Principles & Practice of Accounting Formulae for JAIIB

BOOK KEEPING – DOUBLE ENTRY SYSTEM

The Types of Accounts under Double Entry System of Book Keeping are broadly classified into Personal and Impersonal Accounts.

I. Personal Accounts - *(eg. Debtors, Creditors etc.,)*

Debit : The Receiver.
Credit : The Giver.

II. Impersonal Accounts - This is further divided into Real and Nominal Accounts.

a) Real Accounts - *(eg. Land, Building, Investments.)*

Debit : What comes in.
Credit : What goes out.

b) Nominal Accounts: *(eg. Salary Account, Interest Account, Commission, Rent etc.,)*

Debit : All Expenses and Losses.
Credit : All Incomes and Gains.

I. Journal, Ledger & Trial Balance :

Journal - This is a Preliminary Record of day to day Business Transactions, which is to give effect to two different Accounts involved in business transactions *(i.e., Debit & Credit)*. The Journal Entry shall have narration giving the description of the Transaction recorded.

Ledger - Ledger is a Permanent record of all Transactions in a summarised and classified form. The Journal entries are posted periodically under the Accounting head maintained in General Ledger Register.

Trial Balance - This is a statement showing the balance of all Ledger Accounts from the General Ledger Register. This is to test the arithmatical accuracy of Books of Accounts.

II. Final Accounts :

Profit & Loss Account and Balance Sheet are the Final Accounts derived from the Trial Balance. The Profit & Loss Account will end with either Net Profit or Net Loss which is the Net result of the operating activities of an Enterprise. The Balance Sheet is a statement prepared as on the reporting date to show the Financial status *(i.e., What the Company owns and what it owes)*

BANK RECONCILIATION STATEMENT

Meaning :

Pass book is your Banker's Statement where entries recorded as per your Bank Records. Cash book is your own record of Bank transactions. Often we find mismatch between our records and bank records. To reconcile or match these two records we prepare Bank Reconciliation Statement. This statement will start with either our balance or banker's balance and end with banker's balance or our balance respectively. The common reasons for mismatch would be the time lag due to cheques clearing formalities, Bank charges automatically debited, etc.,

Format of Bank Reconciliation Statement

Balance as per Pass Book

Add :
- Cheques deposited but not yet presented and credited.
- Insurance Premium paid and bank charges entered in pass book but not recorded in cash book.
- Interest debited in pass book but not yet recorded in cash book
- Payments like telephone charges or to Creditors made directly by the bank but not entered in cash book
- Wrong Debit made in the pass book or wrong credit made in the cash book.

Less :
- Cheques issued but not yet presented.
- Interest credited by the bank but not credited in the cash book
- Dividend, Interest, etc. received directly by the bank on behalf of the client.
- Direct receipts from Customers to the bank.
- Wrong credit made in the pass book or wrong debit made in the cash book.

Balance as per Cash Book

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Alternative Method :

Balance as per Cash book

Less:
- Cheques deposited but not yet presented and credited.
- Insurance Premium paid and bank charges entered in pass book but not recorded in cash book.
- Interest debited in pass book but not yet recorded in cash book
- Payments like telephone charges or to Creditors made directly by the bank but not entered in cash book.
- Wrong Debit made in the pass book or wrong credit made in the cash book.

Add:
- Cheques issued but not yet presented.
- Interest credited by the bank but not credited in the cash book
- Dividend , Interest, etc. received directly by the bank on behalf of the client.
- Direct receipts from Customers to the bank.
- Wrong credit made in the pass book or wrong debit made in the cash book.

Balance as per Pass Book

PARTNERSHIP ACCOUNTS

Definition :

The Indian partnership Act 1932, Section 4, defines partnership as, "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".

Capital :

Partner's contribution to the business of the firm is called capital. Capital accounts of the partners may be **fixed** or **fluctuating.**

(A) When the Capitals are Fixed :

Capital Accounts

Date	Particulars	X Rs.	Y Rs.	Date	Particulars	X Rs.	Y Rs.
2002 Dec 31	To Balance c/d	xxx	xxx	2002 Jan.1	By Balance b/d	xxx	xxx
		xxx	xxx			xxx	xxx
				2003 Jan.1	By Balance b/d	xxx	xxx

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Current Accounts

Dr. Cr.

Date	Particulars	X Rs.	Y Rs.	Date	Particulars	X Rs.	Y Rs.
2002 Dec 31	To Drawings	xxx	xxx	2002 Dec.31	By Interest on Capital	xxx	xxx
	To Interest on drawings	xxx	xxx		By Partner's Salary	xxx	xxx
	To Balance c/d	xxx	xxx		By P & L A/c	xxx	xxx
					By Commission	xxx	xxx
					By Balance b/d	xxx	xxx
		xxx	xxx			xxx	xxx
2003 Jan.1	To Balance b/d	-	xxx	2003 Jan.1	By Balance b/d	xxx	-

(B) When Capitals are fluctuating :

Dr. Cr.

Date	Particulars	X Rs.	Y Rs.	Date	Particulars	X Rs.	Y Rs.
2002 Dec 31	To Drawings	xxx	xxx	2002 Jan.1	By Balance b/d	xxx	xxx
	To Interest on drawings	xxx	xxx		By Interest on Capital	xxx	xxx
	To Balance c/d	xxx	xxx		By P & L A/c	xxx	xxx
					By Partner's Salary	xxx	xxx
					By Commission	xxx	xxx
		xxx	xxx			xxx	xxx
				2003 Jan.1	By Balance b/d	xxx	xxx

Profit and Loss Appropriation Account

Dr. Cr.

Date	Particulars	Rs.	Rs.	Date	Particulars	Rs.	Rs.
2002 Dec 31	To Interest on Capital			2002 Dec 31	By Net Profit A/c	xxx	xxx
	X	xxx			By Interest on Drawings		
	Y	xxx			X	xxx	
			xxx		Y	xxx	
							xxx
	To Partner's Salary						
	X	xxx					
	Y	xxx					
			xxx				
	To Net Profit transferred to						
	X	xxx					
	Y	xxx					
			xxx				
			xxx				xxx

Interest on Capital :

Interest is allowed on partners' capitals only if the partnership agreement specifically allows it at a particular rate. Interest for a year is usually calculated on the opening capital and on the capital introduced during the year. If the date of additional capital introduced during the year is not given, the interest is to be calculated for 6 months. If the rate of interest is not given, it is assumed to be 12% p.a. Entry for interest on capital is

Debit : Interest on Capital Account
Credit : Respective partner's Capital (*or current*) Account.

