because it has a realisable value.

## 2. Factors Affecting Goodwill

**L-E-N-M-Q-R** — **L**ocation, **E**fficiency of management, **N**ature of business, **M**arket situation, **Q**uality, **R**isk

1. **Nature of business** — stable demand, favourable government policy and low risk raise goodwill.
2. **Location** — a firm in a prime, customer-facing location earns more.
3. **Efficiency of management** — better management → higher profits → higher goodwill.
4. **Market situation** — monopoly or limited competition raises goodwill.

5. **Special advantages** — import licences, long-term supply contracts, patents, trademarks, low-cost power.

6. **Quality of product** — consistent quality builds repeat custom.

### 3. Need for Valuation

Goodwill is valued when the **mutual rights of partners change**: (a) change in profit sharing ratio (b) admission of a partner (c) retirement or death of a partner (d) dissolution where the business is sold as a going concern (e) amalgamation of firms.

All three methods ask the same thing: *how much MORE than normal does this firm earn?*

#### 1. AVERAGE PROFIT

Simplest. Ignores how much capital was needed to earn it.

$$\text{Avg Profit} \times \text{No. of Years' Purchase}$$

#### 2. SUPER PROFIT

Now capital matters. Only the EXCESS over normal is paid for.

$$\text{Super Profit} \times \text{No. of Years' Purchase}$$

#### 3. CAPITALISATION

No "years' purchase" at all — the rate of return does that job

$$\text{Super Profit} \times 100 \div \text{Normal Rate of Return}$$

Methods 2 and 3 both need these three, in this order:

Capital Employed

Assets - Outside Liab.



Normal Profit

Cap. Employed  $\times$  NRR



Super Profit

Actual - Normal Profit

In Capital Employed, exclude goodwill, non-trade investments and fictitious assets.

Method 1 pays for total profit; methods 2 and 3 pay only for the profit above normal.

### 4. Method 1 — Average Profit

#### SIMPLE AVERAGE

**Average Profit = Total Adjusted Profits  $\div$  Number of Years**

**Goodwill = Average Profit × Number of Years' Purchase**

**WEIGHTED AVERAGE** — use when profits show a clear trend

**Weighted Average Profit =  $\Sigma(\text{Profit} \times \text{Weight}) \div \Sigma \text{Weights}$**

Weights run 1, 2, 3, 4... with the *highest weight on the most recent year*.

**WHEN TO USE WHICH** Use *weighted average* when the question says profits are showing a *rising or falling trend*, or gives weights. Otherwise use *simple average*. Choosing wrong loses the whole calculation.

## Adjusting the profits — where most marks are lost

**WORKING NOTE — ALWAYS DO THIS FIRST** Before

averaging, correct each year's profit:

| Item                                                                        | Treatment                                       |
|-----------------------------------------------------------------------------|-------------------------------------------------|
| Abnormal <b>loss</b> (theft, fire) debited to P&L                           | <b>ADD</b> back                                 |
| Abnormal <b>gain</b> (lottery, speculation profit)                          | <b>SUBTRACT</b>                                 |
| Income from <b>non-trade investments</b>                                    | <b>SUBTRACT</b>                                 |
| Expense on an asset <b>wrongly charged to revenue</b> (capital expenditure) | <b>ADD</b> back, then deduct depreciation on it |
| <b>Overvaluation</b> of closing stock                                       | <b>SUBTRACT</b> from that year's profit         |
| <b>Undervaluation</b> of closing stock                                      | <b>ADD</b> to that year's profit                |
| Expense expected in <b>future</b> (e.g. partner's remuneration)             | <b>SUBTRACT</b>                                 |

**Stock trap:** overvalued *closing* stock of one year becomes overvalued *opening* stock of the next — so the *next* year's profit must be *increased* by the same amount.

## 5. Method 2 — Super Profit

### THE THREE-STEP CHAIN

**1. Capital Employed = Total Assets (excl. goodwill, non-trade investments, fictitious assets) – Outside Liabilities**

**2. Normal Profit = Capital Employed × Normal Rate of Return ÷ 100**

**3. Super Profit = Average (actual) Profit – Normal Profit**

**4. Goodwill = Super Profit × Number of Years' Purchase**

**TRAP** If Super Profit is negative or zero, goodwill is NIL. Do not report a negative goodwill figure.

Capital employed can also be found as **Capital Employed = Partners' Capital + Reserves – Fictitious Assets**. Both routes must give the same number — if they do not, recheck.

## 6. Method 3 — Capitalisation

### **(a) CAPITALISATION OF AVERAGE PROFIT**

**Capitalised Value of Firm = Average Profit × 100 ÷ Normal Rate of Return**

**Goodwill = Capitalised Value – Capital Employed (Net Assets)**

## (b) CAPITALISATION OF SUPER PROFIT

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

### WORKED EXAMPLE — all three methods, same data

Average profit ₹80,000 · Capital employed ₹5,00,000 · Normal rate 10% · 3 years' purchase.

Average profit method:  $80,000 \times 3 = ₹2,40,000$

Super profit method: Normal =  $5,00,000 \times 10\% = 50,000$ . Super =  $80,000 - 50,000 = 30,000$ . Goodwill =  $30,000 \times 3 = ₹90,000$

Capitalisation of super profit:  $30,000 \times 100/10 = ₹3,00,000$

Capitalisation of average profit:  $(80,000 \times 100/10) - 5,00,000 = 8,00,000 - 5,00,000 = ₹3,00,000$

Note the two capitalisation routes agree. If yours do not, the capital employed is wrong.

## 7. AS 26 — The Accounting Rule

### MEMORISE THIS

Under AS 26 (Intangible Assets), goodwill is recorded in the books only when it is purchased, i.e. when consideration is paid for it. Self-generated goodwill is never recorded.

Consequence for partnership questions: on admission, retirement or a change in ratio, goodwill is NOT raised in the books. It is adjusted through the partners' capital / current accounts only.

### THE ONLY ENTRY YOU NEED

| Adjustment of goodwill                                                           | Dr  | Cr  |
|----------------------------------------------------------------------------------|-----|-----|
| <b>Gaining Partner's Capital A/c</b> Dr.<br>To Sacrificing Partner's Capital A/c | ... | ... |

Gainer pays, sacrificer receives. That one sentence covers admission, retirement and change in ratio.

**TRAP** If goodwill already appears in the balance sheet at the time of reconstitution, it must first be written off among all old partners in the OLD ratio:  
*All Partners' Capital A/c Dr. (old ratio)*  
*To Goodwill A/c*

## 8. Question Triggers

which method does the wording want?

| If the question says...                            | Use                                     |
|----------------------------------------------------|-----------------------------------------|
| "X years' purchase of average profit"              | Average profit method                   |
| "profits show an increasing trend" / weights given | <b>Weighted</b> average                 |
| "normal rate of return" + "capital employed"       | Super profit method                     |
| "capitalised value of the firm"                    | Capitalisation of average profit        |
| "goodwill at X% of super profit capitalised"       | Capitalisation of super profit          |
| "stock was overvalued by ₹X in 2023"               | Subtract from 2023, <b>add to 2024</b>  |
| "a machine purchase was debited to repairs"        | Add back, then deduct depreciation      |
| "loss by fire not covered by insurance"            | Abnormal loss → <b>add back</b>         |
| "profit on sale of a fixed asset"                  | Abnormal gain → <b>subtract</b>         |
| "partner to be paid a salary in future"            | <b>Subtract</b> from each year's profit |

|                                       |                                                                |
|---------------------------------------|----------------------------------------------------------------|
| "non-trade investments"               | Exclude from capital employed <b>and</b> subtract their income |
| Goodwill already in the balance sheet | Write off in <b>OLD ratio</b> first                            |

## MOST-ASKED BOARD QUESTIONS

1. [3-4M] Calculate goodwill by the average / weighted average profit method with adjustments.
2. [3-4M] Calculate goodwill by the super profit method.
3. [4M] Calculate goodwill by capitalisation of super profit / average profit.
4. [1-3M] State any three factors affecting the value of goodwill.
5. [1M] Why is self-generated goodwill not recorded? → **AS 26 permits only purchased goodwill**
6. [1M] Give the formula for super profit.  
→ **Average profit - Normal profit**

**THE HABIT THAT SCORES** — Write the adjusted-profit table as **WN1** before you touch any formula. Most goodwill questions are lost in the adjustment step, not the formula

step — and a visible adjustment table earns method marks even if one item is misclassified.

# Chapter 3 · Change in Profit Sharing Ratio

CBSE Class 12 Accountancy (055) · Part A · Unit 1

= 36 marks · Ultimate Revision Sheet

## 60-SECOND RECALL

|                      |                                                                           |
|----------------------|---------------------------------------------------------------------------|
| <b>What happens</b>  | Existing partners change their ratio. <b>No partner enters or leaves.</b> |
| <b>Sacrifice</b>     | <b>Old Share – New Share</b> (positive = sacrifice)                       |
| <b>Gain</b>          | <b>New Share – Old Share</b> (positive = gain)                            |
| <b>Total check</b>   | Total Sacrifice <b>must equal</b> Total Gain                              |
| <b>5 adjustments</b> | Goodwill → Reserves → Revaluation → Capitals → New Balance Sheet          |
| <b>Golden rule</b>   | <b>Gaining partner Dr., Sacrificing partner Cr.</b>                       |

## 1. Meaning

**CONCEPT** A change in profit sharing ratio means the existing partners agree to share future profits in a new ratio. The firm is **reconstituted** — the old partnership ends and a new one begins — but the same partners continue.

Because one partner's share rises only if another's falls, the **gaining partner must compensate the sacrificing partner**.

## 2. Sacrificing and Gaining Ratio

### THE TWO FORMULAS

**Sacrificing Ratio = Old Share – New Share**

**Gaining Ratio = New Share – Old Share**

Work out one subtraction per partner. A **positive** result is a sacrifice; a **negative** result is a gain.

**WORKED EXAMPLE** A, B, C share 3 : 2 : 1.

New ratio 1 : 1 : 1.

A:  $3/6 - 2/6 = +1/6$  sacrifice

B:  $2/6 - 2/6 = 0$  — no change

C:  $1/6 - 2/6 = -1/6 \rightarrow$  gain of  $1/6$

Check: total sacrifice  $1/6 =$  total gain  $1/6$   
✓

So **C compensates A** for  $1/6$  of the firm's goodwill.

**TRAP** Always bring both ratios to a **common denominator** before subtracting. And always run the check: **total sacrifice must equal total gain**. If it does not, you have mis-stated the new ratio.

### 3. The Five Adjustments — in this order

- SEQUENCE — do not reorder**
1. **Goodwill** — adjust through capital accounts (AS 26)
  2. **Reserves & accumulated profits/losses** — distribute in the **OLD** ratio
  3. **Revaluation** of assets and liabilities — Revaluation A/c, result in **OLD** ratio
  4. **Adjustment of capitals** (if required)
  5. **New Balance Sheet**

#### Adjustment 1 — Goodwill

##### THE ONLY ENTRY

| Particulars                                                                                                                | Dr  | Cr  |
|----------------------------------------------------------------------------------------------------------------------------|-----|-----|
| <b>Gaining Partner's Capital A/c</b> Dr.<br>To Sacrificing Partner's Capital A/c<br>(Goodwill adjusted on change in ratio) | ... | ... |

**Amount = Firm's Goodwill × Share Gained (or Sacrificed)**

**TRAP — existing goodwill in the books** If

goodwill already appears in the balance sheet, write it off **first**, among **all partners in the OLD ratio**:

*All Partners' Capital A/c Dr. (old ratio)*  
*To Goodwill A/c*

Then pass the gaining/sacrificing entry.  
Two separate entries — never combine them.

