Financial Accounting

(As Per the Revised Syllabus of B. Com., 2014-15 Sem III University of Mumbai)

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● AHMEDABAD ● ERNAKULAM ● BHUBANESWAR ● INDORE ● KOLKATA ● GUWAHATI

First Edition: 2014

Published by : Mrs. Meena Pandey for **Himalaya Publishing House Pvt. Ltd.,**
"Ramdoot", Dr. Bhalerao Marg, Girgaon, Mumbai - 400 004.
Phone: 022-23860170/23863863, Fax: 022-23877178
E-mail: himpub@vsnl.com; Website: www.himpub.com

Branch Offices :

New Delhi : "Pooja Apartments", 4-B, Murari Lal Street, Ansari Road, Darya Ganj, New Delhi - 110 002. Phone: 011-23270392, 23278631; Fax: 011-23256286

Nagpur : Kundanlal Chandak Industrial Estate, Ghat Road, Nagpur - 440 018. Phone: 0712-2738731, 3296733; Telefax: 0712-2721216

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Guwahati : House No. 15, Behind Pragjyotish College, Near Sharma Printing Press, P.O. Bharalumukh, Guwahati - 781009, (Assam). Mobile: 09883055590, 08486355289, 7439040301

DTP by :

Printed at : Hyderabad. On behalf of HPH.

Preface

Syllabus

1. **Partnership Final Accounts based on Adjustment of Admission or Retirement/Death of a Partner during the Year**
   - Simple final accounts questions to demonstrate the effect on final
   - Accounts when a partner is admitted during the year or when partner
   - Retires/dies during the year
   - Allocation of gross profit prior to and after admission/retirement/death when stock on the date of admission/retirement is not given and apportionment of other expenses based on time/Sales/other given basis
   - Ascertainment of gross profit prior to and after admission/retirement/death when stock on the date of admission/retirement is given and apportionment of other expenses based on time/Sales/other given basis
   - Excluding Questions where admission / retirement / death takes place in the same year
2. **Piecemeal Distribution of Cash**
   - Excess Capital Method only
   - Asset taken over by a partner
   - Treatment of past profits or past losses in the Balance sheet
   - Contingent liabilities/Realization expenses/amount kept aside for expenses and adjustment of actual
   - Treatment of secured liabilities
   - Treatment of preferential liabilities like Govt. dues/labour dues etc
   - Excluding: Insolvency of partner and Maximum Loss Method
3. **Amalgamation of Firms**
   - Realization method only Calculation of purchase consideration
   - Journal/ledger accounts of old firms
   - Preparing Balance sheet of new firm
   - Adjustment of goodwill in the new firm
   - Realignment of capitals in the new firm by current accounts/cash or a combination thereof
   - Excluding: Common transactions between the amalgamating firms
4. **Conversion/Sale of a Partnership Firm into a Ltd. Company**
   - Realisation method only
   - Calculation of New Purchase consideration, Journal/Ledger Accounts of old firms.
   - Preparing Balance sheet of new company

5. **Accounting with the Use of Accounting Software**
   - *Cost Centre, Cost Categories
   - *Inventory- Creation of groups, Creation of stocks, Stock Categories
   - * Inventory vouchers-Stock Journal, Manufacturing Journal, Godown
   - Management, Batch wise Management

Paper Pattern

Credit Based Evaluation System

Scheme of Examination

(a) Internal of Assessment – 25% **25 Marks**

Sr. No.	Particulars	Marks
1.	One periodical class test*	20 Marks
2.	Active participation in routing class instructional deliveries and overall conduct as a responsible learner, mannerism and articulation and exhibit of leadership qualities in organizing related academic activities	05 Marks

(b) Semester end Examinations – 75% **75 Marks**

1. Question Paper Pattern for Periodical Class Test for Courses at UG Programmes written Class Test **20 Marks**

Sr. No.	Particulars	Marks
1.	Match the Column/Fill in the Blanks/Multiple Choice Questions ($^1/_2$ Marks each)	05 Marks
2.	Answer in one or two lines (Concept based Questions) (1 Mark each)	05 Marks
3.	Answer in Brief (Attempt any two of the three) (5 Marks each)	10 Marks

Question Paper Pattern

Maximum Marks: 75

Questions to be Set: 05

Duration: 2 $^1/_2$ Hrs.

All Question are Compulsory Carrying 15 marks each.

Sr. No.	Particulars	Marks
Q.1	Objective Questions (a) Sub Questions to be asked 10 and to be answered any 08 (b) Sub Questions to be asked 10 and to be answered any 07 (*Multiple choice/True or False/Match the column, Fill in the blanks)	15 Marks
Q.2 Q.2	Full Length Practical Question OR Full Length Practical Question	15 Marks 15 Marks
Q.3 Q.3	Full Length Practical Question OR Full Length Practical Question	15 Marks 15 Marks
Q.4 Q.4	Full Length Practical Question OR Full Length Practical Question	15 Marks 15 Marks
Q.5 Q.5	(a) Theory Questions (b) Theory Questions OR Short Notes To be asked 05 To be answered 03	08 Marks 07 Marks 15 Marks

Note: Full length question of 15 marks may be divided into two sub questions of 08 and 07 marks.

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CHAPTER

Partnership Final Accounts based on Adjustment of Admission or Retirement/Death of a Partner during the Year

INDIAN PARTNERSHIP ACT, 1932

Sec. 4. Definition of "partnership", "partner", "firm" and "firm name".

"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.

Persons who have entered into partnership with one another are called individually "partners" and collectively a "firm", and the name under which their business is carried on is called the "firm name".

From the above definition of partnership, the essential elements of partnership can be understood as:

"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.

Persons

There should be at least two persons to form a partnership or partnership firm.

- Restrictions on the Number of Persons: The maximum number of members that can exist in partnership is 10 in case of a firm carrying on banking business and 20 in case of any other business.

  This restriction is placed by the Companies Act and not the partnership act.

- Companies Act, 1956 Hide/Show: **Sec. 11.** Prohibition of associations and partnerships exceeding certain number:

  (1) No company, association or partnership consisting of more than ten persons shall be formed for the purpose of carrying on the business of banking, unless it is registered as a company under this Act, or is formed in pursuance of some other Indian Law.

(2) No company, association or partnership consisting of more than twenty persons shall be formed for the purpose of carrying on any other business that has for its object the acquisition of gain by the company, association or partnership, or by the individual members thereof, unless it is registered as a company under this Act, or is formed in pursuance of some other Indian law.

(3) This section shall not apply to a joint family as such carrying on a business; and where a business is carried on by two or more joint families, in computing the number of persons for the purposes of Sec. 11(1) and Sec. 11(2), minor members of such families shall be excluded.

(4) Every member of a company, association or partnership carrying on business in contravention of this section shall be personally liable for all liabilities incurred in such business.

(5) Every person who is a member of a company, association or partnership formed in contravention of this section shall be punishable with fine which may extend to ten thousand rupees.

- *Who have Agreed:* There should be an agreement between those persons who are forming the partnership. The agreement is the foundation for the partnership. Partnerships can arise only from a contract and not status.

  Indian Partnership Act, 1932 Hide/Show: **Sec. 5.** Partnership not created by status

  The relation of partnership arises from contract and not from status; and, in particular, the members of a Hindu undivided family carrying on a family business as such, or a Burmese Buddhist husband and wife carrying business as such, are not partners in such business.

- *The Profits of a Business:* There should be a business carried on by the partnership and that too with an intention to make and share profits of that business.

  Therefore, we can say "No Business $\Rightarrow$ No Partnership" as well as "No intention to share profits $\Rightarrow$ No Partnership".

  Though no specific mention of sharing of losses is made, we consider that Sharing profits implies sharing losses also.

  Indian Partnership Act, 1932 Hide/Show: **Sec. 2.** Definitions

  (b) "business" includes every trade, occupation and profession;

- *Carried on by all or any of them acting for all:* The business may be carried on by any one or more of the partners.

- *Acting for all:* This implies that a partner conducting the business should be understood as conducting the business on behalf of all the partners. Each partner would be responsible for the acts of the other partners in relation to the firm.

  As far as the outsiders are concerned, the partners and the firm are one and the same.

- *Mutual Agency [Principal Agent Relationship]:* In his/her role as a partner, a person acts both as a principal as well as an agent.

  A partner is an agent for the acts that he/she does on behalf of the firm, whereby he/she can bind the other partners for such acts. The other partners would be the principals for such acts.

  With regard to the acts of the other partners, he/she will act as the principal (since he as a partner is bound by the acts of the other partners on behalf of the firm).

  Where a partner cannot be made responsible for the acts of one or more other partners, we cannot say they together form a partnership. This mutual agency is what really decides whether there is a partnership or not. Thus, it is said the "Mutual Agency" is the real test of partnership.
- *Indian Partnership Act, 1932 Hide/Show:* **Sec 18.** Partner to be agent of the firm.

  Subject to the provisions of this Act, a partner is the agent of the firm for the purpose of the business of the firm.
- *Partners:* Persons who have entered into partnership with one another are called individually "partners".
- *Partnership:* The relationship between the persons is called "partnership".
- *Firm:* The partners are collectively called a "firm".
- *Firm Name:* The name under which the partnership business is carried on is called the "firm name".

Partnership is a form of business organisation. A business and its ownership are independent concepts. The idea that the actual business and the form of organisation that is owning it are different would help you in creating an understanding on the difference in accounting for partnership firms and other forms of business organisations. The same business may be owned by a "sole proprietor", a "partnership firm", a "co-operative society", a "company" or any other form of business organisation.

Ascertaining the profit or loss is an idea related to the business. How the profit made is dealt with is an idea related to the form of business organisation. Thus, the process of profit ascertainment (final accounting) for a business would be the same whatever may be the form of business organisation.

What's the Difference?

The way the profits made by an organisation are shared is what is different from organisation to organisation. Taking a hypothetical case of a business owned by different types of business organisations, the process of ascertaining profits would be more or less the same but the process of dealing with profits made would be different from one form of business organisation to another.

They have an understanding on the difference in accounting where the same business is conducted by two different forms of business organisations, let us consider an example of a business being conducted by a sole proprietor "Mr. Narayanan" and another case of the same business being run by a partnership firm "M/s. Mani and Murthy" who share the profits of the firm between them in the ratio 1 : 2.

Final Accounting » Business Owned by a Sole Proprietor

Final Accounting
Trial Balance of M/s. Wearall Textiles as on 31st March 2006

Particulars	L/F	Debit Amount (in `)	Credit Amount (in `)
Capital	-		1,00,000
Opening Stock	-	15,000	
Closing Stock	-	25,000	
Purchases	-	1,50,000	
Rent Paid	-	25,000	
Sales	-		3,20,000
Wages	-	50,000	
Commission Received	-		3,000
Assets	-	1,51,000	
Debtors	-	45,000	
Creditors	-		38,000
Total		**4,61,000**	**4,61,000**

Dr. **Trading and Profit and Loss A/c** **Cr.**

Particulars	Amount (in `)	Amount (in `)	Particulars	Amount (in `)	Amount (in `)
To Opening Stock		15,000	By Sales		3,20,000
To Purchases		1,50,000	By Closing Stock		25,000
To Wages		50,000			
To Gross Profit		1,30,000			
		3,45,000			**3,45,000**
To Rent		25,000	By Gross Profit		1,30,000
To Net Profit		1,08,000	By Commission Received		3,000
		1,33,000			**1,33,000**

Dr. **Capital A/c** **Cr.**

Particulars	Amount (in `)	Amount (in `)	Particulars	Amount (in `)	Amount (in `)
To Balance c/d		2,08,000	By Balance b/d		1,00,00
			By Net Profit		1,08,000
		2,08,000			**2,08,000**
			By Balance b/d		2,08,000

RECORDING GROSS PROFIT AND NET PROFIT

Should the posting relating to gross profit and net profit read "To P & L A/c" and "To Capital A/c" respectively. How is it that it shows "Gross Profit" and "Net Profit".

Final Accounting » Business Owned by the Partnership Firm

Assuming all other data to be the same and the capital of ` 1,00,000 is owned by the two partners Mani and Murthy as ` 30,000 and ` 70,000 respectively.

Trial Balance of M/s. Wearall Textiles as on 31st March 2006

Particulars	L/F	Debit Amount (in `)	Credit Amount (in `)
Mani's Capital	-		70,000
Murthy's Capital	-		30,000
Opening Stock	-	15,000	
Closing Stock	-	25,000	
Purchases	-	1,50,000	
Rent Paid	-	25,000	
Sales	-		3,20,000
Wages	-	50,000	
Commission Received	-		3,000
Assets	-	1,51,000	
Debtors	-	45,000	
Creditors	-		38,000
Total		**4,61,000**	**4,61,000**

The Trading and profit and loss account would be the same ⇒ **Net Profit = ` 1,08,000.**

Dr. **Trading and Profit and Loss A/c** **Cr.**

Particulars	**Amount (in `)**	**Amount (in `)**	**Particulars**	**Amount (in `)**	**Amount (in `)**
To Opening Stock		15,000	By Sales		3,20,000
To Purchases		1,50,000	By Closing Stock		25,000
To Wages		50,000			
To Gross Profit		1,30,000			
		3,45,000			**3,45,000**
To Rent		25,000	By Gross Profit		1,30,000
To Net Profit c/d		1,08,000	By Commission Received		3,000
		1,33,000			**1,33,000**
To Net Profit (Mani)		36,000	By Net Profit b/d		1,08,000
To Net Profit (Murthy)		72,000			
		1,08,000			**1,08,000**

Distribution of Profits among Partners

Partner's profit sharing ratio ⇒ Mani : Murthy = 1 : 2

$$= \frac{1}{3} : \frac{2}{3}$$

Partner's share of profits = Firm's profit × Profit sharing proportion

Mani's Share $= \text{`}\ 1{,}08{,}000 \times \frac{1}{3} = \text{`}\ 36{,}000$

Murthy's Share $= \text{`}\ 1{,}08{,}000 \times \frac{2}{3} = \text{`}\ 72{,}000$

` 1,08,000

Dr. **Partner's Capital A/c** **Cr.**

Particulars	**Mani (in `)**	**Murthy (in `)**	**Particulars**	**Mani (in `)**	**Murthy (in `)**
To Balance c/d	1,06,000	1,02,000	By Balance b/d	70,000	30,000
			By Net Profit	36,000	72,000
	1,06,000	**1,02,000**		**1,06,000**	**1,02,000**
			By Balance b/d	1,06,000	1,02,000

The difference that you can notice is that the profit of ` 1,08,000 instead of getting into the account representing a single owner (capital account) is distributed among all the owners, i.e., their respective capital accounts.

INCOME DISTRIBUTION

Appropriation

= Setting aside money for a specific purpose

Factors of Production » Returns

In economic terms, the four basic factors of production are Land, Labour, Capital and Organisation. Each of these factors would be compensated by sharing a part of the income earned. What they get is what is called the return for the factor.

- Rent is the return for Land;
- Wages are the returns for Labour/Labour;
- Interest is the return for Capital; and
- Profits are the returns for the Organisation.

Thus, profit earned by the partnership firm can be said to be the returns earned by the organisation.

Organisation » Partnership Firm

Land, Labour and Capital are factors of production which we see or feel. Organisation is an intangible factor that combines these three factors to achieve the intended objective. Organisation can therefore be understood as, the efforts made by those who have contributed capital. These efforts may take many different forms, some tangible and some intangible.

What Constitutes "Organisation" in a Partnership Firm?

In a partnership firm, the efforts made by the partners who are the contributors of capital, represent the "Organisation". All these contributions, apart from the capital they contribute form the factor we call "Organisation".

Partner's contribution to the firm takes many different forms which may be tangible or intangible. Some of them are:

- *Time:* The partners spend their time and energy in working for the firm by looking after the day-to-day affairs of the firm.
- *Business Relations:* The partners through their contacts in the society bring in customers which would result in more sales.

- *Intelligence:* The partners use their intelligence and abilities at various situations like in solving problems faced by the firm, tiding over tough situations, overcoming competitions etc.

Why not Capital?

We do not consider the Capital contributed by the partners since “Capital” itself is dealt with as a separate factor.

Varied Contributions of Partners towards the Organisation

Since no two human beings can be exactly of the same capabilities, the contributions made by the partners for the factor called organisation varies from partner to partner. Each partner contributes according to his/her abilities and possibilities.

Remunerating the Factors of Production in a Partnership Firm

Let us limit our idea to remunerating the two factors of production — Capital and Organisation only.

Judicious Distribution of the Firm’s Profits

A, B and C are partners in a firm. The firm has made a profit of ` 3,00,000. What would be the judicious share of profits to be distributed to each partner A, B and C?

Share Equally

A, B and C sharing ` 1,00,000 each.

This sounds prudent if the contributions of A, B and C towards the firm is the same in all respects. Say, A, B and C are of the same intelligence level; they work for the same time for the firm; they have contributed the same amount of Capital for the firm; they are having more or less the same contacts outside through which sales are generated; they have all withdrawn the same amounts of money for their personal uses (drawings) etc. In such a situation, it would be appropriate to give each an equal share.

Equal Share not a Judicious Share Always

If we consider the following aspects, we may have to agree that sharing the profits of the firm equally amongst partners may not be the judicious (best) way.

Unequal Capital Contributions

The capital contributed by A, B and C is ` 2,00,000, ` 75,000 and ` 1,00,000 respectively. Now, since A, B and C have contributed varied amounts of Capital towards the firm, it would not be appropriate to share the profits equally among them.

To Compensate » Pay Interest on Capital

Compensate for the uneven contributions towards capital and then share the profits equally (if contributions of A, B and C towards the firm in all other respects is the same). Greater the Capital contributed, greater the interest earned. This would set right the difference in contributions in the form of capital.

Profit equal to "Interest on Capital" payable to partners is first paid away and then the remaining profit can be shared equally.

Unequal Time Spent

B works full time in the firm and A and C are passive partners. Now, since A, B and C have contributed varied amounts of time and energy towards the firm, it would not be appropriate to share the profits equally among them.

To Compensate » Pay Salary to Partner

Compensate for the uneven contributions of time and energy towards the firm and then share the profits equally (if contributions of A, B and C towards the firm in all other respects is the same). The salary paid to B would be compensation for his greater contribution.

Profit equal to "Salary to Partners" is first paid away and then the remaining profit can be shared equally.

Public Relations/Contacts

C has greater contacts in the outside world, a lot of customers are C's contacts. Now, the contribution of C towards the sales of the firm through his contacts is greater than that of A and B. Therefore, it would not be appropriate to share the profits equally among them.

To Compensate » Pay Commission to Partner

Compensate C for the greater contributions he has made towards the firm and then share the profits equally (if contributions of A, B and C towards the firm in all other respects is the same). The commission paid to C for sales made to customers who are his contacts would be compensation for his greater contribution.

Profit equal to "Commission to Partners" is first paid away and then the remaining profit can be shared equally.

Drawings

The drawings of A, B and C are ` 20,000, ` 2,000 and ` 15,000 respectively. Since drawings is nothing but capital being withdrawn, A and C have withdrawn greater amount of capital whereas B has withdrawn a lesser amount. This would result in A's and C's capital contribution being lesser and B's capital contribution being greater.

Remedy » Charge Interest on Drawings

Greater the drawings greater the interest payable by the partners. This would compensate the unevenness in drawings made by the partners.

Remunerating Organisation = Distributing Profits

As can be seen from the above explanation, Salary to Partners, Commission to Partners, etc., are all paid out of profits made. These are different methods of compensation for the contributions made by partners to the firm.

K All these contributions together are identified as “Organisation”

and

K Remuneration for organisation is profit.

⇒ The payments for all these are nothing but methods of sharing profits

Profit Distribution » Accounting Treatment

Consider the following information in relation to M/s. ABC and Co., a partnership firm with A, B and C as partners.

Illustration:

1. Net Profit – ` 3,74,000
2. Interest on Capital @ 5% – A: ` 10,000; B: ` 3,750 and C: ` 5,000
3. Salary to Partner – B: ` 24,000
4. Commission to Partner – C: ` 52,000
5. Interest on Drawings @ 5% – A: ` 1,000; B: ` 100 and C: ` 750

Solution:

Since Interest on Capital, Salary to Partners etc., are methods of distribution of profit, they are to be made after ascertaining profits. Thus, the accounting for the distribution of profits is a process that follows the ascertainment of net profits.

Assuming the distribution to have been made through Profit and Loss A/c, the P/L A/c and the Partner’s Capital accounts would be as below:

Dr. **Profit and Loss A/c** **Cr.**

Particulars	**Amount (in `)**	**Amount (in `)**	**Particulars**	**Amount (in `)**	**Amount (in `)**
To Net Profit		3,74 ,000			
		21,33,000			**21,33,000**
To A's Cap (int)	10,000		By Net Profit b/d		3,74,000
To B's Cap (int)	3,750		By A's Cap (int drw)	1,000	
To C's Cap (int)	5,000	18,750	By B's Cap (int drw)	100	
To B's Cap (sal)	24,000	24,000	By C's Cap (int drw)	750	1,850
To C's Cap (comm)	52,000	52,000			
To Bal c/d (Distr Pr)		2,81,100			
		3,75,850			**3,75,850**
To A's Cap (Pr)	93,700		By Bal b/d (Distr Pr)		2,81,100
To B's Cap (Pr)	93,700				
To C's Cap (Pr)	93,700	2,81,100			
		2,81,100			**2,81,100**

Notes:

- Distr. Pr ⇒ Distributable Profit; int. drw ⇒ Interest on Drawings; int ⇒ Interest; Sal ⇒ Salary; Comm ⇒ Commission; Pr ⇒ Profit Share.
- The account is balanced a number of times to enable deriving information easily. Specifically, the Distributable profit is carried down so that we can have the figure which is to be used for calculating the partner's share of profits.

Distribution of Profits among Partners

Partner's profit sharing ratio ⇒ A : B : C = 1 : 1 : 1

$$= \frac{1}{3} : \frac{1}{3} : \frac{1}{3}$$

Partner's Share of Profits = Distributable Profit × Profit Sharing Proportion

Therefore,

A's Share = ` 2,81,100 × $\frac{1}{3}$ = ` 93,700

B's Share = ` 2,81,100 × $\frac{1}{3}$ = ` 93,700

C's Share = ` 2,81,100 × $\frac{1}{3}$ = ` 93,700

` 2,81,100

Dr. **Partner's Capital A/cs** **Cr.**

Particulars	**A (in `)**	**B (in `)**	**C (in `)**	**Particulars**	**A (in `)**	**B (in `)**	**C (in `)**
To P&L (Int)	1,000	100	750	By Bal b/d	2,00,000	75,000	1,00,000
To Drawings	20,000	2,000	15,000	By P&L (int)	10,000	3,750	5,000
To Bal c/d	2,82,700	1,94,350	2,34,950	By P&L (sal)		24,000	
				By P&L (com)			52,000
				By P&L (pr)	93,700	93,700	93,700
	3,03,700	**1,96,450**	**2,50,700**		**3,03,700**	**1,96,450**	**2,50,700**
				By Bal b/d	2,82,700	1,94,3500	2,34,950

Ledger Postings » Unavailability of Information

If you interpret the ledger postings in the above P/L A/c and the Partner's Capital A/cs, you can find that all the postings in the Partner's Capital A/cs read either "To P/L A/c" or "By P/L A/c" and in the "Profit and Loss A/c" read "To _ Capital A/c" or "By _Capital A/c". These postings can be interpreted as:

- In "Profit and Loss A/c":

  There is a transfer of credit balance to "_ Capital A/c" to the extent of ` __.

  There is a transfer of debit balance to "_ Capital A/c" to the extent of ` __.

- In "_ Capital A/c":

  There is a transfer of a credit balance from "Profit and Loss A/c".

  There is a transfer of a debit balance from "Profit and Loss A/c".

Since the natural flow is from the Profit and Loss account to the Capital account, we would interpret it as From P/L A/c to __Capital A/c. Theoretically, it is capable of being interpreted the other way also.

Information not Available

Generally, we would be able to identify the reason for a debit or credit by reading the posting itself. However, here it would be difficult to gather the information relating to all credits and debits that way, since all of them look similar. Thus, we would not be able to derive the information as to the reason for which the debits and credits are made.

Though "To A's Cap (int)" seems to be creating the idea that the posting gives the information relating to the purpose for which the amount is being transferred, it is not so. It would not be practically possible to write down such details as (int), (sal), etc., more so in mechanised systems of accounting (using computers). [To understand this limitation, read the posting as "To _ Capital A/c" only ignoring the wordings within the brackets].

Solution:

To derive the information that we need, we create additional account heads which work as controlling accounts.

The basic purpose of accounting is derivation of information.

The more information we need, the more accounting heads we need to maintain.

Charge against Profits vs. Appropriation of Profits

- Appropriation = Setting aside money for a specific purpose
- Charge = Financial liability

Classification of Debits to Profit and Loss Account

The various items debited to the Profit and Loss A/c can be classified into two as:

- *Charge against Profit:* Debits which represent an expenditure or loss.

  Salaries, Wages, Rent, Depreciation, Loss on Sale of Assets etc., are all charges against profits.
- *Appropriation of Profit:* Debits which result in the profit being kept aside.

  Creation of reserves is an example of profit appropriation. Reserves are created by transferring credit balance (a certain amount of profit) from the profit and loss account to the reserve account.

Journal in the books of M/s. Razmataz Chemicals for the period from __ to 31st December 2005

Date	V/R No.	Particulars	L/F	Debit Amount (in `)	Credit Amount (in `)
1st to 30th	–	Profit and Loss A/c Dr.	-	xxx	
		To General Reserve A/c	-		xxx
		[For the amount transferred to the general reserve.]			

The Profit and Loss account is debited both while profits are charged as well as when profits are appropriated. However, creation of a reserve is appropriation as it does not result in the profit being used up. It results in the profit being maintained/shown in two different accounts or profit being transferred to a different account.

Reserves are created by charging profits. Creation of reserves is an appropriation of profits.

Interest on Capital, Salary, Commission etc., to Partners » Appropriations

Distribution of profit to partners is appropriation of profits. It is to be understood as profit being kept aside to be given to the owners as a return for their contributions.

"Interest on Capital", "Salary to Partners", etc., paid to partners are different methods adopted to compensate their varied contributions and thus ensure equitable distribution of profits. Therefore, all these payments made to partners would also be appropriations of profits and not charge against profits.

Using Profit & Loss Appropriation A/c

To differentiate between charges and appropriations of profits being made to the profit and loss account, the P & L A/c is divided into two by creating a new account by name "Profit and Loss Appropriation A/c".

The net profit is transferred to "P & L Appropriation A/c" and all the appropriations are made from this account.

The same postings as above made using the "P & L Appropriation A/c" would be:

Dr. **Profit and Loss A/c** **Cr.**

Particulars	Amount (in `)	Amount (in `)	Particulars	Amount (in `)	Amount (in `)
To P&L Appr (Net Profit) A/c		3,74 ,000			
		21,33,000			**21,33,000**

Dr. **Profit and Loss Appropriation A/c** **Cr.**

Particulars	Amount (in `)	Amount (in `)	Particulars	Amount (in `)	Amount (in `)
To A's Cap (int)	10,000		By P/L A/c (Net Profit)		3,74,000
To B's Cap (int)	3,750		By A's Cap (int drw)	1,000	
To C's Cap (int)	5,000	18,750	By B's Cap (int drw)	100	
To B's Cap (sal)		24,000	By C's Cap (int drw)	750	1,850
To C's Cap (comm)		52,000			
To Bal c/d (Distr Pr)		2,81,100			
		3,75,850			**3,75,850**
To A's Cap (Pr)	93,700		By Bal b/d (Distr Pr)		2,81,100
To B's Cap (Pr)	93,700				
To C's Cap (Pr)	93,700	2,81,100			
		2,81,100			**2,81,100**

Dr. **Partner's Capital A/cs** **Cr.**

Particulars	A (in `)	B (in `)	C (in `)	Particulars	A (in `)	B (in `)	C (in `)
To P&L Appr (Int)	1,000	100	750	By Bal b/d	2,00,000	75,000	1,00,000
To Drawings	20,000	2,000	15,000	By P&L Appr (int)	10,000	3,750	5,000
To Bal c/d	2,82,700	1,94,350	2,34,950	By P&L Appr (sal)		24,000	
				By P&L Appr (com)			52,000
				By P&L Appr (pr)	93,700	93,700	93,700
	3,03,700	**1,96,450**	**2,50,700**		**3,03,700**	**1,96,450**	**2,50,700**
				By Bal b/d	2,82,700	1,94,3500	2,34,950

What Difference does using Appropriation A/c Make?

Using P & L Appropriation account would enable handling all the information relating to appropriation of profits through a separate account. But, when we come to reading the postings in the appropriation account as well as the Capital accounts, the only difference we can see is that "P & L A/c" is replaced by "P & L Appropriation A/c".

Even after replacing the P & L A/c with the P & L Appropriation A/c, we will not get the information as to the reason for which the debits and credits are being made. The postings can be interpreted as:

- In "Profit and Loss Appropriation A/c":

  There is a transfer of credit balance to "_ Capital A/c" to the extent of ` __.

  There is a transfer of debit balance to "_ Capital A/c" to the extent of ` __.

- In "_ Capital A/c":

  There is a transfer of a credit balance from "Profit and Loss Appropriation A/c".

  There is a transfer of a debit balance from "Profit and Loss Appropriation A/c".

Only a Slight Variation

A slightly different idea that the transfers are from profit and loss appropriation account and thus relate to profits distributed can be obtained. But for this, there is virtually no difference in the information available.

Deriving More/Clear Information

The basic purpose of accounting is derivation of information

The more information we need, the more accounting heads we need to maintain.

To derive the information that we need, we create additional accounts.

Interest on Capital

In the absence of an agreement between the partners, a partner is not entitled to receive any interest on capital even if there is a variation in the profit sharing ratio and the capital contribution.

If there is an agreement between the partners, then interest is to be paid at the rates agreed upon.

Interest to be Paid Only Out of Profits

Even where the agreement provides for payment of interest on capital, it will not be paid if there are losses.

Indian Partnership Act, 1932 Hide/Show: **Sec. 13.** Mutual rights and liabilities

Subject to contract between the partners,

(c) where a partner is entitled to interest on the capital subscribed by him, such interest shall be payable only out of profits.

Interest on Drawings

No specific mention is made about drawings in the act. Therefore, it is assumed that the provisions that are applicable for capital would also be applicable for drawings, whereby,

- in the absence of an agreement between the partners, a partner is not entitled to pay any interest on drawings.
- if there is an agreement between the partners, then interest is to be charged at the rates agreed upon.

Interest on Partner's Loans or Advances

In the absence of an agreement between the partners, a partner is entitled to receive interest at the rate of 6% p.a. on any payment or advance made beyond the amount of capital he has to contribute.

If there is an agreement between the partners, then interest is to be paid at the rates agreed upon.

Indian Partnership Act, 1932 Hide/Show: **Sec. 13.** Mutual rights and liabilities

Subject to contract between the partners,

(d) a partner making, for the purposes of the business, any payment or advance beyond the amount of capital he has agreed to subscribe, is entitled to interest thereon at the rate of six per cent per annum.

Some Conventions Followed in Accounting

In addition to the specific provisions available in the "Indian Partnership Act, 1932", a few other conventions are followed in solving problems involving partnerships.

1. **Rate of Interest:** Where the partners have agreed upon to pay interest on capital and/or charge interest on drawings but the agreement is silent as to the rate of interest to be paid or charged, we consider the rate of interest to be 6%. This may be based on the fact that in providing interest for advances, the act specifies 6% rate of interest. Since 6% is considered reasonable in one case, it may be taken in other cases also.

   Partner's Relative's Loans: Practically, partner's relatives are outsiders for the firm and it would not be appropriate to think about them based on the agreement between parties. But where the information is missing and you have to make an assumption to go along with problem solving, you may apply the same rule that is applied to the partner's advances to loans/advances made by the partner's relatives also. This should be a last resort attempt only.

   Where there is no information relating to interest payment to partners relatives as well as the rate of interest, interest should be paid at the rate of 6% p.a.

   By profit sharing ratio in a partnership firm, we mean the ratio in which the profits and losses of the firm are to be distributed amongst the partners. The basis for arriving at the ratio is the agreement between the partners. If there is a partnership deed, the ratio should be ascertained from the provisions in the partnership deed. In the absence of a partnership deed and where there is no indication as to the agreement between the partners in this aspect, it should be considered as equal share for all partners. The ratio may be a specified as absolute values or it may be taken as the ratio fo their Capital account balances or it may be based on anything else as agreed upon by the partners. Deriving this ratio (if it is not given) would be one important requirement in problem solving.

2. **Different Ratios for Profit Sharing and Loss Sharing:** If the partners so agree, the Profit Sharing Ratio and the Loss Sharing Ratio may be different. There may be a partner who has a share in profits only but not in losses.

3. **Share in Losses only:** There cannot be a partner who has a share in losses only but not in profits. This is for the reason that there would be no partnership if there is no share in profits.

   "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.

Expressing the Profit Sharing Ratio

The profit sharing ratio may be expressed in a number of different forms. Whatever may be the form in which the ratio is expressed, it can always be converted to a form suitable to you.

1. Simple Ratio [Natural Numbers Represent Shares]:

May, Day and Way are partners sharing profits in the in the ratio 1 : 3 : 4.

Rewriting the ratio as below would aid in your calculations.

May: Day: Way = 1 : 3 : 4

$$= \frac{1}{8} : \frac{3}{8} : \frac{4}{8} \quad [1 + 3 + 4 = 8]$$

This can be simplified further and written as $\frac{1}{8} : \frac{3}{8} : \frac{1}{2}$.

However, expressing the shares as ratios with a common denominator would be helpful.

2. Simple Ratio [Fractions Represent Shares]:

Where the shares are represented by fractional numbers, one should always ensure that the sum of the fractional parts adds up to 1.

3. Like Fractions Represent Shares:

Fractions with the same denominator are like fractions.

Ramu, Damu and Mamu share profits in the ratio $\frac{2}{9} : \frac{3}{9} : \frac{4}{9}$.

Check:

$$\frac{2}{9} : \frac{3}{9} : \frac{4}{9} = \frac{2+3+4}{9}$$

$$= \frac{9}{9}$$

$$= 1$$

$$\text{Sum of Like Fractions} = \frac{\text{Sum of Numerators}}{\text{Common Denominator}}$$

Just check up whether the numerators are adding (2 + 3 + 4) up to the common denominator (9) or not.

Note: To be cautious, make it a habit to write down the ratio in fractional form if the shares are given as natural numbers and *vice versa* so that you can check this aspect as well as have a form useful for calculations.

4. Unlike Fractions Represent Shares:

Fractions without a common denominator are unlike fractions.

Goon, Doon and Moon share profits in the ratio $\frac{1}{2}$, $\frac{1}{3}$ and $\frac{1}{4}$.

$$\text{Sum of Unlike Fractions} = \frac{\text{Sum of (Product of) the Fraction and the LCM of the Denominators}}{\text{LCM of the Denominators}}$$

$$\text{Thus, } \frac{1}{2} + \frac{1}{3} + \frac{1}{4} = \frac{(\frac{1}{2}\times 12)+(\frac{1}{3}\times 12)+(\frac{1}{4}\times 12)}{12}$$

[LCM of denominators i.e., 2, 3, 4 is 12]

$$= \frac{6+4+3}{12}$$

$$= \frac{13}{12}$$

$$\neq 1$$

What to do in such cases: If you find that the fractions representing shares of partners are not adding up to 1, you have to derive the actual ratio using the given fractions.

$$\text{Goon: Doon: Moon} = \frac{1}{2}:\frac{1}{3}:\frac{1}{4}$$

$$= \frac{1}{2}\times 12 : \frac{1}{3}\times 12 : \frac{1}{4}\times 12$$

[Multiplying all the terms of the ratio with the same number (the LCM of denominators 2, 3, 4, i.e., 12) will not change the ratio.]

= 6: 4: 3

$$= \frac{6}{13}:\frac{4}{13}:\frac{3}{13} \quad [6 + 4 + 3 = 13]$$

This represents the ratio of profit sharing between partners and is in a form suitable for calculations.

Try this: A father left his property to be shared by his three sons as follows: 1/2 to the youngest, 1/3 to the middle and $1/6^{th}$ to the eldest son. They were struck up with the problem of sharing the 17 horses in their stable. They approached their father's best friend and asked him to help them out. He thought about it and asked them to take one of his horses, include it in the horses to be shared and then share the horses (along with the one he gave). The sons did so and finally were left with 1 horse which they returned to its rightful owner. How did this happen?

This is a small problem that lets you understand the above concept.

Interest on Capital

Interest on Capital is to be paid:

- *Only when agreed upon:* Interest on capital is to be paid to partners only if it is specifically agreed upon. If there is no mention regarding this, in the partnership agreement (deed), then no interest need be paid.
- *Only out of profits:* Interest is to be paid only out of profits. Where there is a loss, no interest should be paid on capital, even if the partnership agreement provides for the same.
- *@ 6% if rate is not mentioned:* Where the partnership deed provides for payment of interest on capital and it does not mention the rate of interest to be paid, it is a convention to pay interest @ 6% p.a.

On What Balance is Interest Paid? Interest is paid on capital for the reason that it has been used for the purpose of the partnership business.

The balance in Capital account unless where it is fixed, keeps fluctuating on account of a number of reasons, thus making it difficult to assess the amount of capital employed in the business. There would be a change on account of appropriations made at the end of the accounting period like salary to partners, commission to partners, etc. Even during the course of the accounting period, the balances may change on account of additional capital introduced, capital withdrawn, etc.

In the absence of appropriate information, it is a convention that interest is paid on the opening balances in Capital Accounts.

In problem solving, we will come across these situations:

- *Opening Balance known:* Where the Capital A/c balances at the beginning of the accounting period are known and there is no change in the balance throughout the period, the interest is calculated on the opening balance.
- *Closing Balance and Appropriations at the end known:* Where the Capital A/c balances at the end are known and the changes at the end of the accounting period that have affected the account are also known, the opening balance in the capital accounts is ascertained and interest is calculated thereon using the information relating to the changes.
- *Closing balance and all transactions known:* Where the Capital A/c balances at the end are known and the changes over the accounting period as well as those at the end of the accounting period are known, the capital account balances at various points of time (when changes take place) and the period for which the capital has been utilised is ascertained and interest is calculated thereon.
- *Closing balance known:* Where the Capital A/c balances at the end are known and no other information is available, or where the information relating to transactions affecting the capital account are known without the information

relating to the date/period of occurrence, we calculate the interest based on the closing balance.

Interest on Drawings

Interest on Drawings is to be charged:

- *Only when agreed upon:* Interest on drawings is to be charged to partners only if it is specifically agreed upon. If there is no mention in the partnership agreement regarding this, no interest need be charged.
- *@ 6% if rate is not mentioned:* Where the partnership deed provides for charging interest on drawings and it does not mention the rate of interest to be charged, it is a convention to charge interest @ 6% p.a.

Calculating Interest on Drawings: Interest is charged on drawings for the reason that the amount has been withdrawn by the partners without allowing it for being used for the purpose of the business. In the absence of appropriate information, it is a convention that the interest on drawings is calculated on the "Drawings A/c" balance at the end. In problem solving, we will come across these variations.

- *Closing Balance known:* Where the Drawings A/c balances at the end of the accounting period are known and there is no information relating to the time of drawing, interest is calculated on the closing balance.
- *Amount and Dates of Drawings are known:* Drawings made during the period and the dates on which the drawings have been made are known. Since the period for which the withdrawn amounts are used is known, interest is calculated based on the amount drawn and the period of use.
- *Drawings made at regular intervals:* Where the Drawings are made at regular intervals, all the drawings are converted to an equivalent of drawings for a specified period and interest is calculated thereon.

Salary to Partners

Salary is to be paid to partners only if it is specifically agreed upon. If there is no mention in the partnership agreement, then no salary need be paid.

Commission to Partners

Commission is to be paid to partners only if it is specifically agreed upon. If there is no mention in the partnership agreement, then no commission need be paid.

Methods of Expressing Commission

Commissions may be calculated on a number of bases, as a % of Sales, as a % of Gross Profit, as a % of Net Profit, as a % of Purchases, etc., depending on the reason for which the commission is being paid and the agreement between the partners. There are two basic methods of expressing commission as a % of something else. Let us consider Commission being calculated as a % of Net Profit as an example.

1. Before Charging Such Commission

This is the normal calculation. Where there is no specific mention of the method, this is what we assume.

Eg: "8% of Net Profits (` 1,25,000)".

$\Rightarrow$ "8% of Net Profits (` 1,25,000) before charging such commission".

Commission = ` 1,25,000 × 8%

= ` 10,000

2. After Charging Such Commission

Under this method, the commission is expressed as a certain % of something after charging such commission.

Eg: "8% of Net Profits (` 1,25,000) after charging such commission".

8% after charging such commission

$\Rightarrow$ The commission should work out to 8% of the amount remaining after charging the commission to the net profit, i.e., reducing the commission from the net profit.

Finding Net Profit after Charging Commission (Without Knowing the Commission)

Let the commission be ` x (Using Net Profit = ` 1,25,000)

Net Profit after charging commission = Net Profit – Commission

= ` 1,25,000 – ` x

= ` (1,25,000 – x)

Therefore, Commission = 8% of Net Profits after charging such commission

$\Rightarrow$ Commission = Net Profit after Charging Commission × 8%

$$\Rightarrow \text{` } x = \text{` } (1{,}25{,}000 - x) \times \frac{8}{100}$$

$$\Rightarrow \text{` } x = \text{` } (1{,}25{,}000 - x) \times \frac{2}{25}$$

$$\Rightarrow 25x = (1{,}25{,}000 - x) \times 2$$

$$\Rightarrow 25x = (1{,}25{,}000 \times 2) - (2x)$$

$$\Rightarrow 25x + 2x = 2{,}50{,}000$$

$$\Rightarrow 27x = 2{,}50{,}000$$

$$\Rightarrow x = \frac{2{,}50{,}000}{27}$$

$$\Rightarrow x = 9{,}259.26$$

Verify

Net Profit after charging such commission = ` 1,25,000 – ` 9,259.26

= ` 1,15,740.74

Commission = Net Profit after charging such commission × 8%

= 1,15,740.74 × 8%

= ` 9,259.26

Formula for Calculating Commission after Charging Such Commission

From the above calculations, we can derive a formula that would be easier to remember and use.

Commission = Net Profit after Charging Commission × 8%

⇒ ` x = ` (1,25,000 – x) × $\frac{8}{100}$

$$\Rightarrow 100x = (1{,}25{,}000 - x) \times 8$$

$$\Rightarrow 100x = (1{,}25{,}000 \times 8) - (8x)$$

$$\Rightarrow 100x + 8x = (1{,}25{,}000 \times 8)$$

$$\Rightarrow 108x = (1{,}25{,}000 \times 8)$$

$$\Rightarrow x = \frac{1{,}25{,}000 \times 8}{108}$$

$$\Rightarrow x = 1{,}25{,}000 \times \frac{8}{100 + 8}$$

$$\Rightarrow \text{Commission} = \text{Net Profit before Charging such Commission} \times \frac{\text{Commission}\%}{100 + \text{Commission}\%}$$

x% of Net Profit

- Before charging such commission = Net Profits before charging commission × x%
- After charging such commission = Net Profit before charging such commission × $\frac{x}{100 + x}$

Example

25% of net profits

- Before charging such commission = Net Profits before charging such commission × 25%.
- After charging such commission = Net Profit before charging such commission × $\frac{25}{100+25}$.

Partner's Capital Accounts

The first difference we can notice, between accounting for sole proprietary form of business organisation and partnership form of business organisation is with regard to capital and its related aspects. In place of a single capital account, we see as many capital accounts as there are partners. In manual accounting and during the learning process, we prepare the partner's capital accounts in a columnar form instead of showing each ledger account separately, to enable easier understanding.

Fluctuating Capital Accounts

Interest on Capital, Salaries to Partners, Interest on Drawings, Commission to Partners, Partner's Share of Profits are all amounts that belong to the partners. By convention, we credit/debit all these amounts relating to partners to their capital accounts. This would result in the balance in the partners getting altered.

Since the capital account balances changes (fluctuates) with the regular transactions relating to capital, the Capitals accounts maintained under this method are known as "Fluctuating Capital Accounts".

By convention, this is the normal method adopted for maintaining capital accounts in problem solving, unless there is an instruction to the contrary.

Dr. **Partner's Capital A/cs** **Cr.**

Particulars	A (in `)	B (in `)	C (in `)	Particulars	A (in `)	B (in `)	C (in `)
To Int on Draw	1,000	100	750	By Bal b/d	2,00,000	75,000	1,00,000
To Drawings	20,000	2,000	15,000	By Int on Cap	10,000	3,750	5,000
To Bal c/d	2,82,700	1,94,350	2,34,950	By Salary		24,000	
				By Commission			52,000
				By Profit Share	93,700	93,700	93,700
	3,03,700	**1,96,450**	**2,50,700**		**3,03,700**	**1,96,450**	**2,50,700**
				By Bal b/d	2,82,700	1,94,350	2,34,950

Capital Accounts: Affected by Capital natured and Revenue natured transactions. Since all the transactions which affect the capital accounts are dealt with using the same capital account, we can say that Capital accounts are affected by transactions of both Capital Nature as well as Revenue Nature.

Fixed Capital Accounts

Why Another Type? Profits (revenue) increase capital. Capital also increases when additional capital is brought in by the partner. Under the fluctuating capital account system, the capital account gets affected by transactions of both capital and revenue nature. Thus, both these transactions are recorded using the same capital account.

If the organisation intends to obtain the information relating to the Capital account balance on account of Capital natured transactions and Revenue natured transactions separately, a separate Capital account needs to be maintained to record the revenue natured transactions.

The basic purpose of accounting is derivation of information. The more information we need, the more accounting heads we need to maintain.

Where there is a need for greater information in relation to capital, the total information is divided into two areas and separate ledger accounts are maintained in relation to each area. This gives information relating to long-term and short-term aspects separately.

The transactions relating to the partners are classified as capital and current natured. In recording the transactions which are of current nature, a separate account by name "__ (Partner's) Current A/c" is used instead of the "__ (Partner's) Capital A/c".

Any transaction that relates to the appropriation of profits, drawings, etc., is considered current natured and is recorded through the Current accounts.

Those transactions which relate to bringing in and taking out capital are considered capital natured and are recorded through the Capital accounts. Capital accounts have a fixed balance unless capital is either withdrawn or additional capital is contributed.

Since the capital account balance is more or less fixed, this method is called "Fixed Capital Method".

Drawings » Current/Capital: Regular drawings as agreed upon among partners are also treated to be transactions of current nature and are thus recorded through the current accounts. This is on the premise that, as the firm keeps making profits, the partners would be entitled to withdraw and use some of the profits for their necessities.

Where there is a specific instruction to treat drawings as capital, i.e., to be debited to the Capital accounts, it would have to be done accordingly.

The same information as shown in the capital accounts would appear as below if fixed capital accounts are maintained.

Dr.				**Partner's Capital A/cs**			**Cr.**
Particulars	**A (in `)**	**B (in `)**	**C (in `)**	**Particulars**	**A (in `)**	**B (in `)**	**C (in `)**
To Bal c/d	2,00,000	75,000	1,00,000	By Bal b/d	2,00,000	75,000	1,00,000
	2,00,000	**75,000**	**1,00,000**		**2,00,000**	**75,000**	**1,00,000**
				By Bal b/d	2,00,000	75,000	1,00,000

Dr.				**Partner's Current A/cs**			**Cr.**
Particulars	**A (in `)**	**B (in `)**	**C (in `)**	**Particulars**	**A (in `)**	**B (in `)**	**C (in `)**
To Bal b/d	-	-	-	By Bal b/d	-	-	-
To Int on Draw	1,000	100	750	By Int on Cap	10,000	3,750	5,000
To Drawings	20,000	2,000	15,000	By Salary		24,000	
To Bal c/d	1,82,700	1,19,350	1,34,950	By Commission			52,000
				By Profit Share	93,700	93,700	93,700
	1,03,700	**1,21,450**	**1,50,700**		**1,03,700**	**1,21,450**	**1,50,700**
				By Bal b/d	82,700	1,19,350	1,34,950

Calculation of Interest on Capital

The capital account balance considered for calculation of interest on capital is dependent on the method adopted for maintaining the capital accounts.

- *Fixed Capital Accounts:* Where the Capital Accounts are being maintained under "Fixed Capital Accounts" method, interest on capital is to be paid on the balances in the capital accounts. Interest on Current account balances is not considered unless there is a specific instruction regarding the same.
- *Fluctuating Capital Accounts:* Where the Capital Accounts are being maintained under "Fluctuating Capital Accounts" method, interest on capital is to be paid on the balances in the capital accounts as that is the only account that is related to capital.

Solved Problems

Illustration1: From the following Trial balance of Ajit and Sujit, you are required to prepare a trading and Profit & Loss A/c for the year ended 31st December and balance sheet as on that date:

Trial Balance as on 31st December 2003

Particulars	Amt	Amt	Particulars	Amt	Amt
Capital:			Carriage	2,800	
Ajit		1,20,000	Wages	48,000	
Sujit		80,000	Insurance	3,200	
Drawings:			Discount received		400
Ajit	4,000		Postage	1,600	
Sujit	2,000		Debtors and creditors	1,40,800	1,28,400
Stock on 1-1-2003	88,000		Furniture	48,000	
Bills receivable	3,600		Cash in hand	19,600	
Purchase and sales	3,80,000	6,04,000	Machinery	1,60,000	
Return	12,000	4,000	Rent & taxes	2,400	
Salaries	20,000		Printing & stationery	800	

Adjustment:

(i) The closing stock on 31st December 2003 was valued at ` 1,12,000.

(ii) The outstanding expenses wages 4,000, Salaries ` 1,860.

(iii) Goods of ` 4,000 was distributed as free samples.

(iv) Interest on partners capital was to be provided at 7% p.a.

(v) Prepaid insurance was ` 200.

(vi) Depreciation was to be provided on furniture at 10% and on machinery 5%.

(vii) A reserves for doubtful debts was to be created at 5% of sundry debtors.

Solution:

Dr. **Trading A/c for the year ended 31-12-2003** **Cr.**

Particulars	Amt	Amt	Particulars	Amt	Amt
To Opening stock		88,000	By Sales	6,04,000	
To Purchase	3,80,000		*Less:* Returns	12,000	5,92,000
Less: Returns	4,000	3,76,000	By Goods given as samples		4,000
To Wages	48,000		By Closing stock		1,12,000
Add: O/s Wages	4,000	52,000			
To Gross profit		1,92,000			
		7,08,000			**7,08,000**

Dr. Profit & Loss A/c for year ended 31-12-2003 Cr.

Particulars	Amt	Amt	Particulars	Amt	Amt
To Salaries	20,000		By Gross profit		1,92,000
Add: O/s salaries	1,860	21,860	By Discount received		400
To Insurance	3,200				
Less: Prepaid insurance	200	3,000			
To Postage		1,600			
To Rent & taxes		2,400			
To Printing & stationery		800			
To Carriage outwards		2,800			
To Free samples given		4,000			
To Reserves for doubtful debts		7,040			
To Depreciation					
Machinery	8,000				
Furniture	4,800	12,800			
To Net profit		1,36,100			
		1,92,400			**1,92,400**

Dr. Partner's Capital Account Cr.

Particulars	Amt	Amt	Particulars	Amt	Amt
To Interest:			By Net profit		1,36,100
Ajit	8,400				
Sujit	5,600				
To Net profit transferred:					
Ajit	68,050				
Sujit	68,050				
		1,36,100			**1,36,100**

Balance Sheet as on 31-12-2003

Liabilities	Amt	Amt	Assets	Amt	Amt
Capital account of Ajit			Machinery	1,60,000	
Balance b/d	1,20,000		*Less:* Depreciation	8,000	1,52,000
Add: Interest	8,400		Furniture	48,000	
Add: Net profit	68,050		*Less:* Depreciation	4,800	43,200
Less: Drawings	4,000	1,92,450	Prepaid insurance		200
Capital account of Sujit			Stock		1,12,000
Balance b/d	80,000		Debtors	1,40,800	
Add: Interest	5,600		*Less:* Reserves for d.d	7,040	1,33,760
Add: Net profit	68,050		Bills receivable		3,600
Less: Drawings	2,000	1,51,650	Cash in hand		19,600
Sundry creditors		1,28,400			
Outstanding expenses					
Wages	4,000				
Salaries	1,860	5,860			
		4,78,360			**4,64,360**

Illustration 2: A, B and C carried on business in partnership as ready-made cloth dealers. The partnership agreement provided that:

(i) The partners were to be credited at the end of each year with interest at 5% per annum on opening balance of capital.

(ii) No interest was to be charged on drawings.

(iii) Profits and losses were to be shared as to A 5, B 3 and C 2. It was agreed that C's share of profit in any year should not be less than 10,000 and any deficiency in such share was to be borne by the other two partners in their profit sharing ratio.

Particulars	Amt	Amt
Shop fittings (at cost)	30,000	
Freehold Premises	60,000	
Leasehold premises purchased during the year	45,000	
Additions and alterations to leasehold premises	25,000	
Purchases	2,80,000	

Stock on 1-1-2003	42,000	
Salaries and wages	64,000	
Office and trade expenses	45,200	
Rent, rates and taxes	10,500	
Professional charges	3,500	
Debtors	20,600	
Balance at Central Bank Ltd.	43,700	
Partner's Capital Account:		
A		80,000
B		50,000
C		30,000
Partner's current account:		
A		16,000
B		8,000
C		12,000
Sales		4,45,000
Trade creditors		37,000
Depreciation reseves		14,000
Reserves for doubtful debts		500
Drawings other than monthly payment:		
A	7,000	
B	6,000	
C	4,000	
	6,92,500	**6,92,500**

You are required to prepare Trading A/c, Profit & Loss A/c, Profit & Loss Appropriation A/c for the year ended 31.12.2003 and balance sheet as on that date.

Solution:

Dr. Trading A/c for year ended 31-12-2003 Cr.