Interest on Drawings :

Interest is not charged on partner's drawings unless their agreement specifically provides for it at a particular rate. If the rate is not given it is assumed to be 6% p.a.

Entry for interest on Drawing is :

Debit : Respective partner's capital or current Account
Credit : Interest on drawings Account

Interest on Loan from a Partner :

The Journal Entry is :

Debit : Interest on loan Account
Credit : Respective partner's loan Account
(*Being interest on partner's loan*)

Partners' Salaries :

Debit : Partner's Salaries Account
Credit : Respective partner's capital Account or current Account
(*Being salary paid to the partner*)

The Journal Entries for revaluation may be put as follows :

1. For any increase in assets value and decrease in liabilities (*Profit items*)

Debit : Respective Assets Account
Debit : Respective Liabilities Account
Credit : Revaluation Account

2. For any decrease in asset value and increase in liabilities (*Loss items*)

Debit : Revaluation Account
Credit : Respective Assets Account
Credit : Respective Liabilties Account

3. For any unrecorded asset now recorded (*Profit item*)

Debit : Unrecorded Assets Account
Credit : Revaluation Account

4. For any unrecorded liability now recorded (*Loss items*)

Debit : Revaluation Account
Credit : Unrecorded liabilities Account

5. If revaluation account shows Profit

Debit : Revaluation Account
Credit : Old Partner's Capital Account

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6. If revaluation account shows loss

Debit : Old Partner's Capital Account
Credit : Revaluation Account

Journal entry for transferring accumulated reserve and undistributed profit is :

Debit : General Reserve Account
Debit : Profit and Loss Account
Credit : Old Partner's Capital Account
(*Being reserve and profit transferred in the old profit - ratio*)

Instead of profit, if there is undistributed loss represented by the debit balance of profit and loss account, the entry is :

Debit : Old Partner's Capital Account
Credit : Profit and Loss Account
(*Being loss transferred in the old profit - ratio*)

Entries related to Goodwill

(a) If Goodwill is raised in the books of a firm :

Under this method, Goodwill does not appear as an asset in the given Balance Sheet though it exists in the firm. It means that it is not yet recorded in its books and remains a Silent Asset. To give the old partners credit for Goodwill, it has to be brought into books before the admission of a New partner. When Goodwill is thus raised in the books of a firm, it will appear as an Asset in its future Balance Sheet

The entry being :

Debit : Goodwill Account
Credit : Old partner's capital Account
(*Being Goodwill created and old partner's capital account credited in the old profit ratio*)

(b) If the books of firm already shows a balance in the Goodwill Account :

The entry given above should be made only for the difference between the present value of goodwill and that shown by the books.

If increasing the existing value of Goodwill, the following entry is:

Debit : Goodwill Account
Credit : Old Partner's Capital Account
(*Being Value of the Goodwill increased and old partners credited in the old ratio*)

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If decreasing the existing value of Goodwill, the following entry is :

Debit : Old Partner's Capital Account
Credit : Goodwill Account
(*Being Value of the Goodwill decreased and old partners debited in the old ratio*)

Capital Brought in by the Incoming Partner :
Entry for this is :

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Debit : Cash Account		....	
	Dedit : Stock Account		....	
	Debit : Furniture Account		....	
	Credit : New Partner's Capital Account			....
	(Being capital brought in by the new partner in cash, stock and furniture)			

Revaluation of Assets and Liabilities

Revaluation of Assets and Liabilities is equally necessary at the time of Retirement of a Partner or at Admission. When Assets and Liabilities are revalued, their values may increase or decrease. We have already seen in connection with admission that increase in value of Assets and decrease in Liabilities are Profit items of Revaluation. Conversely decrease in Assets and increase in Liabilities are loss items.

Entries for Revaluation here are similar to those in Admission.

4. Treatment of Goodwill on Retirement

At the time of Retirement of a Partner, adjustment for Goodwill of the Firm, if any, has to be made almost in the same way as in admission. The Goodwill treatment that were seen in the context of Admission of a partner, hold good, to a large extent, in retirement too. But we confine ourselves to the Revaluation Method only.

Revaluation Method of Treatment of Goodwill

This is very much asking to the Revaluation Method of treatment of Goodwill seen in connection with Admission. The present value of Goodwill of a firm is estimated and brought into record. The entry is:

Debit : Goodwill Account
Credit : Old partner's Capital Account
(Goodwill credited to the Old partners in the old ratio).

5. Paying off the Retiring Partner

When a partner retires, the amount due to him from the firm after all the above adjustments (ie. adjustment for accumulated reserves, revaluation profit or loss and for goodwill) will be ascertained. This amount may be paid to him in a lump sum immediately or in installments spread over one or more years. When it is not paid immediately, it will be transferred to his loan A/c which will carry Interest at 6% per annum.

(i) When the amount is paid entirely at once:

Debit : Retiring partner's Capital Account
Credit : Bank / Cash Account

(ii) When the amount is not paid at once

Debit : Retiring partner's Capital Account
Credit : Retiring partner's Loan Account

(iii) When the amount is paid partly at once

Debit : Retiring partner's Capital Account
Credit : Bank / Cash Account
Credit : Retiring partner's Loan Account

ISSUE OF SHARES

Journal Entries in the books of the New Company

1. *Debit* : Bank Account
   Credit : Share Application Account
   (Being Share Application Amount received)
2. *Debit* : Share Application Account
   Credit : Share Capital Account *(Being Share Application amount transferred to Share Capital account)*
3. *Debit* : Share Application Account
   Credit : Share Allotment Account
   (Being the excess amount received on application is used for the Share Allotment Amount)
4. *Debit* : Share Application Account
   Credit : Bank Account
   (Being Share Applications rejected)
5. *Debit* : Share Allotment Account
   Credit : Share Capital Account
   (Being Share Allotment Amount due at Par)
6. *Debit* : Share Allotment Account
   Credit : Share Capital Account
   Credit : Share Premium Account
   (Being Share Allotment due with premium)
7. *Debit* : Share Allotment Account
   Debit : Discount on issue of shares
   Credit : Share Capital Account
   (Being Share Allotment amount due with discount)
8. *Debit* : Bank Account
   Credit : Share Allotment Account
   (Being share allotment amount received)
9. *Debit* : Share First and final call
   Credit : Share Capital Account
   (Being Share First and final call due)
10. *Debit* : Bank Account
    Debit : Calls in Arrears
    Credit : Share First & Final call
    (*Being share first & final call received*)
11. *Debit* : Share Capital Account
    Credit : Share Forfeiture Account
    Credit : First & Final call account
    (*Being Shares forfeited)*

