

Accountancy

Company Accounts and Analysis of Financial Statements

Textbook for Class XII



राष्ट्रीय शैक्षिक अनुसंधान और प्रशिक्षण परिषद्
NATIONAL COUNCIL OF EDUCATIONAL RESEARCH AND TRAINING

ISBN 978-93-5007-342-1

First Edition

March 2007 Phalguna 1928

Reprinted

October 2007 Kartika 1929

December 2008 Pausa 1930

January 2010 Magha 1931

January 2011 Magha 1932

January 2012 Magha 1933

Revised Edition

June 2015 Jyaishta 1937

Reprinted

December 2015 Agrahayna 1937

January 2017 Magha 1938

December 2017 Pausha 1939

PO 300T RPS

© **National Council of Educational
Research and Training, 2007**

₹ 115.00

*Printed on 80 GSM paper with
NCERT watermark*

Published at the Publication Division
by the Secretary, National Council
of Educational Research and
Training, Sri Aurobindo Marg,
New Delhi 110 016 and printed at
Vidya Prakashan Mandir (P.) Ltd.,
Vidya Estate, Baghpat Road,
Meerut- 250 002 (U.P.)

ALL RIGHTS RESERVED

- ❑ No part of this publication may be reproduced, stored in a retrieval system or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise without the prior permission of the publisher.
- ❑ This book is sold subject to the condition that it shall not, by way of trade, be lent, re-sold, hired out or otherwise disposed of without the publisher's consent, in any form of binding or cover other than that in which it is published.
- ❑ The correct price of this publication is the price printed on this page. Any revised price indicated by a rubber stamp or by a sticker or by any other means is incorrect and should be unacceptable.

**OFFICES OF THE PUBLICATION
DIVISION, NCERT**

NCERT Campus
Sri Aurobindo Marg
New Delhi 110 016

Phone : 011-26562708

108, 100 Feet Road
Hosdakere Halli Extension
Banashankari III Stage
Bengaluru 560 085

Phone : 080-26725740

Navjivan Trust Building
P.O. Navjivan
Ahmedabad 380 014

Phone : 079-27541446

CWC Campus
Opp. Dhankal Bus Stop
Panihati
Kolkata 700 114

Phone : 033-25530454

CWC Complex
Maligaon
Guwahati 781 021

Phone : 0361-2674869

Publication Team

Head, Publication Division : *M. Siraj Anwar*
Chief Editor : *Shveta Uppal*
Chief Business Manager : *Gautam Ganguly*
Chief Production Officer (Incharge) : *Arun Chitkara*
Editorial Assistant : *Mathew John*
Production Assistant : *Sunil Kumar*

Cover

Shweta Rao

FOREWORD

The *National Curriculum Framework* (NCF), 2005, recommends that children's life at school must be linked to their life outside the school. This principle marks a departure from the legacy of bookish learning which continues to shape our system and causes a gap between the school, home and community. The syllabi and textbooks developed on the basis of NCF signify an attempt to implement this basic idea. They also attempt to discourage rote learning and the maintenance of sharp boundaries between different subject areas. We hope these measures will take us significantly further in the direction of a child-centred system of education outlined in the *National Policy on Education* (1986).

The success of this effort depends on the steps that school principals and teachers will take to encourage children to reflect on their own learning and to pursue imaginative activities and questions. We must recognise that, given space, time and freedom, children generate new knowledge by engaging with the information passed on to them by adults. Treating the prescribed textbook as the sole basis of examination is one of the key reasons why other resources and sites of learning are ignored. Inculcating creativity and initiative is possible if we perceive and treat children as participants in learning, not as receivers of a fixed body of knowledge.

These aims imply considerable change in school routines and mode of functioning. Flexibility in the daily time-table is as necessary as rigour in implementing the annual calendar so that the required number of teaching days are actually devoted to teaching. The methods used for teaching and evaluation will also determine how effective this textbook proves for making children's life at school a happy experience, rather than a source of stress or boredom. Syllabus designers have tried to address the problem of curricular burden by restructuring and reorienting knowledge at different stages with greater consideration for child psychology and the time available for teaching. The textbook attempts to enhance this endeavour by giving higher priority and space to opportunities for contemplation and wondering, discussion in small groups, and activities requiring hands-on experience.