Particulars	Amt	Particulars	Amt
To Opening stock	42,000	By Sales	4,45,000
To Purchase	2,80,000	By Goods destroyed by fire	1,000
To Gross profit c/d	1,60,000	By Goods taken by partners	1,000
		By Closing stock	35,000
	4,82,000		**4,82,000**

Dr. **Profit and Loss A/c for year ended 31-12-2003** **Cr.**

Particulars	Amt	Amt	Particulars	Amt
To Salaries & wages		64,000	By Gross profit b/d	1,60,000
Less: Salaries to partners	12,600	5,14,000		
To Office & Trade expenses	45,200			
Add: O/s	2,100	47,300		
To Rent, rates & insurance	10,500			
Less: Prepaid rates	2,500	8,000		
To Professional charges	3,500			
Less: Exp. on acquisition of freehold premises	2,500	1,000		
To Bad debts	600			
Add: BDR (new)	1,000			
Less: BDR (old)	500	1,100		
To Depreciation				
Leasehold premises	2,900			
Shop fitting	1,800	4,700		
To Goods destroyed by fire		300		
To Net profit		46,200		
		1,60,000		**1,60,000**

Dr. **Profit and Loss Appropriation A/c** **Cr.**

Particulars	Amt	Particulars	Amt
Interest on partner's capital	8,000	By Net profit	46,200
To Net profit transferred to Curr. A/c:			
A	17,625		
B	10,575		
C	10,000		
	46,200		**46,200**

Balance Sheet as on 31-12-2003

Liabilities	Amt	Amt	Assets	Amt	Amt
Capital account:			Fixed assest		
A	80,000		Shop fitting (at cost)	36,000	
B	50,000		*Less:* Dep. upto curr year	15,800	20,200
C	30,000	1,60,000	Freehold premises	45,000	
Current account:			*Add:* Addition during year	25,000	
A	24,025		*Add:* Exp on acquisition	2,500	
B	11,075		*Less:* Dep. debtors	2,900	
C	16,500	51,600	*Less*: Bad debts	600	
Trade creditors		37,000	*Less:* Provision for bad debts	1,000	19,000
O/s office & trade expenses		2,100	Bal. at Central Bank Ltd.		43,700
			Insurance claim receviable		700
			Prepaid rates		2,500
			Closing stock		35,000
		2,50,700			**2,50,700**

Illustration 3: R and K are partners sharing profit equally from the trial balance. Prepare trading and Profit & Loss A/c for the year ended 31st December 2003 and balance sheet as on that date.

Particulars	Amt	Amt	Particulars	Amt	Amt
R's capital		1,00,000	Rent and taxes	2,000	
K's capital		1,00,000	Motor car	3,000	
Land and building	87,000		Carriage outward	1,400	
Plant and machinery	17,500		Sales		84,000
Goodwill	20,000		Salaries	3,100	
R's drawings	10,000		Bank charges	105	
K's drawings	12,600		Bad debts written off	2,100	
Deposits	1,000		Provision for doubtful debts		1,500
Stock (1-1-2003)	27,000		Printing & stationery	2,000	

Wages	10,000		Debtors	19,800	
Purchase	69,000		Creditors		7,500
Carriage inward	600		Bank Current A/c	795	
General expenses	4,000				

Solution:

Dr. Trading and Profit and Loss A/c for year ended 31-12-2003 Cr.

Particulars	Amt	Amt	Particulars	Amt	Amt
To Opening stock		27,000	By Sales	84,000	
To Purchase	69,000		*Add:* Unrecorded sales	200	
Less: Machinery	1,000	68,000		84,200	
To Wages	10,000		*Less:* Motor car sold	2,000	82,200
Less: For machinery	500	9,500	By Stock destroyed by fire		3,000
To Carriage inward		600	By Closing stock		46,000
To Gross profit c/d		26,100			
		1,31,200			**1,31,200**
To General expenses		4,000	By Gross profit c/d		26,100
To Rent & taxes	2,000				
Less: Prepaid	800	1,200			
To Carriage inward		1,400			
To Salaries		3,100			
To Bank charges		105			
To Printing & stationery		2,000			
To Loss on sale of motor car		700			
To Bad debts	2,100				
Add: New prov	2,000				
Less: Old prov	1,500	2,600			
To Loss by fire		3,000			
To Depreciation:					
Plant & machinery	1,575				
Motor car	300	1,875			
To Net profit					
R		3,060			
K		3,060			
		26,100			**26,100**

Balance Sheet as on 31-12-2003

Liabilities	**Amt**	**Amt**	**Assets**	**Amt**	**Amt**
Capital account of R			Goodwill		20,000
Balance b/d	1,00,000		Land & building		87,000
Add: Profit transferred	3,060		Plant & machinery	17,500	
	1,03,060		*Add:* Purchases	1,000	
Less: drawings	10,000	93,060	Installation charges	500	
Capital account of K				19,000	
Balance b/d	1,00,000		*Less:* Depreciation	1,575	17,425
Add: Profit tfd	3,060		Debtors	19,800	
	1,03,060		*Add:* Unrecorded sales	200	
Less: Drawings	12,600	90,460		20,000	
Sundry creditors		7,500	*Less:* Prov. for bad debts	2,000	18,000
			Closing stock		46,000
			Deposits		1,000
			Bank Current A/c		795
			Prepaid rent & taxes		800
		1,91,020			**1,91,020**

Illustration 4: Sujata, Sarita and Suman are partners sharing profit and losses in the ratio 3 : 2 : 1 Suman is guaranteed a profit of ` 16,000 p.a. as her minimum share. Any deficiency, will be borne by the other partners in their profit sharing ratio. Interest at the rate of 6% is to be allowed on partner's fixed capital account. On 31st March 2004, trial balance was as under:

Debit	**Amt**	**Credit**	**Amt**
Building	64,000	Fixed capital accounts:	
Machinery	50,000	Sujata	80,000
Vehicles	20,000	Sarita	60,000
Purchases	2,90,000	Suman	40,000
Stock	68,000	Current account:	
Wages	65,000	Sujata	16,000
Trade expenses	25,000	Sarita	9,000
Salaries	30,000	Sales	6,72,000
Repairs	28,000	Creditors	48,000
Commission	2,500	Provision for doubtful debts	3,000

Office expenses	33,200	Commission	4,000
Rates & taxes	22,900	Discount	6,400
Bank balance	1,42,400		
Debtors	84,000		
Suman's Current A/c	13,400		
	9,38,400		**9,38,400**

Additional Information

(i) Closing stock was valued at ` 70,000.

(ii) Sujata has taken goods worth ` 3,000 from stock for which no entry is made in the books.

(iii) Sarita is to be paid ` 24,000 for travelling expenses for business trips.

(iv) Wages outstanding are ` 5,000 and commission received in advance ` 1,000.

(v) Depreciation on machinery and building is to be provided @ 10% p.a. and on vehicles @ 15% p.a.

(vi) Provision for doubtful debts is to be increased to ` 6,000.

(vii) Goods worth ` 10,000 were destroyed by fire, the same were not insured.

Prepare Trading and Profit & Loss A/c, Profit & Loss Appropriation A/c, Partner's Current A/c for the year ended 31.3.2004 and balance sheet as on that date.

Solution:

Dr. Trading and Profit & Loss Account for the year ended 31.3.2004 Cr.

Particulars	Amt	Amt	Particulars	Amt	Amt
To Opening stock		68,000	By Sales		6,72,000
To Purchase		2,90,000	By Goods withdrawn (Sujata)		3,000
To Wages	65,000		By Goods destroyed		10,000
Add: Outstanding	5,000	70,000	By Closing stock		70,000
To Gross profit c/d		3,27,000			
		7,55,000			**7,55,000**
To Trade expenses		25,000	By Gross profit		3,27,000
To Salaries		30,000	By Commission	4,000	
To Repairs		28,000	*Less:* Received in advance	1,000	3,000
To Commission		2,500	By Discount		6,400

To Office expenses		33,200			
To Rates and taxes		22,900			
To Travelling exp. (Sarita)		24,000			
To Provision for D.D	6,000				
Less: Old provision	3,000	3,000			
To Depreciation:					
Building	6,400				
Machinery	5,000				
Vehicle	3,000	14,400			
To Loss due to goods destroyed		10,000			
To Net profit		1,43,400			
		3,36,400			**3,36,400**

Dr. **Profit & Loss Appropriation A/c for the year ended 31.3.2004** **Cr.**

To Interest on capital:		By Net profit	1,43,400
Sujata	4,800		
Sarita	3,600		
Suman	2,400		
To Partner's Current A/c:			
Sujata	66,300		
Sarita	44,200		
Suman	22,100		
	1,43,400		**1,43,400**

Dr. **Partner's Current Account** **Cr.**

Particulars	**Sujata**	**Sarita**	**Suman**	**Particulars**	**Sujata**	**Sarita**	**Suman**
To Balance b/d			13,400	By Balance b/d	16,000	9,000	
To Goods w/d	3,000			By Travelling		24,000	
To Balance c/d	84,100	80,800	11,100	By Interest	4,800	3,600	2,400
				By Net profit	66,300	44,200	22,100
	87,100	**80,800**	**24,500**		**87,100**	**80,800**	**24,500**

Balance Sheet as on 31-3-2004

Particulars	Amt	Amt	Particulars	Amt	Amt
Partner's Capital:			Building	64,000	
Sujata	80,000		*Less:* Dep @ 10%	6,400	57,600
Sarita	60,000		Machinery	50,000	
Suman	40,000	1,80,000	*Less:* Dep @ 10%	5,000	45,000
Partner's Current:			Vehicles	20,000	
Sujata	84,100		*Less:* Dep @ 15%	3,000	17,000
Sarita	80,800		Bank		1,42,400
Suman	11,100	1,76,000	Debtors	84,000	
Creditors		48,000	*Less:* Provision of D.D	6,000	78,000
Outstanding wages		5,000	Stock		70,000
Commission in advance		1,000			
		4,10,000			**4,10,000**

Illustration 5: Ram and Shyam are partners. Their Trial Balance as on 31-3-2004 was as follows:

Debit	Amt	Credit	Amt
Building	74,000	Ram's capital	90,000
Machinry	40,000	Shyam's capital	90,000
Furniture	20,000	Sales	6,80,000
Purchases	2,98,000	Creditors	52,000
Stock	60,000	R.D.D.	3,000
Wages	65,000	Discount	10,000
Carriage inward	25,000		
Salaries	40,000		
Repairs	18,000		
Commission	5,700		
General expenses	30,000		
Rent and taxes	21,000		
Bank balance	95,000		
Cash balance	49,300		
Debtors	84,000		
	9,25,000		**9,25,000**

Additional Information:

(i) Closing stock was ` 50,000.

(ii) Shyam has taken goods worth ` 5,000 for his personal use for which no entry was made in the books.

(iii) Wages outstanding were ` 6,000 and taxes paid in advance ` 2,000.

(iv) Depreciation was to be provided at 10% on machinery, 5% on building and 15% on furniture.

(v) Write off ` 2,000 as bad debts and provision for doubtful debts is to be increased to ` 5,000.

(vi) Goods costing ` 2,500 have been stolen but no entry was passed in the books for the same.

You are required to prepare Trading and Profit & Loss A/c for the year ended 31.3.2004 and balance sheet as on that date.

Solution:

Dr. Trading and Profit & Loss A/c for the year ended 31.3.2004 Cr.

Particulars	Amt	Amt	Particulars	Amt	Amt
To Opening stock		60,000	By Ssales		6,80,000
To Purchase		2,98,000	By Closing stock		50,000
To Wages	65,000		By Goods taken — Shyam		5,000
Add: O/s	6,000	71,000	By Goods stolen		2,500
To Carriage inward		25,000			
To Gross profit		2,83,500			
		7,37,500			**7,37,500**
To Salaries		40,000	By Gross profit b/d		2,83,500
To Repairs		18,000	By Discount		10,000
To Commission		5,700			
To General expenses		30,000			
To Rent & taxes	21,000				
Less: Prepaid	2,000	19,000			
To Depreciation:					
Building	3,700				
Machinery	4,000				
Furniture	3,000	10,700			

To Bad debts	2,000				
Add: New R.D.D.	5,000	7,000			
Less: Old R.D.D.	3,000	4,000			
To Loss by theft		2,500			
To Net profit tfd					
Ram's Capital A/c	81,800				
Shyam's Capital A/c	81,800	1,63,600			
		2,93,500			**2,93,500**

Balance Sheet as on 31st March 2004

Liabilities	**Amt**	**Amt**	**Assets**	**Amt**	**Amt**
Capital account			Building	74,000	
Ram's capital	90,000		*Less*: Depreciation	3,700	70,300
Add: Profit	81,800	1,71,800	Machinery	40,000	
Shyam's capital	90,000		*Less:* Depreciation	4,000	36,000
Less: Goods taken	5,000		Furniture	20,000	
Add: Profit	81,800	1,66,800	*Less:* Depreciation	3,000	17,000
Creditors		52,000	Debtors	84,000	
Outstanding wages		6,000	*Less:* Bad debts	2,000	
				82,000	
			Less: R.D.D.	5,000	77,000
			Closing stock		50,000
			Prepaid taxes		2,000
			Bank balance		95,000
			Cash balance		49,300
		3,96,600			**3,96,600**

Illustration 6: Ram and Kirti were in partnership in a retail business sharing profits in proportion of 3 : 2 as from 1st January 2005. They admitted Vikram into partnership giving him one-fifth of the profits. Vikram brought in ` 20,000 in cash of which ` 6,000 were considered as being in payment for his share of goodwill and remainder as his capital.

Particulars	Debit	Credit
Purchases & sales	1,71,625	2,62,650
Returns	5,250	4,125
Customers & creditors	40,200	25,525
Bills receivable & bills payable	20,070	11,950
Carriage inward	15,000	
Carriage outward	2,175	
Stock (1-1-2005)	39,725	
Reserve for doubtful debts		5,200
Outstanding carriage inward		1,200
Bad debts	400	
Salaries	9,795	
Furniture	5,000	
Shop	15,500	
Postage & insurance	3,240	
Trade expenses	2,690	
Rent, rates & taxes	4,200	
Loan to Vishnu (from 1-8-2005)	6,000	
Prepaid insurance	240	
Rent accured but not paid		900
Cash in hand	4,440	
Current account:		
Ram	5,000	
Kirti	4,000	
Vikram	2,000	
Capital account:		
Ram		15,000
Kirti		10,000
Cash paid by Vikram		20,000
Computer	30,000	
Professional charges	4,450	
Loan from ICICI Bank		34,450
	3,91,000	**3,91,000**

Adjustment:

- Stock at the end was ` 20,000.
- Depreciation on computer and Furniture is to be charged at 10% p.a.
- One-fifth of the shop are to be written off.
- Goods worth ` 800 have been destroyed by fire and the insurance company has admitted the claim for ` 600 only.
- Bills receivable include a dishonoured bill for ` 1,100 of ` 1,000 due from Customer A/c of sales, who has become insolvent.
- Reserves for Doubtful Debts is to be maintained at 5% on Debtors.

You are required to prepare Trading and Profit & loss A/c for the year ended 31.12.2005 and balance sheet as on that date.

Solution:

Dr. **Trading and Profit & Loss A/c for the year ended 31.12.2005** **Cr.**

Particulars	**Amt**	**Amt**	**Particulars**	**Amt**	**Amt**
To Opening stock	39,725		By Sales	2,62,650	
To Purchase	1,71,625		*Less:* Returns	5,250	2,57,400
Less: Returns	4,125	1,67,500	By Loss by fire		800
To Carriage inward		15,000	By Closing stock		20,000
To Gross profit		55,975			
		2,78,200			**2,78,200**
To Carriage outward		2,175	By Gross profit b/d		55,975
To Salaries		9,795	By R.D.D.		1,800
To Postage & insurance		3,240			
To Trade expenses		2,690			
To Rent, rate & taxes		4,200			
To Professional charges		4,450			
To Shop written off (1/5)		3,100			
To Goods lost by fire		200			
To Depreciation on					
Furniture	500				
Computer	3,000	3,500			

To Net Profit transferred					
Ram's Current A/c	11,724				
Kirti's Current A/c	7,816				
Vikram's Current A/c	4,885	24,425			
		57,775			**57,775**

Balance Sheet as on 31-12-2005

Liabilities	Amt	Amt	Assets	Amt	Amt
Capital A/c			Furniture	5,000	
Ram	15,000		*Less:* Depreciation	500	4,500
Kirti	10,000		Shop	15,500	
Vikram	14,000	39,000	*Less:* W/o	3,100	12,400
Current A/c:			Computer	30,000	
Ram	10,324		*Less:* Depreciation	3,000	27,000
Kirti	5,916		Closing Stock		20,000
Vikram	2,885	19,125	Debtors	40,200	
Loan from ICICI Bank		34,450	*Add:* B/R dishonoured	1,100	
Creditors		25,525	*Less:* Kirti (drawings)	300	
Bills payable		11,950	*Less:* Bad debts	1,000	
O/s Carriage inward		1,200	*Less:* R.D.D.	2,000	38,000
Rent accured but not paid		900	Loan to Vishnu		6,000
			Prepaid insurance		240
			Insurance Claim		600
			Cash in hand		4,440
			Bills receivable	20,270	
			Less: Dishonoured	1,100	18,970
		1,32,150			**1,32,150**

Dr. **Current Account** **Cr.**

Particulars	Ram	Kirti	Vikram	Pariculars	Ram	kirti	Vikram
To Balance b/d	5,000	4,000	2,000	By P&L A/c	11,724	7,816	4,885
To Debtors		300		By Goodwill	3,600	2,400	
To Balance c/d	10,324	5,916	2,885				
	15,324	**10,216**	**4,885**		**15,324**	**10,216**	**4,885**

Illustration 7: Jaya and Bhaduri were partnership were sharing profit in the ratio of 3 : 2 from 1st January 2003. They admitted Amit into partnership giving him 1/6th share in profit. He brought ` 10,000 cash, of which ` 3,000 was considered as being in payment for his share of goodwill and the balance as his capital.

Particulars	Amt	Particulars	Amt
Drawings:		Rent payable	928
Jaya	4,000	Outstanding Wages	2,719
Bhaduri	3,500	Sales	2,63,150
Amit	2,500	Return Outward	3,120
Purchases	1,66,405	Reserve for Doubtful Debts	1,200
Returns Inward	4,250	Creditors	30,106
Debtors	40,200	Bill Payable	8,950
Opening stock	27,225	Dividend	825
Wages	20,137	Capital:	
Salaries	8,753	Jaya	14,500
Building	6,750	Bhaduri	8,300
Addition to Building	500	Cash paid by Amit (1-4-2003)	10,000
Patents	7,300		
Postage/Telegram	3,226		
Power/Fuel	1,850		
General Expenses	3,314		
Rent, Rates and Taxes	3,517		
Bad Debts	525		
Loan to 'P' at 6% p.a. (1-9-03)	5,000		
Investment	11,500		
Prepaid expenses	524		
Cash/Bank	5,752		
Bills receivable	17,070		
	3,43,798		**3,43,798**

Adjustment:

(i) Closing stock was valued at ` 15,760.

(ii) Goods costing ` 1,000 have been stolen but not entered in the books.

(iii) Write off 1/5th of patents.

(iv) Bills Receivable include dishonoured bill of ` 1,050.

(iv) Maintain reserves for doubtful debts @ 5%.

(v) Depreciate building @ 10% p.a.

(vi) Necessary adjustment in connection with admission is to be made through current accounts of the partners.

(vii) Goodwill should not appear in the books.

Prepare Trading and Profit & Loss A/c for the year ended 31.12.2003 and balance sheet as on that date.

Solution:

Dr. Trading and Profit & Loss A/c for the year ended 31-12-2003 Cr.

Particulars	Amt	Amt	Particulars	Amt	Amt
To Opening Stock		27,225	By Sales	2,63,150	
To Purchase	1,66,405		*Less:* Returns	4,250	2,58,900
Less: Returns	3,120	1,63,285	By Goods Stolen		1,000
To Wages		20,137	By Closing stock		15,760
To Power & fuel		1,850			
To Gross profit		63,163			
		2,75,660			**2,75,660**
To Salaries		8,753	By Gross profit		63,163
To Loss on goods stolen		1,000	By Dividend		825
To Bad debts	525		By Interest due on loan P (5,000*6% *4/12)		100
Add: New R.D.D.	2,063				
Less: Old R.D.D.	-1,200	1,388			
To Depreciation on building		700			
To Depreciation on patents		1,460			
To Postage/Telegram		3,226			
To General expenses		3,314			
To Rent, rates & taxes		3,517			
To Net profit:					
Jaya	20,635				
Bhaduri	13,577				
Amit	6,788	40,730			
		64,088			**64,088**

Balance Sheet as on 31-12-2003

Liabilities	Amt	Amt	Assets	Amt	Amt
Partner's Capital:			Building	6,750	
Jaya	14,500		*Add:* Purchased 1-7-03	500	
Bhaduri	8,300		*Less:* Dep (675 + 25)	700	6,550
Amit	7,000	29,800	Patents	7,300	
Partner's Current			*Less:* Dep (1/5)	1,460	5,840
Jaya	18,165		Loan to P	5,000	
Bhaduri	11,277		*Add:* Interest due	100	5,100
Amit	4,288	33,730	Investment		11,500
Creditors		30,106	Debtors	40,200	
Bills payable		8,950	*Add:* Bills dishonoured	1,050	
Rent payable		928		41,250	
Outstanding wages		2,719	*Less:* New R.D.D. @ 5%	2,063	39,187
			Prepaid Insurance		524
			Cash/bank		5,752
			Stock		15,760
			Bills receivable	17,070	
			Less: Dishonoured	1,050	16,020
		1,06,233			**1,06,233**

Dr. **Partner's Current Account** **Cr.**

Particulars	Jaya	Bhaduri	Amit	Particulars	Jaya	Bhaduri	Amit
To Drawings	4,000	3,500	2,500	By Amit 's Capital A/c	1,800	1,200	
To Balance b/d	18,165	11,277	4,288	By Net profit	20,365	13,577	6,788
	22,165	**14,777**	**6,788**		**22,165**	**14,777**	**6,788**

Illustration 8: The following is the trial balance of firm as on 31st December 2005:

Particulars	Amt	Particulars	Amt
Cash	29,700	Creditors	40,500
Debtors	93,000	Sales	5,40,000
Rent & Taxes	17,700	Capital:	
Salary	36,000	D	72,000
Sundry Expenses	15,600	E	36,000

Stock	75,000	F (including goodwill)	12,000
Purchases	3,30,000		
Sundry Assets	31,500		
Drawing:			
D	45,000		
E	22,500		
F	4,500		
	7,00,500		**7,00,500**

Adjustments:

(i) D and E were partners sharing profits and losses equally.

(ii) Mr. F was admitted to the partnership on 1st July, 2005.

(iii) On 31st December 2005, stock was valued at ` 70,500.

(iv) Rent and taxes paid in advance ` 700.

(v) Sundry expenses were outstanding ` 400.

(vi) Depreciate Sundry Assets by 20% p.a.

(vii) Goodwill of the firm was valued at ` 6,000 on 1st July, 2005 and not to appear in the balance sheet.

(viii) Interest on capital to be charged at the rate of 10% p.a.

Prepare Trading A/c, Profit & Loss A/c and Profit & Loss Appropriation A/c for the year ended 31.12.2005 and balance sheet as on that date.

Solution:

Dr. Trading, Profit & Loss A/c Appropriation for the year ended 31-12-2005 Cr.

Particular	**Amt**	**Amt**	**Particular**	**Amt**	**Amt**
To Opening stock		75,000	By Sales		5,40,000
To Purchase		3,30,000	By Closing Stock		70,500
To Gross profit		2,05,500			
		6,10,500			**6,10,500**

Particulars	Jan-Jun	Jul-Dec	Particulars	Jan-Jun	Jul-Dec
To Salaries	18,000	18,000	By Gross Profit b/d	1,02,750	1,02,750
To Rent & rates	17,700	17,700			
Less: Prepaid	700	700			
To Sundry expenses	15,600	15,600			
Add: Outstanding	400	400			
To Depreciation on assets	3,150	3,150			
To Net profit	65,100	65,100			
	1,02,750	**1,02,750**		**1,02,750**	**1,02,750**
To Interest on capital:			By Net profit	65,100	65,100
D	3,600	3,600			
E	1,800	1,800			
F		500			
To Net profit transferred:					
D	29,850	19,733			
E	29,850	19,733			
F		19,734			
	65,100	**65,100**		**65,100**	**65,100**

Balance Sheet as on 31-12-2005

Liabilities	Amt	Amt	Assets	Amt	Amt
Capitals:			Sundry Assets	31,500	
D	84,783		*Less:* Depreciation	6,300	25,200
E	67,683		Closing Stock		70,500
F	25,734	1,78,200	Sundry debtors		93,000
Sundry Creditors		40,500	Prepaid Rent & Rates		700
Outstanding Expenses		400	Cash		29,700
		2,19,100			**2,19,100**

Dr. **Partner's Capital A/c** Cr.

Particulars	D	E	F	Particulars	D	E	F
To Drawings	45,000	22,500	4,500	By Balance b/d	72,000	36,000	12,000
To Goodwill	2,000	2,000	2,000	By Goodwill	3,000	3,000	
To Balance c/d	84,783	67,683	25,734	By Int on Capital	7,200	3,600	500
				By Net profit	29,850	29,850	
				By Net profit	19,733	19,733	19,734
	1,31,783	**92,183**	**32,234**		**1,31,783**	**92,183**	**32,234**

Illustration 9: X and Y were partners sharing profit and loss as 3 : 2. On 1-7-2003, M, manager, joins for 1/4th share. M was getting a salary of ` 500 p.m. After his admission, his salary is borne by Y personally. M's share is guaranteed at ` 9,000 p.a. by X. He paid ` 2,000 Goodwill and ` 5,000 capital and the entire amount was credited to his Suspense Account.

Particulars	Amt	Amt
X's Capital	6,000	31,000
Y's Capital	5,000	21,000
M's Suspense Account		7,000
Closing stock	18,000	
Furniture	2,000	
Machinery: Opening	20,000	
Acquired on 30-9-2003	4,000	
Salaries (including M's salary)	13,000	
Rent, Rates & Taxes	3,000	
Postage & Telephone	1,000	
Printing & stationery	2,000	
Travelling & conveyance	3,000	
Debtors & Creditors	38,000	11,000
Cash & Bank	5,000	
Gross Profit		50,000
	1,20,000	**1,20,000**

Provide depreciation at 10% p.a on Furniture & Machinery

You are required to prepare final accounts for the year ended 31.12.2003 abd balance sheet as on that date.

Solution:

Dr. Profit and Loss A/c for the year ended 31-12-2003 Cr.

Particulars	Jan-June	July-Dec	Particulars	Jan-June	July-Dec
To Salaries: Total	3,500	3,500	By Gross Profit	25,000	25,000
To Managers Salary	3,000				
To Rent, Rates & Taxes	1,500	1,500			
To Postage & telephone	500	500			
To Printing & stationery	1,000	1,000			
To Travelling & conveyance	1,500	1,500			
To Depreciation					
Furniture	100	100			
Machinery	1,000	1,000			
New		100			
To Net Profit	12,900	15,800			
	25,000	**25,000**		**25,000**	**25,000**

Dr. Profit and LossAppropriation A/c for the year ended 31-12-2003 Cr.

Particulars	Jan-June	July-Dec	Particulars	Jan-June	July-Dec
To Net Profit (upto 30-6)			By Net profit	12,900	15,800
X	7,740				
Y	5,160				
To Net Profit (upto 1-7)					
X		6,560			
Y		4,740			
M		4,500			
	12,900	**15,800**		**12,900**	**15,800**

Balance Sheet as on 31-12-2003

Liabilities	Amt	Amt	Assets	Amt	Amt
Capital Account:			Furniture	2,000	
X		40,500	*Less:* Depreciation	200	1,800
Y		23,700	Machinery	24,000	
M		9,500	*Less:* Depreciation	2,100	21,900

Creditors		11,000	Closing Stock		18,000
			Debtors		38,000
			Cash and Bank		5,000
		84,700			**84,700**

Dr. **Partner's Capital A/c** **Cr.**

Particulars	**X**	**Y**	**M**	**Particulars**	**X**	**Y**	**M**
To Balance b/d	6,000	5,000		By Balance b/d	31,000	21,000	
To Salary		3,000		By Goodwill	1,200	800	
To Balance c/d	40,500	23,700	9,500	By Capital from Suspense A/c			5,000
				By N.P upto 30-6	7,740	5,160	
				By N.P upto 1-7	6,560	4,740	4,500
	46,500	**31,700**	**9,500**		**46,500**	**31,700**	**9,500**

Illustration 10: Retirement during Accounting Year.

The following is the Trial Balance of a firm as on 31-12-2004:

Particulars	**Amt**	**Particulars**	**Amt**
Purchases	1,56,000	Capital account:	
Return inward	2,400	A	30,000
Stock	24,000	B	30,000
Drawings:		C	30,000
A	12,000	Sales	2,94,000
B	12,000	Return Outward	2,000
C	12,000	R.D.D.	8,800
Salary	27,000	Bank Loan	20,000
Office expenses	16,500	Creditors	76,500
Bad debts	2,100	Bills Payable	8,700
Carriage inward	4,500		
Carriage outward	6,750		
Debtors	1,00,000		
Bills receivable	3,250		
Bank Balance	8,000		

Investment	25,000		
Premises	50,000		
Machinery	36,000		
	5,00,000		**5,00,000**

On 1st July 2004, 'A' retired and the following adjustments were agreed upon:

(i) Goodwill of ` 90,000 was bought into the books of account.

(ii) Furniture worth ` 20,000 was purchased on 31-3-2004 but the invoice was not recorded in the books.

(iii) Balance in A's account after making all adjustments was to be transferred to his Loan A/c carrying interest @ 16%.

(iv) Closing stock was valued at ` 42,000.

(v) Provide depreciation on machinery by 10%, premises by 5% and furniture by 5%.

(vi) Provide interest on capital at 10%.

You are required to Prepare Trading and P & L Account, Partner's Capital A/c & balance sheet as on that date.

Solution:

Dr. **Trading A/c for the year ended 31-12-2004** **Cr.**

Particulars	**Amt**	**Amt**	**Particulars**	**Amt**	**Amt**
To Opening stock		24,000	By Sales	2,94,000	
To Purchase	1,56,000		*Less:* Return inward	2,400	2,91,600
Less: Returns	2,000	1,54,000	By Closing stock		42,000
To Carriage inward		4,500			
To Gross profit		1,51,100			
		3,33,600			**3,33,600**

Dr. **Profit and Loss Account for the year ended 31-12-2004** **Cr.**

Particulars	**Jan-June**	**July-Dec**	**Particulars**	**Jan-June**	**July-Dec**
To Salary	13,500	13,500	By Gross profit	75,550	75,550
To Office expenses	8,250	8,250			
To Bad debts	1,050	1,050			
To Carriage inward	3,375	3,375			

To Depreciation:					
Machinery	1,800	1,800			
Premises	1,250	1,250			
Furniture	250	500			
To Interest on loan		5,069			
To Net profit	46,075	40,756			
	75,550	**75,550**		**75,550**	**75,550**

Balance Sheet as on 31-12-2004

Liabilities	Amt	Amt	Assets	Amt	Amt
Capitals:			Goodwill		90,000
B	83,736		Furniture	20,000	
C	83,737	1,67,473	*Less:* Depreciation	750	19,250
A's loan	63,358		Machinery	36,000	
Add: O/s interest	5,069	68,427	*Less:* Depreciation	3,600	32,400
Bank loan		20,000	Premises	50,000	
Creditors	76,500		*Less:* Depreciation	2,500	47,500
Add: Pur. to furniture	20,000	96,500	Investments		25,000
Bill Payable		8,700	Closing stock		42,000
			B/R		3,250
			Debtors	1,00,000	
			Less: R.D.D.	8,800	91,200
			Bank		8,000
			Cash		2,500
		3,61,100			**3,61,100**

Dr. **Partner's Capital A/c** **Cr.**

Particulars	A	B	C	Particulars	A	B	C
To Drawings	12,000	12,000	12,000	By Balance c/d	30,000	30,000	30,000
To Loan	63,358			By Goodwill	30,000	30,000	30,000
To Balance c/d		83,736	83,737	By Interest on Capital	1,500	3,000	3,000
				By P&L A/c	13,858	13,858	13,859
				By P&L A/c		18,878	18,878
	75,358	**95,736**	**95,737**		**75,358**	**95,736**	**95,737**

Illustration 11: X and Y shared profit and losses equally. Their trial balance as on 31st December 2003 was as under:

Particulars	**Amt**	**Amt**
Capital Account:		
X		75,000
Y		75,000
Current Account:		
X	7,500	
Y	7,500	
Fixed assets	75,000	
Debtors	25,000	
Bank	25,000	
Stock (opening)	12,500	
Purchases	62,500	
Wages	6,250	
Office & administration expenses	12,500	
Selling & distribution expenses	10,000	
Creditors		12,500
Sales		1,12,500
Advances	31,250	
	2,75,000	**2,75,000**

Additional information:

(i) Z retired on 30th June, 2003. His capital was paid off but the amounts due to him for profit of the year, share of goodwill ` 10,000, interest on his capital ` 1,250 were to be paid.

(ii) X, Y and Z were sharing profit and losses in the ratio of 2 : 2 : 1.

(iii) Closing stock was ` 6,250 on 30-6-2003 and ` 7,500 31-12-2003.

Item	**Upto 30-6-2003**	**After 31-12-2003**
Purchases	37,500	25,000
Wages	3,750	2,500
Sales	75,000	37,500

Other expenses were to be equally distributed between the two periods:

(a) Depreciation on fixed assets by 10% p.a.

(b) Allow interest at 10% p.a. on capital.

Solution:

Dr. Trading Account for the year ended 31-12-2003 Cr.

Particulars	Jan-June	July-Dec	Particulars	Jan-June	July-Dec
To Opening stock	12,500	6,250	By Sales	75,000	37,500
To Purchase	37,500	25,000	By Closing Stock	6,250	7,500
To Wages	3,750	2,500			
To Gross profit c/d	27,500	11,250			
	81,250	**45,000**		**81,250**	**45,000**

Dr. Profit and Loss Account for the year ended 31-12-2003 Cr.

Particulars	Jan-June	July-Dec	Particulars	Jan-June	July-Dec
To Office & Admin exp	6,250	6,250	By Gross profit	27,500	11,250
To Selling & distri exp	5,000	5,000	By Net loss c/d		3,750
To Dep. on Fixed asset	3,750	3,750			
To Net profit	12,500				
	27,500	**15,000**		**27,500**	**15,000**

Dr. Profit and Loss Appropriation for the year ended 31-12-2003 Cr.

Particulars	Jan-June	July-Dec	Particulars	Jan-June	July-Dec
To Net Loss b/d		3,750	By Net profit b/d	12,500	
To Interest on capital:			By Net loss (after 1-7):		
X	3,750	3,750	X		5,625
Y	3,750	3,750	Y		5,625
Z	1,250				
To Net profit (30-6):					
X	1,500				
Y	1,500				
Z	750				
	12,500	**11,250**		**12,500**	**11,250**

Balance Sheet as on 31-12-2003

Liabilities	Amt	Amt	Assets	Amt	Amt
Capital Account:			Fixed Assets	75,000	
X	75,000		*Less:* Depreciation	7,500	67,500
Y	75,000	1,50,000	Closing Stock		7,500
Due to Z		12,000	Debtors		25,000
Creditors		12,500	Bank		25,000
			Advances		31,250
			Current Account:		
			X		9,125
			Y		9,125
		1,74,500			**1,74,500**

Dr. **Partner's Current Account** **Cr.**

Particulars	X	Y	Z	Particulars	X	Y	Z
To Balance b/d	7,500	7,500		By Interest	7,500	7,500	1,250
To Goodwill w/o	5,000	5,000		By Profit (upto 30-6)	1,500	1,500	750
To Net loss (after 1-7)	5,625	5,625		By Goodwill			10,000
To Tfd due to Z A/c			12,000	by Balance c/d	9,125	9,125	
	18,125	**18,125**	**12,000**		**18,125**	**18,125**	**12,000**

2

CHAPTER

Piecemeal Distribution of Cash

What is Piecemeal Distribution?

In actual practice, the assets are not realised at once on a single day unless the business is sold to somebody. The partners expect a good price for the assets and therefore, they gradually realise them depending on the market condition. Thus, the whole process of realisation takes some time, i.e., may be a few months, even a year, or even more. The process followed to discharge the liabilities and claims of the partners as and when the assets are realised is called piecemeal distribution of cash.

What is Gradual Realisation and Distribution of Cash?

In the process of realising the assets and discharging liabilities, the assets are usually realised slowly, steadily and gradually depending on the demand, the liabilities are discharged as and when the assets are realised. Therefore, this process is also known as "gradual realisation and distribution of cash". It is also known as "interim distribution of cash" because when the amount realised is not sufficient to discharge the liability fully, an interim payment is made to the extent of cash available. For the balance, the liability holder should wait for another asset to be realised. Thus, the liabilities are paid off as and when the assets are realised.

What is the Basis of Distribution of Cash to Capitals of Partners in Piecemeal Distribution of Cash? or

What is the Purpose Behind Adjusting the Capitals of Partners in Their Profit Sharing Ratio in the Case of Piecemeal Distribution of Cash?

As long as the capital contribution ratio and profit sharing ratio of the partners are one and the same, the distribution of cash as and when realised does not create any problem when pro-rata distribution is made in accordance with their claim. But when these two ratios are different, the pro-rata distribution of cash in accordance with their claims creates problem. If the cash available is distributed in the capital ratio, the loss or profit on dissolution to be shared by the partners may not be in the profit sharing ratio. On the contrary, if the cash available is distributed in the profit sharing ratio, there is a possibility that one or two partners may get more than what is due to them.

What are the Methods of Distribution on the Schemes followed to Distribute Cash as and when Realised in Piecemeal?

These are the methods of distributing cash in piecemeal namely:

(1) Surplus/Excess/Proportionate/Quotient Capital Method.

(2) Maximum Possible/Notional Loss Method.

What does Surplus or Excess Capital Method mean?

It is necessary to adjust the capital of the partners to the profit sharing ratio and pay excess contribution to the partners first as and when the cash is realised. This process should be repeated till the capitals become proportionate to profit sharing ratio. When once the excess contribution of the partner is paid (capitals get adjusted to PSR), the realisation of cash may be distributed to all the partners in their capital PSR.

Since the excess capital contribution is found out by comparing with PSR and paid first, this method is called Surplus/Excess Method. This is called Proportionate Capital/ Quotient Method because the capitals are ought to be bought in proportion to PSR.

What is Meant by Maximum Possible Loss Method? or

What are the Assumptions under Maximum Loss Method?

Maximum loss method is an improved method of distribution of cash as and when realised. Here at every stage of distribution of cash realised, it is assumed that there will be no more realisations and the firm is going to suffer the maximum loss. Thus, the loss calculated on an assumption is distributed to partners in their profit sharing ratio before the partner's claims are paid. The assumption of no more realisations result in a notional loss caused at this stage of realisation.

Specify About the Order of Discharging Liabilities in Piecemeal Distribution of Cash?

When the assets are realised gradually piece by piece, there is a need to follow a proper order to discharge the liabilities. Out of the scale proceeds, the expenses of dissolution should be met first and the balance should be utilised to pay the outside creditors (Bank O/D, B/P, Creditors, Loans, etc.) in the following order:

(1) Payment of fully secured creditors.

(2) Payment to partly secured creditors to the extent of the securities realisation.

(3) Payment to preferential creditors (salary, dues to Government).

(4) Payment to unsecured creditors.

(5) Only after completely discharging the unsecured outside creditors, payment to internal liabilities in the form of partners loan should be made.

(6) Lastly partners should be paid their dues towards their capital.

If the creditors cannot be distinguished under the categories stated above, the payment should be made 'pro-rata' based on their outstanding claims as and when the assets are realised.

PARTNERSHIP ACCOUNTS – PIECEMEAL DISTRIBUTION

So far, we have assumed that all the assets are realised immediately on the date of dissolution and the accounts of all the partners and the creditors are settled on the same date.

But this assumption is unrealistic in nature, because normally the process of realising the assets takes a long time and cash is distributed as and when it is realised. In such a case to avoid unpleasant consequences, the assets realised are distributed in such a way that the unpaid balance of capitals of each partner is left in their profit sharing ratio.

On a gradual realisation of assets, the cash is distributed in the following order:

1. The debts of the firm to the third parties (outside liabilities) must be paid first.
2. After the creditors, have been paid off, the amount due to a partner as loan should be paid. When the loans are due to more than one partner, the cash available should be distributed proportionately.
3. After the payment of outside liabilities and loans due to the partners, the capitals of the partner are paid.

There are two methods for distribution of cash under Piecemeal distribution:

1. **Proportionate Capital Method:** If the capitals of the partners are in the ratio of their profit sharing arrangement, then each of them is paid out according to his capital ratio at each distribution. If the capitals of the partners are not in the profit sharing ratio, then the first cash available (after making payment of outside liabilities and loans due to the partners) for distribution amongst the partners should be paid to those partners whose capitals are more than their profit sharing ratio so as to bring their capitals to their profit sharing levels. After this, the cash available is distributed amongst all partners according to their profit sharing ratio.

   The unpaid balance of capital accounts will represent loss on realisation and this loss will be exactly in their profit sharing ratio.

2. **Maximum Loss Method:** An alternative method of piecemeal distribution amongst partner is to calculate the maximum possible loss on every realisation after the outside liabilities and the partner's loan has been paid. The amount available for distribution amongst partners is compared with the total amount of capital payable to the partners and the maximum loss is ascertained on the assumption that in future assets will not realise any amount. The maximum possible loss so ascertained is deducted from the capital balances of the partners in their profit and loss sharing ratio and the balance left in the capital account after deducting the maximum possible loss will be the amount payable to the partner.

   If a partner's share of maximum possible loss is more than the amount standing to the credit of his capital account, he should be treated as insolvent and his deficiency should be debited to the capital accounts of the solvent partners in the proportion of their capitals which stood on the dissolution date as stated under the Garner v/s. Murray Rule. The amount standing to the credit of the partners after debiting their share of maximum loss and their share of insolvent partner's deficiency will be equal to the cash available for the distribution amongst the partners.

   This process of maximum possible loss is repeated on each realisation till all the assets are disposed.

Solved Problems

Illustration 1: A, B, and C are carrying on business in partnership has decided to dissolve it on and from 31st Dec 2005. The following was the balance sheet on that date:

Liabilities		`	**Assets**	`
Capital Account:			Fixed assets	80,000
A	30,000		Current assets	44,000
B	15,000		Banks	26,000
C	25,000	70,000		
General Reserves		30,000		
Mr. A's loan		10,000		
Mr. B's loan		20,000		
Creditors		20,000		
		1,50,000		**1,50,000**

It was decided that after keeping aside an amount of ` 4,000 for estimated realisation expenses, the available funds should be distributed amongst the partners as and when realised. The following are the realisation:

	`
January 2006 (first)	30,000
February 2006 (second)	76,000
March 2006 (third)	44,000

Actual realisation expenses amounted to ` 4,400. You are requested to submit a statement showing distribution of cash among the partners under excess capital method.

Solution:

Statement of Excess Capital

Particulars	**A (`)**	**B (`)**	**C (`)**
Capital balance	30,000	15,000	25,000
General reserve	10,000	10,000	10,000
Adjusted capital	40,000	25,000	35,000
Profit sharing ratio (PSR)	1	1	1
Proportionate capital (` 25,000 being minimised)	25,000	25,000	25,000
Excess capital	15,000	NIL	10,000
PSR	1	-	1
	15,000		10,000
Proportionate capital	10,000		-
Ultimate excess capital	5,000	-	-

Pay ` 5,000 first to A

Pay ` 10,000 each to A and C

Then distribute equally to A, B and C.

Particulars	**Cash**	**Creditors**	**A Loan**	**B Loan**	**A Capital**	**B Capital**	**C Capital**
Balance	26,000	20,000	10,000	20,000	40,000	25,000	35,000
Prov. for expenses	4,000						
Cash available	22,000						
Paid to creditors	20,000	20,000					
Balance	2,000	NIL					
Repayment of loan	2,000		667	1,333			
Balance	NIL		9,333	18,667	40,000	25,000	35,000

1. Realisation	30,000		9,333	18,667			
Repayment of loan	28,000						
Balance available	2,000						
Paid to A	2,000				2,000		
Balance	NIL		NIL	NIL	38,000	25,000	35,000
2. Realisation	76,000				(3,000)		
Paid to A	(3,000)				(10,000)		(10,000)
Paid to A & C	(20,000)				(17,667)	(17667)	(17,667)
Paid to A, B & C (1:1:1)	(53,000)				7,333	7,337	7,337
Balance	NIL						
3. Realisation	44,000						
Less: Realisation expences	400						
Balance	43,600						
Paid to A, B & C	43,600				14,533	14,533	14,534
Profit on realisation (bal fig.)					7,200	7,200	7,200

Illustratio 2: A, B and C are carrying on business in partnership has decided to dissolve it on and from 31 Dec. 2005. The following was the balance sheet on that date:

Liabilities		`	**Assets**	`
Capital Account:			Fixed assets	80,000
X	40,000		Current assets	40,000
Y	10,000		Banks	30,000
Z	20,000	70,000		
Creditors		80,000		
		1,50,000		**1,50,000**

As per the arrangement with the bank, the partners were entitled to withdraw ` 10,000 each in the month of Jan. 2006, Feb. 2006, March 2006. Actual realisation expenses amounted to ` 4,400. You are requested to submit a statement showing distribution of cash among the partners under excess capital method. It was decided that after keeping aside an amount of ` 2,000 for estimated realisation expenses, the available funds should be distributed amongst the partners as and when realised. The following are the realisation:

	`
January 2006 (first)	30,000
February 2006 (second)	75,000
March 2006 (third)	44,000

Actual realisation expenses amounted to ` 1,400. You are requested to submit a statement showing distribution of cash among the partners by maximum loss method.

Solution:

Statement showing Distribution of Cash
(Maximum Loss Method)

Particulars	Cash	Creditors	X	Y	Z
Balance	10,000	80,000	40,000	10,000	20,000
Jan.: Asset realised	30,000				
Less: prov. for exp.	2,000				
	38,000				
Paid to creditors	38,000	38,000			
Balance	NIL	42,000	40,000	10,000	20,000
Feb.: Bank	10,000				
Assets realised	75,000				
	85,000				
Paid to creditors	42,000				
	43,000	NIL	40,000	10,000	20,000
Maximum loss					
(70000 – 43000) = 27000			(9,000)	(9,000)	(9,000)
Paid to X, Y and Z	43,000		31,000	1,000	11,000
March: Bal.	NIL		9,000	9,000	9,000
Bank	10,000				
Asset realisation	44,000				
Excess prov.	600				
	54,600				
Profit on realisation					
Paid to X, Y and Z			9,200	9,200	9,200
	54,600		**18,200**	**18,200**	**18,200**

Illustration 3: J and K were in partnership. Their Balance sheet as on 31-3-2002 was as under:

Liabilities	`	**Assets**	`
J's capital	1,00,000	Stock	1,60,000
K's capital	1,00,000	Other Assets	2,40,000
Loan from Bank	1,00,000		
(Secured by stock)			
Creditors	1,00,000		
	4,00,000		4,00,000

The assets realised as under:

30-4-2002	Other Assets	` 1,00,000
31-5-2002	Stock	` 40,000
30-6-2002	Other Assets	` 30,000
31-7-2002	Other Assets	` 1,20,000

You are required to prepare a statement showing piecemeal distribution of cash under Maximum Loss Method.

Solution:

In the Books of J and K
Statement of Piecemeal Distribution of Cash
(Maximum Loss Method)

Date	Particulars	Amount Available	Total Liabilities	Bank Loan	Creditors	J's Cap.	K's Cap.
2002							
Mar. 31	Balances	–	4,00,000	1,00,000	1,00,000	1,00,000	1,00,000
Apr. 30	Realisation (Other assets)	1,00,000					
	Less: Paid Bank Loan and Creditors in 1 : 1	–1,00,000	–1,00,000	–50,000	–50,000		
	Balance	–	3,00,000	50,000	50,000	1,00,000	1,00,000
May 31	Realisation (stock)	40,000					
	Less: Paid Bank Loan	–40,000	–40,000	–40,000			
	Balance	–	2,60,000	10,000	50,000	1,00,000	1,00,000
June 30	Realisation (other assets)	30,000					
	Less: Paid Bank Loan and creditors in 1 : 5	–30,000	–30,000	–5,000	–25,000		
	Balance	–	2,30,000	5,000	25,000	1,00,000	1,00,000

July 31 (Final)	Realisation (other assets)	1,20,000					
	Less: Paid Bank loan and Creditors	–30,000	–30,000	–5,000	–25,000		
		90,000	2,00,000	–	–	1,00,000	1,00,000
	Maximum loss ` 1,10,000 Transferred in PSR 1 : 1					–55,000	–55,000
	Less: Paid to J and K	–90,000	–90,000			45,000	45,000
	Realisation Loss	–	1,10,000	–	–	55,000	55,000

Illustration 4: The firm of Py Ra Mides present you with the following Balance Sheet drawn as on 31st March, 2003:

Liabilities		`	**Assets**		`
Sundry Creditors		74,000	Cash in hand		6,000
Capital Accounts:			Sundry Debtors		68,000
P	80,000		Stock in trade		78,000
R	60,000		Machinery		1,02,000
M	54,000	1,94,000	Current Accounts:		
			R	8,000	
			M	6,000	14,000
		2,68,000			2,68,000

Partners shared profits and losses in the ratio of 4 : 3 : 3. Due to differences among the partners, it was decided to wind up the firm, realise the assets and distribution cash among the partners at the end of each month.

(i) April 2003 – ` 30,000 from Debtors and ` 40,000 by sale of stock. Expenses on realisation ` 1,000.

(ii) May 2003 – Balance of Debtors realised ` 20,000. Balance of stock fetched ` 48,000.

(iii) June 2003 – Part of machinery was sold for ` 36,000. Expenses incidental to sale ` 1,200.

(iv) July 2003 – Part of Machinery valued in the books at ` 10,000 was taken by P, in part discharge at an agreed value of ` 20,000. Balance of Machinery was sold for ` 60,000 (net).

Partners decided to keep a minimum cash balance of ` 4,000 in the first two months and ` 2,000 thereafter. Show how the amounts due to partners will be settled as per Highest Relative Capitals.

Solution:

In the books of Py Ra Mides
Statement of Excess Capital

Particulars	**P (4)**	**R (3)**	**M (3)**
Capital	80,000	60,000	54,000
Less: Current A/c	–	8,000	6,000
Adjusted Capitals	80,000	52,000	48,000
M's Capital being lowest taken as base (Note 1)	64,000	48,000	48,000
Excess Capital	16,000	4,000	NIL
R's Capital being lowest taken as base (Note 2)	5,333	4,000	
Ultimate Excess Capital	10,667	NIL	NIL
Note 1: Capital per unit of profit	$\frac{80,000}{4}$ = 20,000	$\frac{52,000}{3}$ = 17,333.33	$\frac{48,000}{3}$ = 16,000
Note 2: Capital per unit of profit	$\frac{16,000}{4}$ = 4,000	$\frac{4,000}{3}$ = 1,333.33	

Statement of Piecemeal Distribution of Cash
(Highest Relative Capital)

Date	**Particulars**	**Cash**	**Crs.**	**P's Cap.**	**R's Cap.**	**M's Cap.**
2003		`	`	`	`	`
Mar. 31	Balances	6,000	74,000	80,000	52,000	48,000
	Less: Minimum Balance	–4,000				
	Less: Paid Creditors	–2,000	–2,000			
	Balances	–	72,000	80,000	52,000	48,000
Apr. 30	Realisation (30,000 + 40,000 – 10,000)	69,000				
	Less: Paid Creditors	–69,000				
	Balance	–	3,000	80,000	52,000	48,000
May 31	Realisation (20,000 + 48,000)	68,000				
	Add: Cash not required	+ 2,000				
		70,000				
	Less: Paid Creditors	–3,000	–3,000			
	Less: Paid P	–10,667		–10,667		
	Less: Paid P and R	–9,333		–5,333	–4,000	

	Less: Paid P, R and M	–47,000		–18,800	–14,100	–14,100
	Balance	–	–	31,280	23,460	23,460
June 30	Realisation (36,000 + 60,000)	34,800				
	Less: Paid P, R and M	–34,800		–13,920	–10,440	–10,440
	Balance	–	–	31,280	23,460	23,460
July 31 (Final)	Realisation (20,000 + 60,000)	80,000				
	Add: Cash not required	+ 2,000				
		82,000				
	Less: Paid P, R and M	–82,000		–32,800	–24,600	–24,600
	Realisation Profit	–	–	1,520	1,140	1,140

Illustration 5: From the following Balance Sheet of M/s Ideal Store with Sunil, Anil and Neel as partners sharing profits and losses in the ratio of 5 : 3 : 2. Their Balance Sheet on the date of dissolution was as follows:

Liabilities	`	**Assets**	`
Partner's Capital:		Fixed Assets	80,000
Sunil	38,800	Current Assets	60,000
Anil	20,400	Cash in hand	9,600
Neel	26,000		
General Reserve	19,200		
Sunil's Loan	20,200		
Sundry Creditors	24,000		
	1,49,600		1,49,600

(i) Realisation expenses were estimated at ` 4,000.

(ii) The Assets were realised as under:

First instalment	` 61,280
Second instalment	` 28,720
Third instalment	` 21,000

(iii) Actual realisation expenses were ` 3,000 only.

Prepare a statement showing piecemeal distribution of cash by adopting Excess Capital Method.

Solution:

In the books of M/S Ideal Store Statement of Excess Capital

	Sunil (5) `	Anil (3) `	Neel (2) `
Capitals	38,800	20,400	26,000
Add: General Reserve (5 : 3 : 2)	9,600	5,760	3,840
Adjusted Capitals	48,400	26,160	29,840
Considering Anil as base (Note 1)	43,600	26,160	17,440
Excess Capital	4,800	–	12,400
Considering Sunil as base (Note 2)	4,800	–	1,920
Ultimate Excess Capitals	–		10,480
Note 1: Capital per unit of profit	$\frac{48,400}{5}$ = 9,680	$\frac{26,160}{3}$ = 8,720	$\frac{29,840}{2}$ = 14,920
Note 2: Capital per unit of Profit	$\frac{4,800}{5}$ = 960	–	$\frac{12,400}{2}$ = 6,200

First, pay Neel ` 10,480.

Next, pay Sunil and Neel ` 6,720 in 5 : 2.

Balance pay to all in 5 : 3 : 2.