12. *Debit* : Bank Account
Debit : Share Forfeiture Account
Credit : Share Capital Account
(Being shares reissued)

13. *Debit* : Share Forfeiture Account
Credit : Capital Reserve Account
(Being profit on forfeiture and reissue transferred to Capital Reserve Account)

Journal Entries in the case of Redeemable Preference Shares

1. *Debit* : Bank Account
Credit : Share Capital Account
(Being Shares issued at par)

2. *Debit* : Bank Account
Credit : Share Capital Account
Credit : Share Premium Account
(Being Shares issued at premium)

3. *Debit* : Bank Account
Debit : Shares issued at discount Account
Credit : Share Capital Account
(Being Shares issued at premium)

REDEMPTION OF SHARES

1. Redemption Due
Debit : Redeemable preference share capital Account
Debit : Premium on Redeemable share Account
Credit : Preference share holder Account
(Being share Redeemable)

2. Payment to Redeemed Shares
Debit : Redeemable preference share holder
Credit : Bank

3. Transfer Premium on Redemption Account
Debit : Share premium Account
Debit : General Reserve/Reserve Fund
Credit : Premium on Redemption of preference share capital Account

4. Tranfer to capital Redemption Reserve Account
Debit : Reserve Account
Credit : Capital Redemption Reserve
(CRR = Redemption preference share – Fresh Issue of share capital)

5. Issue of Bonus Shares
Debit : Capital Redemption Reserve Account
Credit : Bonus to share holders account
Debit : Bonus to share holder account
Credit : Share Capital Account

6. Sale of Investments
Debit : Bank Account
Credit : Investments

ISSUE OF DEBENTURES

1. From consideration point of view
a) Issue of debentures for cash
Debit : Bank account
Credit : Debenture account
(Being debentures issued)
b) For consideration other than cash
Debit : Assets account
Credit : Vendor account
(Being assets purchased)
Debit : Vendor account
Credit : Debenture Account

2. From price point of view
a) When debenture is issued at discount
Debit : Bank Account
Debit : Discount Account
Credit : Debenture Account
b) When debenture is issued at Premium
Debit : Bank Account
Credit : Debenture Account
Credit : Premium on Debenture Account
c) When debenture is issued at Par
Debit : Bank Account
Credit : Debenture Account

VERTICAL FORM OF BALANCE SHEET

Balance Sheet of ....as at ....

(I) SOURCES OF FUNDS	Schedule No.	Figure as at the end of current financial year	Figure as at the end of Previous financial year
(1) Shareholder's Funds			
(a) Capital	....	....	....
(b) Reserves & Surplus	....	....	....
(2) Loans Funds			
(a) Secured Loans	....	....	....
(b) Unsecured Loans	....	....	....
TOTAL	....		
(II) APPLICATION OF FUNDS			
(1) Fixed Assets			
(a) Gross Block	....	....	....
(b) Less Depreciation	....	....	....
(c) Net Block	....	....	....
(d) Capital work in progress	....	....	....
(2) Investment			
(3) Current Assets: Loans & Advances			
(a) Inventories	....	....	....
(b) Sundry debtors	....	....	....
(c) Cash and bank balances	....	....	....
(d) Other Current Assets	....	....	....
(e) Loans & Advances	....	....	....
***LESS:* Current Liabilities and Provisions:**			
(a) Liabilities	....	....	....
(b) Provisions	....	....	....
Net Current Assets	....	....	....
(4) *(a)* Miscellaneous expenditure to the extent not written off or adjusted	....	....	....
(b) Profit & Loss Account	....	....	....
TOTAL	....		

Balance Sheet of ....as at .... (HORIZONTAL FORM)

LIABILITIES	*Figures for the current Year Rs.*	*Figures for the previous Year Rs.*	**ASSETS**	*Figures for the current Year Rs.*	*Figures for the previous Year Rs.*
Share Capital : Authorised Issued, Subscribed Calledup & Paidup. **Reserves & Surplus**: Capital Reserves, share Premium, Surplus in Profit & Loss A/c. **Secured Loans** Debentures, Loan from Bank, Other Loans **Unsecured Loans** Fixed Deposits, other short-term Loans, etc., **Current Liabilities** **And Provisions:** **(A) Current Liabilities** Sundry Creditors, Outstanding Expenses, etc., **(B) Provisions:** Taxation Provisions, Proposed Dividend, etc., **Total**	....	....	**Fixed Assets** Goodwill, Land, buildings, Plant & Machinery, etc., **Investments:** **Current Assets, Loans** **And Advances** **(A) Current Assets** Stock in hand, Cash balance, Sundry Debtors, etc., **(B) Loans & Advances** Rent advances, Telephone Deposits, etc., **Miscellaneous Expenditure** *(to the extent not written off or adjusted)* **Profit and Loss Account** **Total**	....	....

AMALGAMATION

Accounting Standard 14 is applicable only for accounting in the books of Purchasing Company. (Transferee Company).

A) Books of Transferor Company (Selling Company)

1. Transfer to Realisation Account
   a. Assets taken over (at book values).

   Debit : Realisation
   Credit : Assets

   b. Liabilities taken over
   Debit : Liabilities
   Credit : Realisation

2. Purchase Consideration
   a. Computation

   Method 1 – Net Assets method

   Purchase consideration. Aggregate of Assets taken over at agreed values Less Liabilities taken over. These Net Assets would be discharged in the manner agreed between the 2 Companies.

   Method 2 – Payments Method

   Purchase consideration is the aggregate of payments made in various forms to share holders of Transferor Company.

   Method 3 – Lump Sum Method

   Purchase consideration is an absolute sum agreed between the 2 Companies without specific reference to Assets & Liabilities taken over. These Lump Sum is paid in the manner agreed between the 2 companies.

   b. Due Entry

   Debit : Purchasing Company
   Credit : Realisation
   (Being purchase consideration due)

   c. Receipt
   Debit : Shares/ Debentures of Purchasing Company.
   Debit : Cash
   Credit : Purchasing Company
   (Being purchase consideration received)

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3. Sale of Assets not taken over *(Assuming Profit)*

   Debit : Cash *(Sale Proceeds)*
   Credit : Asset *(Book Value)*
   Credit : Realisation *(Profit)*
   (Being purchase consideration received)

4. Settlement of Liabilities not taken over *(Assuming at a Discount)*

   Debit : Liabilities
   Credit : Bank
   Credit : Realisation
   (Being settlement of liabilities which is not taken over by transferee company)

5. Realisation Expenses

   Situation 1 – Borne by Selling Company.

