Not-for-profit organisations refer to the organisations that are used for the welfare of the society while not for profit.

- Service motive
- Managed by elected members
- Main sources of funds are donations, grants et c.
- Trustees are the members

### Sources of funds
- Subscriptions
- Grants and Aids
- Income from different Activities
- Membership fees

### Examples
- Udaan India foundation in Mumbai
- BHUMI
- The Dove foundation based in U.P.

### Characteristics
- Service motive
- Managed by elected members
- Main sources of funds are donations, grants et c.
- Trustees are the members

**Not-for-Profit Organizations**

**Features**
- This account records only those transactions that are related to current year.
- It is a nominal Account.
- Closing balance shows either surplus or deficit balance.
- Prepared on the basis of information contained in Receipts and Payment Account.

**Receipts & Payments Account**

<table>
<thead>
<tr>
<th>Receipts</th>
<th>Amount</th>
<th>Payments</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Balance b/d</td>
<td></td>
<td>By All Payments in cash</td>
<td></td>
</tr>
<tr>
<td>To All Receipts in cash</td>
<td></td>
<td>By balance c/d</td>
<td></td>
</tr>
</tbody>
</table>

**Income & Expenditure Account**

<table>
<thead>
<tr>
<th>Expenditure</th>
<th>Amount</th>
<th>Income</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Expenses</td>
<td></td>
<td>All income</td>
<td></td>
</tr>
<tr>
<td>Surplus of Income</td>
<td></td>
<td>Surplus of expenditure</td>
<td></td>
</tr>
</tbody>
</table>

**Not-for-Profit Organisation**

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Amount</th>
<th>Assets</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital fund and Other Liabilities</td>
<td></td>
<td>All Assets</td>
<td></td>
</tr>
</tbody>
</table>
### Basics of Partnership

- **Salary to Partner**
- **Interest on Drawing**
- **Interest on Capital**
- **Commission to Partner**

- **Fixed Capital**
- **Salaried or Commission**

- **Sharing of Profits**
  - Divided the share of Profits
  - Transfer the balance of P & L A/C
  - Transfer the balance of Reserves

- **Guarantee given by All Partners**
- **Guarantee given by a Partner to Firm**
- **Past Adjustment**
- **Guarantee of Profits**

- **Nature**
- **Factors affecting Goodwill**
- **Methods of Valuation of Goodwill**

- **Advantages**
  - Efficiency management
  - Favourable location
  - Longer establishment of Business
  - Market situations
  - Risk associated with business

- **Disadvantages**
  - It is an intangible asset
  - It is not depreciated

### Calculation of Profit Appropriation Items

- **Net Profit before Commission x Rate**
- **Interest on Partner’s loan x Rate**
- **Salary or Commission**
- **Interest on Partner’s Drawings x Rate x Months**

- **Capital x Rate x Months**

- **Average Profit method**
  \[ \text{Goodwill} = \text{Average Profit} \times \text{Number of Years’ Purchase} \]

- **Super Profit method**
  \[ \text{Super Profit} = \text{Actual Profit} - \text{Normal Profit} \]

- **Capitalisation method**
  \[ \text{Capitalisation of Goodwill} = \left( \frac{\text{Average Profit}}{\text{Normal rate of return}} \right) \times \text{Number of Years’ Purchase} \]

- **Nature**
  - Goodwill

- **Methods of Valuation**
  - Average Profit method
    \[ \text{Goodwill} = \left( \frac{\text{Average Profit}}{\text{Normal rate of return}} \right) \times \text{Number of Years’ Purchase} \]
  - Super Profit method
    \[ \text{Super Profit} = \text{Actual Profit} - \text{Normal Profit} \]
  - Capitalisation method
    \[ \text{Capitalisation of Goodwill} = \left( \frac{\text{Average Profit}}{\text{Normal rate of return}} \right) \times \text{Number of Years’ Purchase} \]

### Must Know

- **Salaries or Commission**
- **Interest on CAPITAL**
- **Interest on Drawing**
- **Commission to Partner**

### Goodwill

- **Capitisation of Goodwill**
  \[ \text{Goodwill} = \text{Total Capitalised value of Business} - \text{Capital Employed.} \]

### Elements of Business

- **Name and Address of partners**
- **Name of the firm**
- **Nature of Business**
- **Capital of partners**
- **Interest on Capital**
- **Interest on Drawings**
- **No Partner gets salary**

### To note

- **Name of the Firm**
- **Nature of Business**
- **Capital of Partners**
- **Interest on Capital**
- **Interest on Drawings**
- **No Partner gets Salary**