Statement of Piecemeal Distribution of Cash

Date	Particulars	Cash Available	Creditors	Sunil's Loan	Sunil	Anil	Neel
	Balance	9,600	24,000	21,200	48,400	26,100	29,840
	Less: Kept aside for Realisation expenses	4,000					
	Less: Paid creditors	5,600	5,600				
	Balances	–	18,400	21,200	48,400	26,160	29,840
1st	Realisation	61,280					
	Less: Paid Creditors	18,400	18,400				
	Less: Paid Loan	21,200		21,200			
	Less: Paid Neel	10,480					10,480
	Less: Paid Sunil and Neel in 5 : 2	6,720			4,800		1,920
	Less: Paid all in 5 : 3 : 2	4,480			2,240	1,344	896
	Balance	–	–	–	41,360	24,816	16,544

2nd	Realisation	28,720					
	Less: Paid all in 5 : 3 : 2	28,720	–	–	14,360	8,616	5,744
	Balance	–	–	–	27,000	16,200	10,800
3rd and Final	Realisation	21,000					
	Less: Paid all in 5 : 3 : 2	21,000	–	–	10,500	6,300	4,200
	Realisation Loss	–	–	–	16,500	9,900	6,600

Illustration 6 (Withdrawal of agreed amounts): Madhuri, Tabu and Juhi carrying on business in partnership decided to dissolve it on and from 30th September, 2003. The following was their Balance Sheet on the date:

Liabilities		`	**Assets**	`
Capital Accounts:			Fixed assets	40,000
Madhuri	20,000		Current Assets	22,000
Tabu	5,000		Bank	13,000
Juhi	10,000	35,000		
General Reserve		30,000		
Creditors		10,000		
		75,000		75,000

As per the arrangements with the bank, the partners were entitled to withdraw ` 4,000 immediately and ` 9,000 after 1st December, 2003. It was decided that after keeping aside an amount of ` 1,000 for estimated realisation expenses, the available funds should be distributed amongst the partners as and when realised.

The following were the realisation:

	Fixed Assets `	**Current Assets** `
31st October, 2003 (first)	10,000	5,000
15th November, 2003 (second)	26,000	12,000
30th December, 2003 (final)	10,000	12,000

Actual realisation expenses amounted to ` 700. You are requested to submit a statement showing distribution of cash amongst the partners by Proportionate Capital Method.

Solution:

Particulars	Cash	Creditors	Madhuri	Tabu	Juhi
Balance due	–	10,000	30,000	15,000	20,000
Bank balance (available)	4,000				
Less: Reserve for Expenses	1,000				
	3,000				
Less: Paid to creditors	3,000	3,000			
Balance due	–	7,000	30,000	15,000	20,000
31-10 Realisation (10,000 + 5,000)	15,000				
Less: Paid to creditors	7,000	7,000			
Balance	8,000	–	30,000	15,000	20,000
Less: Paid to Madhuri [I]	8,000	–	8,000	–	–
Balance due	–	–	22,000	15,000	20,000
15-11 Realisation (26,000 + 1,200)	38,000	–			
Less: Paid to Madhuri [I]	2,000	–	2,000		
Balance	36,000	–	20,000	15,000	20,000
Less: Paid to Madhuri & Juhi [II]	10,000	–	5,000	–	5,000
Balance due	26,000	–	15,000	15,000	15,000
Less: Paid to Madhuri, Tabu, & Juhi in PSR	26,000	–	8,666	8,667	8,667
Balance due	–	–	6,334	6,333	6,333
30-12 Realisation		–			
Bank balance (available)	9,000	–			
Add: Realisation (10,000 + 12,000)	22,000	–			
Add: Unspent Expenses (10,00 – 700)	300	–			
	31,300	–			
Less: Paid to Madhuri, Tabu & Juhi in PSR	31,300	–	10,434	10,433	10,433
Surplus paid	–	–	4,100	4,100	4,100

Illustration 7: L, U and M were in partnership, sharing profit and losses in the ratio of 1/2, 1/3, and 1/6 respectively. Their firm was dissolved as on 31st December 2003 on which date the Balances Sheet of the firm was as under:

Balance sheet as at 31st December, 2003

Liabilities	`	Assets	`
Capitals		Cash	4,000
L	17,000	Debtors	42,000
U	8,000	Stock	16,000
M	1,000		
General Reserve	6,000		
Loans:			
L	6,000		
U	4,000		
Creditors	20,000		
	62,000		62,000

It was agreed that the realisation should be distributed in their due order at the end of each fortnight. The realisation and expenses were as under:

Particulars	Debtors	Stocks	Expenses
15th January 2004	7,500	4,500	1,000
31st January 2004	10,500	500	500
15th February 2004	8,500	8,500	1,000
28th February 2004	10,500	500	400
15th March 2004	2,050	3,050	600

Stocks were completely off and the remaining debtors were to be taken over by M at an agreed amount of ` 600.

Show the Statement of distribution of cash, following Relative Capital Methods.

Solution:

Statement of Distribution
A. Payment of Liabilities (including Partner's Loan)

Date	Particulars	Cash	Creditors	Loan: L	Loan: U
2004					
1-1	Balances	4,000	20,000	6,000	4,000
	Less: Paid to creditors	4,000	4,000	-	-
	Balance due	-	16,000	6,000	4,000
15-1	Realisation (7,500 + 4,500 – 1,000)	11,000			
	Less: Paid to creditors	11,000	11,000	-	-
	Balance due	-	5,000	6,000	4,000

31-1	Realisation (10,500 + 500 – 500)	10,500			
	Less: Paid to creditors	5,000	5,000	-	-
	Balance to Partners Loan (pro-data 6:4)	5,500	-	6,000	4,000
		5,500	-	3,300	2,200
		-	-	2,700	1,800
15-2	Realisation (8,500 + 8,500 – 1,000)	16,000			
	Less: Paid for loans	4,500	-	2,700	1,800
	Balance c/d for payment of partners capitals	11,500	-	-	-

B. Payment of Partner's Capital

Date	Particulars	Cash	L [3]	U [2]	M [1]
2004					
1-1	Balances Due (capital + reserve)	-	20,000	10,000	2,000
	Cash Balance b/d from A	11,500			
	Less: Paid to L (I)	5,000	5,000	-	-
15-2	Balance	6,500	15,000	10,000	2,000
	Less: Paid to L & U (II)	6,500	3,900	2,600	-
	Balances	-	11,100	7,400	2,000
28-2	Realisation (10,500 + 500 – 400)	10,600			
	Less: Paid to L & U (II) (15,000 – 6,500)	8,500	5,100	3,400	-
	Balances	2,100	6,000	4,000	2,000
	Less: Balances paid to all in profit sharing ratio	2,100	1,050	700	350
	Balances due	-	4,950	3,300	1,650
15-3	Realisation (2,050 + 3,050 + 600 – 600)	5,100			
	Distributed to all in PSR	5,100	2,550	1,700	850
	Unpaid Balances	-	2,400	1,600	800

Working note:

(1) Profit Sharing Ratio (PSR) given in fraction (1/2, 1/3 and 1/6) when converted becomes 3 : 2 : 1.

(2) Cash available at each stage is debtors + stock – expenses.

Debtors taken over by M at ` 600 are added in cash realisation and distribution on 15-3 ` 850 distributed to M on 15-3 is made up of debtors ` 600 and balance ` 250 in cash.

PRACTICAL PROBLEMS – PROPORTIONATE CAPITAL METHOD

1. A, B and C were sharing profits and losses in the proportion of 1/2, 1/3 and 1/6. Their Balance Sheet was as follows:

Liabilities	`	**Assets**	`
Creditors	50,000	Land and Buildings	70,000
A's Loan A/c	10,000	Plant & Machinery	40,000
A's Capital A/c	50,000	Stock	25,000
B's Capital A/c	10,000	Debtors	20,000
C's Capital A/c	40,000	Cash	5,000
	1,60,000		**1,60,000**

The partnership is dissolved and the assets are realised as follows:

1st Realisation	40,000
2nd Realisation	30,000
3rd Realisation	54,000
4th Realisation	7,000

Prepare a statement showing how the distribution should be made by using proportionate capital method.

2. M,N and O were partners in a firm sharing profits and losses in the ratio of 1/2, 1/4 and 1/4 respectively on the date of dissolution. Their balance sheet was as follows:

Liabilities	`	**Assets**	`
Creditors	28,000	Sundry Assets	80,000
M's Capital A/c	20,000		
N's Capital A/c	20,000		
O's Capital A/c	12,000		
	80,000		**80,000**

The assets realised ` 68,000 and it was received in installments of ` 28,000, ` 20,000 and ` 20,000.

Prepare a statement showing distribution of cash by using proportionate capital method.

3. A, B and C were in partnership sharing profits and losses in the proportion of 1/2, 1/3 and 1/6 respectively. The partnership was dissolved on 30/06/2000 when the proportion was as follows:

Liabilities		`	**Assets**	`
Capital Account:			Cash in Hand	28,000
A	1,40,000		Debtors	2,94,000
B	70,000		Stock in Trade	1,12,000
C	14,000	2,24,000		
Creditors		2,10,000		
		4,34,000		**4,34,000**

There was a bill for ` 10,000 due on 30/11/2000 under discount. It was agreed that net realisation should be distributed in their due order (at the end of each month) but as safely as possible. The realisation and expenses were:

	Stock & Debtors	**Expenses**
31.07.2000	84,000	7,000
31.08.2000	1,26,000	5,400
30.09.2000	70,000	4,900
31.10.2000	77,000	3,500
30.11.2000	35,500	3,500

The stock was completely disposed off and the amounts due from debtors were realised, the balance being irrecoverable. The acceptor of the bill under discount met the bill on the due date. Draw up a detailed statement showing the monthly distribution of cash realised using proportionate capital method.

PRACTICAL PROBLEMS – MAXIMUM LOSS METHOD

4. The following is the balance sheet of X, Y and Z who share profits and losses equally:

Liabilities		`	**Assets**	`
Capital Account:			Sundry Assets	60,000
X	29,000		Cash at Bank	4,000
Y	20,000		Profit and Loss A/c	6,000
Z	11,000	60,000		
Creditors		10,000		
		70,000		**70,000**

The firm dissolved on 1/12/2002 and the assets were realised as follows:

1st Realisation	6,000
2nd Realisation	9,000
3rd Realisation	15,000
4th Realisation	18,000

Show the distribution of cash under maximum loss method.

5. Rinku, Pinku and Tinku were in partnership sharing profits and losses in the ratio of 3 : 2 : 1. Their balance sheet on 31/12/2001 was as:

Liabilities		₹	**Assets**	₹
Creditors		30,000	Cash	3,000
Tinku's Loan A/c		5,000	Stock	25,000
Capital Accounts			Debtors	35,000
Pinku	15,000		Bills Receivable	3,000
Rinku	15,000		Furniture & Fittings	9,000
Tinku	10,000	40,000		
		75,000		**75,000**

The Bills Receivable were accepted on 1/11/2001 payable after three months on 1/1/2002. The firm was dissolved. The assets were realised and the expenses were as follows:

	Stock	**Debtors**	**Furniture & Fittings**	**Expenses**
31 Jan	5,000	7,000	2,000	600
28 Feb	9,000	10,000	3,500	1,000
31 Mar	6,000	11,000	——	3,000
30 Apr	2,500	4,500	2,000	900

The Bills Receivable were duly honoured. Prepare a statement showing the distribution of cash assuming payments were made on the last day of the month.

6. Following is the balance sheet of M/s P, Q and R who share profits and losses in the ratio of 2 : 2 : 1.

Liabilities		`	**Assets**	`
Creditors		15,000	Cash in Hand	2,000
Capitals			Debtors	22,000
P	15,000		Stock	22,000
Q	12,000			
R	4,000	31,000		
		46,000		**46,000**

The firm dissolved and the assets were realised gradually as follows:

1st Realisation	10,000
2nd Realisation	15,000
3rd Realisation	9,000

Show the distribution of cash under maximum loss method.

7. Monika, Sonika and Ronika share profit and losses in the proportion of 2 : 1 : 1. Their balance sheet is as follows:

Liabilities		`	**Assets**	`
Creditors		10,000	Plant & Machinery	25,500
Sonika's Loan		6,000	Stock	15,500
Ronika's Loan		4,000	Furniture	5,000
Reserve Fund		8,000	Sundry Debtors	17,000
Contingency Reserve		6,000	Cash in hand	6,000
Capital Accounts:				
Monika	20,000			
Sonika	10,000			
Ronika	5,000	35,000		
		69,000		**69,000**

The firm is dissolved, and the assets are realised as follows:

1st Realisation	12,000
2nd Realisation	25,000
3rd Realisation	19,000

On the dissolution date, there was a contingent liability of ` 2,000 against the firm which was settled at ` 1,500 at the time of 2nd realisation. Realisation expenses were estimated at ` 20,000 but these actually amounted to ` 1,200. The firm was found to pay ` 600 out of third realisation for which no provision was made. Sonika took over stock valued at ` 1,000 at the time of 3rd realisation. Prepare a statement showing the distribution of cash.

Working Problems

1. P, Q and R share profits of a firm in the proportion of 1/2, 1/4 and 1/4 respectively. On the date of dissolution, their Balance Sheet stood as follows:

Liabilities	`	Assets	`
Creditors	10,000	Sundry Assets	60,000
P's Loan A/c	5,000	Cash in Hand	1,000
Q's Loan A/c	3,000		
P's Capital A/c	20,000		
Q's Capital A/c	15,000		
R's Capital A/c	8,000		
	61,000		**61,000**

The assets realised ` 45,000 which were received in installments of ` 15,000, ` 16,000 and ` 14,000. Show how the proceeds should be distributed as and when received by following the proportionate capital method.

2. Ramesh, Rajesh and Rakesh are three partners in a firm and share profits and losses in the proportion of 3/10, 5/10 and 2/10 respectively. Their balance sheet on 31st December, 2001 is as follows:

Liabilities		`	Assets	`
Creditors		17,000	Cash in hand	4,000
Capital Account			Other Assets	70,000
Ramesh	38,000		Profit & Loss A/c	10,000
Rajesh	26,000			
Rakesh	3,000	67,000		
		84,000		**84,000**

The partnership is dissolved and the assets are realised as follows:

2002	Book Value of Assets Realised `	Amount Realised `
January 31	30,000	25,000
February 29	25,000	15,000
March 31	15,000	10,000

Rakesh is insolvent and a sum of ` 1,400 is recovered from his estate in full settlement. Prepare a statement showing how the distribution should be made by following the maximum possible loss method.

3. Orange, Apple and Banana were in partnership sharing profits and losses in the ratio of 3 : 2 : 1. They decided to dissolve the partnership and to distribute the sale proceeds as and when realised.

   The partner's capitals were: Orange ` 10,000, Apple ` 9,000 and Banana ` 5,000. Apple's loan (Cr.) amounted to ` 3,000.

   Sundry creditors amounted to ` 6,000.

   The assets were realised as under:

	Stock	Debtors	Furniture & Fittings	Expenses
July	3,000	2,000	300	500
August	2,000	1,500	100	200
September	2,500	2,000	——	300
October	3,000	1,500	——	200

   You are required to draw up a statement showing the distribution of cash.

4. A, B and C share profits and losses in the proportion of 1/2, 1/3 and 1/6. Their balance sheet is as follows:

Liabilities		`	**Assets**	`
Capital Account:			Assets	8,000
A	3,000			
B	3,000			
C	2,000	8,000		
		8,000		**8,000**

   The partnership dissolved and the assets were realised as follows:

1st Realisation	1,000
2nd Realisation	1,500
3rd Realisation	2,500

   The partners desire to withdraw immediately such cash as is available for division between them rather than wait until all the assets have been sold.

   Prepare a statement showing how the distribution should be made and prepare Partner's Capital Accounts by following the maximum loss method.

5. Given below is the balance sheet of A, B and C on December 31, 2001 on which date they dissolved their partnership. They shared profits and losses in the ratio of 4 : 3 : 3. They decided to distribute amounts as and when feasible and to appoint C for this purpose who was to get as his remuneration 1% of the value of the assets realised other than cash at Bank and 10% of the amount distributed to the partners.

Liabilities		`	**Assets**	`
Capital:			Cash at bank	275
A	15,000		Sundry Assets	53,725
B	7,500			
C	15,000	37,500		
Sundry Creditors		16,500		
		54,000		**54,000**

Assets realised as under:

1st Installment	16,250
2nd Installment	12,750
3rd Installment	10,000
4th Installment	7,500

Prepare a statement showing distribution of cash by following Maximum Loss Method and also the necessary journal entries to close the books of the firm.

6. A partnership firm was dissolved on 30th June, 2001. Its balance sheet on the date of dissolution was as follows:

Liabilities		`	**Assets**	`
Capital Account:			Sundry Assets	60,000
Ram	38,000		Cash at Bank	4,000
Shyam	24,000		Profit and Loss A/c	6,000
Mohan	18,000	80,000		
Loan A/c – Shyam		5,000		
Creditors		15,000		
		1,00,000		**1,00,000**

The assets were realised in installments and the payments were made on the proportionate capital basis. Creditors were paid ` 14,500 in full settlement of their account. Expenses of realisation were estimated to be ` 2,700, but actual amount spent on this account was ` 2,000. This amount was paid on 15th September. Draw up a Memorandum of distribution of cash, which was realised as follows:

5th July	12,600
30th August	30,000
15th September	40,000

The partners shared profits and losses in the ratio of 2 : 2 : 1. Give working notes.

7. Sharad, Adesh, Rama and Ajay were partners in a firm. The capital of the firm consisted of ` 40,000 contributed originally in the proportion. The firm was dissolved on 31st March, 2002. The balance sheet as on that date was as under:

Liabilities		`	**Assets**	`
Capital Accounts:			Cash	6,000
Sharad	20,000		Debtors	50,000
Adesh	14,000		Stock	19,000
Rama	10,500			
Ajay	2,500	47,000		
Loan:				
Sharad	5,000			
Rama	8,000	13,000		
Creditors		15,000		
Total		75,000		75,000

It was decided on 15th April that the net realisation should be distributed on the first of each month in the appropriate order. The realisation and expenses at the end of each month were as under;

	Stock	**Debtors**	**Expenses**
April	7,000	15,000	500
May	5,000	8,500	1,000
June	——	11,000	250
July	4,000	5,500	150
August	2,500	7,000	100

The stock was completely disposed off. It was further agreed that Adesh should take over the remaining debts for ` 2,500.

8. P, Q and R were partners sharing profits in the proportion of 1/2, 1/4 and 1/4 respectively. Their Balance Sheet on the date of dissolution was as follows:

Liabilities	`	**Assets**	`
Creditors	10,000	Sundry Assets	60,000
P's Loan	5,000	Cash	1,000
Q's Loan	3,000		
P's Capital	20,000		
Q's Capital	15,000		
R's Capital	8,000		
	61,000		**61,000**

The assets realised ` 65,000, which was received in installments of ` 15,000, ` 16,000, ` 14,000 and ` 20,000. Show how the proceeds should be distributed as and when received by the following Proportionate Capital Method.

9. A, B and C share profits and losses in the proportion of 1/2 : 1/3 : 1/6. Their Balance sheet as on 31-12-1983 was as follows:

Liabilities		`	**Assets**	`
Creditors		30,000	Cash	4,000
Capital:			Debtors	42,000
A	20,000		Stock	16,000
B	10,000			
C	2,000	32,000		
		62,000		**62,000**

They decided to dissolve the firm and agreed to distribute the cash as and when realised. The realisation and expenses are as follows:

Month	**Debtors**	**Stock**	**Expenses**
April	8,000	4,000	1,000
May	12,000	6,000	800
June	7,000	3,000	700
July	10,000	1,000	500
August	2,000	3,500	600

Stock having been completely sold, Mr. C accepted to collect the remaining debts ` 600. From the details given above, prepare a statement showing the piecemeal distribution of cash.

10. A, B, and C were partners sharing profits and losses in the ratio of 2 : 2 : 1. They dissolved their firm on 1-1-1986 when their position was as under:

Liabilities		`	**Assets**	`
Trade Creditors		40,000	Land and Building	50,000
Bills Payable		30,000	Plant & Machinery	80,000
Reserves		10,000	Stock-in-trade	60,000
Capital Accounts:			Cash in Hand	10,000
A	40,000		Profit & Loss A/c	5,000
B	60,000		Sundry Debtors	10,000
C	35,000	1,35,000		
		2,15,000		**2,15,000**

Assets were realised and cash was paid to partners as and when received. The net cash was available each month as under:

End of February 1986	50,000
End of March 1986	1,20,000
End of June 1986	40,000

A part of the stock costing ` 20,000 was taken over by B for ` 15,000 for his personal use. Prepare the statement showing piecemeal distribution of cash among the partners.

11. Monika, Sonika and Romika share profits and losses in the proportion of 2 : 1 : 1. Their Balance Sheet is as follows:

Liabilities	`	**Assets**	`
Sundry creditors	10,000	Plant and Machinery	25,000
Sonika's Loan	6,000	Stock	15,500
Romika's Loan	4,000	Furniture	5,500
Reserve fund	8,000	Sundry Debtors	17,000
Contingency Reserve	6,000	Cash in Hand	6,000
Monika's Capital	20,000		
Sonika's Capital	10,000		
Romika's Capital	5,000		
	69,000		**69,000**

The firm is dissolved and the assets are realised as follows:

1st Realisation	12,000
2nd Realisation	25,000
3rd Realisation	19,000

On the dissolution date, there was a contingent liability of ` 2,000 against the firm, which was settled at ` 1,500 at the time of 2nd realisation. Realisation expenses were estimated at ` 2,000, but these actually amounted to ` 1,200. The firm was bound to pay ` 600 out of third realisation for which no provision was made. Sonika took over stock valued at ` 1,000 at the time of third realisation. Prepare a statement showing the distribution of Cash under Surplus capital method.

12. East, South and North are in partnership sharing profits and losses in the ratio of 3 : 2 : 1. They decided to dissolve the business on 31-12-1978 on which date their balance sheet was as follows:

Liabilities	`	Assets	`
Capital A/c:		Land & buildings	30,810
East	38,700	Motor Car	5,160
South	10,680	Investments	1,080
North	11,100	Stock	19,530
Loan Account: North	3,000	Debtors	11,280
Creditors	10,320		
Cash	5,940		
	73,800		**73,800**

The assets were realised piecemeal as follows and it was agreed that cash should be distributed as and when realised:

15-1-1979	` 10,380
20-2-1979	` 27,900
23-3-1979	` 3,600
15-4-1979 North took over investments at a value of	` 1,260
27-4-1979	` 19,200

Dissolution expenses were originally provided for an estimated amount of ` 2,700, but the actual amount spent on 29-3-1979 was ` 1,920. The creditors were settled for ` 10,080. You are required to prepare a statement showing distribution of cash amongst the partners.

13. P, Q and R share profits of an firm in the proportion of 1/2, 1/4 and 1/4 respectively. On the dissolution, their Balance Sheet stood as follows:

Liabilities	`	Assets	`
Creditors	10,000	Sundry Assets	60,000
P's Loan	5,000	Cash in Hand	1,000
Q's Loan	3,000		
P'S Capital	20,000		
Q's Capital	15,000		
R's Capital	8,000		
	61,000		**61,000**

The assets realised ` 45,000 which were received in installments of ` 15,000, ` 16,000 and ` 14,000. Show how the proceeds should be distributed as and when received by following the proportionate capital method.

14. Ram, Sham and Rahim are in partnership sharing profits and losses in the ratio of 3 : 2 : 1 respectively. They decided to dissolve the business on 31st December 1986 on which their Balance sheet stood as follows:

Liabilities	`	**Assets**	`
Capital:		Land & Buildings	92,430
Ram	1,16,100	Motor Car	15,480
Sham	32,040	Investments	3,240
Rahim	33,300	Stock	58,590
Ram's Loan A/c	9,000	Debtors	33,840
Creditors	30,960	Cash in Hand	17,820
	2,21,400		**2,21,400**

The realisation of assets is as follows:

16th Jan, 1986	` 31,140
20th Feb, 1986	83,700
23rd March, 1986	10,800
16th April, 1986 Rahim took over Investment at a value of	3,780
27th April, 1986	57,600

Dissolution expenses were originally provided for an estimated amount of ` 8,100 but the actual amount spent on 29th March 1986 was ` 5,760. The Creditors were paid for ` 30,240 in full settlement. You are required to prepare a statement showing distribution of cash amongst the partners according to the proportionate capital method.

15. Orange, Apple and Banana were in partnership sharing profits and losses in the ratio of 3 : 2 : 1. They decided to dissolve the partnership and to distribute the sale proceeds as and when realised.

The partner's capitals were: Orange ` 10,000; Apple ` 9,000 and Banana ` 5,000. Apple's loan (Cr.) amounted to ` 3,000. Sundry creditors amounted to ` 6,000.

The assets were realised as under:

	Stock	**Furniture**	**Debtors**	**Expenses**
July	` 3,000	` 300	` 2,000	` 500
August	2,000	100	1,500	200
September	2,500	2,000	300	
October	3,000	1,500	200	

You are required to draw up a statement showing the distribution of cash.

16. Lamb, Deer and Peacock were in partnership, their respective share being 1/2, 1/4 and 1/4. The following was their Balance Sheet on December 31, 1974 on which date they decided to dissolve the firm.

Liabilities	`	**Assets**	`
Creditors	15,000	Cash	9,000
Income-tax payable	4,000	Stock	40,000
Loan from Bank (Secured of stock)	30,000	Debtors	60,000
Deer's Loan	11,000	Furniture	36,000
Capital Accounts:		Motor Car	25,000
Lamb	40,000		
Deer	40,000		
Peacock	30,000		
	1,70,000		**1,70,000**

Bank could realise only ` 25,000 on disposal of stock. A sum of ` 3,000 was spent for furniture, for getting better price. Other assets were realised as follows:

January 1975	` 12,000
February 1975	` 15,000
March 1975	` 10,000
April 1975	` 30,000
May 1975	` 35,000

The partners distributed the cash as and when available. Show the distribution of cash on the basis of 'highest relative capitals'.

17. K, L and M are partners who share profits in the ratio of 3 : 2 : 1. Their Balance sheet on 31/12/87 was under:

Capital:		Sundry Assets	` 2,00,000
K	` 30,000		
L	50,000		
M	50,000		
Creditors	70,000		
	2,00,000		**2,00,000**

The firm dissolved and the assets realised as follows: First realisation ` 50,000; Second realisation ` 30,000; Third realisation ` 60,000; Fourth realisation ` 30,000 and Final realisation ` 15,000. Prepare the statement showing the piecemeal distribution of cash under Maximum Loss Method.

# # #

3

CHAPTER

Amalgamation of Partnership Firms

WHAT IS 'AMALGAMATION' OF PARTNERSHIP FIRMS?

Amalgamation means merger or combination. Where two or more business entities merge or combine themselves into one entity, it is known as 'amalgamation'. Likewise, when two or more partnership firms merge, it is 'Amalgamation of Partnership firms.'

Includes Amalgamation of two or more Sole-traders into a Firm

The scope of this chapter is wide enough to include the situations where two or more sole-traders amalgamate to form a new partnership firm. This is technically called 'Amalgamation into Partnership firm'.

Also Includes Amalgamation of one or more sole-traders and one or more Partnership Firms

The scope of this chapter also includes the situation where one or more sole-proprietory concerns amalgamate with one or more partnership firms to form a new firm.

AMALGAMATION V/S ABSORPTION

Where two or more existing business entities merge themselves to form a **new** business entity it is "amalgamation". Therefore, the old entities are taken over by the newly formed business entity, e.g., where two firms viz. M/s AB & Co. and M/s. CD & Co. merge to form a new firm M/s. ABCD & Co.

In absorption, one or more existing business entities are taken over by another **existing** business entity. No new business entity is formed for the purpose. E.g., where a firm AB & Co. 'absorbs' another firm CD & Co., it is known as absorption of CD & Co. by AB & Co.

Hence, whereas in amalgamation, **all the old business entities are closed** and a new business entity is formed, in absorption, **one old entity will continue** after taking over the other entity or entities.

The scope of this chapter is wide enough to include such situations also.

NEED FOR AMALGAMATION

Some of the important objectives for which the amalgamation of firms are effected are:

(a) To avoid competition between two firms.

(b) To expand the business operations by having more resources like capital, skill, equipments, etc.

(c) To reduce overheads or expenses like advertising, sales promotion expenses, sales commission, discount, etc.

(d) To achieve economies of large scale and thereby becoming competitive in the market.

(e) To ensure monopoly in the market.

DIFFERENT FORMS OF 'AMALGAMATION' OF FIRMS

Amalgamation of firms may take any of the following forms:

Amalgamation of Two or more Sole-traders: Here, two or more sole-traders amalgamate themselves into a new partnership firm. E.g. Mr. A and Mr. B, two Chartered Accountants, practising separately, merge their practice to form a new firm of Chartered Accountants viz. M/s AB.

Amalgamation of Sole-trader and Firm: Here, one or more existing sole-traders merge with one or more existing partnership firms, so that the existing entities lose their identity and a new partnership firm is formed to take over their businesses. E.g. Mr. X, a proprietor and M/s. YZ, a partnership firm, who are doing businesses separately, amalgamate to form a **new firm,** M/s. XYZ.

Amalgamation of Two or more Partnership Firms: Here, two or more existing partnership firms merge and form a **new firm** to take over the businesses of the existing firms. E.g., M/s. PQ and M/s. RS, two partnership firms doing competing businesses, amalgamate for form a new partnership firm viz. M/s PQRS. In all the above cases, A, B, X, YZ, PQ and RS lose their individual identity, close their businesses and new firms, M/s. AB, M/s. XYZ and M/s. PQRS respectively, come into existence to take over businesses.

Absorption: In this case, all the merging units do not lose their identity. **One of them will continue to exist** after taking over the other existing units. E.g., M/s. JK and M/s. MN are in competing business. M/s. JK absorbs or takes over M/s. MN so that M/s. MN is dissolved and M/s. JK continues to exist. It now has the assets and liabilities taken over from M/s. MN, in addition to its existing assets and liabilities.

ACCOUNTING PROCEDURE

We have to study the accounting procedures for the "Old Firms" and the "New Firms".

Old Firms: When there is an amalgamation of firms, basically four things happen in the case of the old firms.

Old Firms Dissolved: The old firms are dissolved. They are wound up. All the consequences of dissolution (Refer Chapter 3) will follow. The assets and liabilities are either taken over by the new firm or disposed off.

Books to be Closed: As a result, the books of account of the firms are closed, as in case of dissolution.

Valuation of Assets and Liabilities: For this purpose, it becomes necessary to revalue the existing assets and liabilities of the old firms. Unrecorded assets and liabilities have also to be considered for such valuation. This is done by mutual agreement.

Final Capital of the Partners to be Ascertained: On amalgamation, the assets and liabilities of the old firm are taken over by the new firm and an amount equal to this value (as mutually agreed) is credited by the new firm to the capital accounts of the partners of the old firm, on their becoming partners of the new firm. It, therefore, becomes necessary to ascertain the final capitals of the partners in the old firm, as the same become the opening capital of these partners in the new firm.

New Firm

New Firm Formed: Except in the case of absorption (para 4.4) a new firm comes into existence to take over the businesses of the old firms.

It takes Over the Assets and Liabilities of the Old Firms: The basic objective of the new firm is to take over the running business with assets and liabilities of the old firms, at the agreed values. The agreed value of the assets minus the agreed value of the liabilities, which are taken over, is termed 'Purchase consideration' or 'the price'.

Capital of the Partners in the New Firm: The said 'Purchase consideration' is not paid in cash to the old partners, as in the case of normal dissolution. The 'Purchase consideration' is credited to the old partners' capital accounts in the new firm as ascertained and explained in para 5.1.4.

Devising New Profit Sharing Ratio: The partners, who come together on amalgamation, have to agree upon their new profit/loss sharing ratio.

Restructuring of Partners' Capitals: In many cases, the capitals of the partners in the new firm are to be restructured on the basis of their new profit sharing ratio. This may require introduction of further capital in cash or in some cases withDr.awal of excess capital. The excess/deficit may even be transferred to current accounts/loan accounts of the partners.

ACCOUNTING ENTRIES

Books of the Old Firms

The basic objectives of passing the entries in the books of the old firms are to —

(a) Determine the current values of the assets and liabilities and calculate 'Purchase consideration'.

(b) Transfer them to the new firm.

(c) Dispose off assets and liabilities not taken over by the new firm.

(d) Determine the final capitals of the partners.

(e) Transfer these capitals to the new firm thereby closing the books of accounts, as the firm is now dissolved.

For closing the books of the old firm, two methods are possible viz. Revaluation method and Realisation (Dissolution) method.

Realisation Method: In case of amalgamation of firms, the "old firms: stand dissolved. Hence conceptually all principles discussed in the chapter 3 "Dissolution of Partnership Firms" apply to such firms. The accounting entries passed by the "old firms" will be:

The entries are:

Step 1: Open realisation account and partners capital accounts.

Step 2: Same as step 2 under revaluation method (refer para 6.1.1). Transfer Partner's Capital in to partner's Capital A/c credit side and transfer of past profits & Reserve The entry is:

Reserve P/L A/c A/c Dr.	XX	
To Partners Capital A/c		XX
(Various past profit transferred)		

Step 3: Transfer all assets to realisation account. The entry is:

Realisation A/c Dr.	XXX	
To Concerned asset A/c		XXX
(Various assets transferred)		

A point to be noted by the students here is that even the cash and bank balance (account) is transferred because the new firm takes over even these assets on amalgamation.

However, if all assets and liabilities are not taken over by the firm then cash/bank account should not be transferred to realisation account.

Step 4: Transfer all liabilities to realisation account. The entry is:

Concerned liabilities A/c Dr.	XXX	
To Realisation A/c		XXX
(Various liabilities transferred)		

Step 5: Find out the consideration for take over of assets and liabilities by the new firm. Generally a separate statement for " purchase consideration" is prepared. Then following entry is passed:

Business purchase A/c Dr.	XXX	
To Realisation A/c		XXX
(Value of purchase consideration on amalgamation now recorded)		

Step 6: Assets not taken over by new firm but sold outside/taken over by partners:

Cash/Bank/Partners capital A/c Dr.	XXX	
To Concerned asset A/c		XXX
(Entry at agreed value)		

Profit/loss on such sale/take over to be transferred to realisation A/c:

Profit	Asset A/c Dr.	XXX	
	To Realisation A/c		XXX
Loss	Realisation A/c Dr.	XXX	
	To Asset A/c		XXX

Step 7: Liability not taken over by new firm but discharged/taken over by partners.

Concerned Liability A/c Dr.	XXX	
To Cash/Bank/Partners Capital A/c		XXX
(Entry at agreed value)		

Profit/loss on such discharge/taken over to be transferred to realisation A/c:

Profit	Concerned Liability A/c Dr.	XXX	
	To Realisation A/c		XXX
	(Surplus Transferred as Liability taken over at Lower Value)		
Loss	Realisation A/c Dr.	XXX	
	To Concerned liability A/c		XXX

Step 8: The realisation A/c is closed by transferring the profit/loss to partners capital accounts in their profit sharing ratio:

Profit	Realisation A/c Dr.	XXX	
	To Partners Capital A/c		XXX
Loss	Partners Capital A/c Dr.	XXX	
	To Realisation A/c		XXX

Step 9: Now, the final closing entry:

Partners capital A/c Dr.	XXX	
To Business Purchase A/c		XXX
(Entry to Close the Books of the "Old Firm")		

Students would of course note that only Realisation irrespective of the method followed the final answer would remain the same.

6.2 Books of the new firm

The entries in the books of the new firm can be divided into following stages:

(a) Recording of the assets and liabilities taken over:

Debit: all assets accounts (which are taken over)

Credit: all liabilities accounts (which are taken over)

Credit: Partners capital accounts (as per the final balances in the capital accounts in the old firm)

With this entry the final capitals of the partners in the old firm become their initial capitals in the new firm. (Refer 6.1 Step 8)

(b) Restructuring of partners capitals:

The partners may decide a particular capital structure in the new firm, which has to be contributed by the partners in their new profit sharing ratio. Accordingly, the partners may bring further capital or whithdraw excess capital. Alternatively, the excess or deficit may be transferred to current or loan accounts.

(c) Removing affects of inter firm transactions of old firms:

(1) If debtors of one of the old firms, are creditors of the other firm the same party will be reflected as both debtor and creditor in the amalgamated firm, their common amount will be cancelled as follows:

Sunday Creditors A/c Dr.	XXX	
To Sundry Debtors A/c		XXX

(2) If the old firms were Debtors/Creditors of each other before amalgamation, the common amount would be cancelled in the amalgamated firm as follows:

Sundry Creditors A/c Dr.	XXX	

To Sundry Debtors A/c		XXX

(3) Similarly if the old firms had accepted or drawn bills one each other, similar procedure would follow:

Bills Payable A/c Dr.	XXX	
To Bills Receivable A/c		XXX

Same method would also be adopted to cancel interfirm loans.

(4) If before amalgamation one firm has purchased goods from the other and either full or part of such goods is still lying in its stock or the date of amalgamation, then the amount of profit which as earned by the firm selling tose goods will be reduced from the value of the combined stock as follows:

Goodwill A/c Dr.	XXX	
To Stock A/c		XXX

7. ACCOUNTING STANDARD 14 (AS 14): ACCOUNTING FOR AMALGAMATIONS

The ICAI has made this AS mandatory with effect from 1.4.1995. The AS deals with accounting for amalgamations and the treatment of resultant goodwill or reserves. It is directed principally to companies and only some of its requirements apply to accounts of partnership firms etc.

It states that there are two main methods of accounting for amalgamations:

(a) the pooling of interest method; and

(b) the purchase method.

The use of "pooling of interest method" is confined to amalgamation of companies only and hence not discussed here.

In the purchase method of accounting for amalgamation, the same principles as are applied in this normal purchase of assets are applied. At the problems are solved using this method.

Under this method, the assets and liabilities of the transferor firms are taken over by the new firm, as per the agreement, either, at their existing values or the consideration is allocated to individual assets and liabilities on the basis of their fair values at the date of amalgamation. The reserves are not taken over by the new firm but are distributed amongst the partners of the amalgamating firm.

Though the AS 14 lays down the accounting procedure to be followed in the books of the Purchasing firm/Transferee firm, it does not specify any particular method to be followed while closing down the books of the amalgamating firms.

In the above accounting, students are aware that,

(i) if the consideration paid is more than the net assets (assets – liabilities) acquired, the resultant amount is "GOODWILL".

(ii) alternatively, if the consideration paid is less than the net assets acquired, it is "CAPITAL RESERVE".

Such goodwill arising on amalgamation should be amortised to income, by the new firm, on a systematic basis over its useful life. Generally, the amortisation period should not exceed five years.

Para 45 of AS 14 lays down disclosure requirement in the first financial statement of the new firm, following the amalgamation:

The consideration for the amalgamation giving details of amount paid or contingently payable; and

(b) Amount paid as goodwill and the accounting treatment thereof including its period of amortisation.

8. ILLUSTRATIONS

Illustration 1:

The following are the balance sheets of A and B:

Liabilities	A ₹	B ₹	Assets	P ₹	Q ₹
Creditors	30,000	1,50,000	Cash in Hand	2,000	7,000
Bank Loan	50,000	—	Cash at Bank	—	40,000
Outstanding			Stock	30,000	70,000
Expense	5,000	—	Debtors	70,000	90,000
Bills Payable	—	40,000	Furniture	58,000	80,000
Other Liabilities	—	12,000	Machinery	2,50,000	3,50,000
General Reserve	25,000	—	Building	—	4,50,000
Capitals	3,00,000	9,00,000	Prepaid Expenses	—	15,000
₹	4,10,000	11,02,000	₹	4,10,000	11,02,000

They agree to amalgamate their business. For this purpose they revalued their assets and liabilities as under:

A: Stock ₹ 25,000, Debtors ₹ 62,000, Furniture ₹ 53,000, Machinery ₹ 2,20,000, Goodwill ₹ 40,000, Creditors ₹ 25,000 (including outstanding expenses) Bank loan will be paid by A personally.

B: Stock ₹ 62,000, Debtors ₹ 80,000, Furniture ₹ 75,000, Building ₹ 5,20,000. Prepaid expenses are to be ignored. Creditors ₹ 1,40,000, Bills payable ₹ 38,000, Goodwill ₹ 10,000. Other liabilities are to be paid by B.

Prepare realisationn account, capital accounts of A and B and also the opening balance sheet of M/s AB, assuming that:

(i) The profits will be shared by them in the new firm 1:2.

(ii) The total capital of the new firm would be ₹ 15,00,000, the difference to settled in cash.

In the Books of A

Dr. Realisation A/c Cr.

	₹		₹
To Cash in hand	2,000	By Creditors	30,000
To Stock	30,000	By Outstanding Expenses	5,000
To Debtors	70,000	By Business Purchase A/c **(WN 1)**	3,77,000
To Furniture	58,000		
To Machinery	2,50,000		
To Profit transf. To A's capital A/c	2,000		
₹	4,12,000	₹	4,12,000

Dr. A's Capital A/c Cr.

	₹		₹
To Business Purchase A/c	3,77,000	By Balance b/d	3,00,000
		By General Reserve A/c	25,000
		By Realisation A/c	2,000
		By Bank Loan A/c	50,000
₹	3,77,000	₹	3,77,000

Dr. Business Purchase A/c (AB A/c) Cr.

	₹		₹
To Realisation A/c (WIN 1)	3,77,000	By A's Capital A/c	3,77,000
₹	3,77,000	₹	3,77,000

In the Books of B

Dr. Realisation A/c Cr.

	₹		₹
To Sundry Assets:	11,02,000	By Sundry Liabilities:	
Cash on Hand 7,000	54,000	Creditors 1,50,000	
Cash at Bank 40,000		Bills Payable 40,000	
Stock 70,000			1,90,000
Debtors 90,000			9,66,000
Furniture 80,000		By Business Purchase A/c (WN 1)	
Machinery 3,50,000			
Building 4,50,000			
Prepaid Expenses 15,000			
To Profit Transferred to B's Capital A/c			
₹	11,56,000	₹	11,56,000

Dr. **B's Capital A/c** **Cr.**

	₹		₹
To Business Purchase A/c	9,66,000	By Balance c/d	9,00,000
		By Other Liabilities	12,000
		By Realisation A/c	54,000
₹	9,66,000	₹	9,66,000

Dr. **Business Purchase A/c (AB A/c)** **Cr.**

	₹		₹
To Realisation A/c	9,66,000	By B's Capital A/c	9,66,000
₹	9,66,000	₹	9,66,000

Working Note 1: Working for Business Purchase

	P		Q	
Assets taken over:	2,000		7,000	11,44,000
Cash in Hand	–		40,000	
Cash at Bank	25,000		62,000	
Stock	62,000		80,000	
Debtors	53,000		75,000	
Furniture	2,20,000		3,50,000	
Machinery	–		5,20,000	
Building	40,000		10,000	
Goodwill		4,02,000		
Liabilities taken over:				
Creditors and o/s Expenses	25,000		1,40,000	
Bills Payable	–	(–) 25,000	38,000	(–) 1,78,000
		3,77,000		9,66,000

In the Books of M/s AB
Balance Sheet (After Amalgamation)

	₹		₹
Partners Capital:		Fixed Assets:	
A 5,00,000		Goodwill	50,000
B 10,00,000		Building	5,20,000
	15,00,000	Machinery	5,70,000
Creditors (including o/s Expenses)	1,65,000	Furniture	1,28,000
Bills Payable	38,000	Current Assets:	
		Stock	87,000

		Debtors	1,42,000
		Cash on Hand	9,000
		Cash at Bank (WN 2)	1,97,000
₹	17,03,000	₹	17,03,000

Students would note that the balance sheet of the new firm remain the same as under revaluation method.

Working Note 2: Working for Business Purchase

	A	B
Cash at Bank	–	40,000
Brought in by A (5,00,000 – 3,77,000)	1,23,000	–
Brought in by B (10,00,000 – 9,66,000)	–	34,000
	1,23,000	74,000

Illustration 2: [Where two firms amalgamate to form a new firm]

Arvind and Babu are partners of JD & Co. sharing profits and losses in the ratio of 3:2. Currim and Dilavar are partners of BD & Co. sharing profits and losses equally. Their balance sheets on 30th June were as under:

		JD & Co. ₹	BD & Co. ₹		JD & Co. ₹	BD & Co. ₹
Creditors		15,000	25,000	Cash	3,000	2,000
Loans:			10,000	Bank	7,000	3,000
Jai		20,000		Debtors	75,000	45,000
Akbar		40,000		Stock	50,000	
Reserves				Furniture	5,000	
Capitals:				Machinery	60,000	
Arvind	75,000			Goodwill		
Babu	50,000	1,25,000				
Currim	60,000					
Dilawar	55,000		1,15,000			
₹		2,00,000	1,50,000	₹	2,00,000	1,50,000

They decided to amalgamate and form a new firm JDBD & Co.

The following terms were agreed upon:

(1) All the assets and liabilities of the firms are taken over.

(2) A provision for doubtful debts is to be created at 5% of the debtors.

(3) Goodwill is to be valued at 3 years purchase of the average of the last 4 year profits.

(4) Arvind, Babu, Currim and Dilawar are to share profits and losses equally new firm.

(5) Machinery of JD & Co. is considered to be worth ₹ 75,000.

You are informed that the profits of the firms were as under:

Year ended on 30th June	JD & Co. ₹	BD & Co. ₹
2008	40,000	30,000
2007	35,000	35,000
2006	45,000	25,000
2005	44,000	34,000

You are required to

(a) Compute purchase consideration.

(b) Journalise the transactions in the books of

(i) JD & Co., (ii) BD & Co., (iii) JDBD & Co.

(c) Prepare necessary ledger accounts in the books of old firms.

(d) Prepare the balance sheet of JDBD & Co.

Profit during the year ended 30th June	**JD & Co. ₹**	**BD & Co. ₹**
2008 2007 2006 2005	40,000 35,000 45,000 44,000	
Total ₹	1,64,000	
Annual average 3 years purchase	41,000 1,23,000	

(ii) Value of purchase consideration:

Assets	JD & Co. ₹	JD & Co. ₹	BD & Co. ₹	BD & Co. ₹
Cash		3,000		2,000
Bank		7,000		3,000
Debtors	75,000		45,000	
Less: Provision for Doubtful Debts	3,750	71,250	2,250	42,750

		50,000		70,000
Stock		5,000		5,000
Furniture		75,000		Nil
Machinery		1,23,000		93,000
Goodwill		3,34,250		2,15,750
Liabilities				
Creditors		15,000		25,000
Jai's Loan		20,000		–
Akbar's Loan		–		10,000
		35,000		35,000
Purchase Consideration		2,99,250		1,80,750

In the Books of JD & Co.
Journal Entries

Date	Particulars		LF	Debit ₹	Credit ₹
	Reserves A/c	Dr.		40,000	
	To Arvind's Capital A/c				24,000
	To Babu's Capital A/c				16,000
	(Being Reserves transferred in Profit Sharing Ratio)				
	Realisation A/c	Dr.		2,00,000	
	To Sundry Assets A/c				2,00,000
	(Being Assets transferred: Cash – 3,000; Bank – 7,000; Debtors – 75,000, Stock – 50,000, Furniture – 5,000, Machinery – 60,000)				
	Sundry Liabilities A/c	Dr.		35,000	
	To Realisation A/c				35,000
	(Being liabilities transferred; Creditors – 15,000; Jai's loan – 20,000)				
	JDBD & Co. A/c	Dr.		2,99,250	
	To Realisation A/c				2,99,250
	(Being Recording of Purchase Consideration)				
	Realisation A/c	Dr.		1,34,250	
	To Arvind's Capital A/c				80,550
	To Babu's Capital A/c				53,700
	(Being Profit on Realization Transferred in Profit				

	Ratio)				
	Arvind's Capital A/c Babu's Capital A/c To JDBD and Co. (Being Adjustment of Balance in Partner's Capital A/c)	Dr. Dr.		1,79,550 1,19,700	2,99,250

Ledger Account

Dr. **Realisation A/c** **Cr.**

		₹			₹
To Sunday Assets:			By Sunday liabilities:		
Cash	3,000		Creditors	15,000	
Bank	7,000		Jai's loan	20,000	
Debtors	75,000				35,000
Stock	50,000		By Business purchase A/c		2,99,250
Furniture	5,000				
Machinery	60,000	2,00,000			
To Capital:					
Arvind	80,550				
Babu	53,700	1,34,250			
	₹	3,34,250		₹	3,34,250

Dr. **Business Purchase A/c (JDBD & Co.)** **Cr.**

	₹		₹
To Realisation A/c	2,99,250	By Arvind's Capital A/c	1,79,550
		By Babu's Capital A/c	1,19,700
₹	2,99,250	₹	2,99,250

	Arvind ₹	**Babu ₹**		**Arvind ₹**	**Babu ₹**
To Business Purchase A/c	1,79,550	1,79,700	By Balance b/d	75,000	50,000
			By Reserves	24,000	16,000
			By Realisation A/c	80,550	53,700
₹	1,79,550	1,19,700	₹	1,79,550	1,79,550

Dr. **Partner's capital A/c** **Cr.**

In the Books of BD & Co.

Journal Entries

Date	Particulars		LF	Debit ₹	Credit ₹
	Realisation A/c	Dr.		1,50,000	
	To Cash A/c				2,000
	To Bank A/c				3,000
	To Debtors A/c				45,000
	To Stock A/c				70,000
	To Furniture A/c				5,000
	To Goodwill A/c				25,000
	(Being Transfer of Assets to Realisation A/c)				
	Creditors A/c	Dr.		25,000	
	Akbar's loan A/c	Dr.		10,000	
	To Realisation A/c				35,000
	(Being Transfer of Liabilities to Realisation A/c)				
	JDBD & Co. A/c	Dr.		1,80,750	
	To Realisation A/c				1,80,790
	(Being Purchase Consideration Recorded				
	Realisation A/c	Dr.		35,750	
	To Currim's Capital A/c				32,875
	To Dilawar's Capital A/c				32,875
	(Being profit on Realisation Transferred in Profit Sharing Ratio)				
	Currim's Capital A/c	Dr.		92,875	
	Dilawar's Capital A/c	Dr.		87,875	
	To JDBD and Co. A/c				1,80,750
	(Being Adjustment of Balance in Partner's Capital A/c)				

Ledger Accounts

Dr. **Realisation A/c** **Cr.**

		₹		₹
To Cash		2,000	By Creditors	25,000
To Bank		3,000	By Akbar's Loan	10,000
To Debtors		45,000	By Business Purchase A/c	1,80,750
To Stock		70,000		
To Furniture		5,000		
To Goodwill		25,000		
To Capital:				
Currim	32,875			
Dilawar	32,875			
		65,750		
	₹	2,15,750	₹	2,15,750

Dr. **Business A/c (JDBD & Co.)** **Cr.**

	₹		₹
To Realisation A/c	1,80,750	By Currim's Capital A/c	92,875
		By Dilawar's Capital A/c	87,875
₹	1,80,750	₹	1,80,750

Dr. **Partner's Capital A/c** **Cr.**

	Currim ₹	**Dilawar** ₹		**Currim** ₹	**Dilawar** ₹
To Business purchase A/c	92,875	87,875	By Balance b/d	60,000	55,000
			By Realisation A/c	32,875	32,875
₹	92,875	87,875	₹	92,875	87,875

Journal JDBD & Co. (after amalgamation)

Date	**Particulars**		**LF**	**Debit ₹**	**Credit ₹**
(1)	Cash A/c	Dr.		3,000	
	Bank A/c	Dr.		7,000	
	Debtors A/c	Dr.		75,000	
	Stock A/c	Dr.		50,000	

	Furniture A/c	Dr.		5,000	
	Machinery A/c	Dr.		75,000	
	Goodwill A/c	Dr.		1,23,000	
	To Provision for Doubtful Debts A/c				3,750
	To Creditors A/c				15,000
	To Jai's Loan A/c				20,000
	To Arvind's Capital A/c				1,79,550
	To Babu's Capital A/c				1,19,700
	(Being the assets and liabilities of JD & Co. Taken over on amalgamation)			3,38,000	3,38,000
(2)	Cash A/c	Dr.		2,000	
	Bank A/c	Dr.		3,000	
	Debtors A/c	Dr.		45,000	
	Stock A/c	Dr.		70,000	
	Furniture A/c	Dr.		5,000	
	Goodwill A/c	Dr.		93,000	
	To Provision for Doubtful Debts A/c				2,250
	To Creditors A/c				25,000
	To Akbar's loan A/c				10,000
	To Currim's capital A/c				92,875
	To Dilavar's capital A/c				87,875
	(Being the assets and liabilities of BD & Co. Taken over on amalgamation of the said firm with JD & Co. at the above valuation			2,18,000	2,18,000

M/s. JDBD & Co.

Balance Sheet as on 1st July 2007

Liabilities		**₹**	**Assets**		**₹**
Creditors		4,000	Cash		5,000
Loans: Jai	20,000		Bank		10,000
Akbar	10,000		Debtors	1,20,000	
		30,000	Less: Provision for Doubtful Debts	6,000	

Capitals:					
Arvind	1,79,550		Stock		1,14,000
Babu	1,19,700		Furniture		1,20,000
Currim	92,875		Machinery		10,000
Dilavar	87,875		Goodwill		75,000
		4,80,000			2,16,000
	₹	5,50,000		₹	5,50,000

Illustration 3

Following were the balance sheets as on March 31, 2008 of two firms M/s A & B and M/s C & D:

Balance Sheet

Liabilities	A & B ₹	C & D ₹	Assets		A & B ₹	C & D ₹
Sundry Creditors	20,000	10,000	Cash at bank		15,000	8,000
Bills Payable	5,000	–	Investment at Cost		10,000	8,000
Bank Overdraft	2,000	10,000	Debtors	10,000		
E's Loan	6,000	–	Less: Provision	1,000		
Capitals					9,000	8,000
A	35,000		Furniture		12,000	6,000
B	22,000		Premises		30,000	–
C		36,000	Land		–	50,000
D		20,000	Machinery		15,000	–
General Reserve	8,000	3,000	Goodwill		9,000	–
Investment Fluctuation Fund	2,000	1,000				
₹	1,00,000	80,000		₹	1,00,000	80,000

It was decided by both the firms to amalgamate their business on 1st April 2008 for this purpose it was decided that the new firm shall not take furniture of both the firms and shall take over investment at 10 % less than the cost land at ₹ 80,000 premises at ₹ 45,000, machinery at ₹ 9,000 New firm agreed to take over only trade liabilities of both the firms and to pay ₹ 12,000 to each firm as goodwill Unrecorded typewriter with R & S valued at ₹ 800 was not taken over by the new firm.