   Debit : Realisation
   Credit : Bank
   (Being realisation expenses paid)

   Situation 2 – Borne by Purchase Company.

   a. Realisation expenses spent

   Debit : Purchasing Company
   Credit : Bank
   (Being realisation expenses met by the purchasing company)

   b. Reimbursement

   Debit : Bank
   Credit : Purchasing Company
   (Being realisation expenses reimbursed by the purchasing company)

6. Amount due to Share Holders
   a. Transfer of Share Capital & Reserves to Shareholders.

   Debit : Share Capital
   Debit : Reserves
   Credit : Share holders

   b. Transfer of Realisation Profit / Loss (*Assuming Profit*)
   Debit : Realisation
   Credit : Share Holder

7. Settlement to Shareholders of Transferor Company

   Debit : Shareholders
   Credit : Shares / Debentures of Purchasing Company
   Credit : Bank
   (Being Shares / Debentures Issued towards settlement)

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B) Books of Transferee Company (Purchasing Company)

a. Types of Amalgamation
   i. Amalgamation nature of Merger.
   ii. Amalgamation nature of Purchase.

b. Conditions / Tests for determining type of Amalgamation
   i. All Assets & Liabilities of transferor company should become the Assets & Liabilities of transferee Company.
   ii. Atleast 90 % of Shareholders *(outside Shareholder where there are inter company holdings)* shall become Shareholders of Purchasing Company.
   iii. Purchase Consideration payable to Equity Shareholder shall be only in the form of Equity Shares of Purchasing Company except that cash may be paid to the extent of fractional holding.
   iv. The Purchasing Company should have the intention of carrying on the same business either to carried on by the Selling Company.
   v. Assets & Liabilities of the Selling Company taken over shall be incorporated at the same values at which they appeared in the books of the Selling Company except to the extent of ensuring uniformity in Accounting Policy.

c. The Scheme of Amalgamation
   i. On satisfying all the above conditions - Amalgamation in the nature of merger.
   ii. On failing to satisfy anyone or all of the above conditions - Amalgamation in the nature of purchase.

d. Method of Accounting
   i. Merger - Pooling of Interest Method
   ii. Purchase - Purchase Method

e. Accounting Entries
   1. Due Entry (*same for both methods*)

      Debit : Business Purchase
      Credit : Liquidator of Selling Company.

   2. Incorporation of Assets & Liabilities taken over

      • ***Pooling of Interest Method***

      Situation 1: Purchase Consideration = Paidup Share Capital of Selling Company.

      Debit : Assets Account
      Credit : Liabilities
      Credit : Reserves *(Selling Company)*
      Credit : Business Purchase

      Situation 2: Purchase Consideration greater than Paidup Share Capital of Selling Company but less than Combined Paidup Share Capital & Reserves.

      (Note: The Journal Entry remains the same except that the reserves of selling Company to be incorporated shall be adjusted for the difference between Purchase Consideration and Paidup Share Capital of Selling Company.)

      Situation 3: Purchase Consideration greater than Aggregate of Paidup Share Capital & Reserves of Selling Company.

      (Note: The excess of Consideration over Paid up Share Capital shall be adjusted first against reserves of Selling Company & thereafter against reserves of Purchasing Company. Hence, the Reserves of Selling Company incorporated will be nil.)

      Situation 4: Purchase Consideration less than Paidup Share Capital

      (Note: The excess of Paidup Share Capital over Consideration should be added to the Reserves of Selling Company, while Incorporation.)

      • ***Purchase Method***

      Debit : Assets Account *(Agreed Values)*
      Debit : Goodwill Account *(Balance figure)*
      Credit : Liabilities
      Credit : Business Purchase
      Credit : Capital Reserve *(Balance Figure)*

This Goodwill which represents purchased Goodwill will be amortised over given period and notes to Accounts should spell out the Management policy to amortise the Goodwill.

Additional Adjustment in the Amalgamation in nature of Purchase only. This relates to statutory reserves in the books of selling Company, which have obligations attached to it to be fulfilled. eg. Reserves Created for Income tax benefits, Capital gains etc.,

a. Journal entry at the time of Acquisition

Debit : Amalgamation Adjustment Account
Credit : Respective statutory Reserve.

Note: a) Statutory Reserve shall appear along with Reserves & Surplus whereas Balance in Amalgamation Adjustment Account will appear in the Assets side under head Miscellaneous Expenses to the extent not written off.

b. Journal entry on Complaints with Conditions Reserve Account no longer to be maintained.

Debit : Statutory Reserve Account
Credit : Amalgamation Adjustment Account.

3. Discharge of Purchase Consideration (*same for both methods*)

Debit : Liquidation of Selling Company
Credit : Equity Shares / Debentures / Cash.

4. Realisation expenses borne by Purchasing Company

i. Amalgamation in the nature of merger
Debit : Reserves
Credit : Cash

ii. Amalgamation in the nature of purchase
Debit : Goodwill / Capital Reserves
Credit : Cash.

INTERNAL RECONSTRUCTION

Meaning:

This is a form of internal arrangement whereby the accumulated losses and unexpired preliminary expenses in the books are written off. This is made possible through Reduction in the face value of the Shares, Reduction in the Paidup value of Shares without reducing the number of Shares, Revaluation of Assets, Waiver of Liability, etc.,

1. Assets

a. Revaluation *(Assuming Profit)*
Debit : Asset Account
Credit : Reconstruction Account

b. Sale of Unproductive Assets *(Assuming Profit)*
Debit : Bank Account *(Sale Proceeds)*
Credit : Assets *(Book Value)*
Credit : Reconstruction (*Profit*)

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2. Outside Liabilities

a. Waiver of Amount due on Liabilities by the outsider.

Debit : Liabilities Account
Credit : Reconstruction Account

b. Settlement of Liability at Discount.

Debit : Liabilities Account
Credit : Bank
Credit : Reconstruction Account.

c. Asset taken over by creditors in discharge of Liability (*Assuming Liability discharged is greater than Book Value of Asset*)

Debit : Liabilities Account
Credit : Asset Account
Credit : Reconstruction

d. Conversion of Liability into Secured Debentures / Share Capital

Debit : Liabilities Account
Credit : Debenture / Share Capital.

3. Share Capital

a. Reduction in number of shares - Paid up capital per share being same.

Debit : Share capital Account
Credit : Reconstruction Account

b. Reduction in paid up value per share - No. of shares remaining same.
Note : This represents issue of new class of shares with lower face value in lieu of old shares.