## Adjustment 2 — Reserves and Accumulated Profits

| Item                                                                            | Entry                                                             |
|---------------------------------------------------------------------------------|-------------------------------------------------------------------|
| General Reserve, Reserve Fund, P&L (Cr.), Workmen Compensation Reserve (excess) | Reserve A/c Dr. To All Partners' Capital A/c ( <b>old ratio</b> ) |
| P&L (Dr. balance), Advertisement Suspense, Deferred Revenue Expenditure         | All Partners' Capital A/c Dr. ( <b>old ratio</b> ) To that A/c    |

## **TRAP** Workmen Compensation Reserve

(WCR):

- No claim → distribute the **whole** reserve in old ratio
- Claim **less** than reserve → distribute only the **excess**; keep the claim as a liability
- Claim **more** than reserve → the **shortfall** is a **loss**, debited to **Revaluation A/c**

## Adjustment 3 — Revaluation Account

### **FORMAT — REPRODUCE EXACTLY** Revaluation

A/c

| Particulars                                                | ₹          | Particulars                                              | ₹          |
|------------------------------------------------------------|------------|----------------------------------------------------------|------------|
| To Assets A/c (decrease in value)                          | ...        | By Assets A/c (increase in value)                        | ...        |
| To Liabilities A/c (increase)                              | ...        | By Liabilities A/c (decrease)                            | ...        |
| To Provision for Doubtful Debts (created/increased)        | ...        | By Unrecorded Assets A/c                                 | ...        |
| To Unrecorded Liabilities A/c                              | ...        |                                                          |            |
| To Profit transferred to Capital A/cs ( <b>old ratio</b> ) | ...        | By Loss transferred to Capital A/cs ( <b>old ratio</b> ) | ...        |
|                                                            | <b>XXX</b> |                                                          | <b>XXX</b> |

**Memory hook:** asset up or liability down → Credit (gain). Asset down or liability up → Debit (loss).

**TRAP** Revaluation profit/loss is *always* shared in the *OLD* ratio, because the change in value belongs to the period *before* reconstitution. Students routinely use the new ratio and lose the mark.

#### 4. Alternative — Single Adjusting Entry

Some questions ask for *one entry* instead of full accounts. Build a table of net effects.

##### METHOD

| Particulars                         | A   | B   | C   |
|-------------------------------------|-----|-----|-----|
| Goodwill adjustment                 | ... | ... | ... |
| Reserves distributed (old ratio)    | ... | ... | ... |
| Revaluation profit/loss (old ratio) | ... | ... | ... |
| <b>Net effect</b> → Dr / Cr         | ... | ... | ... |

The net of all three columns must be **ZERO**. Then debit the partner(s) with a net gain and credit those with a net sacrifice.

#### 5. Question Triggers

what the wording is really asking

| If the question says...                   | Do this                                  |
|-------------------------------------------|------------------------------------------|
| "decided to share future profits equally" | New ratio 1:1:1 → compute sacrifice/gain |

|                                                      |                                                             |
|------------------------------------------------------|-------------------------------------------------------------|
| "goodwill of the firm valued at ₹X"                  | Gainer's Capital Dr.,<br>Sacrificer's Capital Cr.           |
| "goodwill appears in the balance sheet"              | <b>Write off first</b> in old ratio, then adjust            |
| "general reserve appears in the balance sheet"       | Distribute in <b>OLD</b> ratio                              |
| "stock to be valued at ₹X" (lower)                   | <b>Debit</b> Revaluation A/c                                |
| "building to be appreciated by 10%"                  | <b>Credit</b> Revaluation A/c                               |
| "provision for doubtful debts to be created"         | <b>Debit</b> Revaluation A/c                                |
| "a creditor of ₹X is not likely to claim"            | Liability down → <b>Credit</b> Revaluation                  |
| "an unrecorded investment was found"                 | Asset up → <b>Credit</b> Revaluation                        |
| "claim on WCR is ₹X" (less than reserve)             | Distribute only the <b>excess</b> ; keep claim as liability |
| "pass a single adjusting entry"                      | Net-effect table, then one entry                            |
| "assets and liabilities are to appear at old values" | Use <b>Memorandum</b> Revaluation A/c                       |

## MOST-ASKED BOARD QUESTIONS

1. [6M] Prepare Revaluation A/c, Partners' Capital A/cs and the new Balance Sheet.
2. [3-4M] Calculate the sacrificing / gaining ratio and pass the goodwill entry.

3. [3-4M] Pass a single adjusting entry for the change in ratio.
4. [1M] In which ratio is revaluation profit shared? → **Old ratio**
5. [1M] Give the formula for gaining ratio.  
→ **New share - Old share**

---

**THE HABIT THAT SCORES** — Write the sacrifice/gain calculation as **WN1** with the common denominator visible, and run the **total sacrifice = total gain** check before going further. Every later figure depends on it, so an error here cascades through the whole 6-mark answer.

# Chapter 4 · Admission of a Partner

CBSE Class 12 Accountancy (055) · Part A · Unit 1

= 36 marks · the most-asked topic in the paper ·

Ultimate Revision Sheet

## 60-SECOND RECALL

|                             |                                                                                       |
|-----------------------------|---------------------------------------------------------------------------------------|
| <b>Sec 31</b>               | A new partner can be admitted only with the <b>consent of ALL existing partners</b> . |
| <b>He acquires 2 rights</b> | Right to <b>share future profits</b> · right in the <b>assets</b> of the firm         |
| <b>Sacrificing Ratio</b>    | <b>Old Share – New Share</b>                                                          |
| <b>If nothing stated</b>    | Old partners sacrifice in their <b>OLD ratio</b>                                      |
| <b>6 adjustments</b>        | New ratio → Goodwill → Reserves → Revaluation → Capitals → Balance Sheet              |
| <b>Old ratio for</b>        | Reserves · Revaluation profit/loss · writing off existing goodwill                    |

## 1. Meaning

**CONCEPT** Under **Section 31** of the Indian Partnership Act 1932, a new partner can be admitted only with the **consent of all existing partners**. On admission the firm is **reconstituted**: the old agreement ends and a new one begins.

The incoming partner acquires **two rights**:  
(1) the right to share the future profits of the firm, and (2) the right in the assets of the firm. For these he brings in **capital** and his share of **goodwill (premium)**.

## 2. New Profit Sharing Ratio — the four cases

**CASE 1 — only the new partner's share is given** Old partners continue in their **old ratio** for the remainder.

$A:B = 3:2$ ,  $C$  admitted for  $1/5$ . Remaining  
 $= 1 - 1/5 = 4/5$ .

$A = 4/5 \times 3/5 = 12/25$      $B = 4/5 \times 2/5$   
 $= 8/25$      $C = 1/5 = 5/25$

**New ratio = 12 : 8 : 5**

**CASE 2 — new partner acquires a stated share FROM each partner**

Subtract what each gives up.

$A:B = 3:2$ ,  $C$  gets  $1/10$  from  $A$  and  $1/10$  from  $B$ .

$A = 3/5 - 1/10 = 5/10$      $B = 2/5 -$   
 $1/10 = 3/10$      $C = 2/10$

**New ratio = 5 : 3 : 2**

**CASE 3 — new partner acquires a FRACTION of each partner's share**

*C acquires  $\frac{1}{4}$  of A's share and  $\frac{1}{5}$  of B's share.*

From A =  $\frac{3}{5} \times \frac{1}{4} = \frac{3}{20}$       From B =  $\frac{2}{5} \times \frac{1}{5} = \frac{2}{25}$

A =  $\frac{3}{5} - \frac{3}{20}$       B =  $\frac{2}{5} - \frac{2}{25}$       C =  $\frac{3}{20} + \frac{2}{25} \rightarrow$  take LCM and simplify.

**CASE 4 — the sacrificing ratio is given directly**

Simply subtract each old partner's sacrifice from his old share.

**TRAP** When the question is **silent** about how the old partners sacrifice, they sacrifice in their **OLD RATIO** — and then the **sacrificing ratio equals the old ratio**. Do not invent an equal sacrifice.

### 3. Goodwill (Premium for Goodwill)

Under **AS 26** goodwill is never raised in the books. It is adjusted through capital accounts.

Does goodwill ALREADY appear in the Balance Sheet?

if YES

Write it off FIRST — Old Partners' Capital A/c Dr. in the OLD ratio

then carry on

Did the new partner bring the premium in CASH?

YES

Cash A/c Dr. → Premium for Goodwill A/c  
Premium A/c Dr. → Sacrificing partners

NO / partly

New Partner's Capital A/c Dr.  
→ Sacrificing partners' Capital A/c

Whichever branch you land on, the credit goes in the **SACRIFICING RATIO**.

If the old partners then withdraw the premium, add one more entry:  
Sacrificing Partners' Capital A/c Dr. → Cash.

### CASE A — premium brought IN CASH and retained in the firm

| Particulars                                                                                      | Dr  | Cr  |
|--------------------------------------------------------------------------------------------------|-----|-----|
| Cash / Bank A/c Dr.<br>To Premium for Goodwill A/c<br>To New Partner's Capital A/c (his capital) | ... | ... |
| Premium for Goodwill A/c Dr.<br>To Sacrificing Partners' Capital A/c<br>(sacrificing ratio)      | ... | ... |

### CASE B — premium withdrawn by old partners

Add, after the entries above:

Sacrificing Partners' Capital A/c Dr. To  
Cash/Bank A/c

### CASE C — premium NOT brought in cash (or only partly)

New Partner's Capital A/c Dr. To

*Sacrificing Partners' Capital A/c*  
(sacrificing ratio)

For the amount **not** brought in.

**CASE D — goodwill already appears in the Balance Sheet**

Write it off **FIRST**, among **old partners in the OLD ratio**:

*Old Partners' Capital A/c Dr. (old ratio)*  
*To Goodwill A/c*

Then treat the incoming premium normally. **Two separate entries.**

**THE MISTAKE THAT COSTS MOST MARKS**

Premium is credited to the sacrificing partners in the **SACRIFICING RATIO** — not the old ratio, not the new ratio. They are the same number only when the question is silent about the sacrifice.

#### 4. Hidden / Inferred Goodwill

When the question gives the new partner's capital and his share but **not** the goodwill.

**THE THREE STEPS**

**1. Total Capital of Firm = New Partner's Capital × Reciprocal of his share**

**2. Net Worth = Combined capitals of ALL partners after all adjustments**

**3. Hidden Goodwill = Total Capital of Firm – Net Worth**

**WORKED EXAMPLE** A and B capitals after adjustment ₹3,00,000 and ₹2,00,000. C brings ₹2,00,000 for  $\frac{1}{4}$  share.

1. Total capital =  $2,00,000 \times \frac{4}{1} = ₹8,00,000$

2. Net worth =  $3,00,000 + 2,00,000 + 2,00,000 = ₹7,00,000$

3. Hidden goodwill =  $8,00,000 - 7,00,000 = ₹1,00,000$

C's share of goodwill =  $1,00,000 \times \frac{1}{4} = ₹25,000 \rightarrow$  debit C's Capital A/c.

5. Revaluation & Reserves — both in OLD ratio

**REVALUATION A/c — FORMAT**

| Particulars                      | ₹   | Particulars                      | ₹   |
|----------------------------------|-----|----------------------------------|-----|
| To Assets A/c<br>(decrease)      | ... | By Assets A/c<br>(increase)      | ... |
| To Liabilities A/c<br>(increase) | ... | By Liabilities A/c<br>(decrease) | ... |

|                                             |            |                                           |            |
|---------------------------------------------|------------|-------------------------------------------|------------|
| To Provision for Doubtful Debts             | ...        | By Unrecorded Assets                      | ...        |
| To Unrecorded Liabilities                   | ...        |                                           |            |
| To Profit → Old Partners <b>(OLD ratio)</b> | ...        | By Loss → Old Partners <b>(OLD ratio)</b> | ...        |
|                                             | <b>XXX</b> |                                           | <b>XXX</b> |

Asset *up* / liability *down* → *Credit*. Asset *down* / liability *up* → *Debit*.

Reserves and accumulated profits/losses are distributed among old partners only, in the **OLD ratio**. The new partner gets no share of them, because they were earned before he joined.