Solution:

In the Books of M/s. A & B

Journal

Date	Particulars	LF	Debit ₹	Credit ₹
	Realisation A/c Dr.		1,01,000	15,000
	To Cash at Bamk A/c			10,000
	To Investment A/c			10,000
	To Debtors			12,000
	To Furniture A/c			30,000
	To Premises A/c			15,000
	To Machinery A/c			9,000
	To Goodwill			
	(Being Transfer of Assets to Realisation A/c)			
	Creditors A/c Dr.		20,000	
	Balance Payable A/c Dr.		5,000	
	Bank OD A/c Dr.		2,000	
	Provision for Doubtful Debt A/c		1,000	
	A'S Loan A/c Dr.		6,000	
	To Realisation			
	(Being Transfer of Liabilities to Realisation A/c			34,000
	Investment Fluctuation Fund A/c		1,000	
	To Realisation A/c			1,000
	(Being Reduction in the Value of Investment Accounted for			
	General Reserve A/c Dr.		8,000	
	To A's Capital A/c			4,000
	To A's Capital A/c			4,000
	(Being Reserve Distributed to old Partners in Profit Sharing Ratio)			
	New Firm A/c Dr.		66,000	
	To Realisation A/c			66,000
	(Being Purchase Consideration Recorded			
	A's Capital A/c Dr.		6,000	
	B's Capital A/c Dr.		6,000	
	To Realisation A/c			12,000
	(Being Furniture taken over by Partners)			

	Investment Fluctuation Fund A/c Dr.		1,000	
	To A's Capital A/c			500
	To B's Capital A/c			500
	(Being Surplus Balance Transferred to Partner's Capital Accounts.			
	Realisation A/c Dr.		12,000	
	To A's Capital A/c			6,000
	To B's Capital A/c			6,000
	(Being Profit on Realisation Distributed to Partners in Profit			
	A's Capital A/c Dr.		39,500	
	B's Capital A/c Dr.		26,500	
	To New Frim A/c			66,000
	(Being balances in Partner's Capital A/c Adjusted)			

Ledger Accounts

Dr. **Realisation A/c** **Cr.**

		₹			₹
To Sundry Assets: Cash at Bank	15,000		By Sundry Liabilities Creditors	20,000	
Investment	10,000		Bills Payable	5,000	
Debtors	10,000		Bank Overdraft	2,000	
Furniture	12,000		RSE	1,000	
Premises	30,000		A's Loan	6,000	
Machinery	15,000				
Goodwill	9,000				
			By Investment Fluctuation Fund A/c		34,000
		1,01,000	By Business Purchase A/c		1,000
To Realisation Profit			By Partners Capital A/c		66,000
A	6,000		(Furniture taken over)		12,000
B	6,000				
		12,000			
	₹	1,13,000		₹	1,13,000

Dr. **Partner's Capital A/c** **Cr.**

	A ₹	B ₹		A ₹	B ₹
To Furniture	6,000	6,000	By Balance b/d	35,000	22,000
To Business Purchase A/c	39,500	26,500	By Realisation A/c	6,000	6,000
			By General Reserve	4,000	4,000
			By Inv.fluctuation Fund	500	500
₹	45,500	32,500	₹	45,500	32,500

Dr. **New Firm A/c (Business Purchase A/c)** **Cr.**

	₹		₹
To Realisation A/c	66,000	By Capital accounts:	
		A	39,500
		B	26,500
₹	45,500	₹	66,000

Working Note: Value of Business Purchase:

Particulars	**A & B ₹**	**₹**	**C & D ₹**	**₹**
Assets taken over:				
Cash (*15,000 –2,000 – 6,000)	*7,000		8,000	
Investment	9,000		7,200	
Debtors	10,000		8,000	
Land/Premises	45,000		80,000	
Machinery	9,000		–	
Goodwill	12,000		12,000	
		92,000		1,15,200
Less: Liabilities				
Creditors	20,000		10,000	
RDD	1,000		–	
Bills payable	5,000	-26,000		–10,000
		66,000		1,05,200

In the Books of M/s. C & D
Journal Entries

Date	Particulars		LF	Debit ₹	Credit ₹
	Realisation A/c	Dr.		80,000	
	To Bank A/c				8,000
	To Investment A/c				8,000
	To Debtors A/c				8,000
	To Furniture A/c				6,000
	To Land A/c				50,000
	(Being Assets Transferred)				
	Creditors A/c	Dr.		10,000	
	To Realisation A/c				10,000
	(Being Liabilities transferred)				
	Investment Fluctuation Fund A/c	Dr.		1,000	
	To Realisation A/c				800
	To C's Capital A/c				100
	To D's Capital A/c				100
	(Being reduction in value of investments transferred to Realisation A/c and balance distributed to Partners in profit sharing ratio)				
	General Reserve A/c	Dr.		3,000	
	To C's Capital A/c				1,500
	To D's Capital A/c				1,500
	(Being general reserve distributed to partner's in profit sharing ratio)				
	Bank Overdraft A/c	Dr.		10,000	
	To C's Capital A/c				5,000
	To D's Capital A/c				5,000
	(Being Liabilities taken over by partners)				
	New Firm A/c	Dr.		1,05,200	
	To Realisation A/c				1,05,200

	(Being Purchase Consideration Recorded)				
	C's Capital A/c	Dr.		3,000	
	D's Capital A/c	Dr.		3,000	
	To Realisation A/c				6,000
	(Being Furniture taken over)				
	C's Capital A/c	Dr.		400	
	D's Capital A/c	Dr.		400	
	To Realisation A/c				800
	(Being Type writer taken over)				
	Realisation A/c	Dr.		42,800	
	To C's Capital A/c				21,400
	To D's Capital A/c				21,400
	(Being Profit on Realisation Transferred in Profit Sharing Ratio)				
	C's Capital A/c	Dr.		60,600	
	D's Capital A/c			44,600	
	To New Firm A/c				1,05,600
	(Being Balance in Partner's Capital A/c Adjusted)				

Ledger Accounts

Dr. **Realisation A/c** **Cr.**

		₹		₹
To Sundry Assets:			By Sundry liabilities:	
Cash at Bank	8,000		Creditors	10,000
Investment	8,000		By Investment fluctuation fund	800
Debtors	8,000		By Business purchase A/c	1,05,200
Furniture	6,000		By Partner's capital A/c (furniture)	6,000
Land	50,000	80,000	By Partner's capital A/c (typewriter)	800

To Partner's Capital:				
C	21,400			
D	21,400	42,800		
		1,22,800		1,20,800

Dr. **Partner's Capital A/c** **Cr.**

	C ₹	D ₹		C ₹	D ₹
To Realisation (Furniture)	3,000	3,000	By Balance b/d	36,000	20,000
To Realisation (typewriter)	400	400	By Realisation	21,400	21,400
To Balance c/d	60,600	44,600	By Bank o/d	5,000	5,000
			By General Reserve	1,500	1,500
			By Inv. Fluctuation Fund	100	100
	64,000	48,000		64,000	48,00

Dr. **New Firm A/c (Business Purchase A/c)** **Cr.**

	₹		₹
To Realisation A/c	1,05,200	By Partners Capital A/c:	
		C	60,600
		D	44,600
₹	1,05,200		1,05,200

Journal Entries in the Books of New Firm

Date	Particulars		LF	Debit ₹	Credit ₹
(1)	Bank A/c	Dr.		7,000	
	Investments A/c	Dr.		9,000	
	Debtors A/c	Dr.		10,000	
	Premises A/c	Dr.		45,000	
	Machinery A/c	Dr.		9,000	
	Goodwill A/c	Dr.		12,000	
	To Sundry Creditors A/c				20,000
	To Bill payable A/c				5,000
	To Provision for Doubtful				1,000

	Debts A/c				
	To A's Capital A/c				39,500
	To B's Capital A/c				26,500
	(Being Assets and Liabilities Taken over at Revised Values Credited to Capital of A & B)				
(2)	Bank A/c	Dr.		8,000	
	Investments A/c	Dr.		7,200	
	Debtors A/c	Dr.		8,000	
	Land A/c	Dr.		80,000	
	Goodwill A/c	Dr.		12,000	
	To Sundry Creditors A/c				10,000
	To C's Capital A/c				60,600
	To D's Capital A/c				44,600
	(Being Assets and Liabilities of the Firm C and D taken over at Revised Value)				
(3)	A Current A/c	Dr.		500	
	B's Current A/c	Dr.		13,500	
	To A's Capital A/c				500
	To B's Capital A/c				13,500
	(Being shortfall in amount of fixed capital debited to current A/cs)				
(4)	C's Capital A/c	Dr.		20,600	
	D's Capital A/c	Dr.		4,600	
	To C's Current A/c				20,600
	To D's Current A/c				4,600
	(Being Amount Excess over the Fixed Capital Transferred to Respective Current A/cs)				

Balance Sheet of New Firm as on 1st April 2008

Liabilities	**₹**	**Assets**		**₹**
Sundry Creditors	30,000	Bank		15,000
Bills Payable	5,000	Investment		16,200

Partner's Capital A/cs:		Debtors	18,000	
A	40,000	Less: Provision	1,000	17,000
B	40,000			
C	40,000	Machinery		9,000
D	40,000	Premises		45,000
Partner's Current A/c		Land		80,000
C	20,600	Partner's Current A/cs:		
D	4,600	A	500	
		B	13,500	14,000
	2,20,200			2,20,000

Notes:

1. Loss on investment is to be net out of investment fluctuation fund. The remaining fund is treated as accumulated profit.

2. Since there is no sufficient bank balance in the firm C and D. Liabilities not taken over have been transferred to capital accounts. Alternatively, it can be presumed that they have brought in the required money to pay off the liabilities. Of course, the net effect would be the same.

3. Trade liabilities include liabilities on account of goods. Bank overdraft is a liability but not trade liability. Similarly, salary outstanding, loans, etc., are all liabilities but not trade liabilities.

Working Note: For adjustment of capital:

	A	B	C	D
Opening Balance	39,500	26,500	60,600	44,600
Surplus/Deficit	+500	+13,500	–20,600	–4,600
Required	40,000	40,000	40,000	40,000

Illustration 4:

J and K were in partnership sharing profits and losses in the ration of 3:2. They were dealing in retail merchandising in the trade name of J & Co. Their balance sheet as on December 31, 2007 was as follows:

Liabilities		₹	Assets	₹
Sundry Creditors		15,000	Cash at bank	4,000
Capital A/cs:			Sundry debtors	10,000

J	75,000		Stock-in-trade	16,000
K	60,000	1,35,000	Furniture and fixtures	15,000
			Delivery van	25,000
			Godown	5,000
			Land and building	75,000
		1,50,000		1,50,000

M and N were in partnership in the trade name of M & Co. sharing profit and losses in the ratio of 2:3 doing the same business as J & Co. The balance sheet of M & Co. As on December 31, 2007 was as follows:

Liabilities		**₹**	**Assets**	**₹**
Sundry Creditors		6,000	Sundry Debtors	8,000
Bank Overdraft		4,000	Stock in Trade	18,000
Capital A/cs:			Furniture and Fixtures	10,000
M	40,000		Delivery van	20,000
N	60,000	1,00,000	Land and Building	54,000
		1,10,000		1,10,000

It was mutually agreed by both the firms to amalgamate their businesses as on January 1, 2008 in trade name of F & Co. On the following terms and conditions:

	J & Co. ₹	**M & Co. ₹**
Stock-in-trade	18,000	14,000
Delivery Van	20,000	18,000
Furniture and Fixture	12,000	–
Land and Building	90,000	–
Goodwill	20,000	15,000

(1) F & Co. should take over the assets of the two firms, as detailed below:

(2) It was mutually agreed that F & Co., was not to take over the furniture and fittings and land and building of M & Co. However, these assets were sold at ` 72,000 in cash on January 1, 2008.

(3) K took over the possession of the godown of his firm for a consideration of ` 4,000.

(4) It was decided to make provision for doubtful debts at 10% on the sundry debtors and also make a provision for discount at 5% on sundry creditors of both the firms.

(5) All the partners unanimously agreed to have a new profit-loss sharing ratio as follows: J – 2: K – 1: M – 1: and N – 2.

(6) The capital of F & Co. was fixed at ₹ 2,40,000 and the partners were required to adjust their capitals in tune with their profit-loss sharing ratio, by making necessary adjustments in cash.

You are required to:

(i) Pass journal entires for opening new books.

(ii) Prepare realisation accounts of the old partnership firms.

(iii) Show capital accounts of all partners in the old and the new firms.

(iv) Prepare the balance sheet of the new firm after amalgamation.

Solution:

In the Books of J & Co.
Ledger Accounts

Dr. **Realisation A/c** **Cr.**

Particulars		Amount ₹	Particulars	Amount ₹
To Sundry Assets			By Sundry Creditors	15,000
Sundry Debtors		10,000	By K's Capital A/c (Godown)	4,000
Stock		16,000	By F & C. A/c (Purchase Consideration)	1,58,750
Furniture and Fixtures		15,000		
Delivery Van		25,000		
Godown		5,000		
Land and Building		75,000		
Cash		4,000		
To Profit Realisation Transferred to:				
J's Capital A/c	16,650			
K's Capital A/c	11,100	27,750		
	₹	1,77,750	₹	1,77,750

Dr. **Capital A/c** **Cr.**

Particulars	J	K	Particulars	J	K
To Realisation A/c	–	4,000	By Balanced b/d	75,000	60,000
To F and Co. A/c	91,650	67,100	By Realisation A/c	16,650	11,100
	91,650	71,100		91,650	71,100

Dr. **F and Co. A/c** **Cr.**

Particulars	₹	Particulars	₹
To Realisation A/c	1,58,750	By J's Capital A/c	91,650
		By K's Capital A/c	67,100
	1,58,750		1,58,750

Working Note 1:

Calculation of Purchase Consideration of J & Co.:

Particulars	₹	₹
Assets:		
Bank	4,000	
Debtors	10,000	
Stock	18,000	
Furniture	12,000	
Delivery van	20,000	
Goodwill	20,000	
Land and building	90,000	
Provision for Discount on Creditors	750	1,74,750
Less: Liabilities		
Creditors	15,000	
Provision for Doubtful Debts	1,000	16,000
Purchase Consideration		1,58,750

In the Books of M & Co.
Ledger Accounts

Dr. **Realisation A/c** **Cr.**

Liabilities		₹	Assets	₹
To Sundry Assets			By Sundry Creditors	6,000
Stock		18,000	By Bank Overdraft	4,000
Sundry Debtors		8,000	By F and Co. A/c	1,16,500

			(Purchase Consideration)	
Furniture and fixture		10,000		
Delivery Van		20,000		
Land and Building		54,000		
To Profit on Realisation Transferred to				
M's Capital A/c	6,600			
N's Capital A/c	9,900	16,500		
		1,26,500		1,26,500

Dr. **Capital Account** **Cr.**

Particulars	**M**	**N**	**Particulars**	**C**	**N**
To F and C. A/c	46,600	69,900	By Balance b/d	40,000	60,000
			By Realisation A/c	6,600	9,900
	46,600	69,900		46,600	69,900

Dr. **F and Co. A/c** **Cr.**

Particulars	**₹**	**Particulars**	**₹**
To Realisation A/c	1,16,500	By M's Capital A/c	46,600
		By N's Capital A/c	69,900
	1,16,500		1,16,500

Working Note 2:

Calculation of Purchase Consideration of M & Co.:

Particulars	**₹**	**₹**
Assets:		
Stock	14,000	
Delivery Van	18,000	
Goodwill	15,000	
Sundry Debtors (8,000 – 800)	7,200	
Bank (72,000 – 4,000)	68,000	1,22,200
Less: Liabilities		
Sundry Creditors (6,000 – 300)		5,700
		1,16,500

In the Books of F & Co.
Journal Entries

Date	Particulars		LF	Debit ₹	Credit ₹
Jan. 1	For taking over J & Co.				
	Goodwill A/c	Dr.		20,000	
	Land and Building A/c	Dr.		90,000	
	Delivery van A/c	Dr.		20,000	
	Furniture and Fixtures A/c	Dr.		12,000	
	Stock A/c	Dr.		18,000	
	Debtors A/c	Dr.		10,000	
	Bank A/c	Dr.		4,000	
	Provision for Discount on Creditors A/c				
	To Creditors A/c				15,000
	To Provision for Doubtful Debts A/c				1,000
	To J's Capital A/c				91,650
	To K's capItal A/c				67,100
	(Being Incorporation of Assets ana Liabilities)			1,74,750	1,74,750
	For taking over M & Co.				
	Goodwill A/c	Dr.		15,000	
	Delivery van A?c	Dr.		18,000	
	Stock A/c	Dr.		14,000	
	Debtors A/c	Dr.		8,000	
	Bank A/c	Dr.		68,000	
	Provision for Discount on Creditors A/c	Dr.		300	
	To Creditors A/c				6,000
	To Provision Doubtful Debts A/c				800
	To M's capital A/c				46,600
	To N's capital A/c				69,900
	(Being Incorporation of Assets and			1,23,300	1,23,300

	Liabilities)				
	J's Capital A/c	Dr.		11,650	
	K's Capital A/c	Dr.		27,100	
	M's Capital A/c	Dr.		6,600	
	To Bank A/c				45,350
	(Being Amount paid to Partners on Account of Excess Capital)				
	Bank A/c	Dr.		10,100	
	To N's Capital A/c				10,100
	(Being Amount Brought by N Towards Deficit of this Capital)				

Bank Account

Dr. **After Adjustment of Capital** **Cr.**

2008			**2008**			
Jan. 1	To J & Co.	4,000	Jan. 1	By Capital A/cs:		
	To M & Co.	68,000		J	11,650	
	To N's Capital A/c	10,100		K	27,100	
				M	6,600	45,350
				Balance c/d		36,750
			82,100			82,100

Dr. **Capital Accounts** **Cr.**

2008		**A**	**B**	**2008**		**A**	**B**
Jan. 1	To Bank a/c	11,650	27,100	Jan.1	By M/s J & Co. A/c-	91,650	67,100
	" Balance c/fd	80,000	40,000		A/c		
	₹	91,650	67,100		₹	91,650	67,100

Dr. **Capital Accounts** **Cr.**

2008		C	D	2008		C	D
Jan. 1	To Bank A/c	6,600	—	Jan.1	By M/s M & Co. A/c-	46,600	69,900
	" Balance c/fd	40,000	80,000		" Bank A/c	—	10,100
	₹	46,600	80,000		₹	46,600	80,000

Balance Sheet as on 1st January, 2008

Liabilities		₹	Assets		₹
Creditors	21,100		Bank		36,750
Less: Anticipated Discount	1,050		Debtors	18,000	69,900
		19,950	Less: Provision for		
Capitals: J	80,000		Doubtful Debts	1,800	
K	40,000				16,200
M	40,000		Stock		32,000
N	80,000		Delivery vans		38,000
		2,40,000	Furniture and fixtures		12,000
			Land and building		90,000
			Goodwill		35,000
₹		2,59,950	₹		2,59,950

Illustration 5: (Absorption of one firm by another)

M/s JK and M/s MN CD, are carrying on similar businesses.

J and K, share profits and losses in the ratio of 3:2 M and N, share profits and losses in the ratio of 8:7. Their balance sheets on 31st March, 2008 are as under:

Balance Sheet of M/s AB

Liabilities		₹	Assets		₹
Creditors		20,000	Bank		12,500
Outstanding Wages		3,000	Debtors:		
Employees Provident Fund		2,000	M/s M & N	2500	
Bank loan		50,000	Others	35,000	
Capitals:					37,000
J	50,000		Stock		55,000
K	40,000		Vehicles (Two)		45,000
		90,000	Plant and machinery		15,000
	₹	1,65,000		₹	1,65,000

Balance Sheet of M/s CD

Liabilities		₹	Assets		₹
Creditors (including ₹ 2,500 payable to JK)		16,000	Bank Debtors		6,500 24,500
Outstanding Wages		1,000	Stock		36,000
Loan from bank		20,000	Plant and machinery		10,000
Capital A/cs: M	25,000	40,000			
N	15,000				
		40,000			
	₹	77,000		₹	77,000

JK agreed to absorb MN on the following terms:

(1) The Assets are to be revalued as under:

	M/s JK ₹	M/s MN ₹
(a) Plant and Machinery	12,500	6,500
(b) Stock	50,000	33,500
(c) Vehicle (one)	30,000	–

(2) Outstanding wages of both firms should be discharged by the respective firms before absorption.

(3) Provisions should be made for doubtful debts at the rate of 5%.

(4) The anticipated discount of 3$ on creditors is to be accounted for.

(5) One vehicle of M/s. AB is disposed of for ₹ 12,500

(6) The goodwill of JK and MN are to be taken at ₹ 45,000 and ₹ 20,000 respectively.

(7) The new profit-loss sharing ratio will be 6:4:3:2 between J, K, M and N respectively.

(8) The Total capital of the new firm is fixed at ₹ 1,50,000. This should be adjusted in their new profit-loss sharing ratio by transferring the difference to their current accounts.

You are required to close the books of M/s MN by preparing the necessary ledger accounts. Also pass entries in the books of M/s JK and prepare the new balance sheet of M/s JK.

Solution

Note: This problem is on absorption of one firm by another firm. Whereas the firm "MN" would stand closed, the firm "MN"would continue.

Computation of Purchase Consideration for "M/s. CD":

	₹	₹	₹
Assets taken over:			
Cash at bank (6,500 – 1,000) (after discharging wages)			5,500
Debtors			24,500
Stock			33,500
Plant and Machinery			6,500
Goodwill			20,000
			90,000

Less: Provision for Doubtful Debts		1,225	
Creditors (including 2,500 due to JK	16,000		
Less: Provision for discount at 3% of ₹ 13,500	405		
		15,595	
Bank loan		20,000	
			36,820
		₹	53,180

Note: In view of the impending absorption of the firm "MN" by "JK" provision on discount on creditors will be only on outside creditors.

In the Books of M/s MN

Dr. **Realisation A/c** **Cr.**

Particulars	**₹**	**₹**	**Particulars**	**₹**	**₹**
To Sundry Assets			By Sundry Llabilities		
Bank (6,500 –1,000)	5,500		Creditors	16,000	
Debtors	24,500		Bank Loan	20,000	36,000
Stock	36,000		By JK A/c		53,180
Plant and Machinery	10,000	76,000	(Purchase Consideration)		
To Profit transferred to					
M's Capital A/c	7,030				
N's Capital A/c	6,150	13180			
		89,180			89,180

Dr. **M/s JK A/c** **Cr.**

Particulars	**₹**	**Particulars**	**₹**
To Realisation A/c	53,180	By M's capital A/c	15,000
		By N's Capital A/c	6,180
	53,180		53,180

Parther's capital A/cs

Particulars	**M ₹**	**N ₹**	**Particulars**	**M ₹**	**N ₹**
To M/s A B A/c	32,030	21,150	By Balance b/d	25,000	15,000
			Profit on Realisation	7,030	6,180
₹	32,030	21,150	₹	32,030	21,150

Revised Balance Sheet of M/s MN (prior to amalgamation)

Liabilities	₹	Assets	₹
Creditors	15,595	Bank	5,
Loan from Bank	20,000	Debtors	23,
Capitals:		Stock	33,5
M 32,030		Plant and machinery	6,
N 21,150		Goodwill	20,0
	53,180		
₹	88,775	₹	88,775

In the Books of M/s JK

Dr. Profit & Loss adjustment A/c Cr.

Particulars	₹	Particulars	₹
To Plant and Machinery A/c	2,500	By Vehicles A/c	
" Stock A/c	5,000	" Goodwill A/c	
" Provision for Doubtful Debts	1,750	" Provision for Discount on Creditors	
" Loss on Sale of Vehicle	10,000		
" Partners Accounts:			
J 20,310			
K 13,540			
	33,850		
₹	53,100	₹	53,100

Dr. Parther's capital A/cs Cr.

Particulars	J ₹	K ₹	Particulars	J ₹	K ₹
To Balance c/d	70,310	53,540	By Balance b/d	50,000	40,000
			"Revaluation A/c	20,310	13,540
₹	70,310	53,540	₹	70,310	53,540

Dr. Bank A/c Cr.

Particulars	₹	Particulars	₹
To Balance c/d	12,500	By Outstanding Wages A/c	3,000
" Vehicles A/c	12,500	" Balance c/d	22,000
₹	25,000	₹	25,000

Note: I Both the vehicles are assumed to have equal value.

Revised Balance Sheet of M/s JK
(Prior to amalgamation)

Liabilities	**₹**	**Assets**	**₹**
Creditors 20,000		Bank	22,000
Less: Anticipated disc. 600		Debtors 37,500	
	19,500	Less: Provision 1,750	
Employees Provident Fund	2,000		35,750
Bank Loan	50,000	Stock	50,000
Capitals: J 70,310		Vehicle	30,000
K 53,540		Plant and Machinery	12,500
	1,23,850	Goodwill	45,000
₹	1,95,250	₹	1,95,250

In the Books of JK
Entries for absorption on 1st April, 2008

Date	**Particulars**	**LF**	**Debit ₹**	**Credit ₹**
	Bank A/c Dr. Debtors A/c " Stock A/c " Plant and Machinery A/c " Goodwill A/c " Provision for Discount on Creditors A/c " To Provision for Doubtful Debts A/c " Creditors A/c " Bank Loan A/c " M's Capital A/c " D's Capital A/c (Being the Assets and Liabilities taken over from M/s MN		5,500 24,500 33,500 6,500 20,000 405 90,405	 1,225 16,000 20,000 32,030 21,150 90,405
	Creditors A/c Dr. To Debtors A/c (Being the debts due from each other written off) (See note)		2,500	 2,500
	J's Capital A/c Dr. K's Capital A/c " C's Capital A/c "		10,310 13,540 2,030	

	D's Capital A/c "		1,150	10,310
	To J's Current A/c			13,540
	" K's Current A/c			2,030
	" M's Current A/c			1,150
	" N's Current A/c			
	(Being the transfer of the excess capitals)			

Note: ₹ 2,500 is due by M/s MN to JK. After amalgamation M/s JK is only left and hence both debtors and creditors have to be reduced by ₹ 2,500.

	Total ₹	J ₹	K ₹	M ₹	N ₹
Required capital new ratio	1,50,000	60,000	40,000	30,000	20,000
Less: Actual Capitals	1,77,030	70,310	53,540	32,030	21,150
∴ Surplus ₹	27,030	10,310	13,540	2,030	1,150

Balance Sheet of M/s JK (After amalgamation)

Liabilities		₹	Assets			₹
Partners' Capitals:			Fixed Assets:			
J	60,000		Goodwill		65,000	
K	40,000		Plant and Machinery		19,000	
M	30,000		Vehicles		30,000	
N	20,000					
			Current Assets:			
		1,50,000	Stock		83,500	1,14,000
Current A/cs:			Debtors	59,500		
J	10,310		Less: Provision	2,975		
K	13,540					
M	2,030				56,525	
N	1,150		Bank		27,500	
Creditors						
Less: Provision for Discount		27,030				1,67,525
Bank loan						
Employees Provident Fund		32,495				
		70,000				
		2,000				
₹		2,81,525	₹			2,81,525

Illustration 5

B and S are partners of Don & Co. Sharing profits and losses in the ratio of 3:1 T and T are partners of John & Co. Sharing profits and losses in the ratio of 2:1. On 31st July 2007, they decided to amalgamate and form a new firm M/s Don & John wherein B, S, T and T were to be the partners sharing profits and losses in the ratio of 4:2:3:2. Their balance sheets on that date were as under:

Liabilities	Don & Co. ₹	John & Co. ₹	Assets	Don & Co. ₹	John & Co. ₹
Creditors	16,000		Cash	10,000	5,000
			Bank	15,000	20,000
			Debtors:		
Ram aur Shyam	40,000	–	John & Co.	50,000	–
Dom & Co.	–	50,000	Ram aur Shyam	–	30,000
Others	60,000	58,000	Others	80,000	1,00,000
Reserves Capitals	25,000	50,000			
B	1,20,000	–	Stock	60,000	70,000
S	80,000	–	Furniture & Office		
T	–	1,00,000	Equipment	10,000	3,000
T	–	50,000	Vehicles	–	80,000
			Plant & Machinery	75,000	–
			Building	25,000	
₹	3,25,000	3,08,000	₹	3,25,000	3,08,000

The amalgamated firm took over the business on the following terms:

(a) Goodwill of Don & Co. Was worth ₹ 60,000; Goodwill of J ohn & Co. Was ₹ 50,000. However goodwill account was not to be opened in the books of accounts. The adjustments for the change in the profit share are to be recorded through the capital accounts of the partners.

(b) Buildings, plant and machinery and vehicles are taken over at ₹ 50,000. ₹ 90,000 and ₹ 1,00,000 respectively.

(c) Provision for doubtful debts has to be carried forward at ₹ 4,000 in the case of Don & Co. and ₹ 5,000 in the case of John & Co.

You are asked to:

(1) Compute the adjustment for goodwill.

(2) Pass the entries in the books of Don and John assuming that excess capitals with reference to share in profits are to be transferred to loan accounts, and

(3) Prepare the balance sheet of the firm.

Solution:

Computation of Adjustment for Goodwill

	Old Share in Goodwill		New Share in Goodwill		Change
	₹	₹	₹	₹	₹
B	3/4 of 60,000	45,000	4/11	40,000	(–)5,000
S	1/4 of 60,000	15,000	2/11	20,000	(+)5,000
T	2/3 of 50,000	33,333	3/11	30,000	(-)3,333
T	1/3 of 50,000	16,667	2/11	20,000	(+)3,333
		1,10,000		1,10,000	

Journal Entries

M/s Don and John

Date	₹	L F	Debit ₹	Credit ₹
(1)	Cash A/c Dr.		10,000	
	Bank A/c "		15,000	
	John & Co's A/c "		50,000	
	Debtors A/c "		80,000	
	Stock A/c "		60,000	
	Furniture and office equipment A/c "		10,000	
	Plant and machinery A/c "		90,000	
	Building A/c "		50,000	
	To Provision for doubtful debts A/c			4,000
	" Ram aur Shyam A/c			40,000
	" Creditors A/c			60,000
	" B capital A/c			1,65,750
	" S capital A/c			95,250
	(Being the assets and liabilities of Don & Co. Taken over)			
			3,65,000	3,65,000

Note: Working to arrive at capital balance:

Particulars	₹	₹
Balance as per balance sheet	1,20,000	80,000
Reserves	18,750	6,250

Profit on revaluation:			
Buildings	25,000		
Plant	15,000		
	40,000		
Provision for doubtful debts	4,000		
Revaluation Profit (3:1)	36,000	27,000	9,000
	₹	1,65,750	95,250

Date	₹	L F	Debit ₹	Credit ₹
(1)	Cash A/c Dr.		5,000	
	Bank A/c "		20,000	
	Ram aur Shyam's A/c "		30,000	
	Debtors A/c "		1,00,000	
	Stock A/c "		70,000	
	Furniture and office equipment A/c "		3,000	
	Vehicles A/c "		1,00,000	
	To Don & Co. A/c			50,000
	" Creditors A/c			58,000
	" Provision for doubtful debts A/c			5,000
	" T capital A/c			1,43,333
	" T capital A/c			71,667
	(Being the assets and liabilities of M/s John & Co. taken over)			
			3,28,000	3,28,000

Note: Working for capitals.

Particulars		₹	₹
Balance as per Balance Sheet		1,00,000	50,000
Reserves		33,333	16,667
Profit on Revaluation			
Vehicles	20,000		
Less: Provision for Doubtful Debts	5,000		
Revaluation Profit (2:1)	15,000	10,000	5,000
	₹	1,43,333	71,667

We now record adjusting entries for goodwill and writing off the inter-film debts.

Date	₹	LF	Debit ₹	Credit ₹
(3)	S's capital A/c Dr. T's capital A/c " To Big's Capital A/c " Thick' Capital A/c (Being the purchase of goodwill by the former partners from the latter partners on amalgamation of the two firms)		5,000 3,333	5,000 3,333
(4)	Don & Co.'s A/c Dr. To John & Co's A/c (Being the closure of the above 2 accounts by transferring the balances on amalgamation of the 2 firms)		50,000	50,000

Working for Balance Sheet

(1) The debit balance in Ram aur Shyam's account (vide entry No. 2 will be adjusted against the credit balance in Ram aur Shyam's account (vide entry no. 1). Ram aur Shyam will appear as net creditor for only ₹ 10,000 (` 40,000 – ₹ 30,000)

(2) Capital balances:

Share	B 4/11 ₹	S 2/11 ₹	T 3/11 ₹	T 2/11 ₹
Entry no. 1	1,65,750	95,250	–	–
2			1,43,333	71,667
3	(+) 5,000	(–) 5,000	(+) 3,333	(–)3,333
	1,70,750	90,250	1,46,666	68,334
Capitals Required on the Basis of t's Capital which is the Lowest	1,36,668	68,334	1,02,501	68,334
Transfer to Loan ₹	34,082	21,916	44,165	Nil

Date	Particulars	LF	Debit ₹	Credit ₹
(5)	B's Capital A/c Dr. S's Capital A/c " T's Capital A/c " To Big's Loan A/c " S's Loan A/c " T's Loan A/c (Being Excess Capital with Reference to Share in Profits Transferred to Loan Accounts)		34,082 21,916 44,165	34,082 21,916 44,165

M/s Don and John

Balance Sheet as on 1st August 2007

Liabilities		₹	Assets		₹
Ram aur Shyam		10,000	Cash		15,000
Other Creditors		1,18,000	Bank		35,000
Loans			Debtors	1,80,000	
B	34,082		Less: Provision for Doubtful Debts	9,000	
S	21,916				
T	44,165				1,71,000
		1,00,163	Stock		1,30,000
Capitals:			Furniture and Office Equipment		13,000
B	1,36,668		Vehicles		1,00,000
S	68,334		Plant and Machinery		90,000
T	1,02,501		Building		50,000
T	68,334				
		3,75,837			
	₹	6,04,000		₹	6,04,000

llustration 7

A and Co. (consisting of A and B as partners sharing profits and losses in the ratio of 2:1) and C & Co. (consisting of A and B as partners) decide to amalgamate their businesses with effect from December 31, 2007 on which date their respective Balance Sheets as under:

Liabilities	A & Co. ₹	C & Co. ₹	Assets	A & Co. ₹	C & Co. ₹
Capitals			Goodwill	–	12,000
A	10,000	25,000	Motor Vehicle	10,000	8,000
B	10,000	–	Furniture	2,000	5,000
C	–	5,000	Stock	8,000	25,000
Investment Fluctuation			Debtors	8,000	2,000
Reserves	–	2,000	Investments:		
Sundry Creditors	8,000	15,000	Shares in C Ltd.	–	–
Bills Payable	2,000	13,000	Cash at Bank	2,000	8,000
₹	30,000	60,000	₹	30,000	6,04,000

Note: (1) Included in the above Balance Sheet was an amount of ₹ 1,000 owing by A & Co. To C & Co.

On the above date the investment held by C & Co. In C Ltd. Were realised at ₹ 5,500. These had earlier been fully written off.

Goodwill of A & Co. Was to be valued at Nil.

Show journal entries in the books of the new amalgamated firm to record the opening entries and prepare the Balance Sheet of the new firm.

Solution

Journal Entries in Books of the Amalgamated Firm

Date	Particulars		LF	Debit ₹	Credit ₹
	Motor Vehicles A/c Furniture A/c Stock A/c Debtors A/c Bank A/c To Bills Payable A/c To Sundry Creditors A/c (8,000–1,000) To Sundry Debtors A/c (inter firm debts) To A's Capital A/c To B's Capital A/c (Being the Assets and Liabilities of M/s × & Co. Taken over)	Dr. Dr. Dr. Dr. Dr.		10,000 2,000 8,000 8,000 2,000	2,000 7,000 1,000 10,000 10,000
				30,000	30,000
	Goodwill A/c	Dr.		12,000	
	Motor Vehicles A/c	Dr.		8,000	
	Furniture A/c	Dr.		5,000	
	Stock A/c	Dr.		25,000	
	Debtors A/c	Dr.		1,000	
	Debtors A/c (inter-firm debts)	Dr.		1,000	
	Bank A/c	Dr.		13,500	
	To Sundry Creditors A/c				15,000
	To Bills payable A/c				13,000
	To A's capital A/c				*28,750
	To C's Capital				*8,750
	(Being the assets and liabilities of M/s Z & Co. Taken over)			65,500	65,500

	X ₹	Z ₹
Capitals as per Balance Sheet	25,000	5,000
Investment Fluctuation Reserve	1,000	1,000
Profit re: Z Ltd. Shares	2,750	2,750
	28,750	8,750

Balance Sheet of the Amalgamated Firm as on 31 st December 2007

Liabilities		₹	Assets	₹
Capital Accounts:			Goodwill	12,000
A	38,750		Furniture	7,000
B	10,000		Motor Vehicles	18,000
C	8,750		Stock	33,000
		57,500	Debtors	9,000
Sundry Creditors		22,000	Bank	15,500
Bills Payable		15,000		
	₹	94,500	₹	94,500

llustration 8

P and Q are partners of PQ doing manufacturing business in partnership sharing profits and losses equally. They agreed to amalgamate as on 31 st December, 2007 with R and S who carried on similar business in the firm known as RS sharing profits and losses. R :2/3 and S : 1/3.

The summaried balance sheets of two firms as on 31 st December 2007 were as under

Balance sheet as on 31st December, 2007

Liabilities		PQ ₹	RS ₹	Assets		PQ ₹	RS ₹
Capital A/cs:				Freehold premises		8,000	–
P	15,000			Plant and vehicles		3,400	2,600
Q	10,000			Stocks		14,000	9,200
		25,000		Debtors	8,600		
R	6,000			Less: P.D.D	400		
S	2000						
			8,000			8,200	5,200
Trade creditors		12,000	5,000	Cash at bank		3,400	–
Bank overdraft		–	4,000				
	₹	37,000	17,000		₹	37,000	17,000

The terms on which the businesses were amalgamated were as follows:

(a) 'S' was to retire on 31st December 2007, any balance due to him being left as loan with the new firm.

(b) Profits and losses were to be shared as P-1/2, Q-1/4, R-1/4.

(c) The values of goodwill were agreed at ₹ 9,000 for PQ and ₹ 6,000 for RS

(d) The new firm was to takeover all the assets and discharge all the liabilities of the old firms. However, the assets were to be revalued as follows:

	PQ ₹	RS ₹
Freehold premises	12,000	–
Plant and vehicles	2,800	2,990
Stock	12,000	8,600
Debtors	8,500	4,750

(e) The capital of the new firm was to be ` 30,000 and was to be contributed by three partners in their profit sharing ratio, any surplus or deficiency being adjusted to their current accounts.

(f) No account of goodwill was to be maintained in books in the new firm, adjusting entries for transactions between the partners being made in partner's capital accounts.

You are required to give: (a) ledger accounts in the books of both the firms and (b) the opening balance sheet of the new firm.

Solution

Purchase Consideration

	PQ ₹	RS ₹
Assets:		
Goodwill	9,000	6,000
Freehold premises	12,000	–
Plant and vehicles	2,800	2,990
Stock	12,000	8,600
Debtors	8,500	4,750
Cash at bank	3,400	–
	47,700	22,340
Liabilities:		
Trade creditors	12,000	5,000

Bank overdraft	–	4,000
	12,000	9,000
Net purchase consideration	35,700	13,340

In the books of P and Q

Ledger Accounts

Dr. Realisation A/c Cr.

Particulars	**₹**	**₹**	**Particulars**		**₹**
To Sundry Assets			By Sundry Labilities		
Freehold premises	8,000		Trade Creditors	12,000	
Freehold premises	3,400		RDD	400	
Debtors	8,600				12,400
Cash	3,400		By New Firm A/c		35,700
Stocks	14,000		(Purchase consideration)		
To Profit transferred to:		37,400			
P's Capital A/c	5,350				
Q's Capital A/c	5,350	10,700			
		48,100			48,100

Dr. New Firm A/c Cr.

Particulars	**₹**	**Particulars**	**₹**
To Realization A/c	35,700	By P's Capital A/c	20,350
		By Q's Capital A/c	15.350
	35,700		37,700

Dr. Partner's capital A/c Cr.

Particulars	**P ₹**	**Q ₹**		**P ₹**	**Q ₹**
To New firm of M/s PQR	20,350	15,350	By Balance b/d	15,000	10,000
			" Profit on revaluation	5,350	5,350
₹	20,350	15,350	₹	20,350	15,350

Dr. **Revised Balance sheet** Cr.

Liabilities		**₹**	**Assets**	**₹**
Capital accounts:			Goodwill	9,000
P	20,350		Freehold premises	12,000
Q	15,350		Plant and vehicles	2,800
		35,700	Stock	12,000
Trade creditors		12,000	Debtors	8,500
			Cash at bank	3,400
	₹	47,700	₹	47,700

In the books of R and S

Ledger Accounts

Dr. **Realisation A/c** Cr.

Particulars	**₹**	**₹**	**Particulars**	**₹**	**₹**
To Sundry Assets:			By Sundry Liabilities		
Plant and Vehicles	2,600		Trade Creditors	5,000	
Stock	9,200		Bank Overdraft	4,000	
Debtors	5,200				9,000
		17,000	By New Firm A/c		13,340
To Profit transferred to:			(Purchase consideration)		
R's Capital A/c	3,560				
S's Capital A/c	1,780	5,340			
		22,340			22,340

Dr. **New Firm A/c** Cr.

Particulars	**₹**	**Particulars**	**₹**
To Realisation A/c	13,340	By R's Capital A/c	9,560
		By S's Loan A/c	3,780
	13,340		13,340

Partner's capital A/cs

Particulars	**R ₹**	**S ₹**	**Particulars**	**R ₹**	**S ₹**
To New Firm of M/s. ABC	9,560		By Balance b/d	6,000	2,000

To New Firm of M/s. ABC		3,780	" Profit on revaluation	3,560	1,780
₹	9,560	3,780	₹	9,560	3,780

Revised balance sheet

Particulars	R ₹	Particulars	S ₹
C's Capital A/c	9,560	Goodwill	6,000
D's Loan A/c	3,780	Plant and vehicles	2,990
Trade creditors	5,000	Stock	8,600
Bank overdraft	4,000	Debtors	4,750
₹	22,340	₹	22,340

Books of M/s P, Q and R

(1) Working for Capital Balances:

Particulars	P	Q	R	Total
Balances on takeover	20,350	15,350	9,560	45,260
Less: Goodwill adjusted	7,500	3,750	3,750	15,000
Balance outstanding	12,850	11,600	5,810	30,260
Capital Required	15,000	7,500	7,500	30,000
Balance transferred to current a/cs	–2,150	4,100	–1,690	260

Opening Balance sheet of M/s P, Q and R

Liabilities		R ₹	Assets		S ₹
Capital A/cs:			Freehold premises		12,000
P	15,000		Plant and vehicles		5,790
Q	7,500		Stock		20,600
R	7,500		Debtors		13,250
		30,000	Cash at bank		3,400
Q's Current A/c		4,100	Current a/cs:		
S's Loan a/c		3,780	P	2,150	
Trade creditors		17,000	R	1,690	
Bank overdraft		4,000			3,840
₹		58,880	₹		58,880

Illustration 9

M/s. A & B as partners decided to amalgamate with M/s. O & Co. Having O and P partners on the following terms and conditions:

(i) The new firm M/s. MO & Co. To consider Goodwill of both the firms at ₹ 12,000 each.

(ii) The new firm to take over investments at 10% depreciation; Debtors and Furniture at book value; Premises at ₹ 53,000; Land at ₹ 66,800; Machinery at ₹ 9,000 and such cash which remained after discharge of partners' loans by the respective old firms before amalgamation.

(iii) The new firm also assumed other liabilities of old firms.

The following were the Balance Sheets of both the firms on the date amalgamation:

Liabilities	M ₹	O ₹	Particulars	R ₹	S ₹
Creditors	20,000	10,000	Cash	15,000	12,000
Bills Payable	5,000	–	Investments	10,000	8,000
Loans: A	8,000	–	Debtors	9,000	4,000
C	–	10,000	Furniture	12,000	6,000
Reserves	10,000	4,000	Premises	35,000	
Capital A	35,000	–	Land	–	50,000
B	22,000	–	Machinery	14,000	
C	–	36,000	Goodwill	5,000	
D	–	20,000			
	1,00,000	80,000	₹	1,00,000	80,000

Included in Debtors of M & Co. Was ₹ 3,000 receivable from X & Co. and included in creditors of O & Co. was ₹ 5,000 payable to X & Co.

Prepare following ledger Accounts in each case:

(1) Realisation Account.

(2) Partners' Capital Accounts.

(3) New Firm Account; and also prepare the Balance Sheet of the New Firm.

Solution

In the Books of M & Co.

Dr. **Realisation A/c** **Cr.**

Particulars		₹	Particulars		₹
To Sundry Assets:			By Sundry Liabilities:		
Cash (15,000 – 8,000)	7,000		Creditors	20,000	
Investment	10,000		Bills Payables	5,000	
Debtors	9,000				25,000
Furniture	12,000		By MO & Co. A/c		
Premises	35,000		(Purchase Consideration)		86,000
Machinery	14,000				
Goodwill	5,000				
		92,000			
To Profit on Realisation to:					
M	9,500				
N	9,500				
		19,000			
	₹	1,11,000		₹	1,11,000

Partner's Capital A/cs

Particulars	M ₹	N ₹	Particulars	M ₹	N ₹
To MO & Co. A/c	49,500	36,500	By Balance b/d	35,000	22,000
			By Reserves A/c	5,000	5,000
			By Realisation A/c	9,500	9,500
₹	49,500	36,500	₹	49,500	36,500

Dr. **AC & Co. A/c** **Cr.**

Particulars	N ₹	Particulars	N ₹
To Realisation A/c	86,000	By M's Capital A/c	49,500
		By N's Capital A/c	36,500
	86,000		86,000

In the Books of O & Co.

Dr. **Realisation A/c** **Cr.**

Particulars		**₹**	**Particulars**	**₹**
To Sundry Assets:			By Sundry Liabilities:	
Cash (12000 – 10,000)	2,000		Creditors	10,000
Investment	8,000		By MO & Co. A/c	
Debtors	4,000		(Purchase Consideration)	88,000
Furniture	6,000			
Land	50,000			
		70,000		
To Profit on Realisation to:				
O	14,000			
P	14,000			
		28,000		
	₹	98,000	₹	98,000

Dr. **Partner's Capital A/cs** **Cr.**

Particulars	**O ₹**	**P ₹**	**Particulars**	**O ₹**	**P ₹**
To MO & Co. A/c	52,000	36,000	By Balance b/c	36,000	20,000
			By Reserves A/c	2,000	2,000
			By Realisation A/c	14,000	14,000
₹	52,000	36,000	₹	52,000	36,000

Dr. **MO & Co. A/c** **Cr.**

Particulars	**₹**	**Particulars**	**₹**
To Realisation A/c	88,000	By O's Capital A/c	52,000
		By P's Capital A/c	36,000
	88,000		88,000

MO & Co.

Balance Sheet as at 31-12-2007

Liabilities		**₹**	**Assets**	**₹**
Capital Accounts:			**Fixed Assets:**	
M	49,500		Goodwill	24,000
N	36,500		Land	66,800

O 52,000		Premises	53,000
P 36,000		Plant and Machinery	9,000
	1,74,000	Furniture	18,000
Current Liabilities:		Investments	16,200
Sundry Creditors (30,000 – 3,000)	27,000	**Current Assets:**	16,200
Bills Payable	5,000	Debtors (13,000 – 3,000)	10
		Cash in Hand	9
₹	2,06,000	₹	2,06,000

Note: Since X & Co. Becomes both debtor and creditors, its debits are set off against credits.

Working Note:

Purchase Consideration

Particulars	A & Co. ₹	C & Co. ₹
Assets:		
Goodwill (agree value)	12,000	12
Cash Balance (after discharging partners' loan)	7,000	
Investment (90%)	9,000	
Debtors (book value)	9,000	
Furniture (book value)	12,000	
Premises (agreed value)	53,000	
Machinery (agreed value)	9,000	
Land (agreed value)	–	66,
	1,11,000	98,
Less: Liabilities:		
Creditors	20,000	10,
Bill Payables	5,000	
	25,000	10,
Purchase Consideration	86,000	88,

Illustration 10

Raj and Rohan are two sole traders. Their Balance Sheets as on 1st January, 20 are given below:

Raj's Balance Sheet as at 1st January, 2008

Liabilities	₹	Assets	₹
Sundry Creditors	10,000	Plant and Machinery	7,500

Bank Overdraft	5,000	Stock in Trade	10,000
Capital Account	15,000	Sundry Debtors	12,500
₹	30,000	₹	30,000

Rohan's Balance Sheet as at 1st January, 2008

Liabilities	**₹**	**Assets**	**₹**
Sundry Creditors	8,500	Plant and Machinery	10,500
Capital Account	20,000	Stock in Trade	5,000
		Sundry Debtors	11,000
		Cash at Bank	2,000
₹	28,500	₹	28,500

They agree to amalgamate their business as on 1st January, 2008. The following revaluations were to be made:

(1) Plant and Machinery were to be reduced by 10%

(2) Stock in Trade was to be reduced in case of X by 20% and in case of Y by 10%.

(3) A reserve of 21/2% is to be raised against Sundry Debtors.

(4) Each partner is to be credited with Goodwill of ` 5,000.

(5) The bank overdraft of Raj is to be paid off by him.

Included in debtors of Raj is 2,000 due from Rohan and the same amount is included in creditors of Rohan.

You are required to give the journal entries for recording the above transactions in the books of Raj and Rohan. Give also the amalgamated balance sheet of the New Firm as on 1st January, 2008.

Solution

In the Books of Raj

Journal Entries

Date	**Particulars**	**LF**	**Debit ₹**	**Credit ₹**
(1)	Realisation A/c Dr. To Plant and Machinery A/c To Stock in Trade A/c To Stock in Debtors A/c (Being assets transferred to realisation account)		30,000	 7,500 10,000 12,500
(2)	Sundry Creditors A/c Dr. To Realisation A/c (Being liabilities transferred to realisation account)		10,000	 10,000

(3)	M/s Raj and Rohan A/c Dr. To Realisation A/c (Being purchase consideration due)		21,937	 21,937
(4)	Realisation Raj Dr. To Raj Capital A/c (Being profit on realisation)		1,937	 1,937
(5)	Bank Overdraft A/c Dr. To Raj Capital A/c (Being bank overdraft taken over by Raj personally)		5,000	 5,000
(6)	Raj Capital A/c Dr. To M/s Raj and Rohan A/c (Being capital account settled)		21,937	 21,937

In the Books of Rohan

Journal Entries

Date	Particulars	L F	Debit ₹	Credit ₹
(1)	Realisation A/c Dr. To Plant and Machinery A/c To Stock in Trade A/c To Sundry Debtors A/c To Cash at Bank A/c (Being assets transferred to realisation account)		28,500	 10,500 5,000 11,000 2,000
(2)	Sundry Creditors A/c Dr. To Realisation A/c (Being liabilities transferred to realisation account)		8,500	 8,500
(3)	M/s Raj and Rohan A/c Dr. To Realisation A/c (Being purchase consideration due)		23,175	 23,175
(4)	Realisation A/c Dr. To Rohan Capital A/c (Being profit on realisation)		3,175	 3,175
(5)	Rohan Capital A/c Dr. To M/s Raj and Rohan A/c (Being capital account settled)		23,175	 23,175

M/s. Raj and Rohan
Balance Sheet as at 1-1-2008

Liabilities		₹	Assets		₹
Capital Accounts:			Fixed Assets:		
Raj	19,987		Goodwill		10,000
Rohan	25,175		Plant and Machinery		16,200
		45,162	Current Assets		12,500
Sundry Creditors		16,500	Stock		
			Debtors	21,500	
			Less: Provision for Bad Debts	538	20,962
			Cash at Bank		2,000
₹		61,662	₹		61,662

Working Note:
Calculation of Purchase Consideration:

Particulars	Raj ₹	Rohan ₹
Assets:		
Cash at Bank	–	2,000
Plant and Machinery (90% of book value)	6,750	9,450
Stock in Trade (Agreed value)	8,000	4,500
Debtors (book value)	10,500	11,000
Goodwill (agree value)	5,000	5,000
	30,250	31,950
Less: Liabilities:		
RDD (2½% of debtors)	263	279
Creditors (book value)	10,000	6,500
	10,263	6,775
Purchase Consideration	19,987	25,175

Illustration 11

A and B who are in partnership sharing profits and losses in the proportion of 3/5 and 2/5 respectively decided to admit C into partnership who was trading alone in the same line and form a new firm ABC & Co. Their Balance Sheets on 31st December, 2007 are as follows:

A and B

Liabilities	₹	Assets	₹
A's Capital Account	1,05,000	Fixed Assets:	20,000
B's Capital Account	70,000	Book Debts	65,000
Creditors	15,000	Machinery	35,000
Reserve	10,000	Land and Building	10,000
		Stock	70,000
₹	2,00,000	₹	2,00,000

Liabilities	₹	Assets	₹
A's Capital Account	20,000	Stock	15,000
Creditors	7.000	Book Debts	2.500
		Cash	10,000
₹	27,500	₹	27,500

It is decided that C should be given a quarter share C the new firm A and B sharing balance in the old proportion. It is also agreed that C's assets and liabilities were to taken over as per his balance sheet, but the following adjustments were to be made in and B's balance sheet:

(i) Debtors to be written off by ₹ 15,000.

(ii) Stock to be written off by ₹ 15,000.

(iii) Machinery to be written off ₹ 5,000

It was also decided that the partners' capitals in the new business shall be in the same proportion as they share profits. Goodwill is to be ignored.

Prepare (1) the necessary accounts in the books of A and B (2) journal and the new firm's balance sheet at as 1st January, 2008.