Debit : Equity share capital (*old*) Account
Credit : Equity share capital (*new*) Account
Credit : Reconstruction Account

c. Consolidation / Sub division of shares
Debit : Equity share capital (*old*) Account
Credit : Equity share capital (*new Fixed Value*) Account

4. Utilisation of Reconstruction Surplus

a. For writing off
b. For writing down value of Assets specified.
c. For writing off intangible

Debit : Reconstruction Account
Credit : Profit / Loss Account
Credit : Assets
Credit : Intangible Assets

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5. Transfer of Reconstruction surplus (*if any*) **to Capital Reserve**

Debit : Reconstruction Account
Credit : Capital Reserve

Note: Expenses incurred for Reconstruction if any to be debitted to Reconstruction Account.

6. Others

The scheme of Reconstruction normally provides for:
a. Addition to the name of the Company, the words 'and reduced'
b. Disclosure in Annual Accounts, the particulars of reconstruction ie., Date of High Court Order, Adjustment to the value of Assets & Liabilities.
This disclosure is called for a period specified by the court.

VALUATION OF GOODWILL

Definition:

Goodwill is the value of Reputation which the Company / Organisation has gained through its standing in the business. It is the excess earning capacity of such Enterprise / Company.

Methods of Valuing Goodwill:

Average Profits Method, Super Profits Method, Capitalisation Method & Annuity Method.

1. Average Profits Method:

i) Ascerain Profits of Normal year of the Business Return which shall be adjusted for

a) Non recurring items
eg: Profit on sale of Asset

b) Non Operating items
eg: Income from Investments

c) Changes in Business Condition
eg: Change in Tax rates.

ii) Computation of Average Profits

Note: Simple Average = For Fluctuating Profits
Weighted Average = For Increasing / Decreasing Profits in a trend.

iii) Goodwill is Computed as the no. of years purchase of average profits.

Note: No. of years purchase represents the multiplication factor.

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2. Super Profits Method:

Step 1 : Ascertain Normal Rate of Return (NRR) for the Industry in which the Company whose Goodwill being valued.

Step 2 : Compute actual profits - operating profits made by the Company.

Step 3 : Compute actual capital employed - Either Terminal Capital employed or Average Capital employed

$$= \frac{\text{Opening Capital Employed + Closing Capital}}{2}$$

(or)

= Closing Capital employed - 1/2 the year profit.

(or)

= Opening Capital employed + 1/2 the year profit.

Capital employed is calculated under two approaches as follows:

(a) Shareholders Approach:
Capital employed = Share capital + Reserves & Surplus – Miscellaneous Expenditure

(b) Longterm funds Approach
Capital employed = Shareholder funds + Longterm borrowings.

The Capital employed ascertained as above is referred as Liabilities side approach and is to be adjusted for the changes in values of Operating Assets and after excluding non operating Assets.

Capital employed can alternatively be calculated under the Assets side Approach as follows:

(a) Value of operating Assets to Business.
(b) Less Outside Liabilities
(c) Capital Employed = (a) - (b)

Step 4 : Compute Normal Profitj ie., excess of actual profits (2) over normal profit (4)

Step 5 : Compute super profit ie., excess of actual profits (2) over normal profit (4)

Step 6 : Goodwill = No. of Years purchase x Super Profits

3. Capitalisation Method

Steps 1,2 and 3 same as in Super profit method.

Step 4 : Compute Normal Capital employed.

$$\text{Normal Capital employed} = \frac{\text{Actual Profit}}{\text{Normal rate of Return}} \times 100$$

Step 5 : Goodwill = Excess of Normal Capital employed over Actual Capital Employed.

4. Annuity Method

Goodwill under this method calculated by multiplying the Annuity Factor with the Average Profit or Super Profit.

VALUATION OF SHARES

A. Net Asset Value Method

Step 1 : Compute Net Operating Asset (*Refer Capital Employed Computation under Valuation of Goodwill*).

Step 2 : Add Value of Goodwill and Non operating Assets if any *(eg. Investments)*

Step 3 : Divide the aggregate of Step 1 & 2 by the number of shares outstanding as at Valuation date.

B. Yield based

The Various Methods under this are Dividend Capitalisation Method Earnings Capitalisation Method & Productivity Factor Method.

1. Dividend Capitalisation Method

Step 1 : Ascertain Dividend per share

Step 2 : Ascertain Normal rate of return.

Step 3 : Capitalise the Dividend per share at above normal rate of return to arrive at value per share.

$$\text{Value per share} = \frac{\text{DPS}}{\text{NRR}} \times 100$$

(Where DPS = Dividend Per Share
NRR = Normal Rate of Return)

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2. Earnings Capitalisation Method

Step 1 : Compute Earnings Per Share (EPS).

Step 2 : Ascertain Normal Rate of Return (NRR).

Step 3 : Value per share is arrived by capitalising at NRR.

$$\text{Value per share} = \frac{\text{EPS}}{\text{NRR}} \times 100$$

3. Productivity Factor Method

Step 1 : Computation of Productivity factor

a. Compute weighted average net worth of a given period.

b. Compute weighted average Profit After Tax (PAT) for the same period.

c. Compute Productivity factor

$$\text{Production Factor} = \frac{\text{Weighted Average PAT}}{\text{Weighted Average Net Worth}} \times 100$$

Step 2 : Ascertain Net worth on the valuation date.

Step 3 : Compute Future Maintainable Profit (FMP).

Future Maintenance Profit = Net Worth x Productivity Factor.

Step 4 : Ascertain Adjusted FMP ie., Future Maintenance Profit as per Step 3 adjusted for changes in business. *(eg. Change of tax rate)*.

Step 5 : Ascertain Normal rate of return.

Step 6 : Capitalise Adjusted FMP at NRR to arrive at value of business.

Step 7 : Add : Non operating Assets (*eg. Investments*) to above value of business.

Less : Preference Share Capital (*if any*)

Step 8 : Value per share = (Step 6 + Step 7) / Number of Shares

4. Market Price Method

Step 1 : Ascertain Earnings Per Share.

Step 2 : Ascertain from published sources the Price Earnings Multiples for similar size Company operating in the same industry.

Step 3 : Value per share = EPS X PE Ratio.

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HOLDING COMPANY

Consolidated Balance Sheet:

Step 1 : The date of Acquisition - This is the basis for segregating profit of Subsidiary Company in to Capital & Revenue profit or in otherwords Preacqusition & Post acquisition profits.

Step 2 : The particulars of shareholding as on the date of Consolidated Balance Sheet.