## 6. Adjustment of Capitals — two directions

**(a) Old partners' capitals adjusted to the NEW ratio**

**Total Capital = New Partner's Capital × Reciprocal of his share**

Then each old partner's new capital = Total Capital × his new share. Difference is brought in or withdrawn (cash) or transferred to Current A/c.

**(b) New partner's capital derived from old partners' capitals**

**Total Capital = Combined adjusted capitals of old partners × Reciprocal of their combined share**

*New partner's capital = Total Capital × his share.*

## 7. Question Triggers

what the wording is really asking

| If the question says...                          | Do this                                                                    |
|--------------------------------------------------|----------------------------------------------------------------------------|
| "C is admitted for 1/4 share" (nothing else)     | Old partners sacrifice in <b>old ratio</b> ; sacrificing ratio = old ratio |
| "C acquires 1/10 from A and 1/10 from B"         | Subtract directly; sacrificing ratio = 1:1                                 |
| "C brings ₹X as premium for goodwill"            | Cash Dr., Premium A/c Cr., then distribute in <b>sacrificing ratio</b>     |
| "C could not bring his share of goodwill"        | C's Capital A/c Dr. → Sacrificing partners Cr.                             |
| "old partners withdrew the premium"              | Extra entry: their Capital A/c Dr. → Cash Cr.                              |
| "goodwill appears in the balance sheet at ₹X"    | <b>Write off in OLD ratio first</b>                                        |
| Capital + share given, goodwill <b>not</b> given | <b>Hidden goodwill</b> — three-step formula                                |
| "general reserve / P&L balance appears"          | Distribute to <b>old partners only</b> , old ratio                         |
| "provision for doubtful debts to be created"     | <b>Debit</b> Revaluation                                                   |
| "a liability is no longer payable"               | <b>Credit</b> Revaluation                                                  |

|                                                  |                                                         |
|--------------------------------------------------|---------------------------------------------------------|
| "capitals to be in the new profit sharing ratio" | Adjustment of capitals, method (a)                      |
| "workmen compensation claim ₹X"                  | Excess to old partners; shortfall to <b>Revaluation</b> |
| "assets and liabilities to appear at old values" | <b>Memorandum</b> Revaluation A/c                       |

## MOST-ASKED BOARD QUESTIONS

1. [6M] Prepare Revaluation A/c, Partners' Capital A/cs and the Balance Sheet of the new firm.
2. [3-4M] Calculate the new profit sharing ratio and the sacrificing ratio.
3. [3-4M] Pass journal entries for goodwill on admission (premium brought / not brought / withdrawn).
4. [4M] Calculate hidden goodwill and pass the entry.
5. [1M] In which ratio is the premium for goodwill credited? → **Sacrificing ratio**
6. [1M] Why is a new partner asked to bring goodwill? → **To compensate old partners for their sacrifice of future profits**

**THE HABIT THAT SCORES** — Compute the **sacrificing ratio as WN1** before anything else, even when it looks obvious. The goodwill distribution, the capital adjustment and the closing balance sheet all hang off it — one error there costs the entire 6-mark question.

# Chapter 5 · Retirement and Death of a Partner

CBSE Class 12 Accountancy (055) · Part A · Unit 1

= 36 marks · Ultimate Revision Sheet

## 60-SECOND RECALL

|                          |                                                                                                     |
|--------------------------|-----------------------------------------------------------------------------------------------------|
| <b>Gaining Ratio</b>     | <b>New Share – Old Share</b> (the mirror of admission)                                              |
| <b>If nothing stated</b> | Remaining partners gain in their <b>OLD ratio</b> , so new ratio = old ratio between them           |
| <b>Goodwill entry</b>    | <b>Gaining Partners' Capital A/c Dr. → Retiring Partner's Capital A/c Cr.</b>                       |
| <b>Old ratio for</b>     | Reserves · Revaluation · writing off existing goodwill                                              |
| <b>Amount due</b>        | Transferred to <b>Retiring Partner's Loan A/c</b> if not paid immediately                           |
| <b>On death</b>          | Everything as on retirement, <b>plus</b> share of profit till date of death → <b>Executor's A/c</b> |

## 1. Retirement — Meaning

**CONCEPT** A partner may retire (a) with the consent of all partners, (b) as per an express agreement, or (c) in a partnership at will, by giving **written notice** to all other partners.

The retiring partner is entitled to his capital, his share of goodwill, his share of revaluation profit and reserves, and his share of profit up to the date of retirement.

## 2. New Ratio and Gaining Ratio

### THE FORMULA

**Gaining Ratio = New Share – Old Share**

Admission asks for **sacrifice**; retirement asks for **gain**. Same subtraction, opposite direction.

**CASE 1 — nothing stated** Remaining partners continue in their **old mutual ratio**.

$A:B:C = 3:2:1$ ,  $C$  retires. New ratio  $A:B = 3:2$ . Gaining ratio = **3:2** as well.

**CASE 2 — retiring partner's share taken in a stated ratio**

$A:B:C = 5:3:2$ .  $C$  retires;  $A$  and  $B$  take his share equally.

$C$ 's share  $2/10$  split equally =  $1/10$  each.  
 $A = 5/10 + 1/10 = 6/10$      $B = 3/10 + 1/10 = 4/10$  → **New ratio 3:2**, gaining ratio **1:1**.

**CASE 3 — new ratio given directly** Subtract old from new for each remaining partner to get the gaining ratio.

**TRAP** Gaining ratio and new ratio are **the same only when the question is silent**. The moment a specific split is stated, they differ — and goodwill must be charged in the **GAINING ratio**.

### 3. Goodwill on Retirement

#### **THE ONLY ENTRY (AS 26)**

| Particulars                                                                                                                                             | Dr  | Cr  |
|---------------------------------------------------------------------------------------------------------------------------------------------------------|-----|-----|
| <b>Gaining Partners' Capital A/c Dr.<br/>(gaining ratio)</b><br>To Retiring Partner's Capital A/c<br>(Retiring partner's share of goodwill<br>adjusted) | ... | ... |

**Amount = Firm's Goodwill × Retiring Partner's Share**

**TRAP — goodwill already in the books** Write it

off first among **ALL** partners including the retiring one, in the **OLD** ratio:

All Partners' Capital A/c Dr. (old ratio)

To Goodwill A/c

Then pass the gaining-ratio entry.

#### 4. Revaluation, Reserves and the Retiring Partner's Account

Revaluation profit/loss and all reserves are shared among **ALL** partners including the retiring one, in the **OLD** ratio — he was a partner while they accrued.

##### **RETIRING PARTNER'S CAPITAL A/c — FORMAT**

| Particulars                                                  | ₹   | Particulars                                           | ₹   |
|--------------------------------------------------------------|-----|-------------------------------------------------------|-----|
| To Drawings A/c                                              | ... | By Balance b/d                                        | ... |
| To Goodwill A/c<br>(written off, old ratio)                  | ... | By General Reserve<br>A/c (old ratio)                 | ... |
| To Revaluation A/c<br>(loss)                                 | ... | By Revaluation A/c<br>(profit)                        | ... |
| To Profit & Loss A/c<br>(Dr. bal.)                           | ... | By Gaining Partners'<br>Capital A/c (goodwill)        | ... |
| To Bank A/c (amount<br>paid)                                 | ... | By Interest on Capital<br>A/c                         | ... |
| To Retiring Partner's<br><b>Loan A/c</b> (balance<br>unpaid) | ... | By Profit & Loss<br>Suspense A/c (share<br>till date) | ... |

## 5. Settlement of the Amount Due

| Mode of payment                       | Entry                                                                                     |
|---------------------------------------|-------------------------------------------------------------------------------------------|
| Paid <b>fully in cash</b>             | Retiring Partner's Capital A/c Dr. To Bank A/c                                            |
| <b>Not paid</b> — transferred to loan | Retiring Partner's Capital A/c Dr. To Retiring Partner's <b>Loan A/c</b>                  |
| <b>Part cash, part loan</b>           | Both of the above, split                                                                  |
| Interest on the loan                  | <b>6% p.a.</b> if the deed is silent (Sec 37 allows 6% or share of profit, at his option) |

## 6. Death of a Partner

Everything is treated *exactly as on retirement*, with *three additions*.

- THE THREE EXTRAS**
1. Share of profit till the date of death — must be calculated.
  2. The amount due goes to the **Executor's A/c**, not a loan account.
  3. Death may occur mid-year, so time apportionment is needed.

### SHARE OF PROFIT TILL DATE OF DEATH — two methods

(a) **Time Basis** = Last year's profit × (Months or days till death / 12 or 365) × Deceased's share

**(b) Sales Basis = Sales till date of death  $\times$  (Last year's profit / Last year's sales)  $\times$  Deceased's share**

Entry: Profit & Loss Suspense A/c Dr. To Deceased Partner's Capital A/c

**WORKED EXAMPLE** A, B, C share 2:2:1. C dies on 31 May. Last year's profit ₹1,20,000. Year ends 31 March.

Period = 1 April to 31 May = 2 months

Profit till death =  $1,20,000 \times 2/12 = ₹20,000$

C's share =  $20,000 \times 1/5 = ₹4,000$

P&L Suspense A/c Dr. ₹4,000 To C's Capital A/c ₹4,000

**TRAP** P&L Suspense A/c is used only for the deceased partner's share, and it appears on the **ASSETS** side of the new balance sheet until adjusted. Do not credit the whole firm's profit to it.

## 7. Question Triggers

what the wording is really asking

If the question says...

Do this

|                                                         |                                                               |
|---------------------------------------------------------|---------------------------------------------------------------|
| "C retires" (nothing else about ratio)                  | New ratio = old ratio of remaining; gaining ratio same        |
| "A and B take C's share equally"                        | Gaining ratio <b>1:1</b> , then recompute new ratio           |
| "goodwill of the firm is ₹X"                            | Gainers Dr. (gaining ratio) → Retiring partner Cr.            |
| "goodwill appears in the books"                         | Write off among <b>ALL</b> partners in <b>OLD</b> ratio first |
| "general reserve appears"                               | Distribute to <b>ALL</b> partners incl. retiring, old ratio   |
| "amount to be paid in instalments"                      | Transfer to <b>Loan A/c</b> ; interest 6% if silent           |
| "C died on 30 June"                                     | Compute profit till date → <b>P&amp;L Suspense A/c</b>        |
| "sales till date of death were ₹X"                      | <b>Sales basis</b> , not time basis                           |
| "amount payable to his executor"                        | Transfer to <b>Executor's A/c</b> , not Loan A/c              |
| "joint life policy matured"                             | Credit all partners in <b>old ratio</b>                       |
| "capitals of remaining partners to be in the new ratio" | Adjust capitals; surplus/deficit to Cash or Current A/c       |

## MOST-ASKED BOARD QUESTIONS

1. [6M] Prepare Revaluation A/c, Partners' Capital A/cs and the Balance Sheet after retirement.
2. [6M] Prepare the deceased partner's Capital A/c and his Executor's A/c.

3. [3-4M] Calculate the gaining ratio and pass the goodwill entry.
4. [3M] Calculate the deceased partner's share of profit till the date of death.
5. [1M] Give the formula for gaining ratio.  
→ **New share - Old share**
6. [1M] Where is P&L Suspense A/c shown? → **Assets side of the balance sheet**

---

**THE HABIT THAT SCORES** — Retirement is admission run backwards. Wherever admission says **sacrifice**, retirement says **gain**; wherever admission credits the **old** partners, retirement credits the **retiring** one. Learn the pair together and you have covered roughly a third of Unit 1.

# Chapter 6 · Dissolution of a Partnership Firm

CBSE Class 12 Accountancy (055) · Part A · Unit 1

= 36 marks · Ultimate Revision Sheet

## SYLLABUS ALERT — OFFICIALLY EXCLUDED

The 2026-27 syllabus explicitly excludes *piecemeal distribution, sale to a company, and insolvency of partner(s)*. Do not spend revision time on them.