### Provisions in the absence of Deed

- **Share Profits & Losses equally**
- **No Interest on capital**
- **No Interest on drawings**
- **No Partner gets salary**

### Partners

- **Minor Partner**
- **Nominal Partner**
- **Secret Partner**
- **Silent Partner**
- **Active Partner**

### Different types of Partners

- **Written**
- **Oral**

### Content of Deed

- **Easiness to wind up**
- **Easiness to establish**
- **Low cost of formation**
- **Accepted form of Business**

### OSWAAL CBSE Chapterwise Mind Maps, ACCOUNTANCY, Class - XII
Reconstitution of Partnership Firm

- Admission of a partner
- Retirement of an existing partner
- Death of a partner
- Amalgamation of two partnership firms
- Change in profit-sharing ratio

Circumstances when Reconstitution takes place

- Admission of a partner
- Retirement of an existing partner
- Death of a partner
- Amalgamation of two partnership firms
- Change in profit-sharing ratio

Gaining Ratio = New Ratio - Old Ratio
Sacrificing Ratio = Old Ratio - New Ratio

- Net effect of reserves, accumulated profits and losses is calculated.
- Gaining / Sacrificing ratio is calculated.
- The share of gaining partner and sacrificing partner in Net effect is calculated.
- In case of positive Net Effects–
  Gaining Partner’s Capital A/c Dr.
  To Sacrificing Partner’s Capital A/c
- Reverse entry is made in case of negative Net Effects.

Transfer to Partners’ Capital Account or Current Account in old profit-sharing ratio.

- Debit the Revaluation Account if liabilities are increasing
- Credit the Revaluation Account if liabilities are decreasing
- Debit the Revaluation Account if assets decrease
- Credit the Revaluation Account if assets increase

Transfer to Partner’s Capital Accounts

Reserves & Accumulated Profits & Losses

Revaluation of Assets and Liabilities

Change in Profit-Sharing Ratio

- Debit the Revaluation Account if liabilities are increasing
- Credit the Revaluation Account if liabilities are decreasing
- Debit the Revaluation Account if assets decrease
- Credit the Revaluation Account if assets increase
• Transfer the Increasing or decreasing amount of assets and Liabilities to Revaluation Account,
• Profits or losses arising from revaluation are distributed amongst the old partners in their old profit-sharing ratio.

New Profit - Sharing Ratio = Old Ratio – Sacrificing Ratio

Sacrificing Ratio = Old Ratio – New Ratio

Accumulated profits and Reserves

Reserves, losses and profits should be transferred to Capital / Current Accounts of old partners in old profit - sharing ratio.

Adjustment of Capital

New Capital is determined for new partner as well as old partners.

On the basis of Old Partners’ Capital firm’s new capital is determined,
• New partner’s capital is determined on the basis of firm’s capital,
• Adjustment is made on the firm’s capital on the basis of new partner’s capital,
• New capital is determined for new partner as well as old partners.

The new partner is required to pay his share of the tangible assets as well as the goodwill according to the profit–sharing ratio.
• On the admission of partner, goodwill must be revalued.
• However, not all businesses keep a goodwill account in their books. Goodwill adjustments can be done –
  • Goodwill Account opened.
  • Goodwill account not opened.
Retirement/Death of a Partner

- Consider opening Balance of Capital, Share in revaluations Account, Share of reserves, Share of goodwill of firm, Share of profit till the date of retirement.

- When appears in books, distribute in old ratio.
- When does not appear, credit to retiring partner’s capital account and debit to continuing partners’ capital account in gaining ratio.

- Take total profits of the required number of past years, calculate average profit, reduce average profit for the period up to the date of death.

- New share = Old share + Acquired share
- Gaining Ratio = New share – Old share

- Distribute in old ratio,
- Profit and Loss A/C DR, General Reserve A/C DR, Workmen Compensation A/C DR, To all Partners’ Capital/ Current A/C’s

- If capital of remaining partner falls short, he brings in cash.
- If capital of remaining partner has a surplus, he withdraws cash.
- Surplus or deficit in Capital Account is transferred or adjusted by transfer to Current Account.