Solution:

In the Books of A and B

Dr. **Realisation A/c** **Cr.**

Particulars	₹	Particulars	N ₹
To Assets Transferred:		By Liabilities Transferred:	
Cash	20,000	Creditors	15,000
Book Debts	65,000	By ABC & Co. A/c (Purchase Consideration)	1,50,000
Machinery	35,000		

Land and Building	10,000	By Realisation Loss to:	
Stock	70,000		21,000
			14,000
	2,00,000		2,00,000

Partner's Capital A/cs

Particulars	**A ₹**	**B ₹**	**Particulars**	**A ₹**	**B ₹**
To Realisation A/c (Loss)	21,000	14,000	By Balance b/d	1,05,000	70,000
To ABC & Co. A/c	90,000	60,000	By Reserves	6,000	4,000
₹	1,11,000	74,000	₹	1,11,000	74,000

ABC & Co.'s A/c

Particulars	**B ₹**	**Particulars**	**B ₹**
To Realisation A/c (Loss)	1,50,000	By X's Capital A/c	90,000
		By Y's Capital A/c	60,000
	1,50,000		1,50,000

In the Books of New Firm (M/s ABC & Co.)
Journal Entries

Date	**Particulars**		**L F**	**Debit ₹**	**Credit ₹**
(1)	Cash Book Debts A/c Machinery A/c Land and Buildings A/c Stock A/c To Creditors A/c To A's Capital A/c To B's Capital A/c (Being the assets, liabilities and capital of A and B taken over)	Dr. Dr. Dr. Dr. Dr.		20,000 50,000 30,000 10,000 55,000	 15,000 90,000 60,000
(2)	Stock A/c	Dr.		15,000	
	Debtors A/c	Dr.		2,500	
	Cash A/c	Dr.		10,000	
	To Creditors A/c				7,500
	To C's Capital A/c				20,000
	(Being the assets, liabilites and capital of C taken over)				

(3)	Cash A/c	Dr.		22,500	
	To C's Capital A/c	Dr.			22,500
	(Being cash brought in by C to make up his capital deficit				
(4)	A's Capital A/c	Dr.		13,500	
	B's Capital A/c	Dr.		9,000	
	To Cash A/c				22,500
	(Being cash paid to A and B against their surplus capit				

Balance Sheet of M/s. ABC & Co. As on 1-1-2008

Liabilities		**₹**	**Assets**	**₹**
Capital Accounts:			Land and Buildings	10,000
A	76,500		Machinery	30,000
B	51,000		Stock	70,000
C	42,500		Debtors	52,500
		1,70,000	Cash	30,000
Creditors		22,500		
₹		1,92,500	₹	1,92,500

Working Note:

(1) New Profit Sharing Ratios are:

A : 3/4 × 3/5 = 9/20

B : 3/4 × 2/5 = 6/20

C : 1/4 = 5/20

(2) Adjustments of Capital Accounts:

	A ₹	**B ₹**	**C ₹**	**Total ₹**
Balances Transferred on Amalgamation	90,000	90,000	90,000	1,70,000
Less: Total Capital in New PSR (ABC = 9:6:5)	76,500	51,000	42,500	1,70,000
Surplus (Deficit) Adjusted in Cash	13,500	9,000	(22,500)	

(3) Statement of Purchase Consideration:

Particulars	X & Y ₹	Z ₹
Assets:		
Cash	20,000	10,000
Book Debts	50,000	2,500
Machinery	30,000	
Land and Building	10,000	
Stock	55,000	15,000
	1,65,000	27,500
Less: Liabilities:		
Creditors	15,000	7,500
Purchase Consideration	1,50,000	20,000

Illustration 12

Following is the Balance Sheet of M/s. Ajay and M/s. Vijay as at 31st March 2008.

M/s. Ajay

Liabilities	₹	Assets	₹
Sundry Creditors	50,000	Cash-in-Hand	12,000
Loan from Vijaya Bank	10,000	Stock-in-Trade	58,000
Capitals:		Sundry Debtors	30,000
Sonia	1,00,000	Furniture and Fixtures	20,000
Mohan	50,000	Office Premises	90,000
₹	2,10,000	₹	2,10,000

M/s. Vijay

Liabilities	₹	Assets	₹
Sundry Creditors	60,000	Cash-in-Hand	16,000
Capitals:		Stock-in Trade	44,000
Atal	60,000	Sundry Debtors	50,000
Advani	40,000	Furniture and Fixtures	10,000
		5% in National Saving Certificate	40,000
₹	1,60,000	₹	1,60,000

They shared profits and losses in proportion to their capital.

They decided to amalgamate their business with effect from 1-4-2008 as per the following conditions:

(1) Name of new firm shall be Hindustan Trading Corporation.

(2) Vijaya Bank be repaid by M/s. Ajay

(3) 5% N.S.C. Not to be taken over by new firm.

(4) Goodwill of M/s. Ajay and Vijay Losers are fixed at ₹ 21,000 and ₹ 25,000 respectively.

(5) Office premises are revalued at ₹ 99,000

(6) Stock in Trade of M/s. Ajay be reduced by ₹ 9,000 and That of M/s. Vijay be increased by ₹ 5,000.

(7) Reserve for Bad Debts be created @ 5% on debts of both firms.

(8) Total capital of firm of Hindustan Trading Corporation will be ₹ 1,80,000 and the capital of each partner will be in his P.S.R. Which will be as follows: 3:2:3:2 The difference, if any, should be transferred to Current Accounts.

(10) Goodwill Account in new firm should be written off.

You are required to close the books of M/s. Ajay and M/s. Vijay to give effect to above arrangements. Also prepare Balance Sheet as on 1st April, 2008.

Solution

In the Books of M/s. Ajay

Dr. **Realisaiton A/c** **Cr.**

Particulars		₹	Particulars	₹
To Sundry Assets:			**By Sundry Liabilities:**	
Cash in hand (12,000 –10,000)	2,000		Creditors By Hindustan Trading	50,000
Stock	58,000		Corporation A/c (Purchase Consideration)	1,69,500
Debtors	30,000			
Furniture and Fixture	20,000			
Office Premises	90,000			
		2,00,000		
To Realisation Profit to:				
Sonia	13,000			
Mohan	6,500			

	19,500		
₹	2,19,500	₹	2,19,500

Dr. **Partner's Capital A/cs** **Cr.**

Particulars	Sonai ₹	Mohan `	Particulars	Sonai ₹	Mohan ₹
To Hindustan Trading			By Balance b/d	1,00,000	50,000
Corporation A/c	1,13,000	56,500	By Realisation A/c	13,000	6,500
₹	1,13,000	56,500	₹	1,13,000	56,500

Dr. **Hindustan Trading Corporation A/c** **Cr.**

Particulars	₹	Particulars	Mohan ₹
To Realisation A/c	1,69,500	By Capital A/c: Sonia 1,13,000 Mohan 56,500	1,69,500
	1,69,500		1,69,500

In the Books of M/s. Vijay

Dr. **Realisaiton A/c** **Cr.**

Particulars	₹	Particulars	₹
To Sundry Assets:		By Sundry Liabilities:	
Cash in hand 16,000 Stock 44,000 Debtors 50,000 Furniture and fixture 10,000 5% NSC 40,000	1,60,000	Creditors	60,000
		By Partners' Capital A/c (NSC): Atal (3/5) 24,000 Advani (2/5) 16,000	40,000
To Realisation Profit to: Atal (3/5) 16,500 Advani (2/5) 11,000	27,500	By Hindustan Trading Corporation A/c (Purchase Consideration)	87,500
₹	1,87,500	₹	1,87,500

Dr. **Partner's Capital A/cs** **Cr.**

Particulars	Sonai ₹	Mohan ₹	Particulars	Sonai ₹	Mohan ₹
To Realisation A/c (NSC)	24,000	16,000	By Balance b/d	60,000	40,000
To Hindustan Trading			By Realisation A/c	16,500	11,000
Corporation A/c	52,500	35,000			
₹	76,500	51,000	₹	76,500	51,000

Dr. **Hindustan Trading Corporation A/c** **Cr.**

Particulars	₹	Particulars	Mohan ₹
To Realisation A/c	87,500	By Capital A/c: Atal 52,500 Advani 35,000	87,500
	87,500		87,500

Hindustan Trading Corporation
Balance Sheet as at 1-4-2008

Liabilities		₹	Assets		₹
Capital Accounts:			**Fixed Assets:**		
Sonia	54,000		Furniture and Fixtures		30,000
Mohan	36,000		Office Premises		99,000
Atal	54,000		**Current Assets:**		
Advani	36,000		Stock		98,000
		1,80,000	Debtors	80,000	
Current Accounts:			**Less:** Provision for		
Sonia	45,200		Bad Debts	4,000	
Mohan	11,300				76,000
		56,500	Cash in Hand		18,000
		1,10,000			
			Current Accounts:		
			Atal	15,300	
			Advani	10,200	25,500
₹		3,46,500	₹		3,46,500

Working Notes:

(1) Calculation of Purchase Consideration:

Liabilities	M/s. Victors ₹	M/s. Losers ₹
Cash (L.B. : 12,000 – 10,000)	2,000	16,000
Furniture and Fixtures (book value)	20,000	10,000
Office Premises (agreed value)	99,000	–
Stock in Trade (agreed value)	49,000	49,000
Debtors (book value)	30,000	50,000
Goodwill (agree value)	21,000	25,000
	2,21,000	1,50,000
Less: Liabilities:		
RDD (5% of debtors)	1,500	2,500
Creditors (book value	50,000	60,500
	51,500	62,500
Purchase Consideration	1,69,500	87,500

(2) Adjustment of Capital Account:

Liabilities	Sonia	Mohan	Atal	Advani
Balance Transferred on Amalgamation	1,13,000	56,500	52,500	35,000
Less: Goodwill Written Off (New PSR)	13,800	9,200	13,800	9,200
Adjusted Capitals	99,200	47,300	38,700	25,800
Less: Total Capital in New PSR	54,000	36,000	54,000	36,000
(Deficit)/Surplus Transferred to Current Accounts	45,200	11,300	(15,300)	(10,200)

Illustration 13

Two partnership firms, carrying on the business under the styles of Blue & Co. and Grey & Co. respectively, decide to amalgamate into Red & Co. with effect from 1 April, 2008. The respective balance sheets are as follows:

Balance Sheet Blue & Co. as at 31st March, 2008

Liabilities	₹	Assets	₹

B's Capital A/c Sundry Creditors	19,000 10,000	Plant and Machinery Stock	10,000 20,000
Bank Overdraft	15,000	Sundry Debtors A's Capital A/c	10,000 4,0000
₹	44,000	₹	44,000

A and B share the profits and losses in the proportion of 1:2.

Balance Sheet of Grey & Co.as at 31st March, 2008

Liabilities	**₹**	**Assets**	**₹**
X's Capital A/c Y's Capital A/c Sundry Creditors	10,000 2,000 28,000	Goodwill Stock Sundry Debtors Cash Bank	10,000 20,000 10,000 6,000 9,000
₹	40,000	₹	40,000

X and Y share profits and losses in the proportion of 1 : 1.

The following further information is given:

(1) All fixed assets are to be devalued by 20%;

(2) Stocks are to be appreciated by 50%;

(3) Blank & Co. Owes to White & Co. ₹ 5,000 as on 31st March, 2008. This debt is settled at ₹ 2,000.

(4) Goodwill is to be ignored for the purpose of the amalgamation;

(5) The fixed capital A/cs in the new firm are to be: A – ₹ 2,000; B – ₹ 3,000; X – ₹ 1,000; Y – ₹ 4,000;

(6) B take over the bank overdraft of Blue & Co. And gifts to A the amount of money to be brought in by A to make up his capital contribution;

(7) X is paid off in cash from Grey & Co. and Y brings in sufficient cash to make up his required capital contribution.

Close the books of the amalgamating firms, pass the entires in the books of the new firm and make their balance sheet after the amalgamation.

(C.A. [Inter], Modified)

Solution

In the Books of Blue & Co.

Journal Entries

Date	Particulars	LF	Debit ₹	Credit ₹
(1)	Revaluation A/c Dr. To Plant and Machinery A/c (Being the Plant and Machinery Devalued)		2,000	 2,000
(2)	Stock A/c Dr. Sundry Creditors A/c Dr. To Revaluation A/c (Being stock appreciated and profit from settlement recorded through revaluation account)		10,000 3,000	 13,000
(3)	Revaluation A/c Dr. To A's Capital A/c To B's Capital A/c (Being results of revaluation shared by A and B)		11,000	 3,667 7,333
(4)	Bank Overdraft A/c Dr. To B's Capital A/c (Being bank overdraft taken over by B)		15,000	 15,000
(5)	B's Capital A/c Dr. To A's Capital A/c (Being gift by B to A to make up his capital contribution)		2,333	 2,333
(6)	Red & Co. A/c Dr. Sundry Creditors A/c Dr. To Plant and Machinery A/c To Stock A/c To Sundry Debtors A/c (Being the entry for transfer of business to Red & Co.		41,000 7,000	 8,000 30,000 10,000
(7)	A's Capital A/c Dr. B's Capital A/c Dr. To Red & Co. A/c (Being capital accounts of A and B closed by transfer to the Grey & Co. account)		2,000 39,000	 41,000

Since there are no liquid assets in Blue & Co. From which B can be repaid ` 36,000, the excess amount will be taken in Red & Co. as loan from B.

In the Books of Grey & Co.
Journal Entries

Date	Particulars		L F	Debit ₹	Credit ₹
(1)	Revaluation A/c	Dr.		13,000	
	To Sundry Debtors A/c				3,000
	To Goodwill A/c				10,000
	(Being the loss on settlement of debt and goodwill devalued)				
(2)	Stock A/c	Dr.		2,500	
	To Revaluation A/c				2,500
	(Being stock appreciated through revaluation account)				
(3)	X's Capital A/c	Dr.		5,250	
	Y's Capital A/c	Dr.		5,250	
	To Revaluation A/c				10,500
	(Being results of revaluation shared by X and Y)				
(4)	Cash A/c	Dr.		7,250	
	To Y's Capital A/c				7,250
	(Being cash contributed by Y to make up his required capital contribution)				
(5)	X's Capital A/c	Dr.		3,750	
	To Cash A/c				3,750
	(Being X paid back cash to bring his capital within the required norms)				
(6)	Red & Co. A/c	Dr.		5,000	
	Sundry Creditors A/c	Dr.		28,000	
	To Stock A/c				7,500
	To Sundry Debtors A/c				7,000
	To Cash A/c				9,500
	To Bank A/c				9,000
	(Being the entry for transfer of business to Red & Co.				
(7)	X's Capital A/c	Dr.		1,000	
	Y's Capital A/c	Dr.		4,000	
	To Red & Co. A/c				5,000
	(Being capital accounts of X and Y closed by transfer to the Grey & Co. account)				

In the Books of Red & Co.
Journal Entries

Date	Particulars		L F	Debit ₹	Credit ₹
(1)	Plant and Machinery A/c	Dr.		8,000	
	Stock A/c	Dr.		30,000	
	Sundry Debtors A/c	Dr.		10,000	
	To Sundry Creditors A/c				7,000
	To A's Capital A/c				2,000
	To B's Capital A/c				3,000
	To B's Loan A/c				36,00
					0
	(Being the entry for acquisition of business of Black & Co.)				
	(Being the loss on settlement of debt and goodwill devalued)				
(2)	Stock A/c	Dr.		7,500	
	Sundry Debtors A/c	Dr.		7,000	
	Cash A/c	Dr.		9,500	
	Bank A/c	Dr.		9,000	
	To Sundry Creditors A/c				28,00
	To X's Capital A/c				0
	To Y's Capital A/c				1,000
	(Being the entry for transfer of business to Red & Co.)				4,000

Balance Sheet of Red & Co. as at 1st April, 2008

Liabilities		₹	Assets		₹
Capital Accounts:			Plant and Machinery		8,000
A		2,000	Stock		
B		3,000	Black & Co.	30,000	
X		1,000	White & Co.	7,000	
Y		4,000	Bank		37,500
B's Loan		36,000	Debtors:		
Sundry Creditors:			Black & Co.	10,000	
Blue & Co.	7,000		White & Co.	7,000	
Grey & Co.	28,000		Cash		17,000
		35,000	Bank		9,500
					9,000
	₹	81,000		₹	81,000

Illustration 14

P and Q are partners of Q & Co. sharing profits and losses in the ratio of 3 : 1. Q and R are partners of R & Co. Sharing profits and losses in the ratio of 2:1.

On 31st October, 2007 they decided to amalgamate and form a new firm M/s. PQR & Co. Wherein P, Q, and R would be partners sharing profits and losses in the ratio of 3 : 2 : 1. Their balance sheets on that date were as under:

Liabilities	Q & Co. ₹	R & Co. ₹	Assets	Q & Co. ₹	R & Co. ₹
Due to X & Co.	40,000	–	Cash in Hand	10,000	5,000
Due to Q & Co	–	50,000	Cash in Bank	15,000	20,000
Other Creditors	60,000	58,000	Due to R & Co.	50,000	–
Reserve			Due to X & Co.	–	30,000
Capitals:	25,000	50,000	Other Debtors	80,000	1,00,000
P			Stock	60,000	70,000
Q	1,20,000	–	Furniture	10,000	3,000
R	80,000	1,00,000	Vehicles	–	80,000
	–	50,000	Machinery	75,000	–
			Buildings	25,000	–
₹	3,25,000	3,08,000	₹	3,25,000	3,08,000

The amalgamated firm took over the business on the following terms:

(a) Goodwill of Q & Co. Was worth 60,000 and that of R & Co. ₹ 50,000. Goodwill account was not to be opened in the books of the new firm, the adjustments being recorded through capital accounts of the partners;

(b) Buildings, machinery and vehicles were taken over at ₹ 50,000. ₹ 90,000 and 1,00,000 respectively;

(c) Provision for doubtful debts has to be carried forward at ₹ 4,000 in respect of debtors of Q & Co. and ₹ 5,000 in respect debtors of R & Co.

You are required to:

(i) Compute the adjustments necessary for PQR;

(ii) Pass the journal entries in the books of PQR & Co. assuming that excess/deficit capital (taking R's capital as base) with reference to share in profits are to be transferred to current accounts.

(CA [Inter], Modified)

Solution

(i) Adjustments for goodwill needed due to amalgamation.

	Raised in old profit-sharing ratio		Total	Written off in new ratio	Difference
	Q & Co.	R & Co.			
P	45,000	–	45,000 (Cr.)	55,000 (Dr.)	10,000 (Dr.)
Q	15,000	33,333	48,333 (Cr.)	36,666 (Dr.)	11,667 (Cr.)
R	–	16,667	16,667 (Cr.)	18,334 (Cr.)	1,677 (Dr.)
	60,000	50,000	1,10,000	1,10,000	

(ii) In the Books of PQR & Co.

Journal Entries

Date	Particulars		L F	Debit ₹	Credit ₹
1.10.07	Cash A/c	Dr.		10,000	
	Bank A/c	Dr.		15,000	
	R & Co. A/c	Dr.		50,000	
	Sundry Creditors A/c	Dr.		80,000	
	Stock A/c	Dr.		60,000	
	Furniture A/c	Dr.		10,000	
	Machinery A/c	Dr.		90,000	
	Buildings A/c	Dr.		50,000	
	To Provision for Doubtful Debts A/c				4,000
	To X & Co. A/c				40,000
	To Sundry Creditors A/c				60,000
	To P's Capital A/c				1,65,750
	To Q's Capital A/c				95,250
	Being the entry for acquisition of business of M/s. S & Co.				
1.10.07	Cash A/c	Dr.		5,000	
	Bank A/c	Dr.		20,000	
	X & Co. A/c	Dr.		38,000	
	Sundry Debtors A/c	Dr.		1,00,000	
	Stock A/c	Dr.		70,000	
	Furniture A/c	Dr.		3,000	
	Vehicles A/c	Dr.		1,00,000	
	To Provision for Doubtful Debts A/c				5,000
	To Sundry Debtors A/c				50,000
	To Q's Capital A/c				58,000
	To R's Capital A/c				1,43,333
	(Being the entry for acquisition of business of M/s. T & Co.)				71,667

1.10.07	P's Capital A/c Dr. R's Capital A/c Dr. To Q's Capital A/c (Being adjustment for goodwill done in books)		10,000 1,667	 11,667
1.10.07	Q & Co. A/c Dr. To R & Co. A/c (Being common debts cancelled)		50,000	 50,000
1.10.07	B's Current A/c Dr. To P's Capital A/c (Being amount credited to B's capital account to bring capital in profit-sharing ratio)		54,250	 54,250
1.10.07	Q's Capital A/c Dr. To Q's Current A/c (Being excess in S's capital reduced to make it proportionate)		1,10,250	 1,10,250

Working Notes:

(i) Calculation of balance of capital account on transfer of business to M/s. PQR & Co.:

(a) Q & Co.	**P's Capital**	**₹**
Amount as per balance sheet Add: Proportionate Reserve (3 : 1) Add: Revaluation Profit* (3 : 1)	1,20,000 18,750 27,000	80,000 6,250 9,000
	1,65,750	95,250

* 25,000 (Building) + 15,000 (Machinery) – 4,000 (Provision for Doubtful Debts) = ` 36,000.

(b) T & Co.	Q's Capital	R's Capital
Amount as per balance sheet Add: Proportionate Reserve (2 : 1) Add: Revaluation Profit* (2 : 1)	1,00,000 33,333 10,000	50,000 16,667 5,000
	1,43,333	71,667

* 20,000 (Vehicles) – 5,000 (Provision for Doubtful Debts) = ₹ 15,000.

Liabilities	**P**	**Q**	**R**
Balance as per note – (i)	1,65,750 –	65,250 1,43,333	– 71,667
 Goodwill Adjustment	1,65,750 – 10,000	2,38,583 + 11,667	71,667 – 1,667
	1,55,750	2,50,250	70,000
Total Capital ₹ 4,20,000* in the Ratio of 3 : 2 : 1 taking T's Capital as the Base Transfer to Current Account	2,10,000 54,250 (Dr.)	1,40,000 1,10,250 (Cr.)	70,000

(ii) Calculation of the capital of the new firm and respective partners' share:

*T's capital is ` 70,000 and it is 1/6 of total. The Total capital of the firm therefore is ` 4,20,000.

Illustration 15

J, K and L carrying on business since 1965 decided to dissolve their partnership on 30th June, 2008 when their Balance Sheet was as under:

Liabilities	**₹**	**Assets**	**₹**
Creditors Capital Accounts: J 1,20,000 K 90,000 L 60,000	34,000 2,70,000	Cash Debtors Stock Tools Motor Cars Machinery Freehold Building	25,000 62,000 37,000 8,000 12,000 60,000 1,00,000
₹	3,04,000	₹	3,04,000

K and L agreed to form a new partnership to carry on the business and it is agreed that they shall acquire from the old firm the following assets at amounts shown hereunder:

	₹
Stock	40,000
Tools	5,000
Motor Cars	25,000
Machineries	78,000

Freehold Building	84,000

The partnership agreement of J, K, and L provided that trading profits or losses shall be divided in the ratio of 3 :2 : 1 and that capital profits or losses shall be divided in proportion of their capital.

Debtors realise 59,000 and discount amounting to 720 are secured on payments due to creditors.

Prepare the necessary accounts of J, K, and L giving effect to these transactions and prepare the Opening Balance Sheet of K and L who bring the necessary cash in the ratio of 3 : 2 to pay to J.

(CA Inter, Modified)

Solution

M/s. J, K and L

Dr. Capital A/cs Cr.

Particulars	J ₹	K ₹	L ₹	Particulars	J ₹	K ₹	L ₹
2008				2008			
June 30				June 30			
To Cash A/c	1,52,320	–	–	By Balance b/d	1,20,000	90,000	60,000
To Balance b/d	–	1,75,200	1,16,800	By Realisation A/c (Profit)	32,320	24,240	16,160
				By Cash A/c	–	60,960	40,640
₹	1,52,320	1,75,200	1,16,800	₹	1,52,320	1,75,200	1,16,800

Opening Balance Sheet of M/s. K and L as on 30th June, 2008

Liabilities	₹	Assets	₹
Capital Accounts: K L	 1,75,200 1,16,800	Goodwill Freehold Building Machineries Motor Cars Tools Stock Cash	60,000 84,000 78,000 25,000 5,000 40,000
₹	2,92,000	₹	2,92,000

Note: It has been assumed that total profit on realisation including that on stock debtors and tools and settlement of creditors is a capital profit, as it relates to sale of business. Alternatively, profit on aforesaid items may be treated as revenue profit. Strictly speaking it is not normal "trading profit" which accrues during the day to day operation of a firm.

Working Notes:

Dr. **Realisation A/c** **Cr.**

Particulars	₹	Particulars	₹
To Debtors A/c	62,000	Plant and Machinery	8,000
To Stock A/c	37,000	Stock	
To Tools A/c	8,000	Black & Co. 30,000	
To Motor Cars A/c	12,000	White & Co. 7,000	
To Machinery A/c	60,000	Bank	37,500
To Freehold Building A/c	1,00,000		
To Cash A/c (creditors)	33,280		
To Net Profit to:			
J 32,320			
K 24,240			
L 16,160			
	72,720		
₹	3,85,000	₹	3,85,000

(ii) Purchase Consideration

Particulars	₹
Stock	40,000
Tools	5,000
Motor Cars	25,000
Machineries	78,000
Freehold Building	84,000
Goodwill	60,000
	2,92,000

(iii) Dr. **Realisation A/c** **Cr.**

Particulars	₹	Particulars	₹
To Balance A/c	25,000	By Realisation A/c (Creditors)	33,280
To Realisation A/c (Debtors)	59,000	By J's Capital A/c	
To K's Capital A/c			1,52,320
To L's Capital A/c	60,960		
	40,640		
₹	1,85,600	₹	1,85,600

EXERCISES: OBJECTIVE QUESTIONS

(1) Fill in the blanks:

(a) Two or more business entities merge or combine themselves into one entity, it is known as_____________.

(b) In ____________, one or more existing business entities are taken over by another existing business entity.

(c) In ___________ all the old business entities are closed and a new business entity is formed.

(d) __________ assets and liabilities have also to be considered for valuation.

(e) The agreed value of the assets minus the agreed value of the liabilities, which are taken over, is termed ____________.

(f) The capital of the partners in the firm is to be restructured on the basis of their ________ profit sharing ratio.

(g) In revaluation method, all the adjustments are made through _________ account and then the entry for the take-over is passed.

(h) Any profit or loss on realisation account is transferred to ________ account.

(i) ___________ not taken over by new firm will have to be discharged/taken over by partners.

(j) The __________ account is closed by transferring the profit or loss to the partner's capital accounts in their profit sharing ratio.

(k) The _________ method is used when a firm is absorbed by another existing firm.

(l) If all assets and liabilities are not taken over by the firm then cash/bank account should not be transferred to __________ account.

(m) If the consideration paid is less than the net assets acquired, it is _______reserve.

(n) For closing the books of the old firm two methods are possible ________ and _________ method.

Ans.: (a) Amalgamation, (b) absorbtion (c) amalgamation (d) Unrecorded (j) realisation (k) revaluation (l) realization (m) capital (n) revaluation /realization.

(2) State whether the statements are True of False:

(a) Goodwill arising on amalgamation should be amortized to income, by the new firm, on a systematic basis over its useful life.

(b) In revaluation method, all the adjustments are made through revaluation account and then the entry for the take-over is passed.

(c) Unrecorded assets and liabilities have also to be considered for valuation.

(d) Liability not taken over by new firm will have to be discharged/taken over by partners.

Ans.: (a) True (b) True (c) True (d) True.

Exercises : Practical

(Ex. 1) Following were the balance sheets as at 31 st December, 2007 of two firms, M/s Ram and Shyam and M/s Seeta and Geeta

Liabilities	Ram and Shyam ₹	Seeta and Geeta ₹	Assets	Ram and Shyam₹	Seeta and Geeta ₹
Creditors	20,000	25,000	Cash at bank Stock	5,600	6,700
M/s. Sathe's	5,000		Debtors	20,400	18,300
loan			Furniture	15,000	20,000
Capital:		50,000	Premises	4,000	5,000
Ram	40,000			40,000	–
Shyam	20,000	–			
Seeta		15,000			
Geeta		10,000			
₹	85,000	50,000	₹	85,000	50,000

The two firms decided to amalgamate their business from 1st January, 2008. For this purpose it was agreed that Mrs. Ram loan should be repaid by the old firm. Goodwill of M/s Ram and Shyam was fixed at ₹ 8,000 and that of M/s Seeta and Geeta at ₹ 10,000. Premises were revalued at ₹ 50,000. The stock of M/s Seeta and Geeta was found overvalued by ₹ 4,000 whereas the stock M/s Seeta and Geeta was under valued by ₹ 2,000. A provision of 5% was created for doubtful debts of both firms. The total capital of the new firm was to be ₹ 80,000. The capital of each partner was to be in their profit sharing ratio which was to be 3:2:3:2, adjustments to be made through their current accounts. Prior to that, goodwill account in the new firm was to be written off. You are required to pass journal entries in the books of the new firm. Also prepare their new balance sheet.

(**Ans.:** Purchases consideration: Ram and Shyam – ₹ 73,250; Seeta and Geeta ₹ 36,000; Current account balances : Ram – Dr. ₹ 8,900; Kotnis – Dr. ₹ 4,100; Ram – Cr. ₹ 17,225; Shyam – Cr. ₹ 7,025; Balance Sheet total ₹ 1,49,250)

(Ex. 2) M/s A and Co. Having A and B as partners decided to amalgamate with M/s. C and Co. Having C and D as partners on the following terms and conditions:

(1) The new firm M/s A/c & Co. to consider goodwill of both the firm at ₹ 12,000 each. (2) The new firm to tare over investments at 10% depreciation; debtors and

furniture at book value; premises at ₹ 53,000; land at ₹ 66,800; machinery at ₹ 9,000 and such cash which remained after discharge of partners loans by the respective old firms before amalgamation. (3) The new also assumed other liabilities of old firms. The following were the Balance Sheets of both the firms on the date of amalgamation:

Liabilities	P & Co. ₹	R & Co. ₹	Assets	P & Co. ₹	R & Co. ₹
Creditors	20,000	10,000	Cash	15,000	12,000
Bills payable	5,000	—	Investments	10,000	8,000
Loans:			Debtors	9,000	4,000
P	8,000	—	Furniture	12,000	6,000
R	—		Machinery	15,000	—
Reserves	10,000	4,000	Premises	30,000	—
Capitals:			Land	—	50,000
P	35,000	—	Goodwill	9,000	—
Q	22,000	—			
R	—	36,000			
S	—	20,000			
₹	1,00, 000	80,000	₹	1,00,000	80,000

You are required to close the books of P & Co. and R & Co. by preparing following ledger accounts in each case:

(a) Revaluation account (b) Partners' capital accounts, (c) New firm's account

(Ans.: Purchases consideration: P & Co. ₹ 86,000: R & Co. ₹ 88,000; Capital A/cs in new Firm: P ₹ 49,500; Q ₹ 36,500; R ₹ 52,000; S ₹ 36,000; Balance Sheet total ₹ 2,09,000)

(Ex. 3) N and V are in partnership as Western Trading Co. In similar type of business D and C are in partnership in Eastern Trading Co.

It was mutually agreed that as on 1st January, 2008 the partnerships be amalgamates into one firm "East & West Co." The Profit sharing ratios in the various firms were and are to be as follows:

	N	V	P	C
Old firms	4	3	3	2
New firms	6	5	4	3

As on 31st December 2007, the Balance Sheets of the firms were as follows:

	Western Trading Co. ₹	**Eastern Trading Co. ₹**		**Western Trading Co. ₹**	**Eastern Trading Co. ₹**
Capital A/c:			Property	74,000	1,00,000
N	1,53,000	—	Fixtures	18,000	14,000
V	1,10,000	—	Vehicles	30,000	18,000
D	—	1,13,000	Stock	83,000	66,000
C	—	74,000	Investments	8,000	—
Creditors	52,000	60,000	Debtors	68,000	58,000
Bank overdraft	—	9,000	Bank Balance	34,000	—
₹	3,15,000	2,56,000	₹	3,15,000	2,56,000

The agreement to amalgamate contains the following provisions:

(a) Provision for doubtful debts at 5% to be made in respect of debtors and provision for discount receivable @ 2.5% to be made in respect of creditors.

(b) East & West Co. to take over the old partnership' assets at the following values:

	Western Trading Co. ₹	**Eastern Trading Co. ₹**
Stock	84,500	63,900
Vehicles	28,000	13,000
Fixtures	16,000	—
Property	1,00,000	—
Goodwill	63,000	45,000

(c) The property and fixtures of Eastern trading Co. are not to be taken over by the East & West Co. and these were sold for ₹ 1,35,000 cash on 1st January, 2008.

(d) V to takeover his firm's investment at a value of ₹ 7,600.

(e) The capital of East & West Co. Is to be ₹ 5,40,000 to be contributed by partners in profit sharing ratio, any adjustment to be made in cash.

You are required to give journal entries and write ledger accounts reflecting the closing of the old partnerships books of account.

(**Ans.:** Purchases consideration if bank balance and overdraft are included Western Trading Co. ₹ 3,39,400; Eastern Trading Co. ₹ 2,44,500; Balance sheet totals of East and West Co. ₹ 6,49,200)

(Ex. 4) The partnership firms carrying on business under the name and style of A & Co. and B & Co. decided to amalgamate into C & Co. with effect from 1st April, 2008. Their Balance sheet as on 31st March, 2008 are:

Balance sheet of A & Co. as on 31st March, 2008

Liabilities	**₹**	**Assets**	**₹**
B's Capital	19,000	Plant and machinery	10,000
Creditors	10,000	Stock	20,000
Bank Overdraft	15,000	Debtors	10,000
		A's Capital	4,000
₹	44,000	₹	44,000

A and B share profits and losses in the proportion of 1:2

Balance sheet of B Co. as on 31st March, 2008

Liabilities	**₹**	**Assets**	**₹**
X's capital	10,000	Goodwill	10,000
Y's capital	2,000	Stock	5,000
Creditors	28,000	Debtors	10,000
		Cash	6,000
		Bank	9,000
₹	40,000	₹	40,000

X and Y share profit and losses equally.

Following further information is given:

1. All fixed assets are to be depreciated by 20%. 2. All stock is to be appreciated by 50%. 3. Black & Co. Owes ₹ 5,000 to white & Co. as on 31st March, 2008. Its debt is settled at ₹ 2,000. 4. Goodwill is to be ignored for the purpose of amalgamation. 5. The fixed capital in the new firm are: A ₹ 2,000, B ₹ 3,000, X ₹ 1,000, Y ₹ 4,000. 6. B takes over the bank overdraft of Black & Co. and gifts to A the amount of money to be brought in by A to make up his capital contribution.

Pass journal entries; prepare ledger accounts of the old firms to close the books of A & Co. and B & Co. as on 31st March, 2008. Also prepare the opening Balance sheet of C & Co.

(**Ans.:** Purchases consideration Black & Co. ₹ 41,000; White & Co. (–) ₹ 13,500; Current Accounts B ₹ 36,000; Balance Sheet total ₹ 81,000)

(Ex. 5) J Traders and K Traders were partnership firms and they decided to amalgamate. Their balance sheet were as under as on 31-12-2007:

	J Traders ₹	K Traders ₹		G Traders ₹	H Traders ₹
Creditors	12,000	18,000	Cash	16,000	17,000
Bills payable	5,000	—	Furniture	5,700	6,000
Loan: F	10,000	—	Investments	10,000	8,400
I	—	8,000	Debtors	9,000	4,600
Reserves	10,000	4,000	Premises	30,000	—
Capitals:			Land and building	—	50,000
I	35,000	—	Machinery	15,000	—
J	22,000	—	Goodwill	8,300	—
K	—	36,000			
L	—	20,000			
₹	94,000	86,000	₹	94,000	86,000

The amalgamation was made on the following terms:

(a) The new firm called JK traders decided to value good will of both firms at ₹ 12,000 each. (b) For J Traders, the new firm took investments and debtors at book values, premises at ₹ 53,000 and machinery at ₹ 9,300. Furniture was not taken over by the new firm. (c) For K Traders, the new firm took furniture and debtors at book values, new firm agreed to take the balance cash after repayment of loans. (e) Trade creditors of each firm were taken over by the new firm.

Prepare realisation account and partners' capital accounts in the books of each firm and Balance Sheet in the Books of the new firm.

(**Ans.:** Purchases consideration G Traders ₹ 82,300; H Traders ₹ 80,600; new Balance Sheet total ₹ 1,97,900; Final Capital F – ₹ 47,650; G – ₹ 34,650; H – ₹ 48,300; I – ₹ 32,300)

(Ex. 6) The balance sheets of M/s Mehul & Romesh and M/s Anil & Sunil as on 31st March, 2008 were as follows:

Liabilities	M & R ₹	A & S ₹	Assets	M & R ₹	A & S ₹
Capital A/cs:			Land and building	30,000	36,000
M	30,000	—	Plant and machinery	21,000	24,000
R	30,000	—	Furniture	9,000	10,500
A	—	45,000	Stock	24,000	30,000
S	—	45,000	Debtors	18,000	25,500

Creditors	45,000	30,000	Bank balance	9,000	3,000
Outstanding expenses	6,000	9,000			
₹	1,11,000	1,29,000	₹	1,11,000	1,29,000

Mehul and Romesh and Anil and Sunil were equal partners. They decided to amalgamate their businesses and form a new firm M/s Reliable Traders with effect from 1/4/2008 to share profit and losses equally. It was decided to takeover the furniture and building, furniture, debtors of M/s Mehul and Romesh at ₹ 8,000 and ₹ 17,000 respectively. Land and building, furniture, debtors and stock of M/s Anil and Sunil were taken over at ₹ 30,000, ₹ 7,500, ₹ 21,000 and ₹ 24,000 respectively. Outstanding expenses of M/s Anil and Sunil were estimated at ₹ 10,500. All the other assets and liabilities were taken over at book values. Goodwill of M/s Mehul and Romesh was valued at ₹ 30,000 and that of M/s Anil and Sunil at ₹ 15,000. It was decided that capital of each partner inthe new firm should be ₹ 42,000. Accordingly monies were adjusted amongst the partners.

You are required to show Realisation account and partners capital A/c in the books of both the firms prior to amalgamation and the opening balance sheet of the new firm.

(**Ans.:** Realisation profit m/s Mehul and Ronesh ₹ 28,000; realisation loss M/s Anil and Sunil ₹ 6,000; balance sheet total ₹ 2,59,500)

(Ex. 7) Two firms of Chartered Accounts agreed to amalgamate. Their position as on 30th September 2007 was as under:

Liabilities	**A & B ₹**	**C & D ₹**	**Assets**	**A & B ₹**	**C & D ₹**
Creditors	5,200	2,600	Bank balance	7,800	3,250
Capitals			Outstanding fees	6,500	5,200
A	9,100	—	Work done but		
B	6,500	—	Not billed	2,600	1,300
C	—	4,550	Furniture	—	650
D	—	3,250	Premises	3,900	—
₹	20,800	10,400	₹	20,800	10,400

Creditors and outstanding fees were not taken over by the new firm. Premises were retained by M/s A and B but the new firm agreed to pay a monthly rent of ₹ 500. The cash required for acquiring additional premises is estimated ₹ 65,000 and is to be provided by the partners in their new profit sharing ratio which is 3:3:2:2 respectively for A, B, C and D.

You are required to open the books of the new firm and to prepare the opening Balance Sheet.

The outstanding fees realised ₹ 6,000 and ₹ 5,000 respectively and creditors were settled for ₹ 5,000 and ₹ 2,500 respectively. P and Q took over the premises as joint equal owners. Close the books of the old firms.

(Ans.: Purchase consideration: PQ ₹ 10,400, RS: ₹ 5,200, Loss on realisation PQ ₹ 300, RS: ₹ 100, Capitals: P ₹ 26,000, Q ₹ 23,400, R ₹ 16,200, S ₹ 14,950, Balance sheet total ₹ 84,100)

(Ex. 8) M/s. A and Co. having A and B as equal partners, decided with C and Co. having C and D as equal partners to amalgamate and form a new firm M/s A D & Co. on the following terms and conditions:

(i) The new firm to takeover investments at 20% depreciation, land at ₹ 80,000, premises at ₹ 45,000, Machinery at ₹ 9,000. Debtors are taken over at book value subject to the existing provision. Only the trade liabilities of both the firm are taken over.

(ii) The goodwill of each firm is worth ₹ 12,000

(iii) Typewriter valued at ₹ 800, belonging to C and Co. and not appearing in the Balance Sheet was not taken over by the new firm. It was taken over by C.

(iv) It was agreed that furniture belonging to both the firms be not taken over by the new firm. The same were taken over by A and D at ₹ 10,000 and ₹ 5,000 respectively.

(v) All the four partners in the new firm to have ₹ 1,00,000 as capital in equal shares.

(vi) Before amalgamation, C brought in ₹ 5,600 which was used to pay off the bank overdraft of C and Co.

The following were the Balance Sheets of both the firms on the date of amalgamation:

Liabilities	**A & Co. ₹**	**C & Co. ₹**	**Assets**	**A & Co. ₹**	**C & Co. ₹**
Sundry Creditors	20,000	10,000	Cash at bank	15,000	8,000
Bills payable	5,000	—	Investments	10,000	8,000
Bank overdraft	2,000	10,000	Debtors		
A's loan	6,000	—	Less:		
Capitals:			Provision		
A	35,000	—		9,000	8,000
B	22,000	—	Premises	30,000	—
C	—	36,000	Land	—	50,000
D	—	20,000	Furniture	12,000	6,000
General reserve	8,000	3,000	Machinery	15,000	—

Investment fluctuation fund	2,000	1,000	Goodwill	9,000	—
₹	1,00,000	80,000	₹	1,00,000	80,000

Pass journal entries in the books of both the firms, prepare the necessary ledger accounts in the books of A & Co. and C & Co. and prepare a Balance Sheet of the New firm.

(**Ans.:** Purchases consideration: A & Co. ₹ 71,000, C & Co. ₹ 1,00,000; Capital A/cs ₹ 1,25,000 each, Current A/cs A ₹ 12,000, B ₹ 9,000, C ₹ 37,900, D ₹ 12,100)

(Ex. 9) J and K were in partnership as grocers sharing profit and losses in the ratio of 2 : 1. They agreed to amalgamate their business with that of L as on 31st March, 2008.

As on the date the summarised Balance Sheets of the two firms were as under:

Liabilities	**J & K ₹**	**L ₹**	**Assets**	**J & K ₹**	**L ₹**
Capital A/c:			Freehold premises	8,000	—
J	10,000	—	Shop fittings	2,400	1,500
K	8,000	—	Investments	—	3,000
L	—	6,000	Stock	6,000	4,500
Current A/cs:			Debtors		
J	3,400	—	Less:		
K	2,800	—	Provision		
L	—	800		2,200	1,800
Open from Keen	—	2,000	Balance at Bank	8,200	—
Creditors	2,600	1,600			
Bank Overdraft	—	400			
₹	26,800	10,800	₹	26,800	10,800

The two businesses were amalgamated on the following terms:

(i) Profits and losses were to be shared: J two-fifths, K-two-fifths and L one-fifth.

(ii) An account for goodwill is to be maintained in the books of the new partnership, agreed values of goodwill of each firm being J & K ₹ 12,000 and L ₹ 4,000.

(iii) The new firm was to takeover all the assets and assume the liabilities of J and K, certain of their assets being revalued as follows:

Free-hold premises ₹ 11,000, Shop fittings ₹ 2,000, Stock ₹ 6,900, Debtors ₹ 2,320.

(iv) Sharp's investments had been realised and the proceeds amounting o ₹ 4,600 are received by him on 1st April, 2008. Out of this sum, he discharged the loan to Keen and cleared his bank overdraft, the balance being taken over by the new firm. L was to collect his own debts and the new firm took over his remaining assets and liabilities at book values after providing a further ₹ 600 for a creditor which had not been entered in his books.

(v) The capital of the new firm was to be ₹ 40,000 to be contributed by the partners in their profit sharing ratio, any difference being transferred to their current accounts.

You are required to show:

(a) The ledger accounts of the new firm.

(b) The opening Balance Sheet of the New Firms.

(**Ans.:** Purchases consideration: J and K ₹ 39,820, L ₹ 10,000 Capital A/cs: J and K ₹ 16,000 each Current Account Balance J ₹ 7,813, K ₹ 7 and L ₹ 2,000 Balance Sheet total ₹ 54,620)

(Ex. 10) B and D were both in business on their own account as retailers. They agreed to amalgamate as on 31st Dec., 2007 the new business to be known as B and D.

Their Balance Sheets as on that date were as follows:

Liabilities	**D ₹**	**D ₹**	**Assets**	**B ₹**	**D ₹**
Capitals:			Freehold premises	37,000	—
S	22,000	—	Leasehold premises	—	15,000
L	—	12,000	Plant and machinery	4,000	5,000
Creditors	10,000	15,000	Stock	1,000	500
Bank overdraft	11,000	—	Debtors	1,000	4,000
			Bank balance	—	2,500
₹	43,000	27,000	₹	43,000	27,000

The amalgamation of the business was carried out on the following terms:

(i) Profits and losses to be shared in the following ratio B: 2/5, D:3/5

(ii) Goodwill to be valued at one year's purchases of the average net profit and losses of the previous three years. No account of goodwill is to be opened in the books of the business.

(iii) S sold his premises for ₹ 32,000 and the same was paid into the new firm's bank account.

(iv) Certain assets are to be revalued, the new values to be under:

	B ₹	D ₹
Leasehold premises	—	20,000
Debtors	—	3,000
Plant and machinery	5,000	—

(v) The profit and losses of the two business for the three years ended 31st Dec. 2007 were as follows:

Year ended 31st December		B ₹		D ₹
2005	Loss	2,000	Profit	10,000
2006	Profit	21,000	"	15,000
2007	"	14,600	"	17,000

You are required to prepare:

(a) The partners' Capital accounts recording these transaction as on 1st Jan. 2008 and

(b) The Balance-Sheet of the new firm as on 1st Jan. 2008 after the adjustment of partners' capital accounts.

(**Ans.:** Purchases consideration S ₹ 29,200, L ₹ 30,000, Balance Sheet total ₹ 59,000 (if overdraft is deducted from bank balance) Capitals S ₹ 19,120; L ₹ 14,880)

(Ex. 11) Following were the Balance Sheets of two firms M/s MN and M/s OP on 31st Dec., 2007 when they decided to amalgamate their businesses:

Liabilities		D ₹	Assets		D ₹
Creditors		6,000	Cash at bank		3,000
Bill payable		3,000	Debtors		
Reserve		4,500	Less: Provision	1,000	
Capital A/c					13,000
M	12,500		Stock		7,500
N	10,000		Property		12,500
		22,500			
		36,000			36,000

Balance Sheet of OP

Liabilities		₹	Assets	₹
Creditors		13,500	Cash at bank	2,500
Capital A/cs			Bills receivable	2,500
O	15,000		Debtors	10,000

P	10,000		Stock	10,000
		25,000	Furniture	3,000
			Motor Van	6,000
			Goodwill	4,500
	₹	38,500	₹	38,500

The terms of amalgamation were as follows:

(a) The new firm was to takeover the assets and liabilities of both the concerns, subject to MN meeting their bills payable out of their bank balance.

(b) MN's assets were valued thus: Debtors ₹ 15,000 (difference is on account of unrecorded credit sales). Stock ₹ 8,000; Property ₹ 15,000 and Goodwill ₹ 3,000.

(c) OP's assets were valued thus: Debtors ₹ 10,000; Stock ₹ 10,000; Office furniture ₹ 3,000 and Goodwill ₹ 4,000.

(d) O took over the motor vans at an agreed value of ₹ 5,000.

(e) The capitals of the partners in the new firm were fixed at M ₹ 15,000, N ₹ 10,000, Q ₹ 10,000, R ₹ 7,500 and any excess of deficiency was to be transferred to the current accounts of the partners.

(f) The partners were to share profits in 5:4:3:3.

Show the necessary accounts in the books of the firms of M/s. MN and M/s OP and balance sheet of M/s. MNOP.

(**Ans.:** Purchases consideration MN ₹ 35,000, OP ₹ 18,500, Current account balances: M ₹ 3,750 (Cr.) N ₹ 6,250 (Cr.) O ₹ 750 (Dr.) P ₹ 1,750 (Cr.) Balance sheet total ₹ 73,750)

(Ex. 12) B, W and G carried on a manufacturing business in partnership sharing profits and losses B two-fifths, W two-fifths, G one-fifth. They agreed to amalgamate as on 31st December 2007 with R who carried on a similar business:

The summarized Balance Sheets of the two firms as on 31st December 2007 were as follows:

Liabilities	**B W & G ₹**	**R ₹**	**Assets**	**B W & G ₹**	**R ₹**
Capital A/cs:			Fixed assets	9,600	2,400
B	8,000	—	Stocks	6,000	2,500
W	6,000	—	Debtors		
G	4,000	—	Less: Provision	7,000	3,600
R	—	3,000	Balance at Bank	4,400	—
Trade creditors	9,000	2,000			
Bank overdraft	—	3,500			
₹	27,000	3,500	₹	27,000	8,500

The terms on which the businesses were amalgamated were as follows:

(i) B was to retire on 31st December 2007 any balance due to him being left on loan with the new firm.

(ii) Profits were to be shared: W one-half, G one-quarter, R one-quarter.

(iii) The values of goodwill were agreed at ₹ 10,000 for the firm of B, W and G and ₹ 4,000 for R.

(iv) The new firm was to takeover all the assets and discharge all the liabilities of the two businesses, but certain of the assets were to be revalued as follows:

	B, W and G ₹	R ₹
Fixed assets	11,200	2,900
Debtors	6,800	3,160

(v) The capital of the new firm was to be ₹ 10,000 and was to be contributed by the partners in their profit-sharing ratio, any surplus or deficiency being transferred to current accounts. No account for goodwill was to be maintained in the books, adjusting entries for transaction between the partners being made in the partners capital accounts.

You are required to give:

(a) The partners' capital accounts in the books of the old and the new firms recording these transaction, and

(b) The opening Balance Sheet of the new firm.

(**Ans.:** Current A/c balance: W ₹ 1,440 (Dr.) G ₹ 280 (Cr.) R ₹ 1,060 (Cr.) Balance Sheet total ₹ 38,400)

(Ex. 13) The balance sheets of M/s P & Q M/s R & S as on 31st March, 2008 were as follows:

Liabilities	P & Q ₹	R & S ₹	Assets	P & Q ₹	R & S ₹
Capitals:			Land and building	10,000	12,000
P	10,000	—	Machinery	7,000	8,000
Q	10,000	—	Furniture	3,000	3,500
R	—	10,000	Debtors	6,000	8,500
S	—	10,000	Stock	8,000	10,000
Creditors	15,000	10,000	Cash and bank	3,000	1,000
Loan	—	10,000			
Outstanding exp.	2,000	3,000			
₹	37,000	43,000	₹	37,000	43,000

M/s R & S is absorbed by P & Q with effect form April 1, 2008. Partners would share profit and losses equally between themselves as they were doing prior to absorption and they agreed to the following revaluation of assets and liabilities.

	P Q ₹	R S ₹
Land and building	10,000	10,000
Machinery	7,000	8,000
Furniture	2,500	2,500
Debtors	5,500	7,000
Stock	8,000	8,000
Outstanding expenses	2,000	3,500

In addition to the above it was decided that:

(i) P & Q would not takeover the loan or R & S

(ii) The goodwill of P & Q and R & S were valued at ₹ 10,000 and ₹ 5,000 respectively in the first instance but for the purpose of the balance sheet (after absorptior) the combined goodwill would be valued at ₹ 12,000; and

(iii) The capitals of partners in the new firm should be ₹ 14,000 each partner introducing cash, if necessary.

You are required to:

(i) Close the books of M/s R & S.

(ii) Prepare the new balance sheet of P & Q assuming that all arrangements have been duly carried out.

(**Ans.:** purchase consideration ₹ 28,000, Revaluation profit AB ₹ 9,000, further cash to be brought in by A and B ₹ 250 each and C and D ₹ 750 each balance sheet total ₹ 86,500)

(Ex.14) Ram and Shyam carried on business in partnership as builders, sharing profits in ratio 3:2. Their balance sheet as on 31st Dec. 2007 showed the following position:

Liabilities	₹	Assets	₹
Capital:		Freehold premises (at cost)	24,500
Ram	15,000	Plant and machinery	19,000
Shyam	10,000	Motor vehicles	6,000
Current a/cs:		Furniture	4,250
Ram	21,300	Stock	14,000
Shyam	4,200	Work in progress	8,500
Creditors	15,000	Debtors	12,500
Bank overdraft	23,250		
`	88,750	`	88,750

Mohan was also in business as a small contractor and on the above date, his balance sheet was as under:

Liabilities	**₹**	**Assets**	**₹**
Capital	35,250	Leasehold premises	10,000
Creditors	5,750	Motor vans	3,750
		Furniture	2,750
		Stock	17,500
		Debtors	2,250
		Cash at bank	4,750
`	41,000	`	41,000

The profits of the two businesses for the last five years are:

	Ram and Shyam `	**Mohan** `
2003	25,000	10,500
2004	10,000	8,500
2005	2,500	9,000
2006	11,500	8,000
2007	12,500	8,500

It was agreed that on December 31st, 2007 Mohan should amalgamate with Ram and Shyam, and all the three should carry the business under the firm name of M/s. Ram and Shyam. The following terms were agreed upon for the purpose:

(i) Debtors, stock, work in progress and motor vehicles were to be taken at book figures.

(ii) Goodwill of both the firms was to be valued at 3 years purchase of the average profit of the past five years.

(iii) the capital of each partner should be rs. 35,000. The balance should be treated as current account.

(iv) the freehold property was valued ar ₹ 37,500, and leasehold properties at fis 12,500. Machinery was valued at ₹ 16,000. Furniture was to be valued at 50% of the book value.

You are required to:

(a) Close the books of Mohan.

(b) Pass the journal entries in the books M/S Ram and Shyam.

(c) Prepare the new Balance Sheet of M/s. Ram and Shyam.

(**Ans.:** Purchase consideration of Mohan ` 63,075; (assuming creditors taken over), profit on revaluation ₹ 44,775, Current account balance Ram - ₹ 28,165 (Cr.) on revaluation ₹ 44,775, Current account balance Ram - ars.28,165 (cr.) Shyam- Es. 2,890 (Dr.) Mohan - ₹ 28,075 (cr.), Balance sheet total ₹ 2,05,240)

(Ex. 15) Akbar and Janhangir sharing profit and losses in the ratio of 3:2 have prepared the following Balance sheet on 31st March,2007:

Liabilities	₹	**Assets**	₹
Creditors	16,000	Plant and Machinery	30,000
Reserve	10,000	Stock	25,000
Capitals:		Debtors	10,000
Akbar	40,000	Investments	5,000
Jahangir	10,000	Bank balance	6,000
₹	76,000	₹	76,000

Amar and Pratap, having a competing business, have prepared the following Balance Sheet on the same date:

Liabilities	₹	**Assets**	₹
Creditors	11,500	Land and building	50,000
Bills payable	11,500	Plant and Machinery	35,000
Capitals:		Stock	20,000
Amar	50,000	Debtors	16,000
Pratap	50,000	Bank balance	2,000
₹	1,23,000	₹	1,23,000

They decided to amalgamate their firms from 1st April, 2007, on the following terms:

(i) Goodwill of M/s Akbar and Jahangir was valued at ₹ 1,00,000 while that of M/s Amar and Pratab at ₹ 40,000. Goodwill account is not to appear in the books of the firm

(ii) the following assets of M/s Akbar Jahangir are to be revalued at the figures given:

machinery ₹ 25,000

Debtors- less ₹ 1,000 provision for doubtful debts.