## 60-SECOND RECALL

|                                          |                                                                                                       |
|------------------------------------------|-------------------------------------------------------------------------------------------------------|
| <b>Key distinction</b>                   | Dissolution of <b>PARTNERSHIP</b> = business continues. Dissolution of <b>FIRM</b> = business closes. |
| <b>The account</b>                       | <b>Realisation A/c</b> — not Revaluation                                                              |
| <b>Transfer rule</b>                     | All assets at <b>book value</b> to Dr. side · all outside liabilities to Cr. side                     |
| <b>Never transferred</b>                 | Cash/Bank · Fictitious assets · Partners' capital/current · Reserves · P&L                            |
| <b>Tangible asset, value not given</b>   | Realised at <b>BOOK VALUE</b>                                                                         |
| <b>Intangible asset, value not given</b> | Realised at <b>NIL</b>                                                                                |
| <b>Order of payment</b>                  | Outside creditors → Partner's loan → Partners' capital                                                |

## 1. Dissolution of Partnership vs Dissolution of Firm

| Basis                       | Dissolution of PARTNERSHIP                                                                                | Dissolution of FIRM                         |
|-----------------------------|-----------------------------------------------------------------------------------------------------------|---------------------------------------------|
| <b>Business</b>             | <b>Continues</b> with the remaining partners                                                              | <b>Closes down</b> completely               |
| <b>Relationship</b>         | Only the existing agreement changes                                                                       | Relationship among <b>all</b> partners ends |
| <b>Books</b>                | Books are <b>not closed</b> ; reconstituted                                                               | Books are <b>closed</b>                     |
| <b>Account used</b>         | <b>Revaluation A/c</b>                                                                                    | <b>Realisation A/c</b>                      |
| <b>Court order</b>          | Not involved                                                                                              | Court may order it                          |
| <b>Which includes which</b> | Dissolution of a <b>firm</b> always means dissolution of the partnership. The reverse is <b>not</b> true. |                                             |

## 2. Modes of Dissolution

1. **By agreement** — with the consent of all partners.
2. **Compulsory dissolution** — all or all but one partner become insolvent, or the business becomes unlawful.
3. **On the happening of an event** — expiry of the term, completion of the venture, death or insolvency of a partner.
4. **By notice** — in a partnership at will, any partner may give written notice.

5. *By court order* — insanity, permanent incapacity, misconduct, persistent breach, transfer of interest, continuous losses, or any just and equitable ground.

### 3. Realisation Account

**FORMAT — REPRODUCE EXACTLY** Realisation

A/c

| Particulars                                        | ₹          | Particulars                                 | ₹          |
|----------------------------------------------------|------------|---------------------------------------------|------------|
| To Sundry Assets A/c<br>(book value, each named)   | ...        | By Sundry Liabilities A/c (book value)      | ...        |
| To Bank A/c (liabilities paid)                     | ...        | By Provision for Doubtful Debts A/c         | ...        |
| To Bank A/c (realisation expenses)                 | ...        | By Bank A/c (assets realised)               | ...        |
| To Partner's Capital A/c<br>(liability taken over) | ...        | By Partner's Capital A/c (asset taken over) | ...        |
| To Partner's Capital A/c<br>(remuneration)         | ...        | By Partners' Capital A/c (LOSS, old ratio)  | ...        |
| To Partners' Capital A/c<br>(PROFIT, old ratio)    | ...        |                                             |            |
|                                                    | <b>XXX</b> |                                             | <b>XXX</b> |

**WHAT GOES IN — AND WHAT NEVER DOES**

TRANSFERRED to Realisation  
A/c

NEVER transferred

All assets at **book value** (Dr. side)  
Land, Building, Machinery,  
Stock, Debtors, Investments,  
**Goodwill** if in books

**Cash and Bank** balances  
**Fictitious assets** (P&L Dr. bal.,  
Advertisement Suspense)  
→ these go to **Partners' Capital A/c** in old ratio

All **outside** liabilities at book value (Cr. side)  
Creditors, Bills Payable, Bank Loan, Outstanding Expenses

**Partners' Capital / Current A/c**  
**Partner's Loan A/c** — separate account  
**Reserves, General Reserve, P&L (Cr.)** → Capital A/c, old ratio

**Provisions** against assets (Cr. side)  
Provision for Doubtful Debts,  
Provision for Depreciation

### THE TWO RULES THE SYLLABUS SPELLS OUT 1. If

the realised value of a **TANGIBLE** asset is not given, it is realised at **BOOK VALUE**.

2. If the realised value of an **INTANGIBLE** asset (goodwill, patents) is not given, it is realised at **NIL**.

These are printed in the official syllabus, so questions rely on them.

## 4. Realisation Expenses — the five cases

| Situation                                      | Entry                                        |
|------------------------------------------------|----------------------------------------------|
| Paid by the <b>firm</b>                        | Realisation A/c Dr. To Bank A/c              |
| Paid by a <b>partner on behalf of the firm</b> | Realisation A/c Dr. To Partner's Capital A/c |

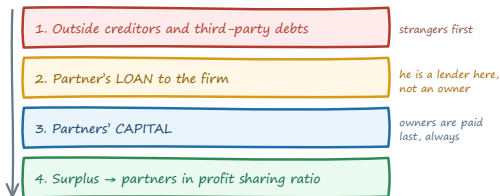
|                                                            |                                                                                                                   |
|------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------|
| Partner agreed to <b>bear them personally</b>              | <b>NO ENTRY</b>                                                                                                   |
| Partner bears them, firm pays                              | Partner's Capital A/c Dr. To Bank A/c                                                                             |
| Partner given a <b>fixed remuneration</b> to bear expenses | Realisation A/c Dr. To Partner's Capital A/c ( <i>only the agreed remuneration, whatever the actual expense</i> ) |

### TRAP

When a partner is paid a **fixed remuneration** to bear the expenses, only the **remuneration** is debited to Realisation A/c. The actual expense is irrelevant — even if it differs. Students routinely record both and unbalance the account.

## 5. Order of Payment

Money leaves the pot in this order. Nobody below is paid until everybody above is paid in full.



Step 2 is the marks: a partner's LOAN is settled by its own entry, never through Realisation A/c.

The firm pays outsiders, then the partner as lender, then the partner as owner.

### SECTION 48 — STRICT ORDER

1. Outside creditors and third-party debts
2. Partner's loan to the firm

3. Partners' capital

4. Any surplus → partners in their profit sharing ratio

Partner's Loan A/c is settled through a separate entry, never through Realisation A/c:

Partner's Loan A/c Dr. To Bank A/c

6. Closing the Books — the three accounts

**THE SEQUENCE**

1. Realisation A/c → find profit or loss, transfer to capitals in old ratio

2. Partners' Capital A/c → settle each partner

3. Cash / Bank A/c → must close at ZERO

### THE CHECK THAT CATCHES EVERY ERROR

The Cash/Bank A/c must balance exactly to nil. If it does not, one of these is wrong:

- an asset realised was not brought into Bank
- a liability paid was not taken out of Bank
- an asset taken over by a partner was wrongly routed through Bank
- realisation expenses recorded twice

Do this check **before** writing the final answer — it takes ten seconds and saves the question.

## 7. Question Triggers

what the wording is really asking

| If the question says...                             | Do this                                                 |
|-----------------------------------------------------|---------------------------------------------------------|
| "the firm was dissolved"                            | <b>Realisation</b> A/c, not Revaluation                 |
| "debtors of ₹X, provision ₹Y"                       | Debtors at <b>gross</b> to Dr.; provision to <b>Cr.</b> |
| "A took over the machinery"                         | A's Capital A/c Dr. → Realisation A/c Cr.               |
| "B agreed to pay the creditors"                     | Realisation A/c Dr. → B's Capital A/c Cr.               |
| "stock realised nothing" / not mentioned (tangible) | Realised at <b>book value</b> unless stated             |

|                                                    |                                                                     |
|----------------------------------------------------|---------------------------------------------------------------------|
| "goodwill" with no realised value                  | Realised at <b>NIL</b>                                              |
| "A was to bear realisation expenses"               | <b>No entry</b> if he also pays them                                |
| "A was allowed ₹5,000 for expenses; actual ₹7,000" | Debit Realisation with <b>₹5,000 only</b>                           |
| "partner's loan appears in the balance sheet"      | <b>Separate</b> entry; never in Realisation A/c                     |
| "P&L (Dr.) balance appears"                        | Straight to <b>Capital A/cs</b> , old ratio                         |
| "general reserve appears"                          | Straight to <b>Capital A/cs</b> , old ratio                         |
| "an unrecorded asset was sold"                     | Bank Dr. → Realisation Cr.<br>(no Dr. entry, it was never in books) |
| "an unrecorded liability was paid"                 | Realisation Dr. → Bank Cr.                                          |

## MOST-ASKED BOARD QUESTIONS

1. **[6M]** Prepare Realisation A/c, Partners' Capital A/cs and Bank A/c.
2. **[3-4M]** Pass journal entries on dissolution (assets taken over, expenses, unrecorded items).
3. **[3-4M]** Distinguish between dissolution of partnership and dissolution of firm.
4. **[1M]** Which account is prepared on dissolution of a firm? → **Realisation A/c**

5. [1M] At what value is an intangible asset realised if not stated? → Nil
6. [1M] In what order are payments made? → Creditors → Partner's loan → Capital

---

**THE HABIT THAT SCORES** — Before writing anything, list which items go to Realisation A/c and which go straight to Capital A/cs. Cash, fictitious assets, reserves and partners' own balances are the four that never enter Realisation — and putting any of them in is the single most common way this 6-marker is lost.

# Chapter 7 · Accounting for Share Capital

CBSE Class 12 Accountancy (055) · Part A · Unit 2

= 24 marks · Ultimate Revision Sheet

## SYLLABUS ALERT

*Interest on calls in advance and calls in arrears is EXCLUDED from the 2026-27 syllabus. Learn the accounts, not the interest calculation.*

## 60-SECOND RECALL

|                                |                                                                                                              |
|--------------------------------|--------------------------------------------------------------------------------------------------------------|
| <b>Share capital order</b>     | Authorised → Issued → Subscribed → Called-up → Paid-up                                                       |
| <b>Max premium</b>             | No limit. <b>Securities Premium</b> is a <b>capital</b> reserve, shown under <b>Reserves &amp; Surplus</b> . |
| <b>Calls in advance</b>        | A <b>LIABILITY</b> — Other Current Liabilities. Never added to paid-up capital.                              |
| <b>Calls in arrears</b>        | <b>Deducted</b> from Subscribed & Fully Paid capital in the notes.                                           |
| <b>Forfeiture</b>              | Debit Share Capital by <b>CALLED-UP</b> value. Credit Forfeiture by amount <b>RECEIVED</b> .                 |
| <b>Max discount on reissue</b> | Cannot exceed the amount <b>forfeited</b> on those shares.                                                   |
| <b>After reissue</b>           | Balance in Forfeiture A/c → <b>Capital Reserve</b> .                                                         |

## 1. Types of Share Capital

| Term                        | Meaning                                                                                            |
|-----------------------------|----------------------------------------------------------------------------------------------------|
| <b>Authorised / Nominal</b> | Maximum capital the company is authorised to issue, stated in the <b>Memorandum of Association</b> |
| <b>Issued</b>               | The part of authorised capital <b>offered</b> to the public                                        |
| <b>Subscribed</b>           | The part of issued capital <b>applied for</b> by the public                                        |
| <b>Called-up</b>            | The part of subscribed capital the company has <b>demanded</b>                                     |
| <b>Paid-up</b>              | Called-up capital <b>actually received</b> = Called-up – Calls in arrears                          |
| <b>Reserve capital</b>      | Part of uncalled capital callable <b>only at winding up</b> (special resolution)                   |

| Basis                | EQUITY shares                             | PREFERENCE shares                    |
|----------------------|-------------------------------------------|--------------------------------------|
| <b>Dividend</b>      | Fluctuating, paid <b>after</b> preference | <b>Fixed</b> rate, paid <b>first</b> |
| <b>Repayment</b>     | Repaid <b>last</b> at winding up          | Repaid <b>before</b> equity up       |
| <b>Voting rights</b> | <b>Yes</b> , on all matters               | Only on matters affecting them       |