<table>
<thead>
<tr>
<th>Particular</th>
<th>Amount</th>
<th>Particular</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Increase in Liabilities</td>
<td></td>
<td>By Increase in Assets</td>
<td></td>
</tr>
<tr>
<td>To Decrease in Assets</td>
<td></td>
<td>By Decrease in Liabilities</td>
<td></td>
</tr>
<tr>
<td>To Partners’ Capital A/c</td>
<td></td>
<td>By Partners’ Capital A/c</td>
<td></td>
</tr>
</tbody>
</table>
### Dissolution of Partnership firm

**Nature & Objective**
- Change in economic relationship among the partners but the firm continues.

**Types of Dissolution**
- Dissolution of partnership among all the partners in a firm.
- Dissolution by Agreement (Section 40),
- Compulsory Dissolution (Section 41),
- Dissolution upon Contingency, if the partnership deed so provides (Section 42),
- Dissolution by Notice (Section 43),
- Dissolution by Order of Court (Section 44).

**Settlement of Accounts**
- First, out of profits
- Next, out of Capital
- At last, by the partners individually in their profit-sharing ratio.

**Dissolution of Partnership**

**Distribution of Assets**
- Amount received from sale of assets is debited and payment of liabilities and realisation expenses are credited to this account.

**Particulars**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount</th>
<th>Particulars</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>To All Assets</td>
<td>-</td>
<td>By All Liabilities</td>
<td>-</td>
</tr>
<tr>
<td>To Cash paid for Liabilities and expenses</td>
<td>-</td>
<td>By Cash received for Assets</td>
<td>-</td>
</tr>
<tr>
<td>To Partners Capital A/c</td>
<td>-</td>
<td>By Partners Capital A/c</td>
<td>-</td>
</tr>
</tbody>
</table>

**Loan**
- Loan will be shown on the credit side of partner’s loan account.
- Loan will be paid after outside liabilities.
- Paid off by passing following entry:
  - Partner’s Loan A/c Dr.
  - To cash / Bank A/c

**Partner’s Capital Account**
- First, in paying debits of the firm,
- Next, in paying to each partner rateably what is due to him,
- Next, in paying to each partner rateably what is due to him on account of capital,
- Residue to be divided in profit-sharing ratio.

**Cash / Bank Account**
- Transfer the Undistributed Profits, Reserves or losses to Capital Account,
- Transfer the realisation loss or gain to Capital account,
- Make final settlement.

**Realisation Account**
- Transfer the Current Account balance (if any) to Capital Account,
Any offer of securities or invitation to subscribe the securities to a selected group of persons of a company.

Preferred Shares are those which have preferential right to the payment of dividend during the lifetime of the company and a preferential right to return of capital when the company is wound up.

Share capital means the capital raised by the company by the issue of shares.

- Authorised capital
- Issued capital
- Subscribed capital
- Called-up capital
- Paid-up capital

Forfeiture of shares means cancelling the shares for non-payment of calls due.

Preference Shares are those which have preferential right to the payment of dividend during the lifetime of the company and a preferential right to return of capital when the company is wound up.

Share capital means the capital raised by the company by the issue of shares.

- Bonus shares
- Right shares
- Sweat equity shares

Money paid by some of allottees for calls not yet due.

Portion of called-up capital which is not paid by share holders within a specified time.

The number of shares apply for is more than the number of shares offered for issue.

The number of shares applied for is less than the number of shares offered for issue.
Debentures are issued at par and are redeemable at par
Debentures are issued at discount but are redeemable at par
Debentures are issued at premium and are redeemable at par
Debentures are issued at par and are redeemable at premium
Issued at discount and are redeemable at premium
Issued at premium and are redeemable at premium

Various Conditions

- Lump sum on maturity – all the debentures are redeemed on the redemption date specified in the terms of issue of their maturity.
- Redemption of debentures in instalments by draw of lots – the company may redeem its debentures by payment, each year a part of debentures being selected by draw.

Issue of Debentures

- Issue at par – issued at nominal price
- Issue at premium – issued at higher price than the face value
- Issue at discount – issued at a price less than the face value

Issues of Debentures

- Issue of debentures to promoters,
- Issue of debentures to vendors,
- Issue of debentures to purchase the business.

Debentures are issued as collateral security when the borrower is not in a position to give any other asset as a collateral security.

For Cash

- Issue of debentures to purchase the business.

For Consideration other than Cash

- Issue of debentures to purchase the business.

Debenture Redemption Reserve

- It is a reserve created out of profits available for distribution as dividend for the purpose of redemption of debenture.

Accounting for Debentures

- It is charged against profit.
- It is calculated at a fixed rate of interest on the face value.
- Not payable on debentures, issued as collateral security.
- Interest payable is pre-fixed.

Debentures are issued as collateral security when the borrower is not in a position to give any other asset as a collateral security.