Particulars	*No of Shares*	*Percentage of holding*
1.Holding Company	XXX	XXX
2.Minority Company	XXX	XXX

Step 3 : Segregation shows analysis of profits of subsidiary as at the date of Consolidated Balance Sheet.

Particulars of Reserves	Capital profit (Pre-Acquision Profit)	Post Acquisition Profit (Revenue Reserve)	Post Acquisition Profit (Revenue Profit)
General Reserve	xxx	xxx	xxx
Other Reserve	xxx	xxx	xxx
Revaluation Reserve	xxx	Nil	Nil
Profit & Loss A/c	xxx	xxx	xxx
Total			

Note :

a) Profits of subsidiary are segregated as Pre acquisition & Post acquisition on the basis of date of acquisition. (Step 1)

b) Segregated profits are apportioned between holding Company & Minority Interest on the basis of shareholding pattern as at the date of consolidated balance sheet.(Step 2)

c) Preliminary expenses /Miscellaneous expenses shall also be adjusted in the process of segregation of reserves.

Step 4 : Minority Interest

It is the aggregate of

a) Share Capital of Subsidiary

b) Share of

i) Capital Profit
ii) Revenue Reserve
iii) Revenue Profit

Step 5 : Cost of control

It is the difference between Cost of Investment of Holding company in subsidiary Company and Value of Holding Company's Interest in Subsidiary as on the date of acquisition.

Cost of Acquisition:

a) Cost of Investments (*as per books*)

b) Less : Dividend if any received from subsidiary after the date of acquisition for the period prior to Investment.

Value of Investment (*Holding Company's Interest*)

a) Holding Company's Interest in Share Capital of Subsidiary.

b) Add : Holding Company's Share of Capital profits(*Step3*)

Note : If cost of Acquisition > Value of Investment,
then Goodwill = Cost – Value.
If value of Acquisition > Cost of Acquisition,
then Capital Reserve = Value – Cost.

Step 6 : Inter Company transactions

a) Calculation of Inter Company owings. *(Debtors/Creditors and loans given/ loans taken).*

b) Creation of Stock Reserve for the unrealized profit on closing stock arising out of inter company sales/purchases. To the extent of Holding Company's Interest, Stock Reserve is created out of Profit. *(Alternatively, stock reserve may also be created for the total unrealized profit).*

Step 7 : Reserves for Consolidated Balance Sheet

a) Reserves of Holding Company *(as per the books)*

b) Less Dividend received from subsidiary out of pre acquisition profits adjusted against cost of investment *(Step 5)*

c) Add Holding Company Share of Revenue reserves and Revenue Profits of subsidiary *(Step 3)*

d) Less Stock reserve *(Step 6b)*

Step 8 : Consolidated Balance Sheet

Arithmetical addition of Assets & Liabilities of both Holding & Subsidiary companies except for the following.

a) Share Capital - The Holding Company's Share Capital only. Subsidiary Share Capital shall not be taken since it is partly included in Minority Interest and partly adjusted against cost of control.

b) Reserves shall be as arrived at in *Step 7* plus Capital reserve if any as per *Step 5*

c) Outside liability shall be the aggregate net of Inter Company owings.

d) Minority Interest as per *Step 4* shall be shown as liability.

e) Investments shall with aggregate after excluding Investment of Holding Company in Subsidiary Company.

f) Fixed Assets shall be aggregate adjusted for revaluation.

g) Other Assets – receivables shall be aggregate net Inter Company owings and in certain cases the difference being shown as remittance in transit.

h) Contingent liabilities to be added up except for Inter Company Liabilities which will be netted off.

BANKING COMPANY ACCOUNTS

Balance Sheet of a Banking Company as on ....

	Schedule Number	Amount
Liabilities		
Sharecapital	1	xxxxxx
Reserves and surplus	2	xxxxxx
Deposits	3	xxxxxx
Borrowings	4	xxxxxx
Other liabilities	5	xxxxxx
Total		xxxxxx
Assets		
Cash in hand and with RBI	6	xxxxxx
Balance with other bank &		
Money at call & short notice	7	xxxxxx
Investments	8	xxxxxx
Advances	9	xxxxxx
Fixed assets	10	xxxxxx
Other assets	11	xxxxxx
Contingent liabilities		
Bills for collection	12	xxxxxx
Total		xxxxxx

Schedules forming part of balance sheet

Schedule 1 - Share capital
Authorised , Subscribed & Paidup

Schedule 2 - Reserves & surplus
Profit & loss appropriation account
Share premium
Statutory reserve
Reserve fund
General reserve
Investment fluctuation fund
Debenture redemption fund
Capital reserve

Schedule 3 - Deposits
Current & contingency account
Saving bank account
Fixed deposits
Recuring deposits
Demand deposits
Term deposits
Cash certificates (credits)
Call deposits payable on demand or notice

Schedule 4 - Borrowings
Borrowings
Short loans
Loans (credit)

Schedule 5 - Other liabilities
Rebate on bills discounted
Provisions for taxation
Proposed dividends
Unclaimed dividends
Outstanding expenses
Bank orders
Demand draftsletters of credit
Circular notes
Contingency reserve
Branch adjustments (credit)

Sch. 6 - Cash in hand & with RBI
Cash in Hand , Cash with RBI

Schedule 7 - Balance with other bank & money at call & short notice
Balance with other bank
Money at call & short notice

Schedule 8 - Investments
Short debentures, government certificates & bonds , gold etc.

Schedule 9 - Advances
Loans cash credits & over drafts
Bills purchased & discounted
Less: provision for bad & doubtful debts

Schedule 10 - Fixed Asset
Land, Building , Furniture
Less: Depreciation

Schedule 11 - Other Assets
Outstanding interest on investments
Non banking assets acquired in satisfaction of claims
Advance income tax
Branch adjustments (*Debit*)
Stock of stamps and stationary
Prepaid expenses
Silver, etc.