## 2. Issue of Shares — the journal chain

### THE FIVE ENTRIES — IN ORDER

| Particulars                                 | Dr  | Cr  |
|---------------------------------------------|-----|-----|
| 1. Bank A/c Dr.<br>To Share Application A/c | ... | ... |

|                                                                                                                                                                                         |     |     |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|-----|
| <b>2.</b> Share Application A/c Dr.<br>To Share Capital A/c<br>To Securities Premium A/c<br>To Share Allotment A/c ( <i>excess adjusted</i> )<br>To Bank A/c ( <i>excess refunded</i> ) | ... | ... |
| <b>3.</b> Share Allotment A/c Dr.<br>To Share Capital A/c<br>To Securities Premium A/c                                                                                                  | ... | ... |
| <b>4.</b> Bank A/c Dr.<br>Calls in Arrears A/c Dr.<br>To Share Allotment A/c                                                                                                            | ... | ... |
| <b>5.</b> Share First & Final Call A/c Dr.<br>To Share Capital A/c → then Bank A/c<br>Dr. To Call A/c                                                                                   | ... | ... |

*Securities Premium is recorded at **ALLOTMENT** unless the question says otherwise.*

### 3. Over-subscription — the three treatments

| Treatment                 | What happens                                                                                  |
|---------------------------|-----------------------------------------------------------------------------------------------|
| <b>Full allotment</b>     | Applicant gets all shares applied for                                                         |
| <b>Pro-rata allotment</b> | Shares allotted in a ratio; excess money adjusted against <b>allotment</b> , balance refunded |
| <b>Rejection</b>          | Application money fully <b>refunded</b>                                                       |

### PRO-RATA — THE CALCULATION MOST LOSE

Applied 60,000 shares, allotted 40,000, i.e. ratio **3 : 2**. Application ₹3, allotment ₹5.

A applied for **600** shares → allotted  $600 \times \frac{2}{3} = \mathbf{400}$  shares

Money received on application =  $600 \times 3 = \mathbf{₹1,800}$

Required on application =  $400 \times 3 = \mathbf{₹1,200}$

**Excess carried to allotment = ₹600**

Allotment due =  $400 \times 5 = ₹2,000 - 600 = \mathbf{₹1,400}$  to be received

**Always compute in this order:** shares allotted → money received → money required → excess → net allotment due.

## 4. Forfeiture of Shares

**THE RULE — three amounts** Debit Share

Capital A/c with the **CALLED-UP** value

Credit Share Forfeiture A/c with the amount **RECEIVED**

Credit Calls in Arrears (or the unpaid call

accounts) with the amount **NOT RECEIVED**

**ENTRY — premium ALREADY received**

| Particulars                               | Dr  | Cr  |
|-------------------------------------------|-----|-----|
| Share Capital A/c Dr. (called-up value)   | ... | ... |
| To Share Forfeiture A/c (amount received) |     |     |
| To Calls in Arrears A/c (amount unpaid)   |     |     |

Securities Premium is **NOT** touched — it was already received.

**ENTRY — premium NOT received**

| Particulars                       | Dr  | Cr  |
|-----------------------------------|-----|-----|
| Share Capital A/c Dr. (called-up) | ... | ... |
| <b>Securities Premium A/c Dr.</b> |     |     |
| (unreceived premium)              |     |     |
| To Share Forfeiture A/c           |     |     |
| To Calls in Arrears A/c           |     |     |

**THE DECIDING QUESTION** Ask: *was the*

*premium actually received?*

- Received → Securities Premium **untouched**
- Not received → Securities Premium **DEBITED** (cancelled)

*This single check decides the entry.*

*Premium is usually called at allotment, so if allotment money was not received, the premium was not received either.*

## 5. Re-issue of Forfeited Shares

**ENTRY**

| Particulars                                                                                    | Dr  | Cr  |
|------------------------------------------------------------------------------------------------|-----|-----|
| Bank A/c Dr. (amount received on reissue)                                                      | ... | ... |
| Share Forfeiture A/c Dr. (discount allowed)<br>To Share Capital A/c (paid-up value)            |     |     |
| <b>Then transfer the surplus:</b><br>Share Forfeiture A/c Dr.<br>To <b>Capital Reserve A/c</b> | ... | ... |

## CAPITAL RESERVE — THE THREE-STEP CALCULATION

**1. Amount forfeited on the shares reissued** = Total forfeited  $\times$  (Shares reissued / Shares forfeited)

**2. Less: discount allowed on reissue**

**3. = Amount transferred to Capital Reserve**

*Example:* 1,000 shares forfeited, ₹6,000 forfeited in total. 600 reissued at ₹8 (face ₹10, fully paid).

Forfeited on 600 =  $6,000 \times 600/1000 = ₹3,600$

Discount =  $600 \times ₹2 = ₹1,200$

Capital Reserve =  $3,600 - 1,200 = ₹2,400$

The remaining ₹2,400 (on the 400 not reissued) stays in Share Forfeiture A/c and is shown under **Share Capital** in the balance sheet.

**TRAP** Maximum discount on reissue = amount forfeited on those shares. The company can never reissue at a bigger loss than it gained on forfeiture. If a question implies otherwise, recheck your forfeited figure.

## 6. Other Concepts (1-markers)

| Term                                            | Meaning                                                                                                                            |
|-------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|
| <b>Private Placement</b>                        | Offer of securities to a <b>select group</b> of persons (not more than 200 in a financial year), not to the public                 |
| <b>ESOP</b>                                     | <b>Employee Stock Option Plan</b> — option given to employees/directors to buy shares at a pre-determined price                    |
| <b>Sweat Equity</b>                             | Shares issued to employees or directors <b>at a discount</b> or for consideration other than cash, for know-how or value additions |
| <b>Shares for consideration other than cash</b> | Issued to vendors for assets, or to promoters for services                                                                         |

### SHARES ISSUED TO A VENDOR 1. Sundry Assets

A/c Dr. To Vendor A/c

2. Vendor A/c Dr. To Share Capital A/c  
To Securities Premium A/c

**Number of shares = Purchase consideration**  
**÷ Issue price (face value + premium)**

## 7. Balance Sheet Presentation (Schedule III)

### NOTES TO ACCOUNTS — SHARE CAPITAL

|                                                   |     |
|---------------------------------------------------|-----|
| Authorised Capital: ... shares of ₹10 each        | ... |
| Issued Capital: ... shares of ₹10 each            | ... |
| Subscribed and Fully Paid: ... shares of ₹10 each | ... |

|                                                                            |              |
|----------------------------------------------------------------------------|--------------|
| Subscribed but not Fully Paid: ... shares<br><i>Less: Calls in Arrears</i> | ...<br>(...) |
| Add: Share Forfeiture A/c ( <i>shares not yet reissued</i> )               | ...          |
|                                                                            | <b>XXX</b>   |

**Securities Premium** → Reserves & Surplus.  
**Calls in Advance** → Other Current Liabilities.

## 8. Question Triggers

what the wording is really asking

| If the question says...                               | Do this                                                                  |
|-------------------------------------------------------|--------------------------------------------------------------------------|
| "applications received for more shares than issued"   | Over-subscription → pro-rata working                                     |
| "allotted in the ratio 3:2"                           | Pro-rata — carry excess to allotment                                     |
| "X failed to pay the allotment money"                 | Calls in Arrears; premium likely <b>not</b> received                     |
| "shares were forfeited"                               | Debit Capital by <b>called-up</b> , credit Forfeiture by <b>received</b> |
| "premium had not been received"                       | <b>Debit Securities Premium</b> in the forfeiture entry                  |
| "reissued at ₹8 fully paid (face ₹10)"                | Discount ₹2 per share → Debit Forfeiture                                 |
| "calculate the amount transferred to Capital Reserve" | Three-step: proportion → less discount → balance                         |
| "some shares were not reissued"                       | That part stays in Forfeiture A/c → <b>added to Share Capital</b>        |
| "paid the call money in advance"                      | <b>Calls in Advance</b> — a liability, not capital                       |

|                                                     |                                                     |
|-----------------------------------------------------|-----------------------------------------------------|
| "purchased machinery from a vendor, paid in shares" | Assets Dr. → Vendor; Vendor Dr. → Capital + Premium |
| "issued to employees at a discount for services"    | <b>Sweat equity</b>                                 |
| "offered to fewer than 200 selected persons"        | <b>Private placement</b>                            |

## MOST-ASKED BOARD QUESTIONS

1. [6M] Pass journal entries for issue, over-subscription, forfeiture and reissue.
2. [4M] Calculate the amount transferred to Capital Reserve.
3. [3-4M] Prepare the Share Capital note as per Schedule III.
4. [1M] Where is Securities Premium shown? → **Reserves & Surplus**
5. [1M] Maximum discount allowed on reissue? → **Amount forfeited on those shares**
6. [1M] What is reserve capital? → **Uncalled capital callable only at winding up**

**THE HABIT THAT SCORES** — For every forfeiture question write three numbers first: **called-up, received,**

**not received.** The entry falls out of them. And always ask the deciding question — **was the premium received?** — before writing a single line.

# Chapter 8 · Issue of Debentures

CBSE Class 12 Accountancy (055) · Part A · Unit 2

= 24 marks · Ultimate Revision Sheet

**SYLLABUS ALERT** TDS on debenture interest is **EXCLUDED** from the 2026-27 syllabus. Also note: only *issue* of debentures is prescribed — redemption is not.

## 60-SECOND RECALL

|                            |                                                                                                                                     |
|----------------------------|-------------------------------------------------------------------------------------------------------------------------------------|
| <b>Debenture</b>           | Acknowledgement of <b>DEBT</b> . Holder is a <b>creditor</b> , not an owner.                                                        |
| <b>Interest</b>            | A <b>CHARGE</b> against profit — paid even in a loss. Shown as <b>Finance Cost</b> .                                                |
| <b>Loss on issue</b>       | Written off in the <b>year of allotment</b> : first from <b>Securities Premium</b> , then from <b>Statement of P&amp;L</b> (AS 16). |
| <b>Collateral security</b> | Secondary security. Two treatments — <b>no entry</b> , or a formal entry.                                                           |
| <b>Balance sheet</b>       | Debentures → <b>Non-Current Liabilities</b> → <b>Long-term Borrowings</b>                                                           |
| <b>Golden rule</b>         | Loss on issue arises from the <b>redemption premium</b> , not the issue discount alone.                                             |

## 1. Meaning & Debenture vs Share

### DEFINITION

A **debenture** is a document issued by a company under its common seal, acknowledging a **debt** and containing provisions for repayment of the principal and payment of interest at a fixed rate.

| Basis          | SHARE                                                  | DEBENTURE                                               |
|----------------|--------------------------------------------------------|---------------------------------------------------------|
| Status         | <b>Owner</b> of the company                            | <b>Creditor</b> of the company                          |
| Return         | <b>Dividend</b> — an appropriation, only out of profit | <b>Interest</b> — a <b>charge</b> , paid even in a loss |
| Voting rights  | <b>Yes</b>                                             | <b>No</b>                                               |
| Repayment      | Repaid <b>last</b>                                     | Repaid <b>before</b> shareholders                       |
| Security       | Unsecured                                              | Usually <b>secured</b> by a charge on assets            |
| Convertibility | Cannot be converted                                    | <b>Can</b> be convertible                               |

**Types:** Secured / Unsecured · Registered / Bearer · Redeemable / Irredeemable · Convertible / Non-convertible · First / Second.

## 2. Issue for Cash — the three prices

### AT PAR

Bank A/c Dr. To Debenture Application & Allotment A/c

Debenture Application & Allotment A/c  
Dr. To 9% Debentures A/c

**AT PREMIUM** Debenture Application &  
Allotment A/c Dr.

To 9% Debentures A/c (face value)

To Securities Premium A/c (premium)

**AT DISCOUNT** Debenture Application &  
Allotment A/c Dr.

Discount on Issue of Debentures A/c Dr.