The National Council of Educational Research and Training (NCERT) appreciates the hard work done by the textbook development committee

responsible for this book. We wish to thank the Chairperson of the advisory group in Social Sciences Professor Hari Vasudevan and the Chief Advisor for this book, Professor R.K. Grover, (Retd.) Director, School of Management Studies (IGNOU), New Delhi for guiding the work of this committee. Several teachers contributed to the development of this textbook; we are grateful to their principals for making this possible. We are indebted to the institutions and organisations which have generously permitted us to draw upon their resources, material and personnel. We are especially grateful to the members of the National Monitoring Committee, appointed by the Department of Secondary and Higher Education, Ministry of Human Resource Development under the Chairpersonship of Professor Mrinal Miri and Professor G.P. Deshpande, for their valuable time and contribution. As an organisation committed to the systemic reform and continuous improvement in the quality of its products, NCERT welcomes comments and suggestions which will enable us to undertake further revision and refinement.

New Delhi
20 November 2006

Director
National Council of Educational
Research and Training

TEXTBOOK DEVELOPMENT COMMITTEE

CHAIRPERSON, ADVISORY COMMITTEE FOR TEXTBOOKS IN SOCIAL SCIENCES AT SENIOR SECONDARY LEVEL

Hari Vasudevan, *Professor*, Department of History, University of Calcutta, Kolkata

CHIEF ADVISOR

R. K. Grover, *Professor, (Retd.)*, School of Management Studies, IGNOU, New Delhi

MEMBERS

D. K. Vaid, *Professor*, Department of Education in Social Sciences and Humanities, NCERT, New Delhi

Deepak Sehgal, *Reader*, Deen Dayal Upadhaya College, Delhi University

H.V. Jhamb, *Reader*, Khalsa College, Delhi University, Delhi

N. K. Kakar, *Director*, Maharaja Aggarsen Institute of Management, Rohini, New Delhi

Obul Reddy, *Professor*, Department of Commerce, Osmania University, Hyderabad, Andhra Pradesh

Rajesh Bansal, *PGT (Commerce)*, Rohatagi A.V. Senior Secondary School, Nai Sarak, New Delhi

Savita Shangari, *PGT (Commerce)*, Gyan Bharati School, Saket, New Delhi

S. C. Hussain, *Professor*, Department of Commerce, Jamia Millia Islamia, New Delhi

S. S. Sehrawat, *Assistant Commissioner*, Kendriya Vidyalaya Sangathan, Chandigarh

Sudhir Sapra, *PGT (Commerce)*, Kendriya Vidyalaya, Sultanpur, U.P.

Vanita Tripathi, *Lecturer*, Department of Commerce, Delhi School of Economics, Delhi

MEMBER-COORDINATOR

Shipra Vaidya, *Professor*, Department of Education in Social Sciences, NCERT, New Delhi

THE CONSTITUTION OF INDIA

PREAMBLE

WE, THE PEOPLE OF INDIA, having solemnly resolved to constitute India into a ¹**[SOVEREIGN SOCIALIST SECULAR DEMOCRATIC REPUBLIC]** and to secure to all its citizens :

JUSTICE, social, economic and political;

LIBERTY of thought, expression, belief, faith and worship;

EQUALITY of status and of opportunity; and to promote among them all

FRATERNITY assuring the dignity of the individual and the ²[unity and integrity of the Nation];

IN OUR CONSTITUENT ASSEMBLY this twenty-sixth day of November, 1949 do **HEREBY ADOPT, ENACT AND GIVE TO OURSELVES THIS CONSTITUTION.**

1. Subs. by the Constitution (Forty-second Amendment) Act, 1976, Sec.2, for "Sovereign Democratic Republic" (w.e.f. 3.1.1977)
2. Subs. by the Constitution (Forty-second Amendment) Act, 1976, Sec.2, for "Unity of the Nation" (w.e.f. 3.1.1977)

ACKNOWLEDGEMENTS

The National Council of Educational Research and Training acknowledges the valuable contributions of the *Textbook Development Committee* which took considerable pains in the development and review of manuscript as well.