Schedule 12 - Contingent liabilities
Acceptances, endorsements and other obligations
Guarantees, Claims against the bank not acknowledged as debts
Liability on account of partly paid investments
Outstanding forward exchange transactions, Bill of exchange rediscounted

Profit and Loss Account of a Banking Company

Income	**Schedule**	**Amount**
Interest & discount earned	13	xxxxxx
Other incomes	14	xxxxxx
Less : ***Expenditure***		
Interest expended	15	xxxxxx
Operating expenses	16	xxxxxx
Provisions & contingencies		xxxxxx
Profit for the year		xxxxxx
Add: Balance of Profit & Loss Brought forward from Previous Balance sheet		xxxxxx
		xxxxxx
Less: Transfer to statutory reserve fund	xxxxxx	
Transfer to other reserves	xxxxxx	
Interim Dividend, Proposed dividend etc	xxxxxx	xxxxxx
Balance of Profit & Loss Account carried forward to Balance Sheet		xxxxxx

Schedules forming part of Profit & Loss Account

Schedule 13 - Interest & discount earned

Discount on bills
Interest on loan
Interest on overdraft
Interest on cash credits

Schedule 14 - Other Income

Profit on exchange transaction
Less : Loss on Exchange Transaction
Other incomes (*including share of dividends from subsidiaries and amount charged against current account*)

Schedule 15 - Interest Expended

Interest on deposits
Interest on borrowings
Other interest

Schedule 16 - Operating Expenses

All administration expenses like rent, salary, printing & stationery etc.
Provisions & contingencies
Bad debts
Provision for bad debts
Provision for taxation.

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RATIO ANALYSIS

Profitability Ratios :

1. Return on Capital Employed (ROCE) or Return on Investment (ROI)

$$\text{ROI} = \frac{\text{Profit}}{\text{Capital Invested}}$$

$$\text{or} = \frac{\text{Net Profit}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Capital Invested}} \times 100$$

2. Earnings per Share (EPS) $= \dfrac{\text{Profit after tax \& Dividend}}{\text{No. of equity shares}}$

Or

$$\frac{\text{Profit available for equity sharehholders}}{\text{No. of equity share}}$$

3. Gross Profit Margin $= \dfrac{\text{Sales - cost of goods sold}}{\text{Sales}} \times 100$

Or

$$= \frac{\text{Gross Profit}}{\text{Sales}} \times 100$$

4. Net Profit Margin $= \dfrac{\text{Net Profit before interest and tax}}{\text{Net Sales}} \times 100$

5. Cash Profit Ratio $= \dfrac{\text{Cash profit}}{\text{Sales}} \times 100$

6. Cash Profit = Net Profit + Depreciation

7. Return on assets $= \dfrac{\text{Net Profit after Tax}}{\text{Total assets}} \times 100$

8) Return on Shareholders funds or Return on net worth $= \dfrac{\text{Net Profit after interest and tax}}{\text{Net worth}} \times 100$

9) Net worth = Equity Capital + Reserves and Surplus

Solvency ratios

Long-term Solvency ratios

1) Debt-Equity ratio $= \dfrac{\text{Long-term debt}}{\text{Shareholders funds}}$

2) Shareholders Equity ratio $= \dfrac{\text{Shareholders Equity}}{\text{Total assets (Tangible)}}$

3) Debt to Net worth ratio $= \dfrac{\text{Long-term debt}}{\text{Net worth}}$

4) Capital Gearing ratio $= \dfrac{\text{Fixed interest bearing funds}}{\text{Equity Shareholder's funds}}$

5) Fixed assets to Long-term $= \dfrac{\text{Fixed assets}}{\text{Long-term funds}}$

6) Dividend Coverage ratio $= \dfrac{\text{Net Profit after tax}}{\text{Dividend}}$

7) Interest Cover $= \dfrac{\text{Profit before interest, depreciation and tax}}{\text{Interest charges}}$

Short-term Solvency Ratios :

1) Current ratio $= \dfrac{\text{Current Assets}}{\text{Current Liabilities}}$

2) Quick or Liquid ratio $= \dfrac{\text{Current Assets - Inventories Prepaid expenses}}{\text{Current Liabilities}}$

Activity or Turnover Ratios

1) Inventory turnover ratio $= \dfrac{\text{Cost of goods sold}}{\text{Average Inventory}}$

or $\dfrac{\text{Cost of Sales}}{\text{Average Inventory}}$

where

Average Inventory $= \dfrac{\text{Opening Stock + Closing Stock}}{2}$

2) Inventory ratio $= \dfrac{\text{Inventory}}{\text{Current assets}} \times 100$

3) Debtors turnover ratio $= \dfrac{\text{Net Credit Sales}}{\text{Average Debtors}}$

4) Average Debtors collection period (in days) $= \dfrac{\text{Average Debtors}}{\text{Credit Sales}} \times 365$

5) Bad debts to sales ratio $= \dfrac{\text{Bad Debts}}{\text{Sales}}$

6) Average payment period (in days) $= \dfrac{\text{Average Creditors}}{\text{Purchases}} \times 365$

Or $\dfrac{365}{\text{Creditors turnover Ratio}}$

7) Creditors turnover ratio $= \dfrac{\text{Credit Purchase}}{\text{Average Creditors}} \times 100$

8) FixedAssets turnover ratio $= \dfrac{\text{Sales}}{\text{Fixed assets}} \times 100$

9) Total assets turnover ratio $= \dfrac{\text{Sales}}{\text{Total assets}} \times 100$

10) Working Capital turnover ratio $= \dfrac{\text{Sales}}{\text{Working Capital}} \times 100$

11) Sales to Capital employed ratio $= \dfrac{\text{Sales}}{\text{Capital employed}} \times 100$

Operating Ratios

1) Material Cost ratio $= \dfrac{\text{Material consumed}}{\text{Sales}} \times 100$

2) Labour Cost ratio $= \dfrac{\text{Labour Cost}}{\text{Sales}} \times 100$

3) Factory overhead ratio $= \dfrac{\text{Factory expenses}}{\text{Sales}} \times 100$

4) Administrative expenses ratio $= \dfrac{\text{Administrative expenses}}{\text{Sales}} \times 100$

5) Selling and Distribution expenses ratio $= \dfrac{\text{Selling and Distribution expenses}}{\text{Sales}} \times 100$

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Market test Ratios

1) Dividend Payout ratio $= \dfrac{\text{Dividend per Share}}{\text{Earnings per Share}}$

2) Dividend Yield Ratio $= \dfrac{\text{Dividend per Share}}{\text{Market Price}} \times 100$

3) Price Earnings ratio $= \dfrac{\text{Current market price}}{\text{Earnings per Share}}$

Working Capital Management

1) Gross Operating Cycle = Raw material conversion period + Work-in-process conversion period + Finished goods conversion Period + Book debts conversion period

2) Net Operating Cycle = Gross Operating Cycle - Payment deferral period

3) Working Capital Leverage $= \dfrac{\text{C.A.}}{\text{T.A.} - \Delta\,\text{C.A.}}$

Where, C.A. = Current assets
T.A. = Total assets (i.e. Net fixed assets + Current assets)
Δ C.A. = Change in Current assets.