Stock - ₹ 27,000.

(iii) the following adjustments are to be made in case of assets of M/s Amar and Pratap:

Bad debts to be written off ₹ 8,000.

Stock to be revalued at ₹ 30,000.

Plant and machinery to be appreciate by 10%.

Land and building is to be taken over at ₹ 60,000.

(iv) All the assets and liabilities of both the firms, except investments, are taken over by the new firm. Investments are taken over by Akbar at ₹ 8,000.

(v) The new profit sharing ratio is

Akbar 2/5, jahangir 2/5, Amar 1/10, Pratap 1/10.

(vi) The capital of the new firm was fixed at ` 2,00,000 to be contributed in profit sharing ratio. Adjustment inter-se is to be made in cash.

You are required to:

(a) Close the books of both the firms.

(b) Open the books of the new firm.

(c) Prepare the opening Balance sheet of the new firm.

(**Ans.:** Purchase consideration: Akabr Jahangir ₹ 1,51,000; Amar pratap ₹ 1,5,500, Cash brought in by Akbar `38,600, Jahangir ₹ 82,400. Cash paid to Amar ₹ 43,750 and pratap ₹ 43,750, Balance sheet total ₹ 2,39,000) (Ex.16 A and B trading under the name and style of M/s Janta Trading Co. and X and Y trading under the style of M/s Janta Trading Co. And X and Y trading under the style of M/s Bharat Trading Co. Decided to amalgamate on which day their balance sheets stood as under:

J. Trading Company

Liabilities	₹	**Assets**	₹
Creditors	20,000	Premises	36,000
Reserve	40,000	Stock	60,000
Capital: P Q	60,000 40,000	Debtors Investments	24,000 40,000
₹	1,60,000	₹	1,60,000

B. Trading Comapany

	₹		₹
Bank loan	16,000	Goodwill	20,000
Creditors	44,000	Stock	52,000
Capital: C D	30,000 30,000	Debtors	48,000
₹	1,20,000	₹	1,20,000

The terms of amalgamation were as under:

(i) The new firm known as Bharat Janta Trading Company consisting of P, Q, C and D as partners, should be formed and that the partners would share the profits and losses in the ration of 3: 3: 2: 2.

(ii) the premises of J Trading Co. Are to be taken over by the new firm at an agreed value of ₹ 60,000.

(iii) the goodwill appearing in the books of B Trading Company, is only half its worth. Goodwill account is not to appear in the new firm's books.

(iv) the remaining assets and liabilities are taken over at book values.

(v) After the above adjustments, C and D should bring additional capital of ₹ 10,000 each.

You are required to:

(i) Close the books of both the old firms,

(ii) Prepare the Balance Sheet of the new firm.

(**Ans.:** Purchase consideration Janta ₹ 1,64,000; Bharat ₹ 50,000, Closing capitals A ₹ 89,000; B₹ 69,000; X ₹ 33,000; Y ` 33,000, Balance sheet total ₹ 3,04,000).

(Ex.17) M/s S Brothers is a partnership wherein R and S are partners sharing profits and losses in the ratio of 3:2. M/s T & Co. Is a partnership firm wherei A, L ans S are partners sharing profits and losses in the ration of 2:2:1. Their balance sheets on 31st March, 2008 were as under:

	S Bros. ₹	Thacker & Co. ₹		S Bros. ₹	T & Co. ₹
Creditors:			Cash	3,000	2,000
Sagar Bros.	––	8,000	Bank	10,000	8,000
Others	15,000	4,000	Debtors:		
Bills Payable	6,000	10,000	(T & Co.)	8,000	––
Reserves	12,000	5,000	Others	25,000	15,000
Capitals				33,000	15,000
R	25,000	––	Less: Provision for		
S	15,000	––	doubtful debts	2,000	1,000
A	––	5,000			
L	––	5,000		31,000	14,000
K	––	3,000	Bills receivable	7,000	1,000
			stock	22,000	15,000
₹	73,000	40,000	₹	73,000	40,000

Bills payable of T & o. Include ₹ 8,000 due of S Bros. Bills reveivable of S Bros. Include ₹ 5,000 accepted by T & Co.

M/s. T & Co. Is absorbed by Mrs. S Brothers.

The following terms are agreed upon:

(a) R, S, A, L and S are to share profits and losses in the ration of 3:2:2:2:1.

(b) Goodwill of S Brothers is worth ₹ 30,000 and that of T & Co. Is worth ₹ 25,000. However goodwill account is not to appear in the books.

(c) The other assets and liabilities are taken over at book values.

You are required to pass the journal entries in the books of S Bros. And to show the balance sheet immediately after absorption.

(**Ans.:** Capitals: R ₹ 33,700; A ₹ 6,000; S ₹ 20,8000; L ₹ 6,000; S ₹ 3,500; Balance sheet total RS. 1,00,000)

(Ex. 18) The respective balance sheets fo C and D at the date of amalgamation are as follows:

J

Liabilities	**₹**	**Assets**	**₹**
Capital	18,000	Cash	130
Sundry creditors	8,220	Bank of India	8,640
		Sundry debtors	6,730
		Stock	
		Shares a/c:	
		XL spinning Co, Ltd.	2,000
		Office fixtures	350
₹	26,220	₹	26,220

K

Liabilities	**₹**	**Assets**		**₹**
Capital	17,500	Cash		2600
Bills payable	7,650	Dena Bank		
Grindlays Bank Ltd	3,740	Sundry debtors		
		Stock		
		Shares a/c:		
		A Spinning Co. Ltd.	1000	
		B ″ ″ ″	2000	
		C Shipping Co. Ltd	1,500	
		D ″ ″ ″	2,000	
		Office fixtures		6,5000
				200
₹	28,890	₹		28,890

It is agreed that:

(a) the capital of the new firm shall be ₹ 32,000 divided equally.

(b) The shares shall be taken over at the following figures:

	₹
XL Spinning Co. Ltd.	2,000
P	800
Q	1,750
J	1,350
K	2,000

(c) The debts of both firms be taken over less 10%.

(d) The business shall be carried on at the offices of J whose fixtures are to be valued at ₹ 200. The fixtures belonging to K are sold for cash Rs 75. Which is to be brought into account.

(e) All other assets are to be taken at face value.

You are required to prepare the balance sheet of the new frim, explaining how the adjustments, which are required, should be effected.

(**Ans.:** Current account balances C ₹ 1,177; D Rs 55; Balance sheet totals ₹ 52,342)

(Ex.19) Two firms A & B and C & D agreed to amalgamate their businesses. Their position as on March 31, 2008 was as follows:

Balance sheet of P & Q as on March 31,2008

Liabilities	**₹**	**Liabilities**	**₹**
Creditors:	1,04,000	Cash at bank	1,56,000
Capitals:		Debtors	1,30,000
A	1,82,000	Stock-in-trade	42,000
B	1,30,000	Office building	78,000
		Furniture	10,000
Rs	4,16,000	₹	4,16,000

Balance Sheet of C & D as on March 31,2008

Liabilities	**₹**	**Assets**	**₹**
Creditors:	52,000	Cash at bank	65,000
Capitals:		Debtors	1,04,000
C	91,000	Stock-in-trade	26,000
D	65,000	Furniture	13,000
₹	2,08,000	₹	2,08,000

Creditors and debtors were not taken over by the new firm ABCD. The office building was retained by A and B but the new frim agreed to pay a monthly rent of ₹ 400. The cash required for working of the new firm was estimated at ₹ 1,30,000 to be provided by the partners in their new profit-sharing proportions as under:

A 3/10; B 3/10; C 2/10; D 2/10.

(i) Close the books of A & B and C & D.

(ii) Give the opening Balance Sheet pf ABCD. State your assumptions, if any, clearly.

(**Ans.:** Balance sheet total ₹ 2021,000)

(Ex.20) M & N carry on independent business in provisions and their positions as at 30th September, 2007 are reflected in the balance sheets given below:

	M ₹	N ₹
Stock in trade	1,70,000	98,000
Sundry debtors	89,000	37,000
Cash in bank	13,000	7,5000
Cash on hand	987	234
Furniture and fixtures	2,750	1,766
Investments	513	
₹	2,76,250	1,44,500
Represented by		
Sundry creditors for:		
Purchases	1,10,000	47,000
Expenses	750	2,000
Bills payable	12,500	–
Capital account	1,53,000	95,5000
₹	2,76,250	1,44,500

Both of them want to form a partnership firm from 1st October, 2007 on the following understanding:

(a) The capital of the partnership would be ₹ 3 lakhs which would be contributed by them in the ratio 2:1

(b) The assets of the individual businesses would be evaluated by O at which values, the firm will take them over and the value would be adjusted against the contribution due by M and N.

(c) O gave his valuation report as follows: Business of M: Stock in-trade to be written down by 15% and a portion of sundry debtors amounting to ₹ 9,000 estimated unrealisable not to be taken over by the firm; furniture and fixtures to be valued at ₹ 2,000 and investments to be taken at market value of ₹ 1,000.

Assets of N: Stocks to be written up by 10% and sundry debtors ato be admitted at 85% of their value; rest of the assets to be taken over at their book value.

(d) The firm is not to takeover any creditors other than the dues on account of purchases. Prepare the opening Balance Sheet of the firm.

(**Ans.:** Purchase consideration; M ₹ 1,05,000; N ₹ 94,016; additional cash: M ₹ 95,000 and N ₹ 5,984; Balance sheet totals ₹ 4,69,500)

(Ex.21) S and R carried on business in partnership as builders, sharing all profits and losses tow-thirds; one-third respectively. They agreed with K, who was in business on his own account, to amalgamate their businesses as on 31st March 2008. The summarised balance sheets of the two firms at as that date were as follows:

Balance Sheets: S, R and K

Liabilities	**S &R** ₹	**K** ₹	**Assets**	**S & R** ₹	**K** ₹
Capital a/cs:			Freehold premises	8,000	—5,000
S			Plant & equipment	7,000	
R				15,000	5,000
	29,000	—	Work-in-progress	17,000	7,000
K	—	7,000	Debtors	2,750	2,8000
Trade creditors	9,000	4,000	Less: Provision	750	500
Bank overdraft	—	3,300			
				2,000	2,300
			Balance at bank	4,000	—
`	38,000	14,300	`	38,000	14,300

The terms on which the businesses were amalgamated were as follows:

1. Profits were to be shared in the ratio: S, one-half; R one-quarter; K, one-quarter.
2. The value of goodwill of the two firms was agreed at: S and R ₹ 12,000; K rs. 6,000; (no account for goodwill was to be opened in the books, but adjusting entries for transactions between the partners were to be made in the partners capital accounts).
3. The new firm was to takeover all the assets and discharge all the liabilities of S and K, but assets were to be revalued as follows: freehold premises, ₹ 11,000; plant and equipment, ₹ 6,250; work in progress, ` 18,500; debtors, ` 2,750.

4. K was to collect his own debts and pay his trade creditors. The new firm was to takeover his plant and equipment for ₹ 5,000 and his work in progress for ₹ 7,500 and to pay off his bank overdraft.
5. The capital of the firm was to be ₹ 40,00, contributed in profit-sharing ratio. The balance due to be paid in or with drawn by each partner was to be entered in a current account.

You are required to show:

(a) The partners' capital accounts, in columnar form, recording these transactions

(b) The opening balance sheet of the new firm.

(**Ans.:** Purchase consideration: S & r: ₹ 45,500; K ₹ 15,200; Partner's capital a/cs S ₹ 20,000; R ₹ 10,000; K ₹ 10,000: Current accounts S ₹ 3,000; K ₹ 700; R ₹ 100 (Debit) Balance sheet total ₹ 52,700; after paying off Bank overdraft)

(Ex. 22) Following were the balance sheets of two firms M/s. PQ and M/s. RS as on 31st December, 2007.

Liabilities	**P & Q ₹**	**R & S ₹**	**Assets**	**P & Q ₹**	**R & S ₹**
Sundry creditors	30,000	12,000	Cash at bank	14,000	5,000
Bank overdraft	–	8,000	Stock	32,000	36,000
Investment fluctuation			Sundry debtors	20,000	16,000
			Furniture and fittings	30,000	20,000
Fund	6,000	5,000	Investments	50,000	40,000
Capitals:			Godown	10,000	–
P	1,50,000	–	Land and building	1,50,000	1,08,000
Q	1,20,000	–			
R	–	80,000			
S	–	1,20,000			
₹	3,06,000	2,25,000	₹	3,06,000	2,25,000

Balance Sheet

Liabilities	**P & Q ₹**	**R & S ₹**	**Assets**	**P & Q ₹**	**R & S ₹**

Sundry creditors	30,000	12,000	Cash at bank	14,000	5,000
Bank overdraft	–	8,000	Stock	32,000	36,000
Investment fluctuation			Sundry debtors	20,000	16,000
			Furniture and fittings	30,000	20,000
Fund	6,000	5,000	Investments	50,000	40,000
Capitals:			Godown	10,000	–
P	1,50,000	–	Land and building	1,50,000	1,08,000
Q	1,20,000	–			
R	–	80,000			
S	–	1,20,000			
₹	3,06,000	2,25,000	₹	3,06,000	2,25,000

The two firms decided to amalgamate their business from 1st January 2008. P & Q share profits and losses in the ratio of 3:2 and R & S in the ratio of 2:3.

The terms of amalgamation were as follows:

The new firm called T & Co. Was formed as on 1st January 2008. T & Co. Should takeover the assets of two firms as follows:

1. **Assets of P & Q:** Stock ₹ 36,000; Investments @ 10% depreciation; Furniture and fittings ₹ 24,000; Land and building ₹ 1,80,000 and Goodwill ₹ 40,000.
2. **Assets of R & S:** Stock ₹ 28,000; Investments @ 10% depreciation; Goodwill ₹ 30,000.
3. It was agreed that T & Co. Was not to ttakeover furniture and fittings and land and buildings of M/s. R & S .However, these assets were sold at ₹ 1,44,000 in cash on 1st January 2008.
4. 'Q' took over the possession of godown of his firm for ₹ 8,000.
5. It was decided to make provision for doubtful debts @ 10% on sundry debtors and also provision for discount @ 5% on sundry creditors of both the firms.
6. The new profit sharing ratio of partners was A-2, B-1,C-1, D-2.
7. The capital of T & Co. Was fixed at ₹ 2,40,000 and this should be adjusted in their new profit sharing ratio.

The goodwill a/c is to be maintained at ₹ 61,000 only in the books of new firm. Any adjustments in partners capital a/cs should be made in cash.

Prepare ledger accounts of the amalgamating firms and balance sheet of T & Co.

(**Ans.:** Balance sheet totals of T & Co.)

(Ex. 23) Following are the balance sheets of AB & Co. And CD & Co. As on 31st March 2008.

Balance Sheet

Liabilities	AB ₹	CD ₹	Assets	AB ₹	CD ₹
Capital accounts:			Computers	75,400	96,200
A	85,000	–	Furniture	34,500	25,000
B	1,05,000	–	Stock	62,350	47,750
C	–	80,000	Cash balances	2,000	3,000
D	–	90,000	Joint life policy	50,000	45,000
General reserve	75,000	50,000	Sundry debtors	1,01,350	1,11,550
A's loan a/c	25,000	30,000			
Sundry creditors	35,600	78,500			
₹	3,25,6000	3,28,500	₹	3,25,600	3,28,500

Both the firms have agreed to amalgamate on the following terms and conditions:

The assets of AB& Co. Were revalued as under:

Furniture ₹ 38,000; Stock ₹ 55,000; Debtors ₹ 98,250; Computers ₹ 35,000.

Joint life policies of both the firms wee surrendered at 10% discount.

All the assets and liabilities of CD & Co. Were taken over at respective book values.

A B were sharing the profit in the ratio of 1:2. C & D were sharing the profits in ration of 2:1. In the new firm they have agreed to share the profit in the ratio of 2:1:1:2.

Value of goodwill of AB & Co. And CD & Co. Was agreed at ₹ 75,000 and ` 90,000 respectively.

Total capital of the new firm was fixed at ₹ 3,60,000 to be kept in profit sharing ratio, any adjustments for this purpose to be made in cash. The goodwill was written off by ₹ 45,000.

You are required to prepare necessary ledger accounts to close the books of AB & Co. And prepare the balance sheet of the new firm after carrying out amalgamation as above.

(**Ans.:** Balance sheet totals of new firm ₹ 6,56,750)

(Ex.24)

Balance Sheet as on 31st March, 2008

Liabilities	PQ ₹	RS ₹	Assets	PQ ₹	RS ₹
Creditors	10,000	15,000	Plant and machinery	20,000	27,000
Bills payable	4,000	8,000	Furniture	8,000	9,000

Mrs, Q's loan	10,000	–	Stock	20,000	24,000
Mrs. S's loan	–	7,000	Debtors	19,000	17,000
Outstanding loan	2,000	1,5000	Fixtures	1,600	1,200
Capital a/c:			Cash in hand	3,400	3,300
P	30,000	–	Goodwill	4,000	
Q	20,000	–			
R	–	25,000			
S		25,000			
₹	76,000	81,500	₹	76,000	81,500

It was mutually agreed that both the firms be amalgamated. The agreement to amalgamate contains the following terms.

1. Mr Q agreed to pay Mrs. B's loan and Mr. S agreed to pay Mrs, S's loan.
2. Outstanding rent was paid in full by the respective firms.
3. Creditors of both the firms were taken over by the new firm at a discount of 5%.
4. Plant and machinery is subject to 5% depreciation in the case of both the firms.
5. Furniture of R and S was sold in the market for ₹ 8,0000 and furniture of A and B was not taken over by the new firm.
6. Fixtures were not taken over by the new firm.
7. Stock of P and Q was valued at ₹ 22,100 and that of M/s. R and S of ₹ 21,0000.
8. Goodwill of M/s. P and Q is valued at ₹ 6,000 and that of M/s. R and S at ₹ 8,000. Goodwill a/c is not to be retained in the books of new firm. Provision for doubtful debts is to be maintained at 5% on sundry debtors of M/s. R and S.
9. Capital of each partner in the new firm is to be maintained at ₹ 25,000 by bringing cash or paying cash as the case may be.

You are required to prepare ledger a/cs in the books of P and Q and R and S and pass journal entries in the books of M/s. PQRS and its balance sheet.

(**Ans.:** Balance sheet totals ₹ 1,35,750)

(Ex.25) Following is the balance sheet of M/s. J.K. And M/s. D.K. As at 31st March 2008.

M/s J.K.

Liabilities	₹	**Assets**	₹
Sundry creditors	50,000	Cash in hand	12,000
Loan from Vijaya Bank	10,000	Stock-in-trade	58,000
Capitals:		Sundry debtors	30,000
Ajay		Furniture and fixtures	20,000
Sujay	1,00,000	Office premises	90,000

	50,000		
₹	2,10,000	₹	2,10,000

M/s. D.K.

Liabilities	₹	Assets	₹
Sundry creditors	60,000	Cash in hand	16,000
Capitals:		Stock-in-trade	44,000
Ankur	60,000	Sundry debtors	50,000
Ankit	40,000	Furniture and fixtures	10,000
		5% NSCs	40,000
₹	1,60,000	₹	1,60,000

They shared profits and losses equally.

They decided to amalgamate their business with effect from 1-4-2008 as per the following conditions:

1. Name of the new firm shall be V Trading Corporation.
2. Vijaya Bank be repaid by M/s. J.K.
3. 5% NSC not be taken over by the new frim.
4. Goodwill of M/s. J.K. And M/s. D,K. Are fixed at ₹ 21,000 and ₹ 25,000 respectively.
5. Office premises are revalued at ₹ 99,000.
6. Stock-in-trade of M/s. J.K. Be reduced by ₹ 9,000 and that of M/s. D.K. Increased by ₹ 5,000.
7. Reserve for doubtful debts be created @ 5% on debts of both firms.
8. Total capital of firm of V. Trading Corporation will be ₹ 1,80,000 and the capital of eaxh partner will be his profit sharing ratio whic will be as follows: Ajay 30%; Sujay 20% Ankur 30%; Ankit 20%.
9. The differences if any, should be transferred to current accounts.
10. Goodwill account in new firm should be written off.

You are required to close the books of M/s. J. K and M/s. D.K. To give effect to above arrangements. Also prepare balance sheet as on 1st April 2008.

(**Ans.** Balance sheet totals of the new firm ₹ 3,46,500)

(Ex 26) Rashid and Sachin were partners in M/s. AB & Co. And Curtley and Michael were partners in M/s. CD & Co. They agreed to amalgamate and form M/s. RSCM & Co. With effect from 31st March, 2008.

Their profit sharing ratios are as under:

	A	B	C	D
Old Ratio	4	1	3	2
New Ratio	6	5	4	3

The balance sheet of the two firms prior to amalgamation were as under:

Labilities	**AB ₹**	**CD ₹**	**Assets**	**AB ₹**	**CD ₹**
Capital – A	60,000	–	Furniture	25,000	35,000
Capital – B	45,000	–	Less: Depreciation	2,500	5,500
Capital – C	–	40,000		22,500	29,500
Capital – D	–	14,000	Vehicles	45,000	20,000
Creditors	10,400	42,500	Stock	17,900	18,000
Loan from A	25,000	–	Investment	25,000	–
Bank overdraft	–	1,500	Debtors	42,000	31,300
Investment reserve	12,000	–	Bank balance	12,000	–
Contingency reserve	12,000	–			
₹	1,64,400	98,800	₹	1,64,400	98,800

The amalgamation is to take place on the following terms:

(a) The fixed assets of both the firms to be taken over at 10% over book value and outstanding debtors at book value.

(b) The stocks of AB & Co. Were disposed of for ₹ 18,000 while that of CD & Co. Are taken over by the new firm.

(c) The firms shall pay of their liabilities. Shortfall, if any incash, is to be made good by the partners introducing the necessary cash.

(d) The investments were gifted to B.

(e) The debtors of AB & Co. Include an amount of ₹ 15,000 due from CD & Co. Goodwill fo AB the two firms was valued at ₹ 26,000 and ₹ 15,000 respectively. However the same is to be written off in the books of the new firm.

(f) Goodwill of the two firms was valued at ₹ 26,000 and ₹ 15,000 respectively. However the same is to be written off in the books of the new firm.

(g) The new firm had to spent ₹ 1,800 on the amalgamation expenses.

(h) The total capital of the new firm is to be ₹ 1,80,000 in the profit sharing ration and the difference is to be repaid by resorting to an overdraft if required

You are requested to make the necessary ledger accounts and show the balance sheet of M/s. ABCD & Co. After amalgamation.

(**Ans.:** Balance sheet total of the new firm ₹ 2,21,800)

4 CHAPTER

Accounting with the Use of Accounting Software

Objectives:

On completion of this lesson, you will be able to understand

- The basic functions of the Tally Inventory System
- Creating and maintaining Inventory Masters
- Creating and maintaining stock details
- Creating stock items and entering opening balances

INTRODUCTION

Cost Centre and Cost Category

1. Stock Groups
   1.1 Creating Stock Group
2. Stock Categories
   2.1 Creating Stock Category
3. Units of Measure
   3.1 Creating Units of Measure
4. Stock Items
   4.1 Creating a Stock Item
5. Inventory Voucher
6. Godowns/Locations
   6.1 Creating a Godown
7. Batch-wise

"Practical Exercise" of Inventory Master - for National Traders

1. Create Stock Groups
2. Displaying and Altering Stock Groups

3. Creating Single Stock Categories
4. Creating Multiple Stock Categories
5. Displaying and Altering Stock Categories
6. Creating Units of Measure
7. Creating Compound Units of Measure
8. Displaying and Altering Units of Measure
9. Creating Godowns
10. Displaying and Altering Stock Godowns
11. Create Stock Items

COST CENTRE AND COST CATEGORY

Did you know that Tally.ERP 9 can help you easily allocate costs to each of your organizational units (a department, an employee etc.) and effortlessly analyze the financial inflow or outflow of all these units?

Would it not be easier to make the decision for your business if you have the option to view the costs incurred on each of your business unit and how much profit each unit made? This is exactly what the 'Cost Centre and Cost Category' in Tally.ERP 9 can do for your business.

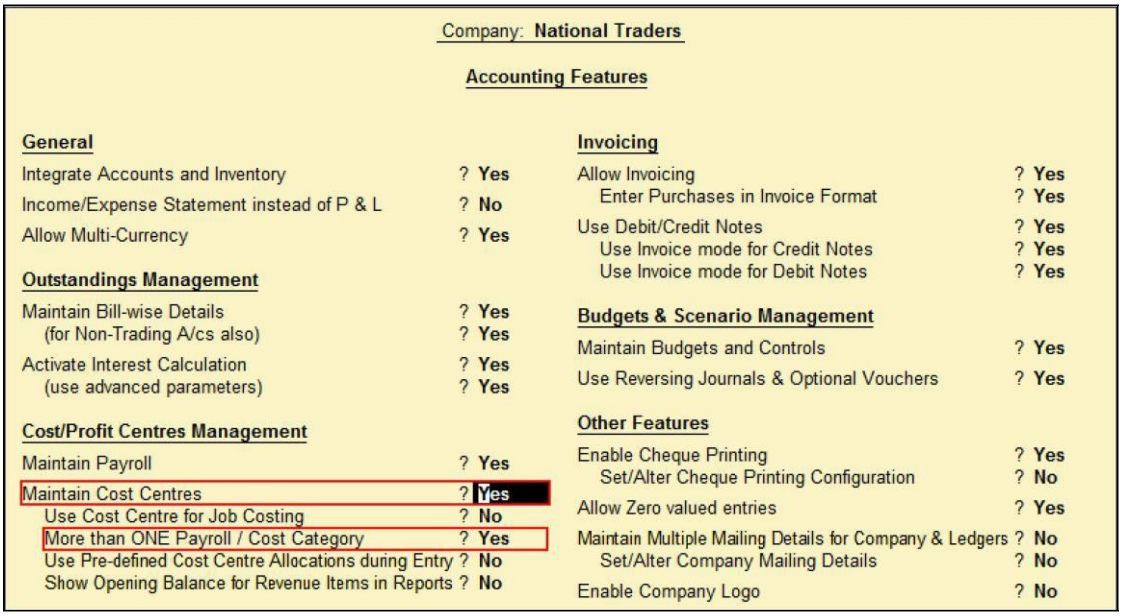
The cost centre in Tally.ERP 9 refers to an organizational unit to which costs or expenses can be allocated during transactions while the cost category is used to accumulate costs or profits for parallel sets of cost centres. For example, you can use cost centre to track expenses of each employee while cost category can be used to see the effectiveness of each project.

To use cost centre in Tally.ERP 9, let's consider a 'Sales department' in an organization which has 4 different Salesmen. To record their expenses and incomes, let's follow the steps below:

Enabling Cost Centre and Cost Category

To do this:

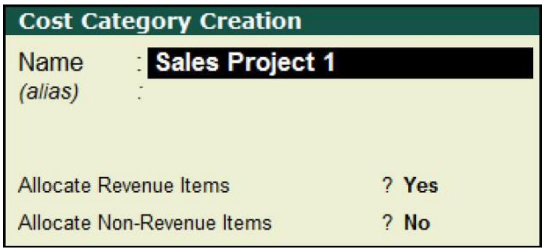
- Go to Gateway of Tally > F11: Features > F1:Accounting Features
- Set 'Maintain Cost Centres' to 'Yes'
- Set 'More than ONE Payroll/ Cost Category' to 'Yes'



Creating Cost Categories

To group the salesmen under one Cost Category (one similar project):

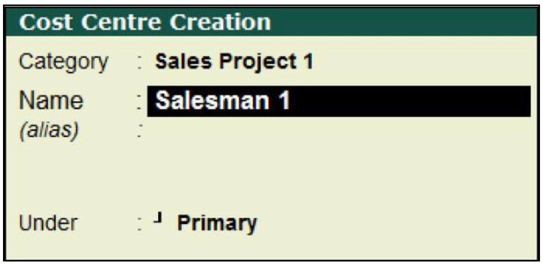
- Go to Gateway of Tally > Accounts Info. > Cost Categories > Select 'Create' under 'Single Cost Centre'
- Enter 'Sales Project 1' in 'Name' > Accept the screen



Creating Cost Centres

Each salesman is considered as a cost centre, so to create these:

- Go to Gateway of Tally> Accounts Info.> Cost
- Centres> Select 'Create' under Single Cost Centres
- Select 'Sales Project 1' in 'Category'
- Enter 'Salesman 1' in Name and accept the screen



Similarly, you can create cost centres for other 3 salesmen.

Allocating Expenses to Cost Centres during Transaction

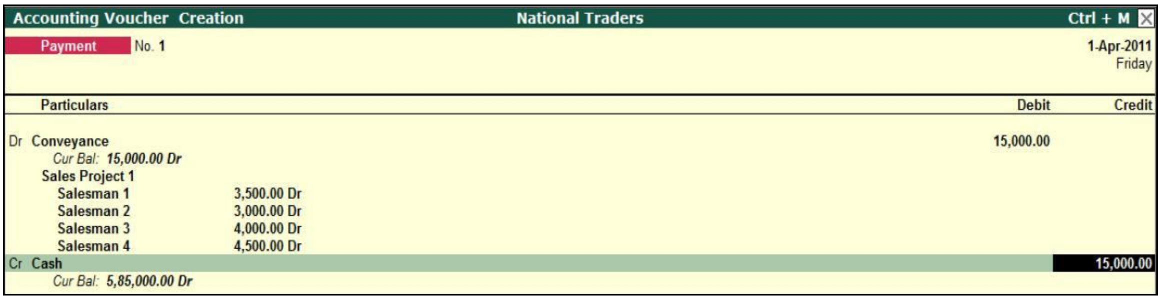
To allocate expenses to each cost centres while making payment for salesmen's expense (for e.g. Conveyance):

- Let's create a 'Conveyance' ledger under 'Indirect Expense'. Also note that 'Cost Centre is enabled by default.

To pass the payment transaction:

- Go to Gateway of Tally > Accounting Vouchers > F5: Payment
- Debit the 'Conveyance' ledger with the required amount
- Press Enter to open 'Cost Allocation' screen
- Select the 'Sales Project 1' in 'Cost Category'
- Allocate each Salesman with the amount as shown:

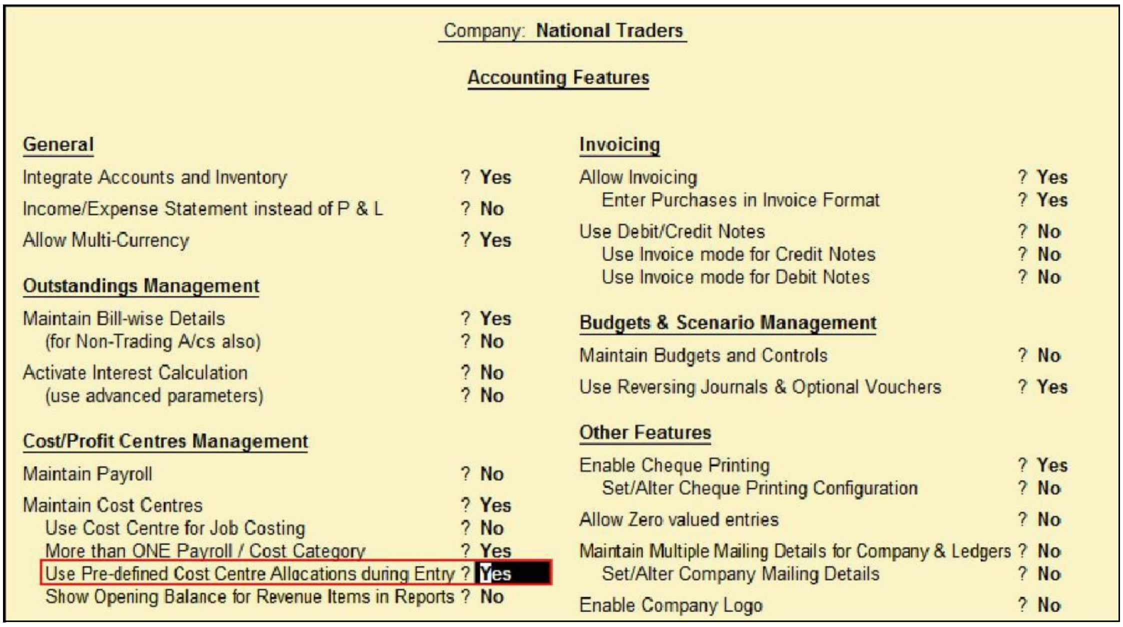
- Complete the Payment Voucher



Pre-Allocation of Costs

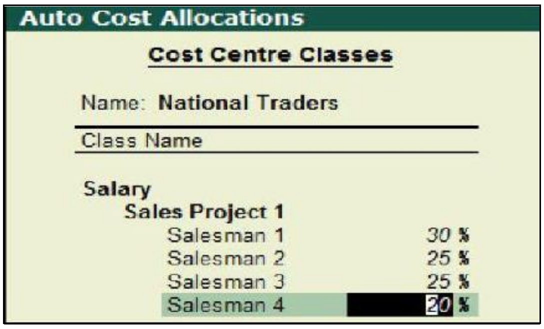
For faster entry you can pre-allocate cost centres by defining percentage in the Cost Centre Class. For example, if a salary of Rs.50, 000 is to be paid and distributed as 30% to Salesman 1, 25% to Salesman 2, 25% to Salesman 3 and 20% to Salesman 4. To do this:

- Go to Gateway of Tally > F11: Accounting Features
- Set 'Use Pre-defined Cost Centre Allocations during Entry' to 'Yes' > Press 'Enter'



On the 'Auto-Cost Allocation' screen,

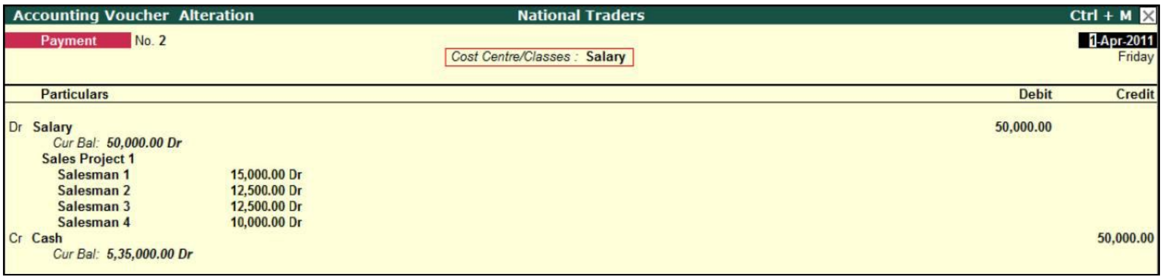
- Enter the 'Class Name' and press 'Enter'
- Select the appropriate 'Cost Category' and enter the required percentage



Now, let's use the 'Cost Centre Class' in a transaction for paying salary to the salesmen. To do this, let's first create a ledger 'Salary' under 'Direct Expense' and allocate all the cost centres (salesmen). To pass the transaction:

- Go to Gateway of Tally > Accounting Vouchers > F5: Payment
- Select 'Salary' in 'Cost Centre/Classes'
- Complete the Payment Voucher

To view the break-up of the cost centres allocation, open the same Payment Voucher in alteration mode as shown:



Cost Centre Reports

For faster identification and detailed analysis of how costs are allocated to your business units, Tally.ERP 9 provides reports to show complete details of all the cost centres and their related transactions in different ways. These reports are:

1. Category Summary
2. Cost Centre Break-up
3. Ledger Break-up
4. Group Break-up

For example, the 'Cost Category Summary' report is shown below:

Cost Category Summary National Traders Ctrl + M

Particulars	National Traders For 1-Apr-2011 Transactions Debit	Credit	Closing Balance
Sales Project 1	65,000.00		65,000.00 Dr
Salesman 1	18,500.00		18,500.00 Dr
Salesman 2	15,500.00		15,500.00 Dr
Salesman 3	16,500.00		16,500.00 Dr
Salesman 4	14,500.00		14,500.00 Dr

To view these cost centre reports:

- Go to Gateway of Tally > Display > Statements of Accounts > Cost Centres

Hence, no matter how many business units you have to handle and optimize your profit, the cost centre and cost category in Tally.ERP 9 can help you make faster decision for your business.

INTRODUCTION

Inventory accounting includes recording of stock details like the purchase of stock, the sale of stock, stock movement between storage locations or godowns and providing information on stock availability. Tally.ERP 9 makes it possible to integrate the inventory and accounting systems so that the financial statements reflect the closing stock value from the Inventory system.

The inventory system operates in much the same way as the accounting system.

- First you set up the inventory details, which is a similar operation to creating the chart of accounts although, in this case, there are **no pre-defined set of stock groups**.

- Second, you create the individual stock items, which is similar to setting up the ledgers.

Inventory Information

The **Inventory Info** menu, lists the inventory masters like Stock Group, Stock Items, Units of Measure of the company, using which you can create, alter and display the inventory master details.

Go to **Gateway of Tally > Inventory Info**

Note: The Inventory Info menu is displayed in the Gateway of Tally, if you select Type of company as Maintain Accounts with Inventory in the Company Creation screen.

Inventory Configurations & Features (F11 & F12)

Configuration of Inventory

By using F12:Configure, you can enable the required settings of Inventory Masters. By default, the settings pertaining to Inventory Masters are set to No. If you set them to Yes, the features will be enabled. Typically, they are additional fields that appear during Masters creation which enable you to obtain more information and detailed analyses.

Note: If you press F12 anywhere in the Menu, it will take you to the configuration menu.

Features of Inventory

By using F11:Features, you can enable the various settings under inventory features which determine the information to be entered during transaction entries.

FUNCTIONS IN INVENTORY INFO. MENU

Inventory information contains the inventory masters. Each master has Create, Display and Alter functions.

These three functions are grouped under:

1. Single
2. Multiple

In Single, you can execute the function on one master. In Multiple, you can execute the function on multiple masters.

Functions

Create

The Create option is used to create new masters. Any modification to the masters can be done only through the Alter mode.

Display

The Display option is used to view the Master information. Master information cannot be modified in Display mode.

Alter

The Alter option allows you to view and make the necessary changes to the master information. This does not allow creation of masters. In Alteration mode, you can delete the master. [Press ALT+D for deletion]

1 .STOCK GROUP

Stock Groups in Inventory are similar to Groups in Accounting Masters. They are helpful in the classification of Stock Items.

You can group Stock Items under different Stock Groups to reflect their classification based on some common features such as brand name, product type, quality, etc.

Grouping enables you to locate Stock Items easily and report their details in statements.

Example

Stock Item	Sub Group	Main Group
Brand A - 19″ TFT	Brand A	Grade One
Brand A - 17″ CRT	Brand A	Grade One
Brand B - 19″ TFT	Brand B	Grade Two
Brand B - 17″ CRT	Brand B	Grade Two

You now have ready details of Grade One and Grade Two products, duly classified. You can also view the sub group classification.

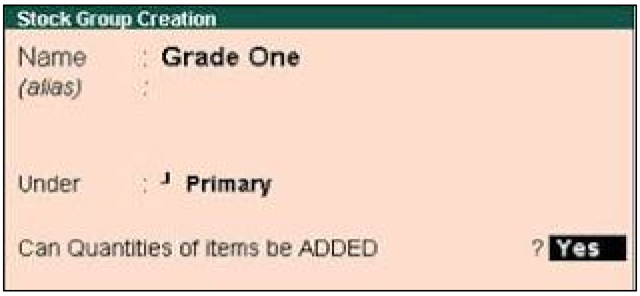
Go to Gateway of Tally > Inventory Info. > Stock Groups

1.1 Creating a Stock Group

Stock Items are classified into stock groups to reflect their classification based on some community.

To create a Stock Group,

Go to **Gateway of Tally > Inventory Info. > Stock Groups > Create** (under Single Stock Group)



A brief description on each of the fields in the Stock Group Creation screen follows:

Name

Enter the name of the Stock Group to be created. For example, Grade One.

Alias

Enter additional name apart from primary name [if required]. You can create any number of additional names.

Under

Specify whether it is a primary group or a sub-group of another group, by selecting from the list.

Press Alt+C to create a parent group, if you do not have it in the list.

Can quantities of items be ADDED?

This field pertains to information on measuring the units of the Stock Items that you would categorise under the Stock Group.

The Stock Items categorised under the group should have similar units for them to be added up. You cannot add quantities in Kgs to quantities in Pcs.

Note: You can always go back and reset this option after assessing the units of the items in the group.

Buttons Specific to Stock Group Creation

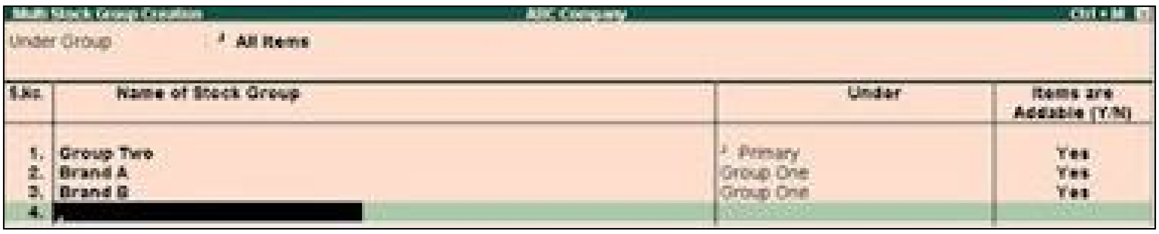
Buttons	Shortcut Key	Description & Use
C: Category	Ctrl + C	Allows you to Create a Category
I: Items	Ctrl + I	Allows you to Create a Item
U: Units	Ctrl + U	Allows you to Create a Unit
O: Godown	Ctrl O	Allows you to Create a Godown
V: Vch Types	Ctrl V	Allows you to Create a Voucher Types

Creating Multiple Stock Groups

Tally.ERP 9 allows you to create Stock Groups using single or multiple options.

To create Multiple Stock Groups,

Go to Gateway of **Tally > Inventory Info. > Stock Groups > Create (under Multiple Stock Groups)**



Select the parent group under which you want the new groups to be created from the "List of Groups".

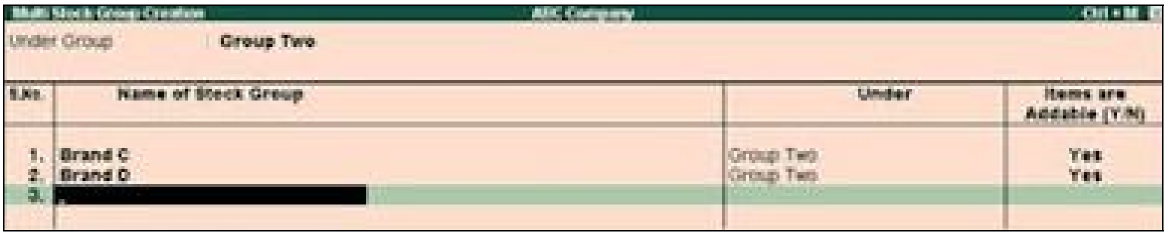
A brief description on each field in the Multi Stock Group Creation screen is given below:

Name of Stock Group

Enter the name of the Stock Group.

Under

If you select any group other than All Items in the Under Group field, then this column is filled in automatically with the selected Group name and the cursor skips this column. This speeds up data entry.



If you select All Items in the Under Group field, the cursor does not skip this field and allows you to enter the parent group for each one of them.

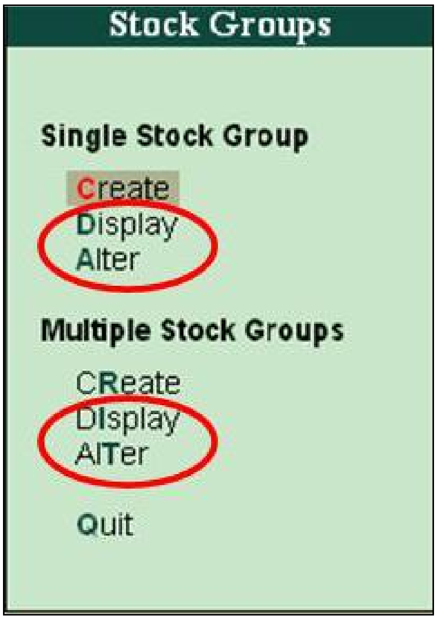
Items are Addable? (Y/N)

You can select whether units of the Stock Items under Stock Group are to be added or not.

Buttons specific to Multi Stock Group Creation screen

Buttons	Shortcut	Description
F4: P F4:Parent	Ctrl + F4	Allows you to change the parent for all sub groups.
F8: F8: Skip Details	F8	Cursor will not go to Column Items are Addable (Y/N). If Items are addable is to remain the same as specified for further subgroup creation, use this button. The cursor skips the column which speeds up data entry.
C: Ca C: Category	CTRL+C	Allows you to Create a Multi Stock Category
I: Items	CTRL+I	Allows you to Create a Multi Stock Item.
O: Godown	CTRL+O	Allows you to Create a Multi Godown

These steps help you to create Stock Groups (Single & Multiple) You can also Display & Alter in these groups as per your requirement. (See below image).



2. STOCK CATEGORY

2.1 Creating a Stock Category

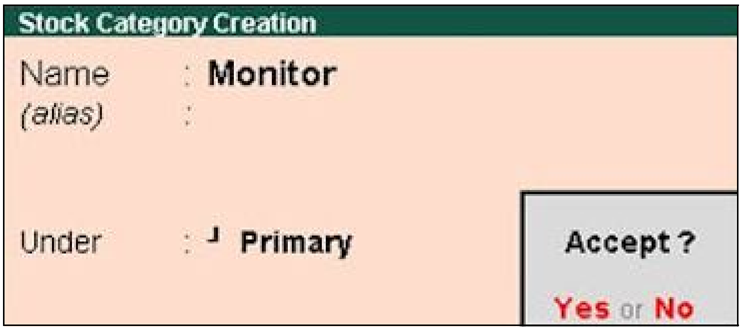
This option allows parallel classification of stock items. Like Stock Groups, Stock Categories are also classified based on some similar behavior.

This enables you to obtain reports for alternatives or substitutes of a stock item.

To create a Stock Categories,

Go to Gateway of Tally > Inventory Info. > Stock Categories > Create (under Single Stock Category)

The Stock Category Creation screen is displayed as shown.



A brief description of each field in the Stock Category Creation screen is given below:

Name

Enter the name of the Stock Category.

Under

Specify whether it is a primary category or a sub-category of another category. Select Primary from the list, if you do not have a parent group. Use ALT + C to create a parent if you do not have the required category in the list.

Buttons Specific to Stock Category Creation

Buttons	Shortcut	Description
G:Groups	Ctrl + G	Allows you to Create a Stock Group
I:Items	Ctrl + I	Allows you to Create a Stock Item
U:Units	Ctrl + U	Allows you to Create a Unit of Measure
O:Godown	Ctrl + G	Allows you to Create a Godown
V:Vch Types	Ctrl + V	Allows you to Create a Voucher Types

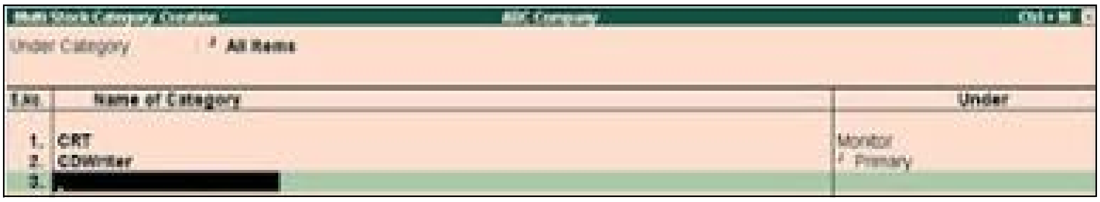
Creating Multiple Stock Categories

Tally.ERP 9 allows you to create Stock Categories using single or multiple options.

To create Multiple Stock Categories,

Go to Gateway of Tally > Inventory Info. > Stock Categories > Create (under Multiple Stock Category)

The Multiple Stock Category Creation screen is displayed as shown.



A brief description of each field in the Multi Stock Category Creation screen is given below:

Under Category

This field will display the List of Categories. You can select a category for which a multiple sub-category can be created.

If you select All Items in List of categories, selection of parent category Under column is possible during creation of sub-category.

If you select specific category in List of Categories, that category will get populated automatically whenever creation of sub-category and cursor skips Under column.

Name of the category

Specify the name of the Stock Category.

Under

If you have select All Items in Under Category, you must specify a parent category in this column.

Buttons specific to Multi Stock Category Screen

Displaying a Stock Category

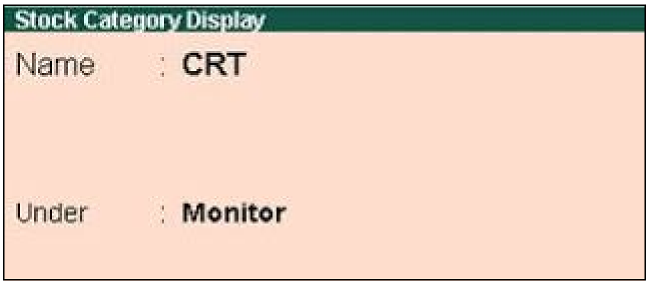
You can display the existing Stock Category in Single mode and multiple mode, since it is only display Tally.ERP 9 does not allow you to alter any information in display mode.

Displaying a Single Stock Category

Go to Gateway of Tally > Inventory Info. > Stock Categories > Display (under Single Stock Category)

Select the Category for which you want to view the display details from the List of Categories.

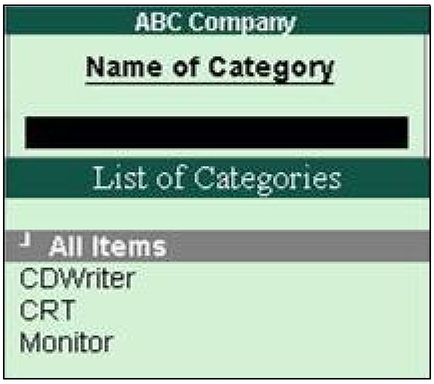
The Stock Category Display screen shows the details entered in Stock Category Master.



Displaying Multiple Stock Categories

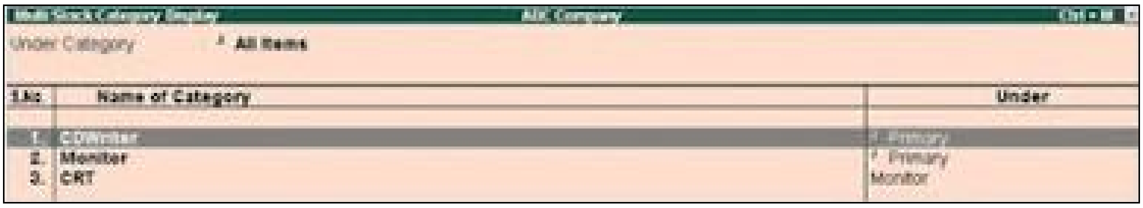
Go to Gateway of Tally > Inventory Info. > Stock Categories > Display (under Multiple Stock Categories)

Select the Stock Category from the List of Categories.



If you select **All Items** from the **List of Groups**, all the categories and sub categories are displayed.

If you select **Monitor** from the **List of Categories**, all the sub categories related to Monitor will be displayed.



Altering a Stock Category

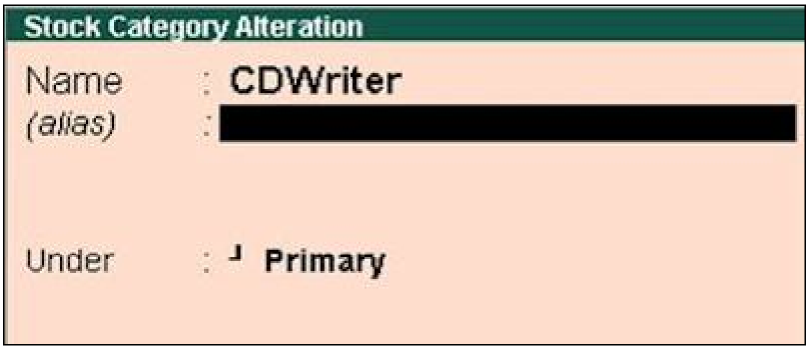
This option allows you to view the existing Stock Category in edit mode, here you are allowed to change the various information.

To alter a Stock Category,

Go to Gateway of Tally > Inventory Info. > Stock Categories > Alter (under Single Stock Category)

Select the Stock Category from the List of Categories.

The Stock Category Alteration screen is displayed as shown.



Make the necessary changes and click **Yes** to accept or press **CTRL+A** to Save.

Deletion is possible only in the alteration mode,. For deleting the Stock Category, Press **ALT+D**.

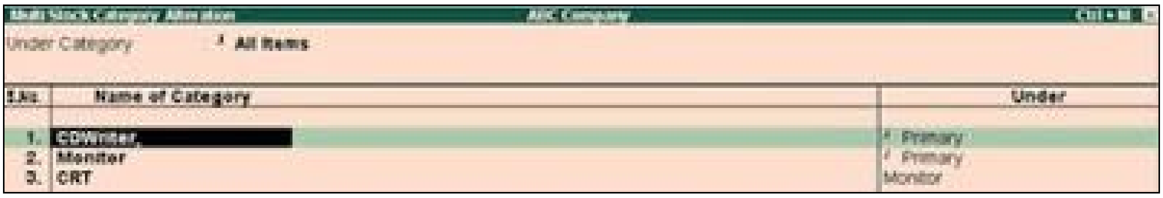
Note: You cannot delete a stock Category, if it is used by any sub Category or stock items. In order to delete the Stock Category, first delete the relevant sub Category and Stock items.

Altering Multiple Stock Categories

To alter Multiple Stock Categories,

Go to Gateway of Tally > Inventory Info. > Stock Categories > Alter (under Multiple Stock Categories)

Select the Stock Category from the List of Stock Categories. The Multi Stock Group Alteration screen is displayed as shown.



Make the necessary changes and click **Yes** to accept or Press **CTRL+A** to save.

Note: You cannot delete a Stock Category in multiple mode.