To 9% Debentures A/c (face value)

### 3. Issue Conditions — the six combinations

Debentures may be **issued** at par, premium or discount, and **redeemed** at par or premium. The redemption terms decide whether there is a **loss on issue**.

**THE MASTER TABLE — learn this, it drives every question**

| Issued → Redeemed     | Debit side of the entry         | Credit side |
|-----------------------|---------------------------------|-------------|
| <b>Par → Par</b>      | Bank                            | Debentures  |
| <b>Discount → Par</b> | Bank + <b>Discount on Issue</b> | Debentures  |

|                           |                                                                      |                                                                      |
|---------------------------|----------------------------------------------------------------------|----------------------------------------------------------------------|
| <b>Premium → Par</b>      | Bank                                                                 | Debentures +<br><b>Securities Premium</b>                            |
| <b>Par → Premium</b>      | Bank + <b>Loss on Issue</b>                                          | Debentures +<br><b>Premium on Redemption</b>                         |
| <b>Discount → Premium</b> | Bank + <b>Loss on Issue</b> ( <i>discount + redemption premium</i> ) | Debentures +<br><b>Premium on Redemption</b>                         |
| <b>Premium → Premium</b>  | Bank + <b>Loss on Issue</b>                                          | Debentures +<br>Securities Premium +<br><b>Premium on Redemption</b> |

**WORKED EXAMPLE — the hardest case** 1,000

debentures of ₹100 each issued at 10% discount, redeemable at 5% premium.

Face value =  $1,000 \times 100 = ₹1,00,000$

Cash received =  $1,000 \times 90 = ₹90,000$

Discount = ₹10,000      Premium on redemption =  $1,00,000 \times 5\% = ₹5,000$

Loss on Issue =  $10,000 + 5,000 = ₹15,000$

Bank A/c Dr. ₹90,000

Loss on Issue of Debentures A/c Dr.  
₹15,000

To 9% Debentures A/c ₹1,00,000

To Premium on Redemption of  
Debentures A/c ₹5,000

**TRAP** Premium on Redemption of Debentures is a **LIABILITY** (Other Long-term Liabilities), not an expense. It is credited now and paid at redemption. Students often debit it.

#### 4. Writing off Discount / Loss on Issue (AS 16)

##### THE OFFICIAL RULE — quoted in the syllabus

Discount or loss on issue of debentures is written off in the year the debentures are allotted:

1. First from **Securities Premium Reserve**, if it exists
2. Then the balance from the **Statement of Profit & Loss as a Finance Cost**

##### ENTRY *Securities Premium Reserve A/c*

*Dr. (to the extent available)*

*Statement of Profit & Loss A/c Dr.*

*(balance)*

*To Discount / Loss on Issue of Debentures A/c*

#### 5. Issue for Consideration Other Than Cash

##### TWO ENTRIES 1. *Sundry Assets A/c Dr.*

*(Goodwill Dr. if purchase price > net assets)*

*To Sundry Liabilities A/c To Vendor A/c*

(Capital Reserve Cr. if net assets > purchase price)

2. Vendor A/c Dr. To Debentures A/c ( $\pm$  Securities Premium / Discount)

**No. of debentures = Purchase Consideration  $\div$  Issue Price**

Issue price = face value + premium, or face value - discount.

## 6. Debentures as Collateral Security

**CONCEPT** Collateral security is a secondary security given in addition to the primary security. If the loan is repaid, the debentures are returned; if not, the lender may keep them.

| Method          | Treatment                                                                                                                                       |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. No entry     | Only a <b>note</b> under Long-term Borrowings:<br>"Bank Loan ₹X secured by issue of ₹Y debentures as collateral security"                       |
| 2. Formal entry | Debenture Suspense A/c Dr. To Debentures A/c<br>Both shown under Long-term Borrowings;<br>Debenture Suspense is <b>deducted</b> from Debentures |

## 7. Interest on Debentures

### ENTRIES

1. Debenture Interest A/c Dr. To Debentureholders A/c
2. Debentureholders A/c Dr. To Bank A/c
3. Statement of Profit & Loss Dr. To Debenture Interest A/c

$$\text{Interest} = \text{Face Value of Debentures} \times \text{Rate} \times \text{Period}$$

Interest is always on **FACE** value, never on the issue price.

### TRAP

Interest is calculated on **face value** even when debentures were issued at a discount or premium. A ₹100 debenture issued at ₹90 still earns 9% on ₹100. And interest is a **charge** — payable even if the company makes a loss.

## 8. Question Triggers

what the wording is really asking

| If the question says...            | Do this                               |
|------------------------------------|---------------------------------------|
| "issued at par, redeemable at par" | Simplest entry — no discount, no loss |

|                                                 |                                                            |
|-------------------------------------------------|------------------------------------------------------------|
| "issued at 10% discount, redeemable at par"     | <b>Discount on Issue</b> Dr.                               |
| "issued at par, redeemable at 5% premium"       | <b>Loss on Issue</b> Dr., <b>Premium on Redemption</b> Cr. |
| "issued at discount AND redeemable at premium"  | Loss = <b>discount + redemption premium</b>                |
| "Securities Premium Reserve balance ₹X exists"  | Write off loss from it <b>first</b> , balance to P&L       |
| "purchased assets worth ₹X, paid in debentures" | Assets Dr. → Vendor; Vendor Dr. → Debentures               |
| "purchase price exceeds net assets"             | <b>Goodwill</b> Dr.                                        |
| "net assets exceed purchase price"              | <b>Capital Reserve</b> Cr.                                 |
| "debentures issued as collateral security"      | Either no entry + note, <b>or</b> Debenture Suspense entry |
| "calculate interest for the year"               | On <b>face value</b> , regardless of issue price           |
| "company incurred a loss this year"             | Interest is still <b>paid</b> — it is a charge             |

## **MOST-ASKED BOARD QUESTIONS**

1. **[4-6M]** Pass journal entries for issue of debentures under various conditions.
2. **[3-4M]** Entries for debentures issued for consideration other than cash.
3. **[3M]** Write off loss on issue as per AS 16.

4. [3M] Distinguish between shares and debentures.
5. [1M] Is debenture interest a charge or an appropriation? → **Charge**
6. [1M] Where are debentures shown? → **Non-Current Liabilities → Long-term Borrowings**

---

**THE HABIT THAT SCORES** — Before writing any debenture entry, split the question into **issue condition** and **redemption condition**. The master table in Section 3 then gives you the entry directly. Loss on issue exists only when redemption is at a premium — that one fact resolves most of this chapter.

# Chapter 9 · Financial Statements of a Company

CBSE Class 12 Accountancy (055) · Part B · Unit 3

= 12 marks · Ultimate Revision Sheet

## SYLLABUS ALERT

Exceptional items, extraordinary items and profit/loss from discontinued operations are **EXCLUDED** from the 2026-27 syllabus.

## 60-SECOND RECALL

|                             |                                                                                             |
|-----------------------------|---------------------------------------------------------------------------------------------|
| <b>Governing law</b>        | <b>Schedule III, Part I</b> of the Companies Act 2013                                       |
| <b>Balance sheet halves</b> | <b>I. Equity &amp; Liabilities</b>   <b>II. Assets</b>                                      |
| <b>Order</b>                | Assets: <b>Non-current first</b> , then current.<br>Liabilities: Shareholders' funds first. |
| <b>4 tools</b>              | Comparative · Common-size · Ratio analysis<br>· Cash flow                                   |
| <b>Comparative base</b>     | <b>Previous year</b> = 100 → shows <b>change</b>                                            |
| <b>Common-size base</b>     | B/S: <b>Total assets</b> = 100 · P&L: <b>Revenue from operations</b> = 100                  |

# 1. Balance Sheet Format — Schedule III

**FORMAT — REPRODUCE EXACTLY, THIS IS THE 4-MARKER**

| Particulars                                           | Note | CY         | PY         |
|-------------------------------------------------------|------|------------|------------|
| <b>I. EQUITY AND LIABILITIES</b>                      |      |            |            |
| <b>1. Shareholders' Funds</b>                         |      | ...        | ...        |
| (a) Share Capital                                     |      |            |            |
| (b) Reserves and Surplus                              |      |            |            |
| (c) Money received against share warrants             |      |            |            |
| <b>2. Share Application Money Pending Allotment</b>   |      | ...        | ...        |
| <b>3. Non-Current Liabilities</b>                     |      | ...        | ...        |
| (a) Long-term Borrowings                              |      |            |            |
| (b) Deferred Tax Liabilities (Net)                    |      |            |            |
| (c) Other Long-term Liabilities                       |      |            |            |
| (d) Long-term Provisions                              |      |            |            |
| <b>4. Current Liabilities</b>                         |      | ...        | ...        |
| (a) Short-term Borrowings                             |      |            |            |
| (b) Trade Payables                                    |      |            |            |
| (c) Other Current Liabilities                         |      |            |            |
| (d) Short-term Provisions                             |      |            |            |
| <b>TOTAL</b>                                          |      | <b>XXX</b> | <b>XXX</b> |
| <b>II. ASSETS</b>                                     |      |            |            |
| <b>1. Non-Current Assets</b>                          |      | ...        | ...        |
| (a) Property, Plant & Equipment and Intangible Assets |      |            |            |
| (i) PPE (ii) Intangible Assets                        |      |            |            |
| (iii) Capital Work-in-Progress                        |      |            |            |
| (b) Non-current Investments                           |      |            |            |
| (c) Deferred Tax Assets (Net)                         |      |            |            |
| (d) Long-term Loans and Advances                      |      |            |            |
| (e) Other Non-current Assets                          |      |            |            |

## 2. Current Assets

- (a) Current Investments
- (b) Inventories
- (c) Trade Receivables
- (d) Cash and Cash Equivalents
- (e) Short-term Loans and Advances
- (f) Other Current Assets

**TOTAL**

...

...

**XXX**

**XXX**

### WHERE DOES IT GO? — the classification the exam tests

| Item                                                               | Head / Sub-head                                        |
|--------------------------------------------------------------------|--------------------------------------------------------|
| Securities Premium, General Reserve, Surplus (P&L)                 | Shareholders' Funds → <b>Reserves &amp; Surplus</b>    |
| Debentures, Long-term loans from bank                              | Non-Current Liab. → <b>Long-term Borrowings</b>        |
| Premium on Redemption of Debentures                                | Non-Current Liab. → <b>Other Long-term Liabilities</b> |
| Provision for Gratuity (long term)                                 | Non-Current Liab. → <b>Long-term Provisions</b>        |
| Bank overdraft, Cash credit                                        | Current Liab. → <b>Short-term Borrowings</b>           |
| Creditors, Bills Payable                                           | Current Liab. → <b>Trade Payables</b>                  |
| Outstanding expenses, <b>Calls in Advance</b> , Unclaimed dividend | Current Liab. → <b>Other Current Liabilities</b>       |
| Provision for tax, Proposed dividend                               | Current Liab. → <b>Short-term Provisions</b>           |
| Goodwill, Patents, Trademarks, Computer software                   | Non-Current Assets → <b>Intangible Assets</b>          |
| Land, Building, Machinery, Furniture                               | Non-Current Assets → <b>PPE</b>                        |

|                                     |                                                         |
|-------------------------------------|---------------------------------------------------------|
| Stock, Loose tools, Stores & spares | Current Assets → <b>Inventories</b>                     |
| Debtors, Bills Receivable           | Current Assets → <b>Trade Receivables</b>               |
| Cash, Bank, Cheques on hand         | Current Assets → <b>Cash &amp; Cash Equivalents</b>     |
| Prepaid expenses, Advance tax       | Current Assets → <b>Short-term Loans &amp; Advances</b> |

## 2. Statement of Profit & Loss

### FORMAT

| Particulars                                          | ₹          |
|------------------------------------------------------|------------|
| I. Revenue from Operations                           | ...        |
| II. Other Income                                     | ...        |
| <b>III. Total Revenue (I + II)</b>                   | <b>XXX</b> |
| <b>IV. Expenses:</b>                                 | ...        |
| Cost of Materials Consumed                           |            |
| Purchases of Stock-in-Trade                          |            |
| Changes in Inventories of FG, WIP and Stock-in-Trade |            |
| Employee Benefit Expenses                            |            |
| <b>Finance Costs</b>                                 |            |
| Depreciation and Amortisation                        |            |
| Other Expenses                                       |            |
| <b>V. Total Expenses</b>                             | <b>XXX</b> |
| VI. Profit before Tax (III – V)                      | ...        |
| VII. Less: Tax                                       | (...)      |
| <b>VIII. Profit after Tax</b>                        | <b>XXX</b> |

*Finance Costs = interest on debentures, loans, and loss on issue written off.*

### 3. Financial Statement Analysis

**Meaning:** the process of establishing relationships between items of financial statements to understand the financial position and performance of the enterprise.