Waiting off Discount or Loss on Issue of Debentures

- May be written off in the first year from securities premium reserve or from statement of profit and loss.
- May be written off in equal instalments every year.
Financial Statements of a Company

- Discloses the net results of the business operations, i.e., net profit or loss.
- Must comply with the requirements of part II of Schedule III of Companies Act, 2013.

- It is prepared in accordance with AS-3 (Revised) to show flow of Cash & Cash equivalents during an accounting period.

- Must comply with the requirements of part II of Schedule III of Companies Act, 2013.

- Discloses the financial position of a company at the end of the year, a.k.a., Position Statement,
- Shows the amounts of various assets, equity and liabilities.
- Must be in form set out in part I schedule III of Companies Act, 2013.
Comparative Balance Sheet: Presents side-by-side information about an entity’s assets, liabilities and shareholders’ fund as of multiple points in time.

Comparative Profit and Loss Statement:

Common Size Balance Sheet:
- Each item of assets is converted into percentages to total assets (i.e., 100) and each item of equity and liabilities is converted into percentages to total equity and liabilities (i.e., 100).
- Each item is shown as percentage to revenue from operations.

Common Size Income Statement:

Cash Flow Analysis:
- Presents cash inflows and outflows over a specific period of time.

Tools for Financial Analysis:
- Used to obtain a quick indication of a firm’s financial performance in several key areas.
- Used to get help for future planning.

Limitations:
- Historical Analysis,
- Does not reflect future,
- Ignores the Price Level Changes,
- Not free from Bias.

Importance:
- To make comparisons,
- To sustain the position of Business,
- To take financial decisions,
- To get help for future planning.

Financial Statement Objectives:

Tools used in Analysis:

Ratio Analysis:

Historical Analysis:
- Does not reflect future,
- Ignores the Price Level Changes,
- Not free from Bias.

To present financial data in simplified and understandable form,
- To help in assessing financial health of the organisation,
- To help in ascertaining the relative importance of different components of financial position of the firm,
- To help in making intra-firm and inter-firm comparisons.
Accounting Ratios

- **Gross Profit Ratio** = \( \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100 \)
- **Net Profit Ratio** = \( \frac{\text{Net Profit}}{\text{Net Sales}} \times 100 \)
- **Operating Ratio** = \( \frac{\text{Cost of Goods Sold} + \text{Operating Exp.}}{\text{Net Sales}} \times 100 \)
- **Return on Investment** = \( \frac{\text{E.B.I.T.}}{\text{Capital Employed}} \times 100 \)
- **Return on Equity** = \( \frac{\text{N.P. after Int. Tax and Dividend}}{\text{Equity shareholders' fund}} \times 100 \)
- **Earning Per Share** = \( \frac{\text{N.P. - Dividend on Preference Shares}}{\text{No. of Equity Shares}} \times 100 \)
- **Expenses Ratio** = \( \frac{\text{Given Expenses}}{\text{Net Sales}} \times 100 \)

- **Current Ratio** = \( \frac{\text{Current Assets}}{\text{Current Liabilities}} \)
- **Quick Ratio** = \( \frac{\text{Quick Assets}}{\text{Current Liabilities}} \)

- **Debt to Equity Ratio** = \( \frac{\text{Debt}}{\text{Equity}} \)
- **Proprietors Ratio** = \( \frac{\text{Proprietors funds}}{\text{Total Assets}} \)
- **Debt to Total Funds Ratio** = \( \frac{\text{Equity + Debt}}{\text{N.P. before Int. and Tax}} \)
- **Debt Service Ratio** = \( \frac{\text{N.P. before Int. and Tax}}{\text{Fixed Interest Charges}} \)
Cash Flow Statement

Objectives

- To ascertain the sources of cash and equivalents
- To ascertain applications of cash and cash equivalents.
- To ascertain net charge in cash and cash equivalents.

Format

- Issue of Shares in Cash
- Issue of Debentures in Cash
- Proceeds for long-term Loans
- Proceeds for Bank Overdraft
- Payment of Loans
- Payment of Interest
- Payment of Dividend
- Buy - back of Equity Shares
- Redemption of Preference Shares
- Re-payment of Long-term Loans
- Re-payment of Bank Overdraft

Particular | Amount | Amount
--- | --- | ---
(A) Net cash flow from operating Activities | - | |
(B) Net cash flow from Financing Activities | - | |
(C) Net cash flow from Investing Activities | - | |
Net cash flow from A + B + C, activities | - | |