Buttons specific to Multi stock Category Alter mode:

Buttons	Short Cut Key	Description
F4: Parent	F4	Allows you select Stock Category from Under Category Field for changing the parent of sub category
F4: Parent	Ctrl + F4	Allows you to select parent [Stock Category] from List of Category. You can able to alter the sub Category of selected Stock Category.
F6: Skip Names	F6	Cursor will not go to Column Name of Stock Category. If you want to alter only the details of Under Column then you

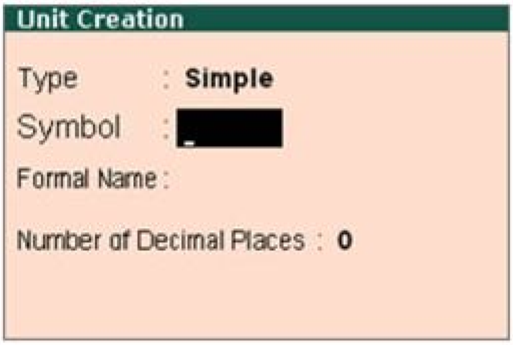
		can skip names.
F7: Skip Parent	F7	Cursor will not go to column Under. If you do not want to alter parent then you can skip parent.
G: Groups	CTRL+G	Allows you to Alter a selected stock Group in Multi-stock Group screen.
I: Items	CTRL+I	Allows you to Alter a selected Item in Multi Stock Item screen.
O: Godown	CTRL+O	Allows you to Alter a selected Godown in Multi Godown screen.

3. UNIT OF MEASUREMENT

Stock Items are mainly purchased and sold on the basis of quantity. The quantity inturn is measured by units. In such cases, it is necessary to create the Unit of Measure. The Units of Measure can either be simple or compound. Examples of simple units are: nos., metres, kilo- grams, pieces etc. Examples for compound units are: a box of 10 pieces etc. Create the Units of Measure before creating the Stock Items.

3.1 Creating Units of Measure

Go to the Gateway of Tally > Inventory Info. > Units of Measure > Create. The Unit Creation Screen appears as shown below:



Type

Tally.ERP 9 has the option to create simple units as well as compound units. Examples: box, nos, pcs, etc. A Compound Unit is a combination of two simple units of measure. Example: A box of 10 pcs is a compound unit of measure.

Symbol

It is the abbreviated form by which a stock item is identified. For example, the abbreviation pcs indicates – pieces

Formal Name

This represents the complete or formal name of a symbol used while creating a unit. Different companies use different symbols to represent the same units. Formal names help you to match the symbols with their respective units. For example, the symbol for numbers (formal name) can be nos or num.

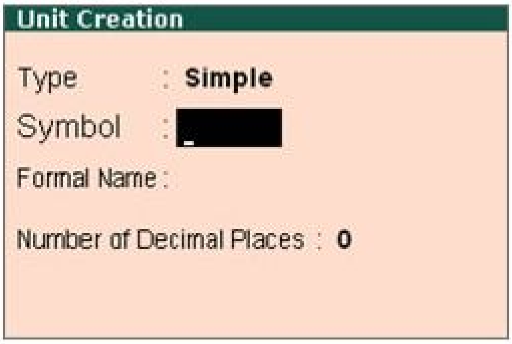
Number of Decimal Places

A unit can be expressed as fractions. For example, a 3.15 Kg refers to 3Kg and 150 grams. The number of digits expressed in grams after the decimal places are three. Likewise, fractions up to four decimal places can be expressed in the same manner. For expressing numbers, without a decimal place, specify 0 in this option.

Let us create the unit **Nos.**

1. Type: Simple
2. Symbol: Nos
3. Formal Name: Numbers
4. Number of Decimal Places: 0

The **Unit Creation** screen is displayed as shown below:



5. Press Y or Enter to accept the screen.

4. Stock Items

Stock Item refers to goods that you manufacture or trade. It is the primary inventory entity and is the lowest level of information on your inventory. You have to create a Stock Item in Tally.ERP 9 for each inventory item that you want to account for.

Go to Gateway of Tally > Inventory Info. > Stock Items

Creating a Stock Item

Stock items are goods that you manufacture or trade (sell and purchase). It is the primary inventory entity. Stock Items in the Inventory transactions are similar to ledgers being used in accounting transactions.

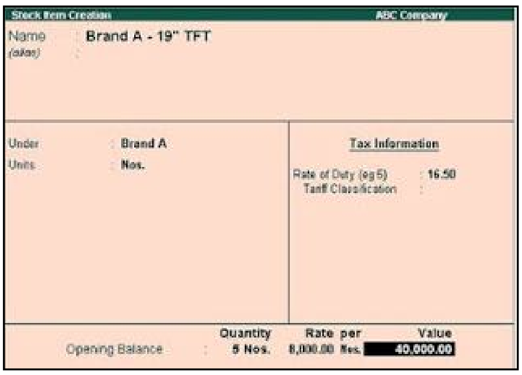
Two Modes of Stock Item Creation:

1. Normal Mode
2. Advance Configuration Mode.

Creation of Stock item in Normal Mode:

To create a Stock Item,

Go to Gateway of Tally > Inventory Info > Stock Item > Single Create (under Single Stock Item)



Stock Item creation is displayed as shown

A brief description of each field in the Stock Item Creation screen follows:

Name

Specify the name of the Stock Item.

Alias

Specify the Alias name of Stock Item (if required).

Under

This field will show the List of Groups. Here you can select the Stock Group to which the Stock Item belongs. By default, Primary Stock Group appears in this field.

Note: You can create a new stock Group by pressing ALT+C at this field.

Units

This field will show the Unit List. Here you can select the Unit of measurement applicable for the stock item. By default, Not Applicable appears in this field.

Note: You can create a new Unit by pressing ALT+C at this field.

Rate of duty

Specify the Rate of Duty applicable for the stock item. This field is used for the calculation of excise duty or if duty is based on item rate. During Invoicing, whenever you select a Stock Item, the Rate of duty entered here is displayed in the Invoice creation screen.

Note: In F11 Inventory features, if Allow Invoicing is set to No then Rate of Duty field will not be visible.

Tariff Classification

Specify the Tariff Classification for the item, if applicable. Tariff Classification can be created or used when Excise features is activated for the company.

Opening Balance

Specify the details of Opening Stock, if any, for the Stock Item as on the date of Beginning of Books.

1. In the Quantity Field, specify the stock item Quantity, say 5 Nos.
2. In the Rate Field, specify the stock item Rate, say Rs. 8000 per piece.
3. In the Value Field, Tally.ERP 9 automatically calculates the value by multiplying the Quantity and Rate. You can also edit the value, Tally.ERP 9 automatically refreshes the Rate field accordingly.

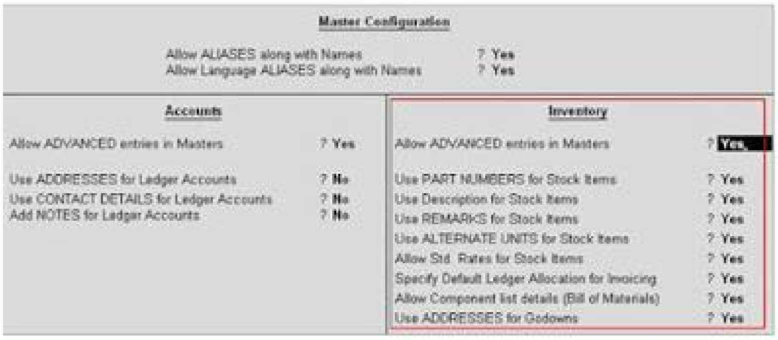
Note: If Unit field is Not Applicable then the cursor will move from Quantity and Rate Field.

Creating a Stock item in Advance Mode

Advance mode means enabling advance configuration and Features for stock item master in F12:Configure and F11:Features.

Shown below are the advance configuration parameters for stock item master under

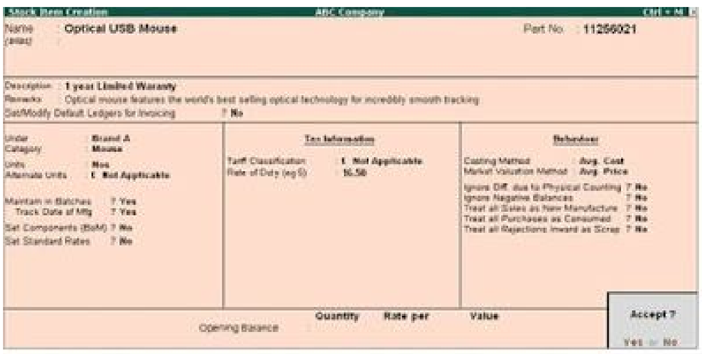
F 12: Configure (Master Configuration) (As per below image):



Shown below are the advance Features for stock items in F11:Features:

Note: You can configure the entire setup according to your requirements. According to the configuration in F12 and F11, stock item master fields will get added and removed.

Go to Gateway of Tally > Inventory Info > Stock Items > Create (under Single Stock Item)



A brief description of each additional field in Stock Item Creation screen is given below.

Part No.

This Part number field gets enabled only after enabling Use Part Number for stock items in Inventory Master Configuration. This field is used to enter the Vendors catalogue number. You can also optionally print it in reports/invoices.

Description

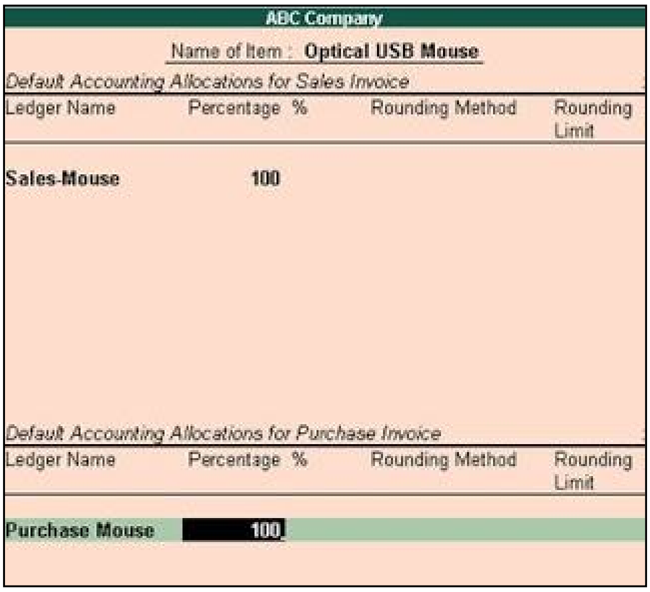
The Description field gets enabled only after enabling Use Description for Stock Items in Inventory Master Configuration. This field is used to enter the description of the Stock Item as it is required to be printed in Quotations, Delivery Challan/Invoice.

Remarks

This Remarks field gets enabled only after enabling Use Remarks for Stock Items in Inventory Master configuration. This field is used to enter Remarks for the Stock Item (for internal use only). Any additional details about the Item can be entered here.

Set/Modify Default Ledgers for Invoicing?

This option gets enabled only after enabling Specify Default Ledger Allocation for Invoicing in Inventory Master Configuration. Once you enable this option, a screen will be displayed for selecting the default ledger allocation for sales and purchase for the stock item.



Note: This option is useful only in case of Invoice entry through Voucher Class.

Category

This Category field gets enabled only after enabling Maintain Stock Categories in Inventory Master Features. This field will show the List of Categories. Here you can select the Stock Category under which the stock Item belongs. By default, Not Applicable is displayed in this field.

Note: You can create a new stock category by pressing ALT+C at this field.

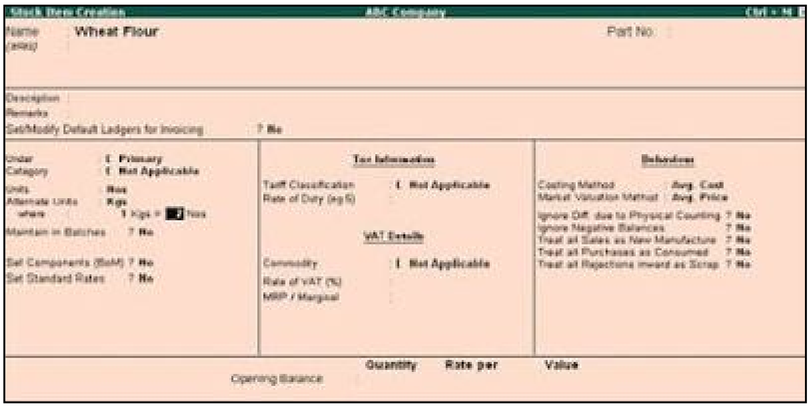
Alternate Units

Alternative Units are individual units similar to simple units, which can be used instead of another simple unit during Invoicing / voucher entry and are also useful in displaying the stock reports alternatively in another simple unit. This is particularly useful when you need to handle different units at different times.

This Alternate Units field gets enabled only after enabling Use Alternate Units for Stock Item in Inventory Master Configuration.

Example

Wheat Flour bag of 1 Kgs can be sold in Nos and the weekly /monthly sale or tonnage of wheat flour can be measured in Kgs or vice versa. Here, in this both Nos and Kgs are simple units, which can be alternatively used.



Maintain in Batches?

This option gets enabled only after enabling Maintain Batch wise Details in Inventory Master Features. If you want to maintain the batch information of Stock Items, set the option Maintain in Batches to Yes.

Track Date of Mfg?

This option is enabled only when Maintain in Batches? is set to Yes. If you want to specify the manufacturing date for the item, set Track Date of Mfg. to Yes.

Use Expiry Dates

This option gets enabled only after enabling Set Expiry Dates for Batches under Maintain Batch Wise Details option in Inventory Features. If you want to specify the expiry date of the item, set Use expiry dates to Yes. This option is useful for stock items like medicines, Food items, etc.

Set Component BOM

This option gets enabled only after enabling Allow Component List Details (Bills of Material) in Inventory Master Configuration. Refer to Bills of Material for more details.

Set Standard Rates

This option gets enabled only after enabling Allow Std. Rates for Stock Items in Inventory Master Configuration. This option helps you specify standard purchase rate and standard sales rates for the item.

The standards are effective from the specified dates and they continue to be used at these rates until the next date, where the standard rate changes.

Note: Standard Rates can also be used for valuation of closing stock.

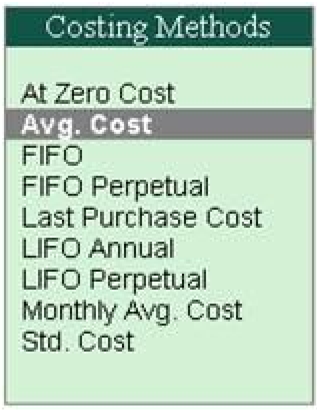
Behaviour Group

Once you enable Allow Advanced Entries in Masters Behaviour Group option will be enabled.

Options available under Behaviour Group are:

Costing Method

This field will display the List of Costing Method for valuating the Stock Item.



Depending upon the stock item, you can select the costing method for valuating the Stock item.

A Brief description about each Costing Method:

At Zero Cost:

Cost of an item is considered as zero. For example, for defective items that have no commercial value.

Avg. Cost:

Periodic system:

This is also known as Weighted Average Cost. The weighted average cost for the whole year is computed as below:

$$\text{Average Cost} = \frac{\text{Total Inward Value for the Year}}{\text{Total Inward Quantity for the Year}}$$

Monthly system:

In monthly average cost, weighted average cost is determined on a monthly basis instead of annual.

FIFO (First-in, First-Out):

Periodic System

Under FIFO Periodic System, it is assumed that items purchased first are sold first under the current financial year (i.e., first lot from the opening stock of current year).

Perpetual System

Under FIFO Perpetual system, it is assumed that items purchased first are sold first across the financial year (i.e., first lot may be from previous year entry).

So cost of goods sold is based upon the cost of material received first in the period, while the cost of inventory is based upon the cost of material received last in the period.

Last Purchase cost

Last purchase cost is Last purchase rate. Cost of goods sold and Cost of inventory is based upon the Last purchase rate.

LIFO (Last-in, First-Out)

Periodic system

Under LIFO, it is assumed that items purchased last are sold first under the current financial year (i.e., first lot from the opening stock of current year)

Perpetual System

Under LIFO Perpetual system, it is assumed that items purchased last are sold first across the financial year (i.e., first lot may be from previous year entry).

So cost of goods sold is based upon the cost of materials received last in the period, while the cost of inventory is based upon the cost of material received first in the period.

Standard Cost

Standard Cost is Standard Rates specified in the Inventory master.

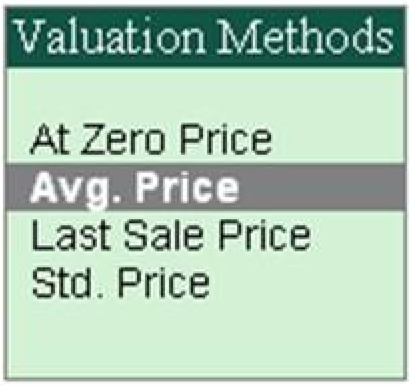
Cost of goods sold and Cost of inventory is based upon the Standard Rates.

Market Valuation Method

By using Market Valuation Method, you can determine the realizable worth of an Item.

Unrealized Profit of an Item = Closing value as per Costing Method – Closing value as per Market valuation method.

Select the appropriate method applicable for the Item from the Valuation Methods List



At Zero Price

Realisable price of an item is considered as zero.

Example: For defective items that have no realisable value in the market.

Average Price

Weighted Average is computed as the sum of all invoice value / sum of all invoice quantity for the financial year.

Last Sale Price

Item is valued at Last Sale Price.

Standard Price

User specified rate applicable for the current date specified in Item master under Standard Rate is taken as the realizable rate.

Ignore Diff. due to Physical Counting?

In Tally.ERP 9, you can record the physical stock as counted, using a physical stock voucher. If you wish to ignore the difference and continue with the stock as per books, set this option to Yes.

Ignore Negative Balances?

If you set this to Yes, Tally.ERP 9 ignores the item in the stock reports, in case it has a negative balance.

Treat all Sales as New Manufacture?

If you set this to Yes, whenever a sales entry is made, Tally.ERP 9 automatically updates the quantity and value in inward by treating the same entry as a New manufacture or purchase.

Treat all Purchases as Consumed?

If you set this to Yes, then, whenever a purchase entry is made, Tally.ERP 9 automatically updates the quantity and value in outward by treating the same entry as consumed.

Treat all Rejections inward as Scrap?

If you set this to Yes, then, whenever a rejection inward entry has been made [without tracking number], Tally.ERP 9 automatically reduces the amount from the closing stock balance. In this case, you need not pass the credit note for reducing the value against rejection inward.

This is used for defective items returned by the customer.

Allow use of expired Batches?

This option will get enabled once you enable the Use expiry dates under Maintain in Batches option.

If you set this to Yes, during selection of batches in voucher entry, expiry batches also get included in the List of Active Batch.

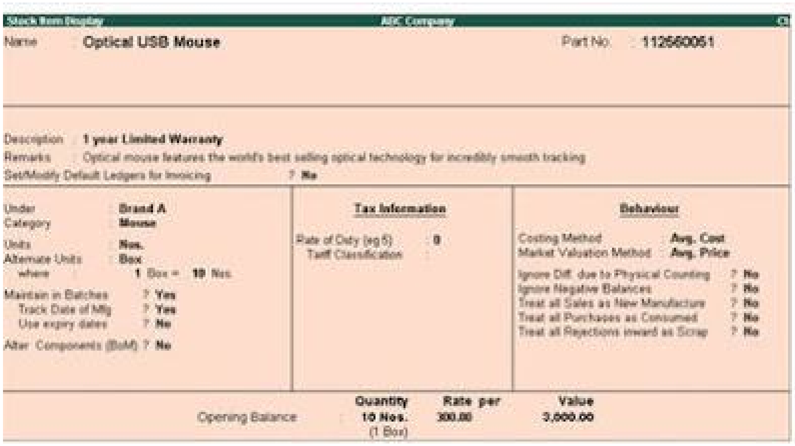
Displaying a Stock Item

You can display the existing Single Stock Item master and Multiple Stock Item masters, since it is only display you are not allowed to alter any information in display mode.

To display a Single Stock Item,

Go to Gateway of Tally > Inventory Info > Stock Items > Display (under Single Stock Item)

Select the Stock Item you want to display from the List of Items. The Stock Item Display screen is displayed as shown.

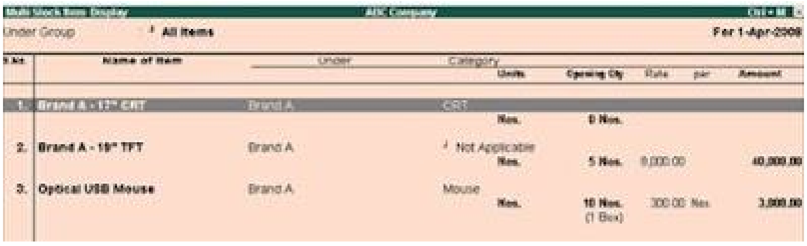


Displaying a Multiple Stock Item

Go to Gateway of Tally > Inventory Info > Stock Items > Display (under Multiple Stock Item)

Select a Stock Group or All Items from List of Groups to display the Stock Item under the selected group or All Items.

The Multi Stock Item display screen is displayed as shown.



Altering a Stock Item

This option allows you to view the existing single Stock Item master and Multiple Stock Item masters in edit mode, here you are allowed to change the various information.

In the Alteration mode, you can change the item master settings.

If a transaction is entered for that item, it is not possible to alter the units and delete the stock item.

To Alter a Single Stock Item,

Go to Gateway of Tally > Inventory Info > Stock Items > Alter (under Single Stock Item)

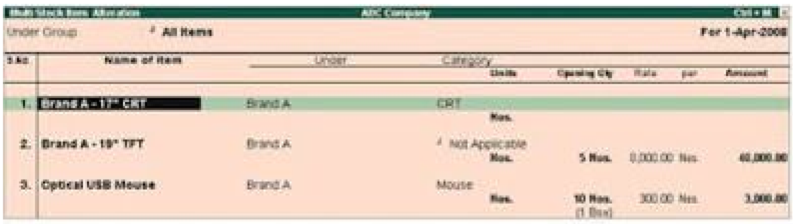
Select the Stock Item you want to alter from the List of Items. The Stock Item Alteration screen is displayed as shown.

Altering a Multiple Stock Item

Go to Gateway of Tally > Inventory Info > Stock Items > Alter (under Multiple Stock Item)

Select a Stock Group or All Items from List of Groups to alter the Stock Item under the selected group or All Items.

The Multi Stock Item Alteration screen is displayed as shown.



Note: In the Multi Stock Item Alteration screen, you can create an Item by specifying item name after the last item, but you cannot delete an item.

5. INVENTORY VOUCHERS

There are 18 different pre-defined Voucher types in Tally.ERP 9. Voucher type pertains to both Accounting and Inventory. These are used for recording various transactions according to the user needs.

Examples include Cash Payment Vouchers and Bank Payment vouchers where the relevant predefined voucher is Payment Voucher. You may have two or more sets of Sales Vouchers for different kinds of sales transactions e.g. Credit Sales, Cash Sales, etc.

If a voucher type is created, you can:

- Have the different Voucher numbering methods.
- Give own prefix and suffix details for the voucher numbering.

- Use the Effective Dates for the vouchers.
- By default make some vouchers optional if required.
- Decide to have the Common Narration or Narration for each entry
- Automate the printing immediately after saving the vouchers.
- Get separate reports for each type of voucher.

Creating an Inventory Voucher Type

Tally.ERP 9 is pre-programmed with a variety of inventory vouchers, each designed to perform a different job. You can alter these vouchers to suit your company, and also create new ones.

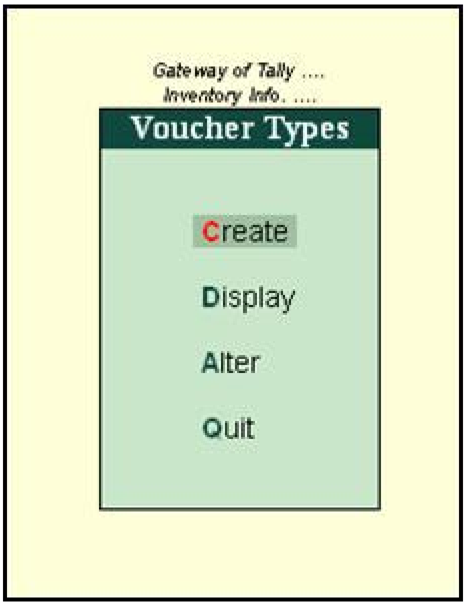
Pre- defined voucher types:

There are 18 pre-defined Voucher types in Tally.ERP 9. Voucher type pertains to both Accounting and Inventory. These are used for recording various transactions according to the user needs.

Examples include Cash Payment Vouchers and Bank Payment vouchers where the relevant predefined voucher is Payment Voucher. You may have two or more sets of Sales Vouchers for different kinds of sales transactions e.g. Credit Sales, Cash Sales, etc.

To create a voucher type,

Go to Gateway of Tally > Inventory info > Voucher types > Create

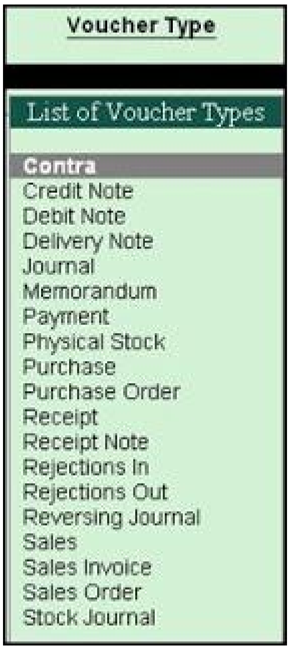


Display/Alter A Predefined Voucher Type

Selecting these options brings up a List of Voucher Types, from which you can select the one you want to view or work on. Apart from the heading, the Voucher Type Display/Alter screens are identical to the Creation screen.

To alter a voucher type,

From Gateway of Tally > Inventory info > Voucher types > Alter



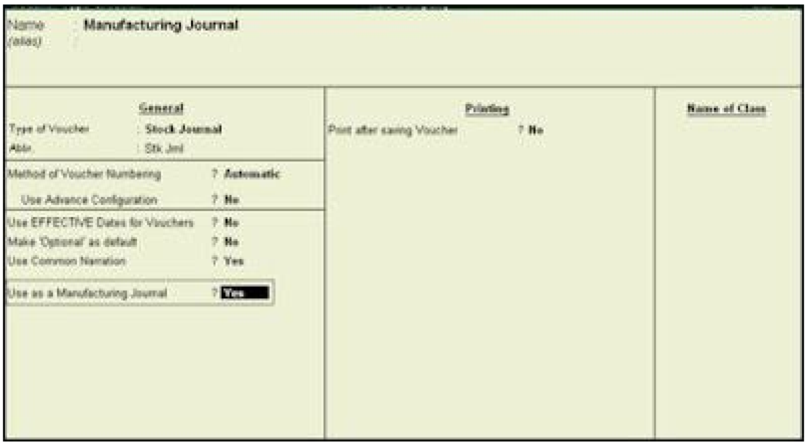
Even if you do not need extra voucher types, you would normally alter the predefined voucher types to customize them according to your needs, e.g., to control their numbers.

Creating a Manufacturing Journal Voucher Type

In Manufacturing/Assembling organisations, there are number of components that go into the manufacturing/ assembling of finished Goods. Once, the Bill of materials is created, you can use Manufacturing Journal and specify the quantity of finished goods that are to be manufactured.

To create a Manufacturing Journal Voucher Type,

Go to Gateway of Tally > Inventory Info > Voucher Types > Create



Name

Enter the name of the Voucher for ex: Manufacturing Journal

Type of Voucher

Select Stock Journal from the List of Voucher Types

Method of Voucher Numbering

You can select the method of voucher numbering as required.

Use Advance Configuration

Enable the options as required.

For more details refer Creating a Voucher Type with Advanced Configuration

Use a Manufacturing Journal

Set this option to Yes. Once this option is set to Yes, you will be able to pass the manufacturing Journal.

You can also alter the existing Stock Journal Voucher type and set Use as a Manufacturing Journal to Yes.

Go to Gateway of Tally > Inventory Info > Voucher type > Alter > Stock Journal

Note: Once the Stock Journal is set for Use as a Stock Journal. all stock journal vouchers will be treated as Manufacturing journals.

Inventory Voucher Class

Inventory Voucher Classes are used to automate Inventory Allocations in transactions. It is a table for predefining the entries to make Invoice entry a simple task. This is particularly useful in Stock Journals where the transfer of materials from one godown to another and vice versa has to be updated without updating the books of Accounts.

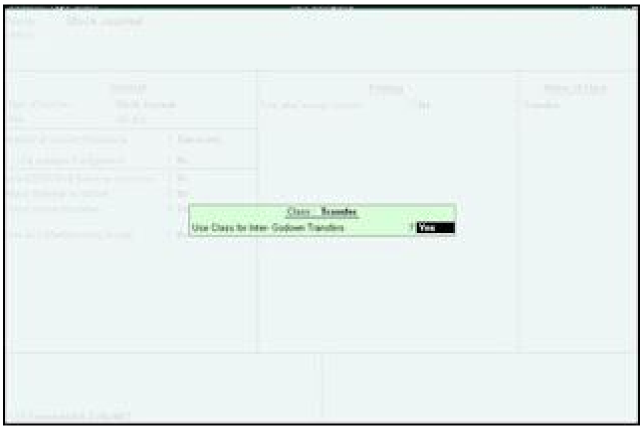
Creating Stock Journal Voucher Class

Stock Journal classes allow you to handle transfers from one location (Godown) to another, for companies having Multi-Location Inventory and at least two location/Godowns. Once the class is selected, you will need to specify the Destination and provide the list of items to be transferred. Through this class all items/batches thus selected will be exactly mirrored to the destination, including Batch Number, Rate and Value.

The user can either alter the existing Stock Journal or create a new voucher type based on the requirements.

Go to Accounts Info > Voucher Types > alter > Stock Journal

Enter a name in the field Name of Class. (Eg: Transfer)



Class: The Transfer screen is displayed. To create a class for inter-godown transfer, set the option Use Class for Inter-Godown Transfer to Yes.

From Next Lesson Onwards we will teach you Enter a Voucher. (Cash, Bank, Sale, Purchase, Inventory etc.)

6. GODOWNS

Create Godowns/ Location

Locations/Godowns are places where Stock Items are stored. You can monitor the location-wise movement of stock by creating multiple Godowns.

Example:

Suppose you have three Godowns, where you store the Goods. In Chennai, you have two Godowns and in Bangalore, one Godown.

You can create Godowns as shown below:

Godown	Under
Godown A	Chennai
Godown B	Chennai
Godown C	Bangalore

First you have to Create Chennai and Bangalore locations and then you have to create Godowns under the respective location.

Tally.ERP 9 has a default Godown named Main Location. You can alter Tally's default Godown and create a new one. Tally.ERP 9 permits the creation of any number of Godowns, under groups and subgroups to match the structure you need.

You can create Locations/Godowns only if Maintain Multiple Godowns is enabled in F11: Features > F2: Inventory Features.

Go to Gateway of Tally > Inventory Info. > Godowns

Note: The term Locations is displayed in the Inventory Info. menu, if International is selected under Use Accounting Terminology of in General Configuration (Gateway of Tally > F12:Configure) screen. If India/SAARC is selected, the term Godowns is displayed.

Creating a Location/Godown

Godowns is a place where stock items are stored. You can specify where the stock items are kept. You can obtain stock reports for each Godown and account for the movement of stock between locations/Godowns.

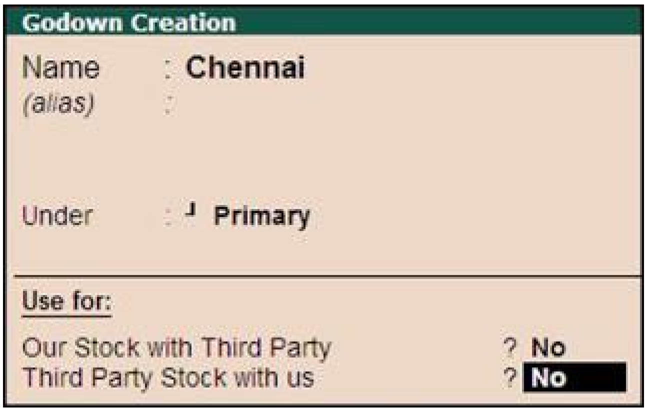
You can create Locations/Godowns in Single mode and Multiple mode

Creating a Single Location/Godown

To create a Location/Godown,

Go to Gateway of Tally > Inventory Info. > Locations/Godowns > Create (under Single Godown)

The Location/Godown Creation screen is displayed as shown:



A brief explanation of each field in the Location/Godown Creation screen is given below:

Name

Specify the name of the Location/Godown.

Alias

Enter an alias name for the Location/Godown name, if required.

Under

Specify the Location/Godown under which the Location/Godown is to be categorised. Use Alt + C to create the parent Location/Godown if it is not in the list. Select Primary, if it is not a sub Location/Godown of any Location/Godown.

Use for

This section is provided in Tally.ERP 9 Release 3.0 where users can create the godowns to store:

The stock of the company lying with third party like Consignment Agent, Bonded Ware house, Job worker, etc.

Or

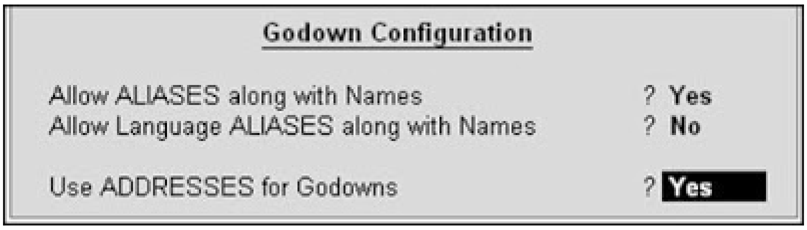
Third Party stock lying with the company in case company has received the stock for Job Work or acting as consignment agent or for any other reason.

- Our Stock with Third Party: Set this option to Yes if the godown is used to account the company's goods lying with the third party.
- Third Party Stock with us : Set this option to Yes if the godown created is used to account the goods received from third party and the stock of third party should not affect the company stock value.

Creating a Single Location/Godown – Advance Mode

Advance Mode indicates enabling certain options in Inventory master configuration screen in order to add or remove field which require in Godown Master.

In the Godown Creation screen, press F12: Configure (Godown Configuration) screen is displayed as shown.

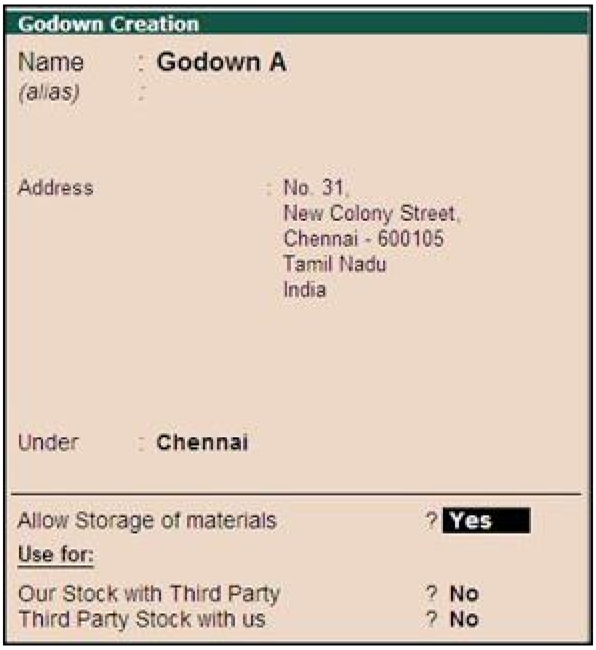


1. Use Addresses for Godowns: Setting this option to Yes enables the Address field in Godown Master

   Accts / Inventory Info. Configuration

   Go to Gateway of Tally > F12: Configure > Accts /Inventory Info.
2. Allow Advanced Entries in Masters: Setting this option to Yes enables the Allow Storage of Materials option in Godown Master.

   The Location/Godown Creation in Advance Mode screen is displayed as shown.



A brief description of each additional field in Godown Creation screen is given below.

Address

This field is a Multi-Line Field. You can enter the Address for Godown.

Allow Storage of Materials

This option is used for deciding whether storage of material is allowed in this Godown or not.

The Godown for which the Allow Storage of Materials is selected as No, will not appear in the Godowns list, during Voucher entry.

Example:

Godown A is under Chennai Location. Here, Chennai is a Location and Godown A is a place where material is stored.

For Chennai, Allow Storage of Materials is set to No, since this will not store the material. During Entry, Chennai will not get listed in the List of Godown.

For Godown A, Allow Storage of Material is set to Yes, since this will store the material. During Entry, Godown A will get listed in the List of Godown.

Creating Multiple Locations/Godowns

Go to Gateway of Tally > Inventory Info. > Locations/Godowns > Create (under Multiple Godowns)

The Multi Godown Creation screen is displayed as shown.

Under Godown

Select the parent group under which you want the new Godowns to be created. If you select any specific Godown other than All Items, then all the new Godowns will be created under that Godown. Selecting All Items gives you the flexibility of specifying the parent of each new Godown created.

Name

Specify the name of the Godown.

Under

If you select All Items in the field Under Godown, you must specify a parent Godown here. If you select a specific Godown in the field Under Godown, that Godown will be displayed automatically in this column.

Displaying & Altering a Stock Location/Godown

You can display/alter the Godowns in single and multiple modes. It is similar to Displaying/Altering Stock Groups in single and multiple modes. Refer Displaying/AlteringStock Groups for more details.

To display a single stock Location/Godown

Go to Gateway of Tally > Inventory Info. > Locations/Godowns > Display (under Single Location/Godown)

To display multiple stock Locations/Godowns at a time

Go to Gateway of Tally > Inventory Info. > Locations/Godowns > Display (under Multiple Locations/Godowns)

To alter a single stock Location/Godown

Go to Gateway of Tally > Inventory Info. > Locations/Godowns > Alter (under Single Location/Godown)

To alter multiple stock Locations/Godowns at a time

Go to Gateway of Tally > Inventory Info. > Locations/Godowns > Alter (under Multiple Locations/Godowns)

You can delete a Godown/ location via Single Godown/Location Alter by pressing [Alt]+[D]. However, you cannot delete a Godown/location with sub-locations. The lower levels must be deleted first.

7. BATCH WISE MANAGEMENT

To Activate Batch-Wise Details in Tally.ERP 9

Batch Wise details allow you to track your Item with a specific code. It also allow you to see your product Manufactured & Expiry dates. But how it can be done, Read this article to know how Its work in TallyERP.9.

1. Enabling Maintain Batch-wise details and Set Expiry Date for Batches in F11: Inventory Features.
2. Enable the following options related to batches in the Stock Item Master to Yes.
   a. Maintain in Batches
   b. Track date of manufacture
   c. Use Expiry Dates

Following Image shows you how to activate Batch wise details in TallyERP.9 with set of Expire date & manufacturing date.

Manufacturing date & Expiry date for Batches

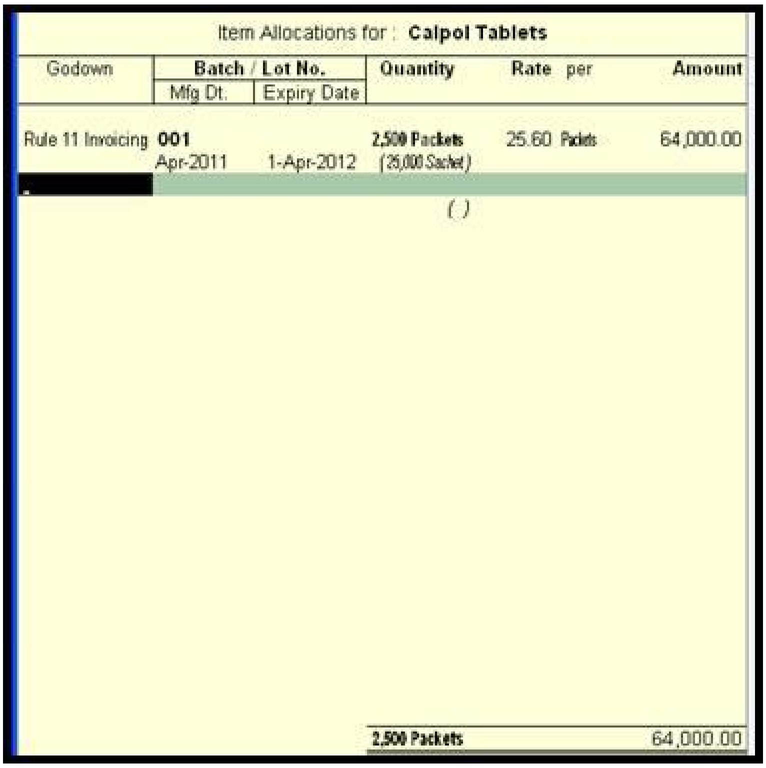
This feature is useful for businesses that deal in goods that have expiry dates like medicines, food and other perishables. During voucher entry, the date of the voucher is taken by default as the date of manufacture of the product. This can be changed but not to a date later than the voucher date. Expiry date cannot be a date prior to the voucher date.

Note: The manufacturing date cannot be later than the voucher date. The expiry date cannot be earlier than the manufacturing date.

Entering Batch-wise details for purchase voucher

Example:

Voucher Date: 1.5.2011. Purchase 2500 nos. @ Rs.25.60 each. Batch no. 001 having the manufacturing date 1.4.2011 and Expiry date 01.04.2012.



In the manufacturing date field, by default it takes the voucher date in the format of month and year. In Expiry date filed, by default it set as Blank. You can specify the expiry date.

Selecting Batch-wise details for sales voucher:

Example:

Voucher Date:8.10.2011. Sales 1200 nos. @ Rs.30.60 each against Batch no. 001.

In List of Active Batches, SP-1062 batch is displayed for selection, since the Expiry Date is not earlier to the Sale Voucher Date. If Sales voucher date is on 02-10-2008, Expiry Date is earlier than the Sale voucher date and it will not be displayed in the List of Active Batches.

This is because the option Honor Expiry Dates usage for Batches is set to YES in F12 Configure (Voucher Entry Configuration).

If you want to list the expiry batches during sales entry, set NO to Honor expiry Dates usage for batches in F12 Configure.

Practical Exercise" of Inventory Masters for National Traders

Similarly, create the following Stock Items under Televisions

Name	Under	Category	Units
Sony 25 inches TV	Sony TV	25 inches TV	Nos
Philips 29 inches TV	Philips TV	29 inches TV	Nos
Philips 25 inches TV	Philips TV	25 inches TV	Nos
Videocon 29 inches TV	Videocon TV	29 inches TV	Nos
Videocon 25 inches TV	Videocon TV	25 inches TV	Nos

Similarly, create the following Stock Items under Music Systems.

Name	Under	Category	Units
Sony Tape – Recorder	Sony Music Systems	Not Applicable	Nos
Sony CD – Player	Sony Music Systems	Not Applicable	Nos
Videocon Tape - Recorder	Videocon Music Systems	Not Applicable	Nos
Videocon CD – Player	Videocon Music Systems	Not Applicable	Nos

Solutions

Before you start to create the inventory data for National Traders, there are some important functions of housekeeping that are to be taken care of.

- Make sure your screen displays the main menu of the Gateway of Tally and ensure that only National Traders is loaded.
- Set Tally.ERP 9's Current Date to April 1, 2009 – select F2: Date at the Gateway of Tally.

- You also need to check whether the following features in Tally.ERP 9 are enabled for this module

I. In the F11: Features (F2: Inventory Features) set Yes to:

- Maintain Stock Categories
- Maintain Multiple Godowns

II. In the F12: Configure > Accts/Inventory Info. set Yes to:

  - Allow ALIASES along with Names
  - Allow Language ALIASES along with Names
  - Allow ADVANCED entries in Masters (Accounts)
  - Use ADDRESSES for Ledger Accounts
  - Use CONTACT DETAILS for Ledger Accounts
  - Allow ADVANCED entries in Masters (Inventory)
  - Allow Std. Rates for Stock Items

Let us now use Tally. ERP 9 to set up the basic inventory details for National Traders that sells computers, Printers and Peripherals. Create the stock groups and sub-groups as shown:

Stock Group	Under
Computers	Primary
Printers	Primary
Peripherals	Primary
Accessories	Peripherals
Components	Peripherals

Illustration 1: Create Stock Groups

You will now set up the stock groups using both the single and multiple create options

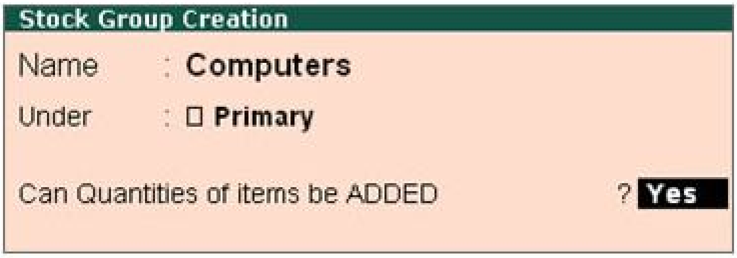
Solution

i. Creating single stock groups

Go to the Gateway of Tally > Inventory Info. > Stock Groups > Create. Create a Stock Group - Computers

1. Name: Computers

2. Aliases: Skip the field
3. Under: Primary
4. Can quantities of items be ADDED?: Yes



Note: The field Can quantities of items be added? in the stock group creation screen pertains to information on measuring the units of the Stock Items that have been categorised under the Stock Group. The Stock Items categorised under thegroup should have similar units for them to be added up. You cannot add quantities in Kgs to quantities in Pcs.

5. Press Y or Enter to accept the screen. Similarly, create the following Stock Groups

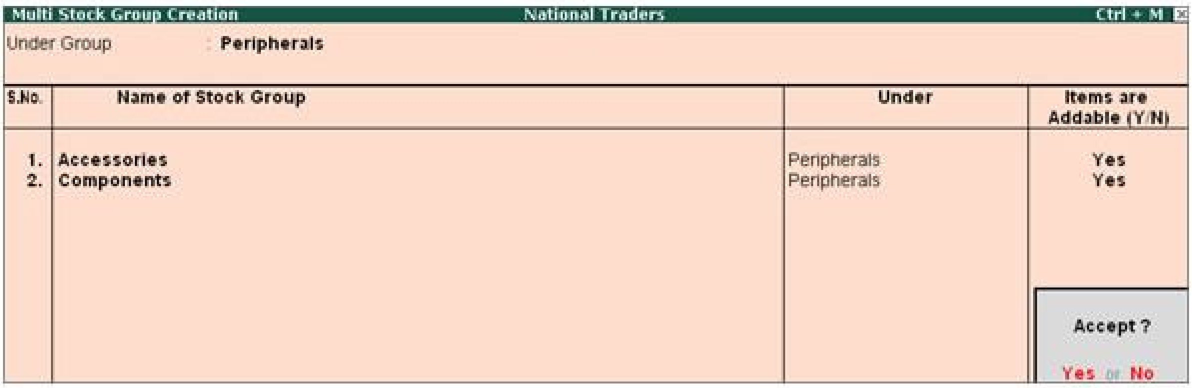
Name	Under	Cam Quantities of items be Added
Peripherals	Primary	Yes
Printers	Primary	No

ii. Creating Multiple Stock Groups

Go to the Gateway of Tally > Inventory Info. > Stock Groups > Create.

Create Accessories and Components under Peripherals.

Ensure that the Multi Stock Group Creation screen is displayed as shown below:



- Press Y or Enter to accept the screen.

Illustration 2: Displaying and Altering Stock Groups.

Solution: Once created, stock groups can be displayed and altered in both the single and multiple mode. You can delete a stock group by using the option Alter under the Single Stock Group by pressing Alt+D. However, you cannot delete a stock group with sub-groups or stock items. The lower levels must be deleted first.

Illustration 3: Creating Single Stock Categories.

Solution: Go to the Gateway of Tally > Inventory Info. > Stock Categories > Create.

Name	Under
National	Primary

Illustration 4: Creating Multiple Stock Categories.

Solution: Go to the Gateway of Tally > Inventory Info. > Stock Categories > Create.

illustration 5: Displaying and Altering Stock Categories.

Solution: Once created, stock categories can be displayed and altered in single and multiple mode. You can delete a stock category via Single Stock Category > Alter by pressing Alt+D. However, you cannot delete a stock category with sub-categories. The lower levels must be deleted first.

Illustration 6: Creating Units of Measure

Solution: Go to the Gateway of Tally > Inventory Info. > Units of Measure > Create.

Type	**Symbol**	**Formal Name**	**Number of Deci-mal Places**
Simple	Nos	Number Of	0
Simple	Box	Boxes	0

Illustration 7: Creating Compound Units of Measure.

Solution: Go to the Gateway of Tally > Inventory Info. > Units of Measure > Create.

1. Type: Compound (press Backspace)
2. First Unit: Select Box
3. Conversion: Type 100
4. Second Unit: Select Nos
5. Press Y or Enter to accept the screen.

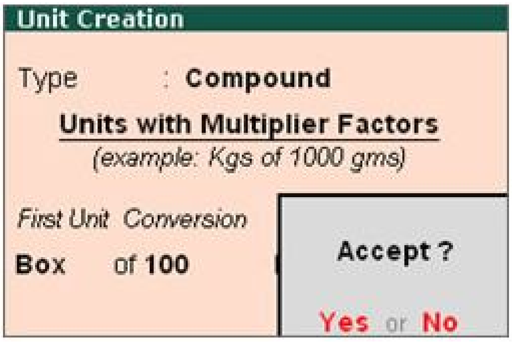


Illustration 8: Displaying and Altering Units of Measure.

Solution: Once created, the units of measure can be displayed and altered. You can delete a unit of measure in the alteration screen by pressing Alt+D. However, you cannot delete a unit of measure that is part of a compound measure. The compound measure must be deleted first.

Illustration 9: Creating Godowns.

Ensure that Maintain Multiple Godowns is set to Yes in the F11: Features (F2: Inventory Features).

Solution: The concept of Godowns is essentially to store the inventory and can be used as a location, warehouse, department, sub-contractor locations etc.Tally.ERP 9 permits any number of godowns that can be grouped and sub-grouped to match the structure you need.

To Create a Godown, go to the Gateway of Tally > Inventory Info. > Godowns > Create.

1. Name: Warehouse
2. alias: Skip the field
3. Under: Primary
4. Allow Storage of materials: Yes

Similarly create On-Site as Godown under Primary.

1. Name: On - Site
2. alias: Skip the field
3. Under: Primary
4. Allow Storage of materials: Yes

Illustration 10: Displaying and Altering Stock Godowns.

Solution: Once created stock Godowns can be displayed and altered in single and multiple mode. Go to the Gateway of Tally > Inventory Info. > Godowns > Alter.

You can delete a stock Godown via Single Godown > Alter by pressing Alt+D. However, you cannot delete a stock Godown with sub-godowns. The lower levels must be deleted first.

Illustration 11: Create Stock Items.

Solution: Go to the Gateway of Tally > Inventory Info. > Stock items > Create.

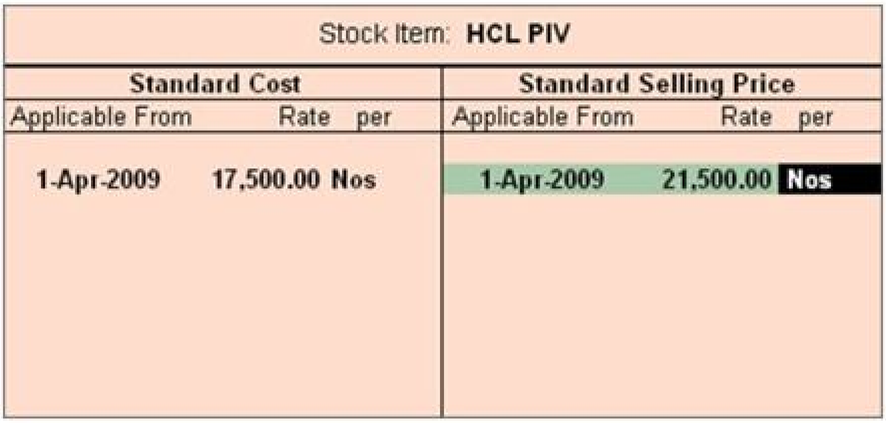
Create the stock items as on 1-4-2009, with the information provided below:

Stock	Cost	Ware-house	On-site	Total Qty	Total Value	Retail Price
COMPUTERS						
HCL PIV	17,500	1	4	5 Nos	87,500	21,500
IBM PIV	17,100	0	4	4 Nos	68,400	24,785
PERIPHERALS						
Accessories						
CD ROM Disks 100s	450	0	5	5 Box	2,250	500
Dust Covers	35	2	8	10 Nos	350	40
USB Pen Drives 64 MB	1,250	0	10	10 Nos	12,500	1,600
Wireless Keyboard	490	10	15	25 Nos	12,250	700
Wireless Mouse	250	10	10	20 Nos	5,000	430
Printers						
HP Laserjet 1010 Series	8,200	0	7	7 Nos	57,400	9,500
Samsung Laserjet 1500	8,100	0	5	5 Nos	40,500	9,850
Total					2,86,150	

Ensure that Allow ADVANCED entries in Masters is set to Yes in the F12: Stock Item Configuration.