Objectives / Significance

- Assess **earning capacity** and profitability
- Assess **managerial efficiency**
- Assess **short-term and long-term solvency**
- Enable **inter-firm comparison**
- Help in **forecasting and budgeting**

Limitations

- **Historical** data — ignores current price levels
- Ignores **qualitative** factors (management quality, morale)
- Affected by **window dressing**
- Different **accounting policies** make comparison unfair
- Ignores **price level changes** (inflation)

### 4. Tool 1 — Comparative Statements

**FORMAT + FORMULA**

Particulars

PY

CY

Abs. Change

% Change

|                         |     |     |     |     |
|-------------------------|-----|-----|-----|-----|
| Revenue from Operations | ... | ... | ... | ... |
|-------------------------|-----|-----|-----|-----|

**Absolute Change = Current Year – Previous Year**

**% Change = (Absolute Change ÷ Previous Year) × 100**

*Base = PREVIOUS year. Shows the direction and size of change over time (horizontal analysis).*

## 5. Tool 2 — Common-Size Statements

**THE TWO BASES — do not mix them up**

**Common-size Balance Sheet: each item ÷ TOTAL ASSETS × 100**

**Common-size Statement of P&L: each item ÷ REVENUE FROM OPERATIONS × 100**

*Shows the **proportion** of each item (vertical analysis). Best for **inter-firm comparison** where firm sizes differ.*

## THE EXAM'S FAVOURITE DISTINCTION

| Basis              | COMPARATIVE                 | COMMON-SIZE                                   |
|--------------------|-----------------------------|-----------------------------------------------|
| <b>Also called</b> | <b>Horizontal</b> analysis  | <b>Vertical</b> analysis                      |
| <b>Base</b>        | <b>Previous year</b> figure | <b>Total assets / Revenue from operations</b> |
| <b>Shows</b>       | <b>Change</b> over time     | <b>Proportion</b> within one year             |
| <b>Best for</b>    | Trend of the same firm      | Comparing firms of <b>different sizes</b>     |

## 6. Question Triggers

what the wording is really asking

| If the question says...                | Do this                                                      |
|----------------------------------------|--------------------------------------------------------------|
| "under which head is X shown?"         | Give <b>Main head</b> → <b>Sub-head</b> , both               |
| "calls in advance"                     | Current Liab. → <b>Other Current Liabilities</b>             |
| "securities premium"                   | Shareholders' Funds → <b>Reserves &amp; Surplus</b>          |
| "loose tools / stores and spares"      | Current Assets → <b>Inventories</b>                          |
| "computer software"                    | Non-Current → <b>Intangible Assets</b>                       |
| "prepare a comparative statement"      | 4 columns; base = <b>previous year</b>                       |
| "prepare a common-size statement"      | Base = <b>total assets</b> or <b>revenue from operations</b> |
| "compare two firms of different sizes" | <b>Common-size</b> , not comparative                         |

|                               |                                         |
|-------------------------------|-----------------------------------------|
| "% increase over last year"   | <b>Comparative</b> statement            |
| "interest on debentures paid" | Statement of P&L → <b>Finance Costs</b> |

## MOST-ASKED BOARD QUESTIONS

1. [3-4M] Under which head and sub-head are the following items shown? (list of 4-6 items)
2. [4M] Prepare a Comparative Statement of Profit & Loss / Balance Sheet.
3. [4M] Prepare a Common-size Statement.
4. [3M] State any three limitations of financial statement analysis.
5. [1M] What is the base in a common-size balance sheet? → **Total assets**

**THE HABIT THAT SCORES** — For classification questions, always write both the main head and the sub-head.

"Current Liabilities" alone is half a mark; "Current Liabilities → Other Current Liabilities" is the full mark. This is the easiest 4 marks in Part B.

# Chapter 10 · Accounting Ratios

CBSE Class 12 Accountancy (055) · Part B · Unit 3

= 12 marks · every formula on one sheet · Ultimate Revision Sheet

## WHICH PART B ARE YOU SITTING? — CHECKED AGAINST THE OFFICIAL 2026-27 CURRICULUM

Part B is an *either / or*, worth 20 marks whichever you take:

**Option 1 — Financial Statement Analysis**  
= Unit 3 Analysis of Financial Statements (12) + Unit 4 Cash Flow Statement (8), with Part C Project Work (20).

**Option 2 — Computerised Accounting** = Unit 4 Computerised Accounting (20), with Part C Practical Work (20).

**These notes cover Option 1** (this chapter + Ch 11 Cash Flow), because it is what the overwhelming majority of schools offer. If your school entered you for Computerised Accounting, this chapter and Ch 11 are not your paper — confirm with your teacher before you revise from them.

## 60-SECOND RECALL — the four families

|                            |                                                                                                  |
|----------------------------|--------------------------------------------------------------------------------------------------|
| <b>Liquidity</b>           | Current Ratio · Quick Ratio → <b>short-term</b> solvency                                         |
| <b>Solvency</b>            | Debt-Equity · Total Assets to Debt · Proprietary · Interest Coverage → <b>long-term</b> solvency |
| <b>Activity / Turnover</b> | Inventory · Trade Receivables · Trade Payables · Working Capital → <b>efficiency</b>             |
| <b>Profitability</b>       | GP · Operating · Operating Profit · Net Profit · ROI → <b>earning capacity</b>                   |
| <b>Ideal ratios</b>        | Current <b>2:1</b> · Quick <b>1:1</b> · Debt-Equity <b>2:1</b>                                   |
| <b>Golden rule</b>         | Turnover ratios use <b>AVERAGE</b> ; liquidity and solvency use <b>CLOSING</b> .                 |

Every ratio in this chapter answers ONE of four questions. Find the question, and the family

### LIQUIDITY

"can it pay this month?"

Current 2:1 · Quick 1:1

### SOLVENCY

"can it survive long-term?"

Debt-Equity 2:1 · Proprietary  
Total Assets to Debt

### THE GOLDEN RULE

Turnover ratios use  
**AVERAGE**  
Everything else uses  
**CLOSING**

### ACTIVITY

"how hard do assets work?"

Inventory · Receivables  
Payables · Working Capital

### PROFITABILITY

"does it actually earn?"

GP · Operating · Net Profit  
ROI (on Capital Employed)

Free check:

Operating Ratio  
+ Operating Profit Ratio  
must equal 100

Short-term vs long-term is the top row; efficiency vs earning is the bottom row.

If a question names an ideal ratio, it is almost always from the top row.

Four families, four questions. Naming the family first stops you reaching for the wrong formula.

## 1. Liquidity Ratios — short-term solvency

### FORMULAS

**Current Ratio = Current Assets ÷ Current Liabilities** ideal 2 : 1

**Quick Ratio = Quick Assets ÷ Current Liabilities**

*ideal 1 : 1*

**Quick Assets = Current Assets – Inventories –  
Prepaid Expenses**

**Current Assets:** Inventories, Trade Receivables, Cash & Cash Equivalents, Short-term Loans & Advances, Current Investments, Prepaid Expenses.

**Current Liabilities:** Short-term Borrowings, Trade Payables, Other Current Liabilities, Short-term Provisions.

**TRAP** Bank overdraft is a Current Liability (Short-term Borrowings). Loose tools and stores & spares are inventories — so they are *excluded* from quick assets.

## 2. Solvency Ratios — long-term solvency

### FORMULAS

**Debt–Equity Ratio = Debt ÷ Equity** *ideal 2 : 1*

**Total Assets to Debt Ratio = Total Assets ÷ Debt  
(Long-term)**

**Proprietary Ratio = Shareholders' Funds ÷ Total  
Assets**

**Interest Coverage Ratio = Net Profit before Interest & Tax  $\div$  Interest on Long-term Debt** (in times)

**THE THREE DEFINITIONS EVERYTHING DEPENDS ON**

**Debt = Long-term Borrowings + Long-term Provisions**

**Equity (Shareholders' Funds) = Share Capital + Reserves & Surplus**

or = Non-Current Assets + Working Capital – Non-Current Liabilities

**Capital Employed = Shareholders' Funds + Non-Current Liabilities**

or = Non-Current Assets + Working Capital

**TRAP** Debt means LONG-TERM debt only.

Current liabilities are *not* included in Debt–Equity. Also, if a question gives Total Debt, subtract current liabilities first.

### 3. Activity / Turnover Ratios — efficiency

**FORMULAS — all use AVERAGE**

**Inventory Turnover = Cost of Revenue from Operations  $\div$  Average Inventory**

**Trade Receivables Turnover = Net Credit Revenue from Operations ÷ Average Trade Receivables**

**Trade Payables Turnover = Net Credit Purchases ÷ Average Trade Payables**

**Working Capital Turnover = Revenue from Operations ÷ Working Capital**

**Average X = (Opening X + Closing X) ÷ 2**

#### **THE SUPPORTING FORMULAS**

**Cost of Revenue from Operations = Opening Inventory + Net Purchases + Direct Expenses – Closing Inventory**

*or* = Revenue from Operations – Gross Profit

**Working Capital = Current Assets – Current Liabilities**

**Average Collection Period = 12 months (or 365 days) ÷ Trade Receivables Turnover**

**Average Payment Period = 12 months (or 365 days) ÷ Trade Payables Turnover**

## 4. Profitability Ratios

**FORMULAS — all as a % of Revenue from Operations, except ROI**

**Gross Profit Ratio = (Gross Profit ÷ Revenue from Operations) × 100**

**Operating Ratio = [(Cost of Revenue from Operations + Operating Expenses) ÷ Revenue from Operations] × 100**

**Operating Profit Ratio = (Operating Profit ÷ Revenue from Operations) × 100 = 100 – Operating Ratio**

**Net Profit Ratio = (Net Profit after Tax ÷ Revenue from Operations) × 100**

**Return on Investment (ROI) = (Profit before Interest, Tax & Dividend ÷ Capital Employed) × 100**

**OPERATING PROFIT — two routes, same answer**

**Operating Profit = Revenue from Operations – Cost of Revenue – Operating Expenses**

**Operating Profit = Net Profit + Non-operating Expenses – Non-operating Income**

*Non-operating expenses: interest on loan, loss on sale of asset. Non-operating income: interest received, dividend received, profit on sale of asset.*

**TRAP** *Operating Ratio + Operating Profit Ratio = 100. If your two answers do not add to 100, one is wrong. Use this as a free check.*

## 5. Effect of Transactions on Ratios

**THE 3-STEP METHOD — this is the 4-marker** 1.

Note the current ratio's numerator and denominator.