Debtors and Inventory Management

Economic Order Quantity (EOQ)

$$EOQ = \sqrt{2AB / CS}$$

Where
A - Annual demand
B - Ordering cost
C - Carrying costage
S - Price perunit

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Inventory Levels

- Re-order Level = Maximum usage x Maximum reorder Period.
- Minimum Stock Level = Re-order level - (Average or Normal Usage x Average lead Time)
- Maximum Stock level
  = Re-order level + Economic Order Quantity - (Minimum usage x Minimum reorder period)

COST OF CAPITAL AND LEVERAGE

Cost of Equity (KE)

Dividend Yield method $= \frac{\text{Dividend}}{\text{Market Price}} \times 100$

Leverage

1) Financial Leverage $= \frac{\text{EBIT}}{\text{EBT}}$

2) Operating Leverage $= \frac{\text{Contribution}}{\text{EBIT}}$

3) Total Leverage $= \frac{\text{Contribution}}{\text{EBT}}$

Where EBIT = Earnings Before Interest and Tax.

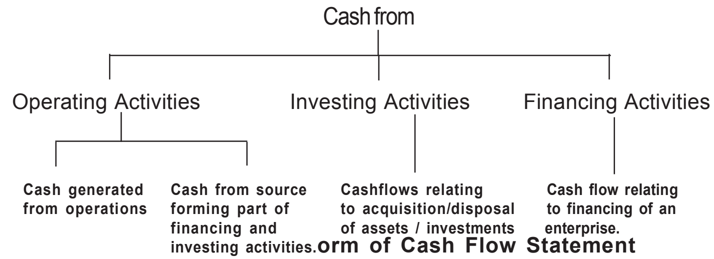
EBT = Earnings Before Tax.

Statement of Marginal Cost

Sales	xxx
Less : Variable Cost	xxx
Contribution	xxx
Less : Fixed Cost	xxx
Profit (EBIT)	xxx
Less : Interest	xxx
EBT	xxx

CASH FLOW STATEMENT

The sources and uses are summarised under 3 heads:



orm of Cash Flow Statement

A. **Cash Flows from Operating Activities**

DIRECT METHOD

1. Cash receipts from customers
2. Cash paid to Suppliers/employees/expenses
3. Cash generated from operations
4. Taxes Paid
5. Cash flow before Extra-ordinary items
6. + / - Extra - ordinary Items
7. Net Cashflow from operating activites

(or)

INDIRECT METHOD (Alternative Method)

1. PBT & Extra-ordinary items.
2. Depreciation and other non-cash items.
3. +/- Non-operating items.
4. Operating Profit before Working Capital changes.
5. Adjustments for Working Capital changes.
6. Cash generated from operations.
7. Taxes paid.
8. Cash flow before extra-ordinary items.
9. +/- Extra Ordinary Items.
10. Net Cashflow from Operating Activities.

B.	**Cash flow investing activities**.		
1.	Sale proceeds of assets	xxx	
2.	Sale proceeds of investments	xxx	
3.	Income from investments	xxx	
4.	Purchase of Assets	xxx	
5.	Purchases of Investments	xxx	
	Net Cash from investing activities		xxx
C.	**Cash flow from financing activities**		
1.	Issue of Shares	xxx	
2.	Additional borrowings	xxx	
3.	Redemption of Shares	xxx	
4.	Redemption of Borrowings	xxx	
5.	Payment of Dividend	xxx	
6.	Payment of Interest on longterm borrowings	xxx	
	Net Increase/Decrease in Cash and Cash equivalent		xxx

Notes (Forming Part of Cash Flow Statement)

1. *Definition of Cash and Cash Equivalents.*
2. *Reconciliation of Cash and Cash Equivalents.*
3. *Management statement on commitments against cash balance.*
4. *Increase in operating capability of an enterprise or cash required to maintain operating Capability.*

Funds Flow Statement

Fund generally refers to Working Capital Steps.

I Schedule of changes in Working Capital

Particulars	Previous Year	Current Year	Increase	Decrease
Current Assets				
Stock				
Debtors				
Prepaid expenses				
Bank				
Cash, etc				
Total (A)	xxxx	xxxx		
Current Liabilities				
Sundry Creditors				
Provision for Taxation *				
Proposed Dividend				
Bank overdraft				
Bills Payable etc.				
Total (B)	xxxx	xxxx		
Increase / Decrease in Working Capital (A - B)				

* Provision for Taxation and Proposed dividend can be taken as current assets provided there are no adjustments. If there is adjustments, Seperate Ledger accounts have to be opened and they have to be treated as non current assets as explained below

Dr **Provision for Taxation A/c** Cr

Particulars	**Rs. P.**	**Particulars**	**Rs.**	**P.**
To Cash (taxpaid)	xxx	By Balance b/d	xxx	
To Balance c/d	xxx	By Profit and Loss A/c	xxx	
	xxx		xxx	

Dr **Accumulated Depreciation A/c** Cr

Particulars	**Rs. P.**	**Particulars**	**Rs.**	**P.**
To Fixed Assets A/c	xxx	By Balance b/d	xxx	
To Balance c/d	xxx	By Profit and Loss A/c	xxx	
	xxx		xxx	

Dr **Fixed Asset A/c** Cr

Particulars	**Rs. P.**	**Particulars**	**Rs.**	**P.**
To Balance b/d	xxx	By cash (sale)	xxx	
To Profit & Loss (profit on sale)	xxx	By Depreciation	xxx	
		By Profit for Loss	xxx	
To Cash (Purchases)	xxx	By Balance c/d	xxx	
	xxx		xxx	

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Dr **Adjusted Profit and Loss Account** Cr

Particulars	**Rs. P.**	**Particulars**	**Rs.**	**P.**
To General Reserve	xxx	By Balance b/d	xxx	
To Goodwill w/o	xxx	By Profit on Sale A/c	xxx	
To Provision for Taxation	xxx	By Funds from operations	xxx	
To Depreciation	xxx			
To Proposed Dividend (current year)	xxx			
To Loss on sale of asset	xxx			
To Balance c/d	xxx			
	xxx		xxx	

Funds Flow Statement

Sources	**Rs. P.**	**Applications**	**Rs.**	**P.**
Increase in Share Capital	xxx	Redemption of pref. shares	xxx	
Issure of Share	xxx	Redemption of debentures	xxx	
Sale of Fixed Assets	xxx	Purchase of Fixed Assets	xxx	
Decrease in working capital	xxx	Payment of Tax	xxx	
Funds from operations	xxx	Payment of Dividend	xxx	
Receipt of Loans	xxx	Increase in working capital	xxx	
		Payment of Loans	xxx	
	xxx		xxx	

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