Thanks are due to Savita Sinha *Professor* under whose guidance the textbook was first brought out in the year 2007 as a follow up of the National Curriculum Framework 2005. The textbook has been reworked and updated at appropriate point of time as per the provisions of the Companies Act 2013. The contributions of Rajesh Kumar, *Lecturer Commerce*, SBV Anandvas Lok Vihar and Sunil Arora, *Lecturer Commerce*, Sarvodaya Vidyalaya, Rohini are duly acknowledged for bringing out this updated version of textbook.

The contribution of APC Office, Administration, Publication Division and Secretariat of NCERT are also duly acknowledged for bringing out the updated textbook of accountancy.

NOTE

The recent accounting practices adopted in the presentation of corporate financial reporting as per the Companies Act 2013 has resulted in the updation of this textbook by redrafting the presentation of financial statements in the prescribed formats.

NCERT welcomes comments and suggestions which will enable us to undertake further revision and refinement of this volume.

**CONTENTS OF
ACCOUNTANCY – NOT-FOR-PROFIT ORGANISATION**

CHAPTER 1	ACCOUNTING FOR NOT-FOR-PROFIT ORGANISATION	1
CHAPTER 2	ACCOUNTING FOR PARTNERSHIP : BASIC CONCEPTS	64
CHAPTER 3	RECONSTITUTION OF A PARTNERSHIP FIRM – ADMISSION OF A PARTNER	115
CHAPTER 4	RECONSTITUTION OF A PARTNERSHIP FIRM – RETIREMENT/DEATH OF A PARTNER	176
CHAPTER 5	DISSOLUTION OF PARTNERSHIP FIRM	226

CONTENTS

	FOREWORD	iii
Chapter 1	Accounting for Share Capital	1
1.1	Features of a Company	1
1.2	Kinds of Companies	2
1.3	Share Capital of a Company	3
1.4	Nature and Classes of Shares	6
1.5	Issue of Shares	7
1.6	Accounting Treatment	9
1.7	Forfeiture of Shares	35
Chapter 2	Issue and Redemption of Debentures	72
2.1	Meaning of Debentures	72
2.2	Distinction between Shares and Debentures	73
2.3	Types of Debentures	73
2.4	Issue of Debentures	75
2.5	Over Subscription	82
2.6	Issue of Debentures for Consideration other than Cash	84
2.7	Issue of Debentures as a Collateral Security	90
2.8	Terms of Issue of Debentures	94
2.9	Interest on Debentures	102
2.10	Writing off Discount/Loss on Issue of Debentures	105
2.11	Redemption of Debentures	109
2.12	Redemption by Payment in Lump Sum	110
2.13	Redemption by Purchase in Open Market	117
2.14	Redemption by Conversion	121
2.15	Sinking Fund Method	124
Chapter 3	Financial Statements of a Company	149
3.1	Meaning of Financial Statements	149
3.2	Nature of Financial Statements	150
3.3	Objectives of Financial Statements	151
3.4	Types of Financial Statements	152
3.5	Uses and Importance of Financial Statements	169
3.6	Limitations of Financial Statements	170

Chapter 4	Analysis of Financial Statements	176
4.1	Meaning of Analysis of Financial Statements	176
4.2	Significance of Analysis of Financial Statements	177
4.3	Objectives of Analysis of Financial Statements	178
4.4	Tools of Analysis of Financial Statements	179
4.5	Comparative Statements	181
4.6	Common Size Statement	187
4.7	Limitations of Financial Analysis	192
Chapter 5	Accounting Ratios	298
5.1	Meaning of Accounting Ratios	298
5.2	Objectives of Ratio Analysis	299
5.3	Advantages of Ratio Analysis	299
5.4	Limitations of Ratio Analysis	200
5.5	Types of Ratios	202
5.6	Liquidity Ratios	204
5.7	Solvency Ratios	208
5.8	Activity (or Turnover) Ratio	217
5.9	Profitability Ratios	227
Chapter 6	Cash Flow Statement	245
6.1	Objectives of Cash Flow Statement	246
6.2	Benefits of Cash Flow Statement	246
6.3	Cash and Cash Equivalents	247
6.4	Cash Flows	247
6.5	Classification of Activities for the Preparation of Cash Flow Statement	247
6.6	Ascertaining Cash Flow from Operating Activities	252
6.7	Ascertainment of Cash Flow from Investing and Financing Activities	264
6.8	Preparation of Cash Flow Statement	266