2. Work out the effect of the transaction on each.

3. Decide: *Increase / Decrease / No change*.

**Rule:** if numerator and denominator change by the *same amount*, a ratio *above 1 falls* and a ratio *below 1 rises*.

| Transaction                     | Current Ratio (say 2:1)                     |
|---------------------------------|---------------------------------------------|
| Cash paid to creditors          | <b>Increases</b> (both fall by same amount) |
| Goods sold at a profit for cash | <b>Increases</b>                            |
| Goods sold at cost for cash     | <b>No change</b>                            |
| Cash collected from debtors     | <b>No change</b> (CA composition only)      |
| Purchase of goods on credit     | <b>Decreases</b>                            |
| Bills payable discharged        | <b>Increases</b>                            |
| Purchase of machinery for cash  | <b>Decreases</b> (CA falls, CL same)        |
| Issue of shares for cash        | <b>Increases</b>                            |

## 6. Question Triggers

which formula does the wording want?

| If the question says...                             | Use                                                  |
|-----------------------------------------------------|------------------------------------------------------|
| "short-term solvency / ability to pay current dues" | Current / Quick ratio                                |
| "long-term solvency"                                | Debt-Equity / Proprietary / Total Assets to Debt     |
| "how many times inventory was sold"                 | Inventory Turnover                                   |
| "how fast debtors pay"                              | Trade Receivables Turnover<br>→ collection period    |
| "overall earning on capital employed"               | <b>ROI</b>                                           |
| "operating efficiency"                              | Operating Ratio                                      |
| "cost of revenue from operations" given             | Inventory Turnover — not receivables                 |
| "credit sales" given                                | Trade Receivables Turnover                           |
| "loose tools ₹X"                                    | It is <b>inventory</b> → exclude from quick assets   |
| "bank overdraft ₹X"                                 | <b>Current liability</b>                             |
| "what will be the effect on the current ratio?"     | 3-step method; state Increase / Decrease / No change |
| "profit before interest and tax"                    | ROI or Interest Coverage                             |

### MOST-ASKED BOARD QUESTIONS

1. [3-4M] Calculate the given ratios from the balance sheet extract.

2. [4M] State with reason the effect of the following transactions on the current / debt-equity ratio.
3. [3-4M] Calculate Inventory Turnover / Trade Receivables Turnover Ratio.
4. [3M] Calculate Operating Ratio and Operating Profit Ratio.
5. [1M] Ideal current ratio?  $\rightarrow 2 : 1$  .  
Ideal quick ratio?  $\rightarrow 1 : 1$
6. [1M] Which ratio measures long-term solvency?  $\rightarrow$  **Debt-Equity Ratio**

---

**THE HABIT THAT SCORES** — Write the formula first, then substitute, then compute. A stated formula earns a method mark even when the arithmetic slips. And always state the answer in the right unit — ratios as **X : 1**, turnover as **times**, profitability as **%**.

# Chapter 11 · Cash Flow Statement

CBSE Class 12 Accountancy (055) · Part B · Unit 4

= 8 marks · Ultimate Revision Sheet

## 60-SECOND RECALL

|                         |                                                                                      |
|-------------------------|--------------------------------------------------------------------------------------|
| <b>Standard</b>         | <b>AS 3 (Revised)</b> — only the <b>INDIRECT</b> method is prescribed for Class 12   |
| <b>Three activities</b> | <b>Operating</b> → <b>Investing</b> → <b>Financing</b>                               |
| <b>Operating</b>        | Main revenue-producing activities — the <b>residual</b> category                     |
| <b>Investing</b>        | Purchase / sale of <b>non-current assets</b> and non-current investments             |
| <b>Financing</b>        | Changes in <b>share capital</b> and <b>long-term borrowings</b> , plus dividend paid |
| <b>Cash equivalents</b> | Short-term, highly liquid, maturity $\leq 3$ <b>months</b> from acquisition          |
| <b>Check</b>            | Net of the three = <b>Closing Cash</b> – <b>Opening Cash</b>                         |

## 1. Concept

### DEFINITION

A Cash Flow Statement shows the inflows and outflows of cash and cash equivalents during a period, classified into operating, investing and financing activities. It is prepared as per AS 3 (Revised).

Cash and cash equivalents = Cash in hand + Bank balance + short-term highly liquid investments with a maturity of **three months or less** from the date of acquisition. Bank overdraft is treated as a **financing** activity (or as negative cash, per the question).

**Objectives:** assess liquidity and solvency · explain the reasons for the change in cash · help in short-term planning · assess the cash-generating ability of the business.

## 2. Classification — the three activities

Ask one question of every item: *what part of the business does this cash belong to?*

### OPERATING

the day job — buying and selling what you actually sell  
incl. **income tax paid**

### INVESTING

long-term assets — things you buy to USE, not to sell  
PPE, investments

### FINANCING

where the money CAME from owners and lenders  
shares, debentures, loans

The four items examiners use to separate the marks — for a **NON-financial** company:

Interest **RECEIVED**  
Dividend **RECEIVED**

→ INVESTING

Interest **PAID**  
Dividend **PAID**

→ FINANCING

If the company **IS** a bank or an NBFC, all four become **OPERATING**.

Read the first line of the question to find out which kind of company it is — that line is there on purpose.

**RECEIVED** goes with Investing; **PAID** goes with Financing. That single pairing is most of the mark.

### WHERE DOES IT GO? — the classification the exam tests

| Activity         | Inflows                                                                                       | Outflows                                                                                                                      |
|------------------|-----------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------|
| <b>OPERATING</b> | Cash sales · Cash from debtors · Commission received · Royalty received                       | Cash purchases · Payment to creditors · Wages, salaries · Office & selling expenses · <b>Income tax paid</b>                  |
| <b>INVESTING</b> | Sale of PPE · Sale of non-current investments · <b>Interest received · Dividend received</b>  | Purchase of PPE · Purchase of non-current investments · Purchase of intangibles                                               |
| <b>FINANCING</b> | Issue of shares · Issue of debentures · Proceeds from long-term loans · Bank overdraft raised | Redemption of debentures / preference shares · Repayment of loans · <b>Interest paid · Dividend paid</b> · Buy-back of shares |

### THE FOUR ITEMS THAT DECIDE THE QUESTION For

a non-financial company:

- Interest RECEIVED → Investing • Dividend RECEIVED → Investing
- Interest PAID → Financing • Dividend PAID → Financing

For a financial company (bank, NBFC), interest and dividend received/paid are **OPERATING**. Read the question's first line to see which it is.

### 3. Format — Indirect Method

#### FORMAT — REPRODUCE EXACTLY

| Particulars                                                                                                                                                                                                                                                    | ₹            | ₹   |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|-----|
| <b>A. CASH FLOW FROM OPERATING ACTIVITIES</b>                                                                                                                                                                                                                  |              |     |
| Net Profit before Tax and Extraordinary Items<br>(see WN1)                                                                                                                                                                                                     |              | ... |
| Adjustments for non-cash and non-operating items:<br><b>Add:</b> Depreciation · Goodwill / Patents written off<br>Loss on sale of asset · <b>Interest on debentures</b><br><b>Less:</b> Profit on sale of asset · <b>Interest received · Dividend received</b> | ...<br>(...) | ... |
| <b>Operating Profit before Working Capital Changes</b>                                                                                                                                                                                                         |              | XXX |

|                                                                                                                                                                        |       |            |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|------------|
| <b>Add:</b> Decrease in Current Assets · Increase in Current Liabilities                                                                                               | ...   | ...        |
| <b>Less:</b> Increase in Current Assets · Decrease in Current Liabilities                                                                                              | (...) |            |
| <b>Cash Generated from Operations</b>                                                                                                                                  |       | <b>XXX</b> |
| <b>Less:</b> Income Tax Paid                                                                                                                                           |       | (...)      |
| <b>Net Cash from Operating Activities (A)</b>                                                                                                                          |       | <b>XXX</b> |
| <b>B. CASH FLOW FROM INVESTING ACTIVITIES</b><br>Purchase of PPE · Sale of PPE · Purchase/Sale of Investments<br>Interest Received · Dividend Received                 | ...   |            |
| <b>Net Cash from / (used in) Investing Activities (B)</b>                                                                                                              |       | <b>XXX</b> |
| <b>C. CASH FLOW FROM FINANCING ACTIVITIES</b><br>Issue of Shares · Issue / Redemption of Debentures<br>Long-term Loans raised / repaid · Interest Paid · Dividend Paid | ...   |            |
| <b>Net Cash from / (used in) Financing Activities (C)</b>                                                                                                              |       | <b>XXX</b> |
| <b>Net Increase / (Decrease) in Cash (A + B + C)</b>                                                                                                                   |       | <b>XXX</b> |
| <b>Add:</b> Opening Cash and Cash Equivalents                                                                                                                          |       | ...        |
| <b>Closing Cash and Cash Equivalents</b>                                                                                                                               |       | <b>XXX</b> |

## 4. The Working Notes That Carry Marks

### WN1 — NET PROFIT BEFORE TAX (always needed)

**Net Profit before Tax = Change in Surplus  
(Balance in Statement of P&L) + Transfer to  
Reserves + Proposed Dividend of last year +  
Interim Dividend + Provision for Tax made this  
year**

Start from the *difference* between closing and opening Surplus, then add back everything that was appropriated.

### WN2 — PROVISION FOR TAX A/c (to find tax paid)

|                                                    |     |                                               |     |
|----------------------------------------------------|-----|-----------------------------------------------|-----|
| To Bank A/c ( <i>tax PAID — balancing figure</i> ) | ... | By Balance b/d                                | ... |
| To Balance c/d                                     | ... | By Statement of P&L ( <i>provision made</i> ) | ... |

### WN3 — MACHINERY / PPE A/c (to find purchase or sale)

|                                                    |     |                                             |     |
|----------------------------------------------------|-----|---------------------------------------------|-----|
| To Balance b/d                                     | ... | By Depreciation A/c                         | ... |
| To Bank A/c ( <i>purchase — balancing figure</i> ) | ... | By Bank A/c ( <i>sale proceeds</i> )        | ... |
| To Statement of P&L ( <i>profit on sale</i> )      | ... | By Statement of P&L ( <i>loss on sale</i> ) | ... |
|                                                    |     | By Balance c/d                              | ... |

Whatever is missing is the *balancing figure* — that is the number the question wants.

## 5. Question Triggers

what the wording is really asking

| If the question says...                          | Do this                                                          |
|--------------------------------------------------|------------------------------------------------------------------|
| "depreciation charged ₹X"                        | <b>ADD BACK</b> in operating (non-cash)                          |
| "profit on sale of machinery"                    | <b>LESS</b> in operating; full <b>sale proceeds</b> to investing |
| "loss on sale of asset"                          | <b>ADD</b> in operating; sale proceeds to investing              |
| "interest on debentures paid"                    | <b>ADD</b> in operating, then show as <b>financing outflow</b>   |
| "dividend received"                              | <b>LESS</b> in operating, then <b>investing inflow</b>           |
| "proposed dividend of last year"                 | Add in WN1, then <b>financing outflow</b> this year              |
| "provision for tax" opening & closing given      | Prepare <b>WN2</b> to find tax <b>paid</b>                       |
| "machinery costing ₹X (accumulated dep ₹Y) sold" | Prepare <b>WN3</b> ; book value = $X - Y$                        |
| Trade Receivables increased                      | <b>LESS</b> in working capital changes                           |
| Trade Payables increased                         | <b>ADD</b> in working capital changes                            |
| "bank overdraft raised"                          | <b>Financing</b> inflow                                          |
| "it is a financial company"                      | Interest/dividend received & paid → <b>OPERATING</b>             |

### MOST-ASKED BOARD QUESTIONS

1. [6M] Prepare a Cash Flow Statement from the given Balance Sheets and

notes.

2. [3-4M] Calculate Cash Flow from Operating Activities.
3. [3M] Calculate Net Profit before Tax / Tax paid / purchase of machinery.
4. [1M] Under which activity is dividend paid classified? → **Financing**
5. [1M] Under which activity is interest received by a non-financial company? → **Investing**
6. [1M] Which standard governs cash flow statements? → **AS 3 (Revised)**

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**THE HABIT THAT SCORES** — Run the closing check every time:  $A + B + C + \text{Opening Cash}$  must equal  $\text{Closing Cash}$ . If it does not, the error is almost always a missed working-capital change or a sale proceeds figure left out of investing. That one check turns a 4-mark answer into a 6-mark answer.