Formulas

1. Interest on capital = Opening capital x Rate/100
2. Interest on Drawing
   (i) Simple Method:
   Interest on Drawing = Amount of Drawing x Rate of Interest/100 x months/12
   (ii) Product Method
   Interest on Drawings = Total of products x $\frac{\text{Rate}}{100\times12}$
   (iii) Fixed amounts drawn by partners during the month at regular intervals

(a) If drawings of fixed amount are made on the first day of each month:

Interest on Drawings = Total amount of Drawings x $\frac{Rate}{100}$ x $\frac{12+1/2}{12}$

(b) If drawings of fixed amount are made in the middle of each month:

Interest on Drawings = Total amount of Drawings x $\frac{Rate}{100}$ x $\frac{12+2}{12}$

(c) If drawings of fixed amount are made on the last day of each month:

Interest on Drawings = Total amount of Drawings x $\frac{Rate}{100}$ x $\frac{12-1/2}{12}$

3. Methods of Valuation of Goodwill

(i) Average Profit Method:

(a) Simple Average
Goodwill= Average Profit x Number of year's purchase.

(b) Weighted Average
Goodwill=Weighted average x number of years' purchase

(ii) Super Profit Method:

Goodwill =Super profits x number of years' purchase.

(iii) Capitalisation Method

Capitalisation of Average Profits: This involves the following steps:

(i) Ascertain the average profits based on the past few years' performance.

(ii) Capitalize the average profits on the basis of the normal rate of return to ascertain the capitalised value of average profits as follows:

Average Profits x 100/Normal rate of Return

(iii) Ascertain the actual capital employed (net assets) by deducting outside liabilities from the total assets (excluding goodwill).

Capital Employed/Net Assets = Total Assets (excluding goodwill) – Outside Liabilities

(iv) Compute the value of goodwill by deducting net assets from the capitalised value of average profits, i.e. (ii) – (iii).

Capitalisation of Super Profits:

Goodwill = Super Profits × 100/ Normal Rate of Return

4. Sacrificing Ratio = Old share in profit – New share in profit

5. Gaining Ratio = New share in profit – Old share in profit

Retirement /death of a partner and Dissolution of Partnership Firm

6. New ratio (retirement /death of a partner) = Old share + Acquired share

7. Gaining ratio = New ratio- Old ratio

8. Calculation of share of profit of the deceased partner

(a) On the basis of time:-

Deceased partner's share= Last year profit/Average profits x period (in months)/12/365 x Deceased partner's ratio

Note: Period here means from the period from the beginning of the year to the date of death.

(b) On the basis of sales:- Sales for the period *rate/100 * Decesed partner' s Ratio.

Company Accounts - Accounting for Share Capital & Debentures

Maximum Permissible Discount on Reissue of Forfeited Shares: Maximum Permissible Discount on Reissue of Forfeited Shares is the amount forfeited, i.e., the amount credited to the forfeited shares.

In other words, reissue price cannot be less than the amount unpaid on forfeited shares.

Accounting Treatment:

i. When all Forfeited Shares are Reissued

Forfeited Shares a/c Dr.
To Capital Reserve a/c

(Being the gain on reissue transferred to Capital Reserve)

ii. When All Forfeited Shares are not Reissued

*Gain on reissue of shares is calculated as follows:

= (Total amount forfeited "No. of shares forfeited ×No. of shares reissued) - (Amount with which Forfeited Shares Account was debited at the Or Reissue Discount time of reissue of such shares.)

SOURCES OF REDEMPTION OF DEBENTURES-debentures can be redeemed by utilizing any of the following sources

1) **Redemption out of capital**: when the debentures are redeemed without adequate profits being transferred from surplus i.e statement of profit and loss to debenture redemption reserve [DRR] at the time of redemption of debentures, such redemption is said to be out of capital.

[ii] **REDEMPTION OUT OF PROFITS** : when debentures are redeemed only out of profit and amount equal to nominal [face] value of debenture is transferred from surplus i.e., statement of profit and loss to debenture redemption reserve [DRR] before the redemption of debentures , such redemption is said to be out of profits .

[III] **Redemption partly out of profits and partly out of capital**: It means that the company does not transfer 100 per cent nominal (face) value of the total redeemable debentures of a particular series to DRR out of surplus.

Debenture Redemption Reserve (DRR): DRR is created out of profit of the company available for payment as divided for the purpose of redemption of debentures. As per the provision of section 71 (4) of the companies act,2013 read with Rule 18(7) of the companies (share capital of debentures) Rules 2014, a company shall transfer at least 25% of total nominal (face) value of redeemable debentures of that class out of surplus available for payment of dividend to DRR. DRR is required to be created in only case of non- convertible Debentures (NCD) and Non – convertible portion of partly Convertible Debentures (PCD).

2) **Debenture Redemption Investment:** A company required to create/maintain DRR shall on or before 30th April of the current year, deposit or invest (as the case may be) at least 15 % of the amount of its debentures maturing during the year ending on 31st March of the next year. Companies not required to create DRR are not required to invest in specified securities.