Create the stock item HCL PIV with the following details:

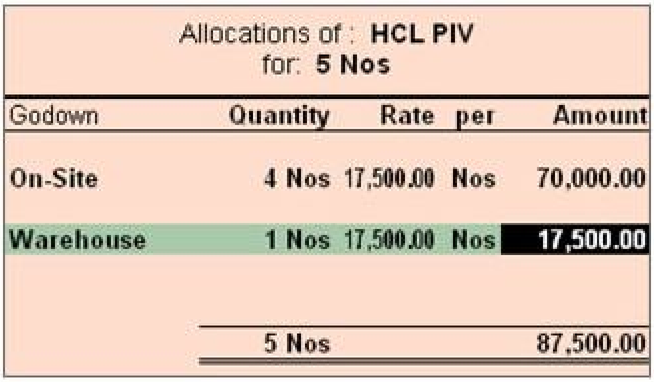
1. Name: HCL PIV
2. alias: Skip this field
3. Under: Computers
4. Category: HCL
5. Units: Nos
6. Alter Standard Rates?: Yes
7. Enter the details in the Standard Rate screen as shown below:



8. Enter other details as given in the table:

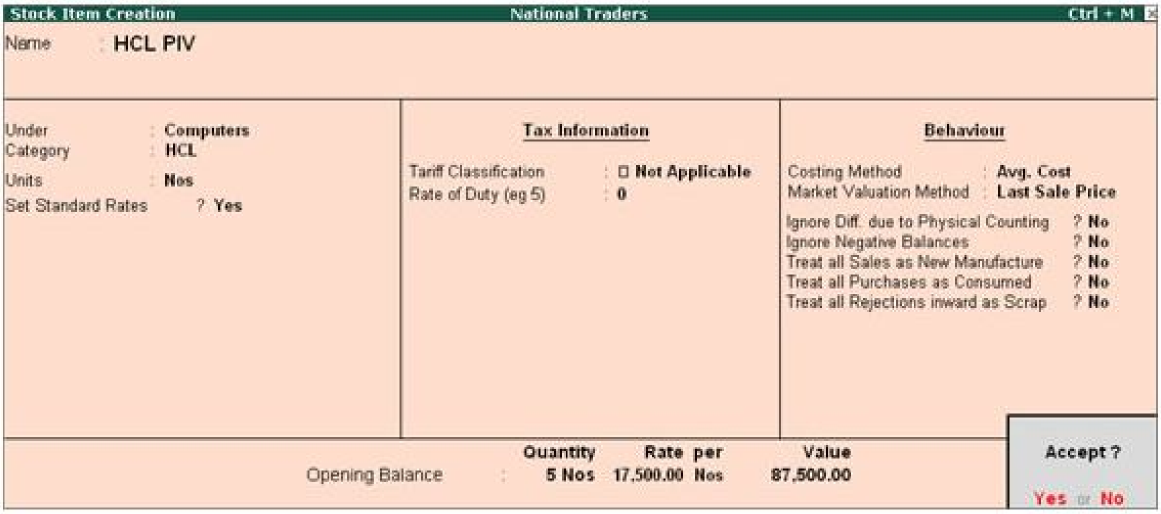
Rate Of Duty	0
Cost Method	Avg Cost
Market Valuation Method	Last Sale Price
Ignore Diff due to Physical Counting?	No
Ignore Negative Balances?	No
Treat all Sales as New Manufacture?	No
Treat all Purchases as consumed?	No
Treat all Rejection Inward as scrap?	No
Opening Balance: Quantity	5 Nos
Opening Balance: Rate	17,500

9. Allocate the items as shown below:


Allocations of : HCL PIV
for: 5 Nos

Godown	Quantity	Rate	per	Amount
On-Site	4 Nos	17,500.00	Nos	70,000.00
Warehouse	1 Nos	17,500.00	Nos	17,500.00
	5 Nos			87,500.00

10. The Stock Item Creation screen for HCL PIV appears as shown below:



11. Press Y or Enter to accept.

Explanation for Behaviour

- **Costing Method:** This is the method by which stocks are valued. The value arrived at will be the stock value in the books. This method considers Purchase costs only.
- **Market Valuation Method:** This method considers the Sale price only for the valuation of stocks. The method selected, is not however, used for standard reporting.

- **Ignore Diff.** due to Physical Counting?: This requires you to enter information on whether Tally.ERP 9 should automatically account for stock difference by passing an appropriate entry or not.

- **Ignore Negative Balances?:** This requires you to enter information on whether Tally.ERP 9 should warn you if there is a negative balance. This however does not prevent you from entering vouchers.

- **Treat all Sales as New Manufacture?:** This requires you to enter information on whether on entering a sale voucher, the item will automatically be manufactured and brought in stock.

- **Treat all Purchases as Consumed?:** This requires you to enter information on whether on entering a purchase, the item is automatically issued from stock.

- **Treat all Rejections inward as Scrap?:** This requires you to enter information on whether the goods rejected and taken into stock should be shown as issued and hence valued nil.

Similarly, Create other Stock Items.

Once you have entered all the stock items, return to the main Gateway of Tally menu and select the Stock Summary. This should show a grand total of 2,86,150, the break-up of which is ,Computers - Rs. 1,55,900, Peripherals - Rs. 32,350, Printers - 97,900 = Rs. 2,86,150.

Ensure that the Stock Summary appears as shown :

Stock Summary — National Traders — Ctrl + M

Particulars	National Traders For 1-Apr-2009 Closing Balance		
	Quantity	Rate	Value
Computers	9 Nos	17,322.22	1,55,900.00
HCL PIV	5 Nos	17,500.00	87,500.00
IBM PIV	4 Nos	17,100.00	68,400.00
Peripherals			32,350.00
Accessories			2,600.00
CD ROM Disks 100s	5 Box	450.00	2,250.00
On-Site	5 Box	450.00	2,250.00
Warehouse			
Dust Covers	10 Nos	35.00	350.00
On-Site	8 Nos	35.00	280.00
Warehouse	2 Nos	35.00	70.00
Components	55 Nos	540.91	29,750.00
USB Pen Drives 64MB	10 Nos	1,250.00	12,500.00
On-Site	10 Nos	1,250.00	12,500.00
Wireless KeyBoard	25 Nos	490.00	12,250.00
On-Site	15 Nos	490.00	7,350.00
Warehouse	10 Nos	490.00	4,900.00
Wireless Mouse	20 Nos	250.00	5,000.00
On-Site	10 Nos	250.00	2,500.00
Warehouse	10 Nos	250.00	2,500.00
Printers			97,900.00
HP Laserjet1010 Series	7 Nos	8,200.00	57,400.00
On-Site	7 Nos	8,200.00	57,400.00
Samsung Laserjet 1500	5 Nos	8,100.00	40,500.00
On-Site	5 Nos	8,100.00	40,500.00
Grand Total	9 Nos		2,86,150.00

QUESTIONS FOR SELF-PRACTICE

(I) [A] Theoretical Questions

(1) Explain the use of inventory in maintaining stock goods.

(2) What is Godown? Give illustration.

(3) Why is it necessary to create of Stock Group in inventory?

(4) Write a short note of Unit of Measure.

(5) Distinguish between Cost Centre and Cost Category.

(6) Explain the following:

(a) Periodic System in FIFO.

(b) Perceptual System in LIFO.

(7) Explain Stock Category with the help of example.

(II) [B] Objective Questions

(I) State whether the following statements are true or false.

1. FIFO Method of pricing of materials results in higher profits.
2. Valuation of closing stock is the same under FIFO and LIFO Method.
3. Bin Card is the same as stores ledger.
4. LIFO and Market Price Method are not same.
5. If a company wans to maximise net income, it would select FIFO Method.
6. LIFO Method of pricing issues is useful during the perod of inflation.
7. Weighted Average Method of pricing issues involves additing different rices and dividing by the number of such prices.
8. Under FIFO Method, materials purchased first are deemed to be issued last.
9. Under LIFO Method, materials purchased last are deemed to be issued first.

[**Ans.** True: (1,4, 5, 6, 9). False: (2, 3, 7, 8)]

(II) Match the Following

Group A	Group B
(1) FIFO	(i) Last In First Out
(2) LIFO	(ii) Average of the prices
(3) Weighted Average	(iii) Movement of materials

(4) Stores Ledger	(iv) First In First Out
(5) FIFO	(v) Cost is understated
	(vi) Shows real income in times of rising prices

[**Ans.** (1 - iv), (2 - i), (3 - ii), (4 - iii), (5 - vi)]

(BI) Multiple Choice Questions. Select the Right Answer.

(1) Issue of materials during a period of time is priced at the latest purchase cost under

(i) FIFO

(ii) LIFO

(iii) Simple Average

(iv) Weighted Average

(2) Stores Department maintains a record in which a separate folio is maintained for each item

(i) Stores Ledger

(ii) Bin Card

(iii) Stock Register

(iv) Bill of Materials

(3) In times of rising prices, the pricing of issues will be at a more recent current market prices in

(i) FIFO

(ii) Weighted Average

(iii) LIFO

(iv) Simple Average

(4) The inventory is valued at the most recent market prices and it is near to the valuation based on replacement cost in

(i) FIFO

(ii) LIFO

(iii) Weighted Average

(iv) Base Stock Method

(5) According to the method of pricing, issues are close to current economic values
 (i) UFO
 (ii) FIFO
 (iii) Highest In First Out Price
 (iv) Weighted Average Price

(6) In the method of pricing, cost lag behind the current economic values
 (i) LIFO
 (ii) FIFO
 (iii) Replacement Price
 (iv) Weighted Average Price

(7) When price fluctuate widely, the method that will smooth out the effect fluctuations is
 (i) Simple Average
 (ii) Weighted Average
 (iii) FIFO
 (iv) LIFO

(8) In the method, the charge to production is not at actual cost
 (i) Weighted Average
 (ii) Standard Price
 (iii) Replacement Price
 (iv) All of these

[**Ans:** (1 – ii), (2 – i), (3 – iii), (4 – i), (5 – i), (6 – ii), (7 – ii), (8 – iv)]

Practical Questions

(1) The following transactions took place in respect of a material item:

Date	Receipts Quantity (units)	Issue Rate (₹)
March 2	200	2.00
10	300	2.40
15	250	
18	250	2.60
20	200	

Prepare a priced Ledger Sheet, pricing the issues at-

(a) Simple average rate:

(b) Weighted average rate.

[**Ans:** Stock (a) 300 units or ₹ 720, (b) 300 units of ₹ 726]

(2) Prepare Stores Ledger from the following using Weighted Average method of Pricing:

Feb 1.

Receipts	**Issues**
3 300 units @ ₹ 12	Feb 2 100 units
5 100 units @ ₹ 16	4 200 units
8 200 units @ ₹ 13	7 200 units
9 100 units	

The physical verification on 6th February, revealed a shortage of 10 units.

[**Ans:** Stock 290 units @ ₹ 13]

(3) Prepare Stores Ledger as per First In First Out Method of Pricing of Issue of Materials:

	Units	**Rate**
April 1	Opening balance 1,000	₹ 5
3	Received 5,000	₹ 6
6	Issued 2,000	
4	Issued 3,000	
8	Received 3,000	
9	Issued 2000	₹ 5

The weekly physical stock taking on April 7, showed as shortage of 100 units.

[**Ans:** Stock 1,900 units @ ₹ 5 of ₹ 9,500]

(4) From the following information prepare Stores Ledger Account per FIFO method:

Jan. 1	Opening Stock200 pieces	@ ₹ 2 each
5	Purchases 1000 pieces	@ ₹ 2.20 each
10	Purchases 150 pieces	@ ₹ 2.40 each
20	Purchases 180 pieces	@ ₹ 2.50 each

2	Issues	150 pieces	
7	Issues	100 pieces	
12	Issues	100 pieces	
28	Issues	200 pieces	

[**Ans:** Stock 80 units @ ₹ 2.50]

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5

CHAPTER

Conversion/Sale of a Partnership Firm into a Ltd. Company

1. INTRODUCTION

Conversion: A firm may be converted by the partners into a limited company. This is done to take the following advantages: (a) a company is not affected by death or retirement of a member. (b) the liability of shareholders is limited. (c) the shares are easily transferable. (d) there is no limit on the maximum number of shareholders. (e) a limited company can raise large capital from public and carry on the business on a much larger scale. In fact, the partners themselves are the promoters of the new company. The name of the company may be similar. Thus a firm M/S Tata may become, after conversion, M/S Tata Company Limited.

Sale: In some cases the firm may be sold to an existing limited company. In case of a sale the present partners may not become directors of the company. There may be a change of management.

Dissolution: However, in both the cases, the firm is dissolved and most of the assets and liabilities are taken over by the limited company for an agreed price. The entries in the books of the firm are same as in the case of dissolution of a firm. In a normal dissolution, however, each item of asset is sold individually and each liability is paid individually. In a conversion or sale to a company, all the assets and liabilities of the firm are taken over by the company for an agreed price known as the purchase consideration.

2. PURCHASE CONSIDERATION

Meaning: On sale or conversion, the limited company takes over the business of the firm for an agreed price. This price is known as "purchase consideration". It is the price paid for taking over the net assets (assets less liabilities) of the firm. The price may be settled by the company partly by paying cash and partly by allotting its shares and debentures to the partners.

Methods: The amount of purchase consideration may be determined by three methods: (1) Lump Sum Method (2) Payments Method or (3) Net assets Method.

(1) Lump Sum Method: Sometimes, the purchase consideration is given as lump sum amount. For example, it may be stated that XYP firm is acquired by XXed Limited for ₹ 2,40,000. In such case it is not necessary to actually calculate the purchase consideration.

(2) Payments Method: In this method, the purchase consideration is equal to the total of all the payments made by the company to the partners. The payments may be in any form e.g. cash, shares, debentures etc. The shares or debentures may be issued at par or at premium or at discount. While calculating the purchase consideration, we should consider the issue price and not the face value of the shares etc. The payments may be for any purpose e.g. for meeting expenses of dissolution etc. The payments may be made to the partners or even to creditors etc. On behalf of the firm. All the payments, in whatever form, for whatever purpose, and to whomsoever made are added up to determine the purchase consideration.

(3) Net Assets Method: In this method, the purchase consideration is equal to the Agreed Value of Assets Taken Over Less the Agreed Value of the Liabilities Taken Over. While calculating the purchase consideration under this method: (a) we have to consider only the items taken over and ignore the items not taken over by the company; and (b) we have to consider the agreed values and ignore the book values of the items taken over.

Discharge: The actual payment of the price by the company to the partners is known as the discharge of the purchase consideration. The price may be paid by the company partly in cash and partly by allotment of its own shares or debentures.

Distribution: First the shares or debentures received from the company are divided among the partners. Then the final balance in capital accounts is paid in cash in the end. So, there is no question of dividing the cash in any particular ratio. If the partner's capitals are not in their profit sharing ratio, the question arises as to how the equity shares etc. Should be divided among the partners. It is to be decided whether the shares etc. should be divided in the profit sharing ratio or in the ratio of capitals. this decision will have effect on the future rights (equity dividends) of the partners. The division can be made in any of the following ways:

(1) Specific Ratio: If any specific ratio is given, the shares or debentures are divided in the given ratio. If there is any specific agreement among the partners, the shares or debentures must be divided among the partners in the agreed ratio.

(2) Equitable Approach: If it is stated that the purchase consideration should be distributed equitably (fairly): (a) equity shares should be divided among the partners in their profit sharing ratio; and (b) preference shares and debentures should be divided among the partners in the ratio of their capitals. This is known as the equitable approach because it is fair and just to all the partners. It ensures that future profits (equity dividends) are shared in the profit sharing ratio and a fixed return (preference dividend/debenture interest) is assured on the capitals. This method is also used when it is stated that the distribution should be in such a way that there is no effect on the partners' rights.

(3) Legal Approach: If no instructions are given, shares and debentures should be divided in the ratio of the partners' capitals. This is known as the legal approach because it is in accordance with the provisions of Section 48 (b) of the Indian Partnership Act, 1932.

Note: Shares or debentures are always issued in whole numbers and not in fractions. If after distribution, a partner is entitled to get 100 and 1/2 shares, he should be given 100 shares and the value of 1/2 share should be paid in cash.

3. ENTRIES IN BOOKS OF FIRM

The entries in the books of the firm are passed in the following manner:

(1) Balance Sheet: The Balance Sheet of the firm as on the date of the take over is the staring point.

(2) Accounts to be Opened: The following accounts are opened to record the various transactions:

(i) Realisation A/c

(ii) Partners' Capital Accounts (Columnar form).

(iii) Cash and Bank Account (if not taken over by Company).

(iv) Account of the Limited Company.

(v) Account for each item received from Company e.g. Equity Shares A/c, Preference Shares A/c, Debentures A/c etc.

(3) Transfer Asset A/cs: The various asset accounts shown in the balance sheet on the date of takeover are transferred as follows:

(i) All the **real assets,** whether taken over by the company or not, are transferred to the Realisation A/c. The Journal entry is:

Realisation A/c	Dr.	Total
To Various Assets A/cs		Balance as per B/S

Notes:

(1) If the cash or bank balance is taken over by the company, it is also transferred to the Realisation A/c.

(2) If the cash or bank balance is not taken over by the company, it is not transferred to the Realisation A/c. It appears as the opening balance on the debit side of the Cash/Bank Account opened in step No. (2) above.

(3) Gross Value of Debtors is transferred to the debit of the Realisation A/c. Amount of Reserve/Provision for Doubtful Debts is transferred separately to the credit of the Realisation A/c.

(4) If Goodwill A/c appears in the balance sheet, it too is transferred along with other assets.

(ii) Fictitious Assets like Profit & Loss A/c (Debit) balance which indicates the accumulated losses and Deferred Revenue Expenditure not written off are transferred, not to the Realisation A/c, but to the partners' capital accounts in their profit sharing ratio. The Journal Entry is:

Partners' Capital Accounts	Dr.	Profit Sharing Ratio
To Profit & Loss A/c (Debit)		Balance as per B/S
To Deferred Revenue Exp. A/c		Balance as per B/S

(4) Transfer Liability A/cs: The various liability accounts shown in the balance sheet of the firm on the date of take over are transferred as follows:

(i) Outside Liabilities: (e.g. bank loans, creditors, provisions, etc.) whether taken over by the company or not, are transferred to the Realisation A/c. The Journal Entry is:

Various Liabilities A/cs	Dr.	Balances as per B/S
To Realisations A/c		Total

(ii) Accumulated Profits like Profit & Loss A/c (Credit) balance and various reserves. (General Reserve etc.) are transferred to the partners' capital accounts in their profit sharing ratio. The Journal Entry is:

Profit & Loss A/c (Credit)	Dr.	Balance as per B/S
Various Reserve Accounts	Dr.	Balance as per B/S
To Partners' Capital A/cs		In Profit Sharing Ratio

(5) Purchase Consideration Due: The purchase consideration due is recorded through the following entry:

ABC Company's A/c	Dr.	Agreed Price
To Realisation A/c		

(6) Purchase Consideration Received: The various items (cash, shares, debentures etc.) received by the firm from the Company are recorded by the following entry:

Cash or Bank A/c	Dr.
Equity Shares in ABC Co. A/c	Dr.
Pref. Shares in ABC Co. A/c	Dr.
Debentures of ABC Co. A/c	Dr.
To ABC Company's A/c	Dr.

(7) Assets not taken over by Company: The assets not taken over by the company may be: (a) sold to outsiders for cash or (b) taken over by a partner of (c) gifted to a partner.

(a) Sold for Cash:

Cash A/c	Dr.	Sale Price
To Realisation A/c		

(b) Taken over by Partner:

Partner's Capital A/c	Dr.	Agreed Value
To Realisation A/c		

(8) Unrecorded Assets: There may be an unrecorded asset e.g. A debt written off as bad now recovered which does not appear in the balance sheet. If such unrecorded assets are disposed of (sold for cash or taken over by a partner) the same entries as in (7) above are passed. Thus, the sale price or agreed value of such unrecorded assets is directly credited to the Realisation A/c. If Goodwill does not appear in the books, it may be treated as an unrecorded asset as above on its disposal.

(9) Liabilities Not Taken Over By Company: The liabilities not taken over by the company may be (a) paid in cash or (b) taken over by a partner at an agreed value or (c) settled by giving an asset in exchange.

(a) Paid in Cash:

Realisation A/c	Dr.	Amount Paid
To Cash A/c		

(b) Taken over by Partner:

Realisation A/c	Dr.	Agreed Value
To Partner's Capital A/c		

(c) Asset given Against Liability: If an asset is given in full settlement of a liability, no entry is passed. If an asset is given in part settlement of a liability, the agreed amount of asset is deducted from the liability. The balance paid in cash is accounted an in a) above.

(10) Unrecorded Liabilities: There may be an unrecorded liability e.g. a contingent liability now becoming an actual liability, which does not appear in the balance sheet. If such unrecorded liabilities are settled (paid in cash or taken over by a partner on an asset is given in exchange) the same entries as in (9) above are passed. Thus, the amount paid or agreed value of such unrecorded liabilities is directly debited to the Realisation A/c.

(11) Expenses of Take Over: Certain expenses may be incurred on realisation of assets or for dissolution e.g. Legal fees, commission, stamp duty, bank charges, etc. When the expenses are paid by the firm, the following entry is passed:

Realisation A/c	Dr.	Amount of Expenses
To Cash A/c		

Notes:

(a) It the expenses are to be borne by the company, the amount will be included while calculating the purchase consideration. There is no need to pass any further entry for recovery by firm from company.

(b) If the expenses are paid by the company, no entry is passed in the books of the firm.

(12) Payment of Partners' Loans: After the outside liabilities settled, the partners' loans are paid off.

Partners' Loan A/cs	Dr.	Amount of Loan
To Cash A/c		

Notes:

(a) Any interest paid on such loans is debited to the Realisation A/c. Any rebate or discount on repayment of such loans is credited to the Realisation A/c.

(b) A partner may be given shares or debentures instead of cash in settlement of his loan. The entry is:

Partners' Loan A/cs	Dr.	Amount of Loan
To Equity Shares in ABC Co. A/c		
To Pref. Shares in ABC Co.A/c		
To Debentures in ABC Co. A/c		

(13) Profit of Loss on Realisation: At this stage, the realisation of assets and payment of liabilities is complete. Now is the right time to balance the Realisation A/c and find out the profit or loss on realisation. If the credit side of the Realisation A/c is larger, there is a profit on realisation, and if the debit side is larger, there is a loss. The profit or loss is transferred to the Partners' Capital Accounts in their profit sharing ratio.

(a) Profit on Realisation:

Realisation A/c	Dr.	Amount of Profit
To Partners' Capital A/cs		In Profit Sharing Ratio

(b) Loss on Realisation:

Partners' Capital A/cs	Dr.	In Profit Sharing Ratio
To Realisation A/c		Amount of Loss

(14) Distribution of Shares etc.: The shares, debentures etc. received from the company are divided among the partners. The entry is:

Partner's Capital A/c Dr.

To Equity Shares in XYZ Co. A/c

To Pref. Shares in XYZ Co. A/c

To Debentures in XYZ Co. A/c

(15) Partners' Capital Accounts: If there are Partners' Current Account balances, they are transferred to the Partners' Capital Accounts. At this stage the partners' capital accounts are balanced. If a partner's capital account shows a debit balance, it means he owes money to the firm. Then he brings in cash to settle his account:

(a) Cash A/c Dr. { Balance in Capital A/c

To Partner's Capital A/c

Note:

Only a solvent partner can bring in cash. An insolvent partner cannot bring in cash. His deficiency is borne by the solvent partners either in the agreed ratio or in the ratio of their capitals just before dissolution (as per the Court decision in Garner Vs. Murray).

If a partner's account shows a credit balance, it means the firm owes money to him. Then the firm pays cash to him to settle his account.

(b) Partner's Capital A/c Dr. { Cr. Balance in Capital A/c

To Cash

Note: With the above entries, the Cash/Bank A/c and the Capital Accounts are closed.

4. ENTRIES IN BOOKS OF COMPANY

The following entries are passed in the books of the company:

(1) Take over of Assets & Liabilities for Agreed P. C.:

Various Assets Accounts	Dr.	Agreed Values
To Various Liabilities Accounts		Agreed Values
To XYZ Firm's A/c		Amount of P.C.

Note: Normally, the purchase consideration is equal to Assets Less liabilities. However, if the purchase consideration is more, the difference is debited to the goodwill A/c. It indicates payment by the company towards goodwill of the firm. If the purchase consideration is less, the difference is credited to Capital Reserve A/c.

(2) Payment of Purchase Consideration:

XYZ Firm's A/c	Dr.	Amount of P.C.
Discount of issue of shares	Dr.	If any
To Cash/Bank A/c		
To Equity Shares A/c		

To ....% Pref. Shares A/c

To ....% Debentures A/c

To Share Premium A/c (if any)

(3) Dissolution Expenses Paid by Company:

Goodwill A/c Dr. { Amount of Expenses

To Cash or Bank A/c

EXERCISE

I. Fill in the Blanks

(a) On sale or conversion of firm the company takesover the business at agreed price.

(b) ABC Ltd. is acquired by XYZ Ltd. for ₹ 1,30,000 is lumpsom method of purchase consideration.

(c) On sale or conversion of firm the assets & liabilities are transferred at book value.

(d) On sale or conversion of form the assets & liabilities except Cash & Capital A/c are transferred to Realisation A/c.

(e) All fictitious asset are debited to partners Capital A/c

(f) All Accumulated Profits are credited to Partners Capital A/c in PSR.

(g) Asset takenover by partner are credited to Realisation A/c.

(h) Unrecorded Asset sold is debited to Cash A/c.

(i) Equity shares to be distributed away partners is PSR ratio.

(j) Preference shares and debentures to be distributed away partners in ratio of their capital.

(k) Expenses on realisation is debited to Realisation A/c.

(l) Profit or lass on Realisation is distributed in PSR.

(m) Dissolution expenses paid by new company is debited to Goodwill A/c.

(n) On insolvency of partner Garner V/s Murray role is applicable for settlement.

II. Match the Column

A	B
a. Sale or conversion of firm into co.	1. Lumpsom method
b. Purchase consideration	2. Goodwill A/c
c. Net payment method	3. Assets & liabilities at book value
d. Realisation A/c	4. Sec 48 of Indian partnership Act

e. General reserve	5. Dissolution
f. Legal approach	6. Discharge by way of cash, shares and debentures
g. Dissolution expenses paid by new	7. Distributed in PSR company

Answer: a - 5, b - 1, c - 6, d - 3, e - 7, f - 4, g - 2.

EXERCISE

1. Following is the Balance Sheet of GANGA, YAMUNA & SARASWATI who shared profits and losses in proportion of their capitals

Balance Sheet as at 31st March, 2014

Liabilities		₹	Assets	₹
Sundry Creditors		28,000	Plant and Machinery	35,000
Capitals:			Furniture	12,000
Ganga	36,000		Sundry Debtors	17,000
Yamuna	22,500		Stock	20,000
Saraswati	13,500	72,000	Bank Balance	16,000
		1,00,000		1,00,000

On 1st April 2014 partners decided to convert their business into a company. Purchase consideration was fixed at ₹ 1,02,000 Sagar Limited was formed to acquire the business.

Sagar Limited discharged the purchase consideration by the issue of 6,400 equity shares of ₹ 10 each, at ₹ 15 per share and balance in cash.

You are required to close the books of the firm by preparing following accounts.

(a) Realisation account;

(b) Shares in Sagar Ltd. Account;

(c) Sagar Ltd., Account;

(d) Cash/Bank Account and

(e) Partners' Capital Accounts in columnar form.

2. The summarised Balance Sheet of a partnership firm run by RITA, SONIA AND RITU, who shared profits and losses in proportion of 2/5, 2/5, 1/5 respectively, is given below:

Particulars		₹	₹	₹
Liabilities:				
Capital Accounts:	(Fixed)			
Rita		5,00,000		

Sonia	3,00,000		
Ritu	2,00,000	10,00,000	
Current Accounts			
Rita	50,000		
Sonia	1,50,000		
Ritu (Debit)	45,000	1,55,000	11,55,000
Loan from Poonam			1,00,000
Total			12,55,000
Assets:			
Fixed Assets:			
Machinery		8,00,000	
Motor Vehicles		2,00,000	10,00,000
Current Assets:			
Stock	2,80,000		
Debtors	6,00,000		
Cash	15,000	8,95,000	
Less: Current Liabilities:			
Bank Overdraft	2,40,000		
Sundry Creditors	4,00,000	6,40,000	2,55,000
Total			12,55,000

(a) All the partners desired to retire from business and agreed to accept an offer from DEEPAK LTD. to acquire the assets of their business for ₹ 13,00,000, with the exception of Sundry Debtors, Cash balance and one of the motor vehicles. The consideration was to be satisfied as (i) 3,000 11% preference shares of ₹ 100 each at par. (ii) 60,000 Equity shares of ₹ 10 each valued at ₹ 15 per share and the balance in cash.

(b) Following terms were agreed among the partners:

(i) Sonia will take over the remaining motor vehicles retained by the firm for ` 1,40,000.

(ii) The loan from Poonam will be taken over by Rita.

(iii) Equity shares to be allotted in proportion of fixed capitals.

(iv) Preference shares to be allotted in proportion of profit sharing ratio.

(v) The balance due to or due by partners to be settled in cash.

You are required to prepare:

(i) Partners' Capital & Current Accounts in columnar form

(ii) Realisation Account

(iii) Other important Accounts.

3. **Shiv, Parvati and Ganesh** were partners carrying on partnership business and sharing profits and losses in the ratio of 1 : 2 : 3. On 31st March, 2014 their balance sheet was as under:

Balance Sheet as at 31st March, 2014

Liabilities		₹	Assets	₹
Partner's Capitals:			Building	20,000
Shiva	10,000		Machinery	30,000
Parvati	20,000		Motor Car	5,000
Ganesh	30,000	60,000	Stock	15,000
Parvati's Loan		20,000	Debtors	20,000
Creditors		15,000	Cash	9,000
Bills payable		5,000	Investment	1,000
		1,00,000		1,00,000

On the above date a private limited company was incorporated to take over the above business on the following terms and conditions:

(1) All assets (except cash and investments) and all liabilities (except Parvati's Loan) to be taken over by the company for which all assets are valued at par except building which is considered worth ₹ 27,000 and stock as worth ₹ 14,000. Further, goodwill is valued at ₹ 30,000.

(2) Parvati's loan to be partly liquidated by her taking over the firm's cash and investments at par. For the balance she is given 8% debentures received from the company in part discharge of purchase consideration.

(3) The balance of the purchase consideration is received in the form of equity shares of the company which are to be appropriately distributed amongst the partners.

Show ledger accounts to close the books of the firm.

4. **X, Y and Z** carry on business in partnership sharing profits and losses, 1/2, 3/8, and 1/8 respectively. On 31st March, 2014 when they agreed to sell of their concern to a newly started Joint Stock Company, their position was as follows:

Liabilities	₹	Assets	₹
X's Capital	20,000	Freehold property	18,000
Y's Capital	15,000	Machinery	12,000
Z's Capital	12,000	Book Debts	15,000

Sundry Creditors	12,000	Stock	13,000
		Cash	1,000
	59,000		59,000

The company took up the following assets at the valuation show below:

Freehold Property	₹ 22,000
Machinery	11,000
Book Debts	14,000
Stocks	12,000
Goodwill	4,000

The purchase price of Book Debts and stock was paid for in cash while shares were issued for other assets. The sundry creditors were paid off at a discount of 2-12% and the expenses of realisation amounted to ` 500.

Prepare the Ledger Accounts showing the results of dissolution, and the final distribution of the new company's shares between the partners. (Distribute shares in their final claim ratio).

5. **D and B** were partners sharing profits and losses in the proportion of 3/5 and 2/5 respectively. Their balance sheet as on 31st December 2014 was as under:

Liabilities		**₹**	**Assets**	**₹**
Bills Payable		3,500	Cash	4,500
Sundry Creditors		6,400	Book Debts	7,500
Reserve Fund		15,000	Investments	4,000
Capital			Stock	31,000
D	70,260		Plant and Machinery	50,000
B	46,840	1,17,100	Freehold Premises	45,000
		1,42,000		1,42,000

DB Ltd. was formed with an authorised capital of ₹ 5,00,000 divided into 25,000 Equity shares of ₹ 10 each and 25,000 preference shares of ₹ 10 each to acquire the going concern of D and B upon the following terms:

(i) The company took over all assets except investments. It valued the stock and plant and machinery at 10 per cent less than the book value and the freehold premises at 20 per cent more than the book value.

(ii) The liabilities were to be discharged by the company (i.e. taken over)

(iii) The goodwill of the firm was to be valued at 2 years purchases of the average profits of 3 years. The working results of the firm showed that it had made profits of ₹ 15,000 in 2011, ₹ 18,000 in 2012, ₹ 21,000 in 2013 after setting aside ` 5,000 to reserve fund every year.

(iv) The purchase price was agreed upon to be paid at ₹ 50,000 in fully paid equity shares ₹ 50,000 in fully paid preference shares ₹ 30,000 in the redeemable debentures and the balance in cash.

(v) The partners sold the investments and realised ₹ 4,100.

You are required to prepare in the books of the firm of D and B.

(i) Realisation Account.

(ii) Capital Account of the partners and

(iii) Cash Account; assuming that the shares and debentures are to be distributed in profit sharing ratio the final settlement being made in cash.

6. **Shetty, Kutty and Chetty** were in partnership sharing profits in the ratio of 3 : 2 : 1. The balance sheet of the partnership as at 30th June 2014 was as under:

Liabilities		₹	Assets	₹
Capital Accounts:			Plant and Machinery	1,20,000
Shetty	1,50,000		Patent Rights	25,000
Kutty	90,000		Investment	40,000
Chetty	50,000	2,90,000	Stock	2,50,000
			Debtors	70,000
Current Accounts:			Bank	63,000
Shetty	35,000			
Kutty	16,000			
Chetty	12,000	63,000		
Capital Reserve		1,20,000		
Loan Account: Chetty		51,000		
Creditors		44,000		
		5,68,000		5,68,000

The partners decide to dissolve their partnership on the basis of the following terms:

(i) Creditors accepted patent rights at a discount of 20% in part satisfaction of their claim. Out of the balance they were paid only 50% in full satisfaction.

(ii) 25% of the investments were taken over by Chetty at the market value of 110% towards repayment of his loan in part ad the balance were taken over by Kutty at the 75% of face value.

(iii) The partnership had previously purchase some share in a company for ₹ 15,000. Firm had written them of as worthless. These shares were taken over by Shetty at ₹ 5,000.

(iv) A new company named SKC Ltd. took over the remaining assets except bank balance at an agreed price of ₹ 4,00,000 which was paid as under

(a) 3,000 Equity Shares of ₹ 100 each fully paid at a premium of 5%.

(b) Balance by Cheque.

(v) Chetty's loan account was satisfied by payment of 1/10 of the shares received from SKC Ltd. and the balance was transferred to his capital account.

(vi) The expenses of realisation amounted to ` 6,000.

(vii) Equity shares were distributed among partners in profit sharing ratio.

You are required to prepare:

(a) Realisation Account;

(b) Bank Account;

(c) Capital, current and Loan Account of partners.

(Realisation A/c: ₹ 12,000)

7. **P, Q and R** are partners in a firm having capital; of ₹ 1,70,000, ₹ 1,02,000 and ₹ 68,000 respectively and they share profits and losses in the same proportion. Their Balance Sheet on 30th June, 2014 is as follows:

Liabilities	**₹**	**Assets**	**₹**
Capitals	3,40,000	Goodwill	50,000
Current A/c:		Land and Building	2,50,000
P	45,000	Plant & Machinery	80,000
Q	25,000	Stock	1,20,000
Loan from Q (12% on 1.7.84)	1,00,000	Debtors	45,000
Contingency Fund	10,000	Bank Balance	42,000
Creditors	80,000	R's Current A/c	20,000
Outstanding Expenses	7,000		
	6,07,000		6,07,000

A private limited company was formed to take over the business of the partnership firm from 1st July 2014 on the following terms and conditions:

(i) All assets except goodwill and debtors to be taken over along with trade liabilities.

(ii) On going through the records it was found that machinery cost ₹ 25,000 purchased on 1st July, 1983 was wrongly written off against profit and loss account. This asset which will also be taken over is to be brought into account taking depreciation at 10% p.a. on straight line method.

(iii) Debtors include an amount of ₹ 5,000 being amount of sales billed twice to a customer, subject to the above, the remaining debtors are taken over by P at 10% less than book value.

(iv) Land and Building is worth ₹ 4,00,000 for take over purposes.

(v) Q's Loan was paid off by the firm along with the interest due for 1984-85 and the outstanding expenses were fully settled by the firm for ₹ 6,000.

(vi) The purchase consideration was to be satisfied by allocating 50,000 equity shares of ₹ 10 each at par and the balance was to be paid in cash.

Give the necessary Ledger Accounts to close the books of the firm and the Opening Balance Sheet of the Limited Company.

(Realisation A/c 97,000, P C ₹ 5,82,000)

8. **I, M and P** carried on business in partnership sharing profits and losses in the ratio of 3 : 2 : 1. They decided to form a private company Navneet Ltd., with an authorised capital of ₹ 6,00,000 divided into 45,000 equity shares of ₹ 10 each and ₹ 15,000 11% cumulative preference shares of ₹ 10 each.

The company was incorporated and took over business goodwill and certain of the assets of the partnership on March 31, 2014 on which date firm's Balance Sheet was as follows:

Liabilities		**₹**	**Assets**	**₹**
Capital A/cs:			Fixed Assets at cost:	
I	1,50,000		Less: Depreciation Machinery	65,000
M	1,00,000		Motor cars	18,000
P	60,000	3,10,000	Furniture & Fittings	6,000
Current Accounts:			Current Assets:	
I	29,250		Stock in trade	1,80,000
P	20,750		Debtors	52,000
Less: Overdraft drawn by M	21,000	29,000	Bank	86,000
I's Loan account		40,000		
Creditors		28,000		
		4,07,000		4,07,000

Partners have agreed as under:

(1) I, who retired, was presented by his partners with one of the motor cars valued in the books at ₹ 6,000 the remaining cars were taken over by the company for ₹ 10,000.

(2) I, also received certain furniture for which he was charged ₹ 1,500.

(3) The debtors, which were all considered good, were taken over by i who agreed to pay of the creditors.

(4) The company took over the remainder of the furniture and fittings at price of ₹ 3,000 the machinery at its book value, the stock at an agreed value of ₹ 1,66,000 and the bank balance.

(5) The value of the goodwill of the partnership was agreed at ₹ 40,000 for takeover purposes. Dissolution expenses of ₹ 2,000 is to be paid by the purchasing company as a part of P.C.

(6) The purchase consideration payable as under:

   (a) Cumulative preference shares at par ₹ 40,000 (To discharge the loan the partner)

   (b) 30,000 equity shares of ₹ 10 each fully paid at par.

   (c) Balance in cash.

(7) Shares are to be distributed in proportion to the Final Balance on the combined capital and current accounts.

(8) Mr. M is the owner of premises. The company has purchased from him at ₹ 99,000 the purchase price being issue of 9,000 cumulative shares at 10% premium.

(9) I, M & P each subscribe for 1,000 equity shares to be subscribers of M/A, A/A.

9. **M, N and P** in partnership sharing profit and losses equally. The balance sheet as on 31st December, 2014 was as under:

Liabilities	₹	**Assets**	₹
Creditors	36,000	Debtors	68,000
Capital Accounts:		Stock	6,000
Manoj	80,000	Bank	82,000
Nanda	10,000		
Pran	30,000		
	1,56,000		1,56,000

The partners have decided to form a limited company, called 'Gumnam Ltd., with authorised capital of ₹ 2,00,000 divided into 20,000 equity shares of ₹ 10 each to take over the business of the partnership firm.

The terms are as follows:

(1) All assets are taken over at book values. (including furniture worth ₹ 1,000. This furniture is fully written off).

(2) All liabilities are taken over.

(3) The purchase consideration payable is as under:

(a) 10,000 equity shares of ₹ 10 each. ₹ 8 per share paid up at ₹ 12.

(b) Cash ₹ 30,000.

(4) Realization expenses amounted to ₹ 3,000.

(5) The company has issued 5,000 equity shares to the public at ₹ 14 per share. These shares are fully subscribed and paid up.

(6) Preliminary expenses amounted to ₹ 4,000.

(7) Equity shares are to be distributed in profit sharing ratio.

Prepare necessary Ledger Accounts in the books of the firm and balance sheet of the new company.

10. The following is the summarised Balance Sheet on 31st December, 2014 of A, B, C AND D who share profits and losses in the ratio 4 : 3 : 2 : 1.

Liabilities		**₹**	**Assets**	**₹**
Capital:			Goodwill	20,000
A	60,000		Other Fixed Assets	80,000
B	40,000		Current Assets	24,000
C	6,000	1,06,000	Capital D	2,000
Trade Creditors		20,000		
		1,26,000		1,26,000

'D' has no separate assets and liabilities. The partners decided to wind up the business.

The partners accepted the offer of a limited company, Orion Ltd., to buy the goodwill and other fixed assets, the purchase consideration being the allottment of ₹ 2,250 fully paid ordinary shares of ₹ 20 each (to be taken at market value ₹ 26) and cash ₹ 20,000. The current assets were realised at their book value and realisation costs amount to ₹ 900. 'C' has ample seperate assets. Your are required to make in leger account the entries (including cash entries) to close the firm's books.

Note:

Capital Accounts should be shown in columnar form. Shares are to be distributed in profit sharing ratio.

(Realisation A/c ₹ 22,400)

11. On 31st December, 2014 Fairplay was incorporated with an authorised share capital of ₹ 1,00,000 in shares of ₹ 1 each to take over the business carried on that date by the partnership of P, G AND B.

The Balance Sheet of the partnership as on 31st December, 2014 showed the following position.

Balance Sheet of P, G and B as at 31st December, 2014

	P	G	B	Total
Liabilities				
Capital Accounts	24,000	18,000	15,000	57,000
Current Accounts (1/1/14)	11,940	8,480	6,000	–
Add: (1) Int. On Capital Account	720	540	450	
(2) Share of Profit for the year	6,126	6,126	4,084	
	18,786	15,146	10,534	
Less: Drawings	8,926	8,726	4,064	
	9,860	6,420	6,470	22,750
Creditors				35,600
				1,15,350
Assets				
Fixed Assets:	Cost		Depreciation	Total
Freehold Land & Building	26,000		–	26,000
Plant and Machinery	42,000		22,000	20,000
Motor Vehicles	19,700		4,700	15,000
	87,700		26,700	61,000
Current Assets:				
Stock			22,400	
Debtors				12,200
Balance at Bank				19,750
				1,15,350

You are also given the following information:

(i) Freehold land and buildings are to be transferred to the limited company at a valuation of ₹ 30,000 and plant and machinery at ₹ 15,000. Stocks debtors and creditors are to be transferred to the company at book value as on 31st December, 2014.

(ii) The motor vehicles are to be withdrawn from the business by the partners as at the following valuations P ₹ 4,900, G ₹ 3,500 and B ₹ 3,600.

(iii) It is estimated that the company will require an opening balance at bank of ₹ 15,000.

(iv) Sufficient 9 per cent unsecured debentures stock is to be issued by the company to the partners so that they will receive the same amount of interest as they received on capital in the partnership for the year ended 31st December, 2014.

(v) Ordinary shares are to be issued at par to each partner in proportion to their share in the partnership profits.

(vi) Any surplus or deficiency on partners accounts on realisation after taking into account debenture stock and shares issued is to be withdrawn or paid in whichever the case may be.

Required:

(a) You computation of the shares and debentures in Fairplay Ltd. to each partner.

(b) Partner's accounts in columnar form showing all the necessary entries to dissolve the partnership, and

(c) a balance sheet of the company upon completion.

(PC ₹ 59,000, Balance Sheet ₹ 9,46,000, Realisation A/c (Loss) ₹ 4,000)

12. **A, B, and C** were partners sharing profits and losses in the ratio of 5, 3 and 2 respectively. The trial balance of the firm on 31st March, 2014 was the following:

	₹	₹
Machinery at Cost	1,00,000	
Stock	68,700	
Sundry Debtors	62,000	
Sundry Creditors		64,700
Bills Payable		20,000
Capital A/c:		
A		68,000
B		45,000

C		23,000
Drawings A/c		
A	25,000	
B	23,000	
C	17,000	
Depreciation on Machinery		40,000
Profit for the year ended 31.3.2014		1,24,300
Cash at Bank	89,300	
	3,85,000	3,85,000

Interest on Capital Accounts at 10% p.a. on the amount standing to the credit of partners' Capital Account at the beginning of the years was not provided before preparing the above trial balance. On 1st April, 2014 they formed a Private Limited Company with an authorised Share Capital of ₹ 2,00,000 in shares of ₹ 10 each to be divided in different classes to take over the business of partnership.

You are informed as under:

(1) Machinery is to be transferred at ₹ 70,000.

(2) Shares in the company are to be issued to the partners, at par, in such numbers, and in such classes as will give the partners, by reason of their share holdings alone, the same rights (and not amount) as regards interest on capital and the sharing of profit and losses as they had in the partnership.

(3) Before transferring the business, the partners wish to draw from the partnership profits to such an extent that the bank balance is reduced to ₹ 50,000. For this purpose sufficient profit of the year are to be retained in profit sharing ratio.

(4) All assets and liabilities except machinery and the bank are to be transferred at their book value as on 31st March, 2014.

You are required to prepare:

(a) Capital Accounts showing all adjustments required to dissolve the partnership.

(b) Statement showing the workings of the number of shares of each class to be issued by the company to each of the partners and a statement of additional drawings in cash.

(c) The Balance Sheet of the company immediately after acquiring the business of the partnership and issuing of shares.

13. The following is the Balance Sheet of Messrs. **A B C** as on 31st March, 2014:

Liabilities		**₹**	**Assets**	**₹**
Capital Accounts			Plant and Machinery	40,000
A	10,000		Vehicles	10,000
B	15,000		Furniture & Fixtures	15,000
C	20,000	45,000	Stocks	10,000
Current Accounts:			Sundry Debtors	25,000
A	7,000		Cash Balance	10,000
B	6,000	13,000	Current Account C	5,000
General Reserve		12,000		
Loan From A		5,000		
Bank Overdraft		20,000		
Sundry Creditors		20,000		
		1,15,000		1,15,000

It was decided to close the business to accept the offer of X Ltd. on the following conditions:

(1) X Ltd. to take over Plant and Machinery, one of the vehicles, stock and part of the furniture along with liabilities of bank overdraft.

(2) X Ltd. to act as a agent of the company to collect the debtors and creditors of the firm.

(3) X Ltd. to pay the following:

(a) 5,000 equity shares of ₹ 10 eachvalued at ₹ 12

(b) 10%, 3,000 preference shares of ₹ 10 each at par.

(c) 15%, 50 debentures of ₹ 100 each at par to discharge the loan of A.

(d) Cash of ₹ 10,000.

(4) X Ltd. to make the following valuation : Effect in co. Books.

	₹
Plant and Machinery	50,000
One of the vehicles	5,000
Furniture fixtures	10,000
Stock	20,000

and bank overdraft to be paid when taken over.

(5) The company could collect from debtors ₹ 23,000 and settled the creditors by paying ₹ 18,500. The company to charge ₹ 500 as its remuneration for acting as an agent to cover the probable expenses.

(6) Equity Shares received from company should be distributed in Profit Sharing Ratio.

(7) One of the vehicles and part of furniture was taken over by A and B at ₹ 5,000 each respectively.

(8) The company issued 5,000 equity shares of ₹ 10 at face value to the public which issue was fully sub-scribed and received by the company.

Prepare necessary ledger accounts in the books of Partnership Firm and Pass Journal entries in the books of Ltd. Co.

14. **Veeru & Naru** are carrying on business in name of Veena & Co. sharing profit in ratio of 2:3. On 31.3.2014 their Balance Sheet was:

	₹		₹
Naru Account	88,000	Property	72,000
Veeru Account	60,000	Stock	40,000
General Reserve	24,000	Debtors	48,000
Loan Naru	16,000	Machinery	60,000
Bank Overdraft	32,000	Advances	8,000
Creditor	20,000	Cash/Bank	12,000
	2,40,000		2,40,000

On same date Veena Pvt. Ltd. was incorporated to take over the running business of Veena & Co., on the following terms:

(i) Good will of the firm is to be valued at 2 years purchase of average profits of past five years. The firm used to transfer ₹ 4,000 every year to General Reserves. The profits after above transfer were ₹ 12,800; ₹ 14,000; ₹ 15,000; ₹ 14,200 and ₹ 15,400.

(ii) Plant is overvalued by ₹ 6,000 and property is undervalued by ₹ 8,000. Other assets and liabilities except Loan of Naru are taken over at book value.

(iii) The company decided to allot.

(a) 12% preference shares to that partner who has excess capital after all necessary adjustment to the extent of such amount.

(b) Equity Shares for balance amount payable.

(iv) The face value of shares is ₹ 10.

Show the necessary journal enteries in the books of both parties of the above agreement.

(Goodwill ₹ 18,280, P C O ₹ 2,26,500)

15. A.B.C, are partners sharing profits and losses as 2:1:1. Their Balance Sheet as on 31st March, 2014 is as follows:

Liabilities	₹	**Assets**	₹
Creditors	50,000	Cash	5,000
Bills Payable	30,000	Debtors	80,000
A's Capital	90,000	Stock	60,000
B's Capital	60,000	Investments	5,000
C's Capital	10,000	Goodwill	15,000
		Other Fixed Assets	75,000
	2,40,000		2,40,000

Balance Sheet

Shocks are over-valued by ₹ 10,000; Repairs of ₹ 10,000 three years early was treated as capital expenditure. Depreciation @ 10% p.a. on diminishing balance was charged on the assets. ₹ 10,000 collected from debtors was not recorded in books, but taken away by 'C'.

The accounts are rectified and then AB Ltd. is formed to take over the business, 'B' is to take over the investments at ₹ 3,000. 'A' will discharge the creditors. Any dues to 'C' shall be paid off. 'C' is insolvent. Bills payable are paid by A and B in their profit sharing ratio.

Goodwill and stocks are valued at ₹ 10,000 and ₹ 44,580 respectively. Debtors are taken at 5% below book value.

Whereas other assets are taken at book values. AB Ltd. is to pay the firm by equity shares of ₹ 100 each. B takes 550 shares.

Show ledger accounts in the books of firm.

16. **John, James** and **Jack** are partners of Jill and Co. sharing profits and losses in the ratio of 2 : 2 : 1. On 30th June, 2014, their Balance Sheet was as under:

		₹		₹
Creditors		60,000	Building	25,000
Capital			Machinery	30,000
John	1,10,000		Stock	1,00,000
James	90,000		Debtors	1,50,000
Jack	50,000	2,50,000	Bank	5,000
		3,10,000		3,10,000

On that day they floated Jill & Co. Ltd. which took over the working capital at ₹ 2,00,000 and the goodwill of the firm at ₹ 50,000. It discharged the purchase consideration in the form of 9% debentures in respect of ultimate surplus capital, 10% redeemable preference shares in respect of the balance of initial surplus capital and equity shares for the balance, all issued at par. John took over the building at an agreed valuation of ₹ 40,000. James took over the machinery at an agreed valuation of ₹ 50,000 Jill & Co. (P) Ltd., agreed to pay monthly rent of ₹ 1,000 to John for the occupation of the building and monthly compensation of ₹ 2,000 to James for the use of machinery.

The formation Expenses of Jill & Co. Pvt. Ltd. amounted to ₹ 6,000 which were agreed to be paid by the new company to Jack, the partner who was in charge of promotion, by 30th September, 2014.

You are required to:

(a) Close the books of partnership;

(b) Prepare a statement showing the allotment of various types of capital amongst the partners;

(c) Pass the opening journal entries in the books of Jill & Co. Pvt. Ltd. as on 1.7.2014.

17. **Amar, Akbar and Anthony** carry on business in partnership under the style of M/s. 'A' & Co. sharing profits and losses in the ratio of 5:3:2. They have floated 'A' Pvt. Ltd. for the purpose of take over of their business. The following is the Balance Sheet of the firm as on 30th September, 2014

M/s. A & Co.

Balance Sheet as on 30.9.2014

		₹			₹
Creditors		50,000	Cash		6,000
Capitals:			Bank		14,000
Amar	1,01,000		Debtors	60,000	
Akbar	1,51,000		Less: Provision for doubtful debts	2,000	58,000
Anthony	1,33,000	3,85,000	Stock		42,000
			Fixed Assets		
			Written down value		3,00,000
			Exp. in relation to 'A' Pvt. Ltd.:		
			Formation Exp.	12,000	
			Bank A/c in opened in the named of		
			'A' Pvt. Ltd. representing deposit		

		of par value of 300 equity shares of ₹ 10 each subscribed equally by Amar, Akbar and Anthony as subscribers to the M/AA/A3,000	15,000
	4,35,000		4,35,000

On that day 'A' Pvt. Ltd. took over the business for a total consideration of ₹ 5,00,000. The purchase consideration was to be discharged by the allotment of equity shares of ₹ 10 each at par in the profit sharing ratio and 15% debentures of ₹ 100 each at par for surplus capital.

The directors of 'A' Pvt. Ltd. revalued the fixed assets of 'A' Co. at ₹ 4,00,000. You are asked to

(a) State the number of equity shares & debentures allotted by 'A' Pvt. Ltd. to Amar, Akbar and Anthony by showing your workings.

(b) Show journal entries in connection with the above transactions in the books of 'A' Pvt. Ltd.

18. Kapoor & Jain were carrying on business sharing profits & losses equally. The firm's Balance Sheet on at 31.3.2014 was as follows.

Balance Sheet

Liabilities	**₹**	**Assets**	**₹**
Sundry Creditors	60,000	Stock	60,000
Bank O/D	35,000	Machinery	1,50,000
Capitals		Debtors	70,000
Kapoor	1,40,000	Joint Life Policy	9,000
Jain	1,30,000	Leasehold Premises	34,000
		P & L A/c	26,000
		Drawings	
		Kapoor	10,000
		Jain	6,000
	3,65,000		3,65,000

The business was carried on till 30th September 2014. The partners withdraw in equal amounts half the amount of profit made during the period of six months after charging depreciation @ 10% p.a. on machinery & after writing of 5% on leasehold premises. In the half year sundry creditors were reduced by ₹ 10,000 & bank overdraft by ₹ 15,000.

On 30th September 12 stock was valued at ₹ 75,000 & Debtors at ₹ 60,000, the Joint Life policy had been surrendered for ₹ 9,000 before 30th June 90 & other items remained the same on at 31.3.14.

On 30th September, 12 the firm sold the business to a limited co. The value of goodwill was fixed at ₹ 1,00,000 & the rest of the assets were valued on the basis of Balance Sheet as at 30.9.14.

The co. Paid purchases consideration in equity shares of ₹ 10 each share are distributed in PSR.

Required

1. Balance sheet of firm on 30.9.14.
2. Ledper a/c to close the books of the firm.

Q. 1. K, E and P were in Partnership Sharing Profits and Losses 2/5 th, 2/5th and 1/5the reapectively. The Balance Sheet of the firm as on 31st Devember, 1982 was as follows:

		₹	₹
Fixed Assets:			
Plant and machinery			8,000
Fixtures etc.,			2,000
			10,000
Current Assets:			
Stock		2,800	
Debtors		6,000	
Cash		150	
		8,950	
Less: Current Liabilities			
Creditors	4,000		
Bank Overdraft	2,400	6,400	2,550
			12,550
Represented by:			
Fixed Capital Accounts			
K		5,000	
E		3,000	
P		2,000	10,000
Current Accounts:			
K		500	
E		1,500	
P		(DR)-450	1,550
Loan A/c. of Mr. B			1,000
			12,550

The three partners who wished to retire from the business had agreed to accept an offer from X Ltd. To acquire assets of their business for ₹ 13,000 with the exception of debtors, the cash balance and one of the motor vehicles.

The consideration was to be satisfied as follows:

(i) 300, 10% preference shares of ` 10 each valued at par.

(ii) 900 equity shares of ₹ 5 each valued at ₹ 10 each and balance in cash.

The debtors realised ₹ 4,200 and the creditors were settled for ₹ 3,900. The partners agreed that the basis of distribution was to be as follows:

1. E to take over the Motor Vehicle retained by the Partnership for ` 1,400.
2. The loan from Mr. B to be taken over by Mr. K.
3. Equity shares to be allotted in proportion to fixed capital accounts.
4. The balance due to or from the partners to be settled in cash.
5. Preference shares to be allotted in profit sharing ratio.

You are required to prepare:

(a) A realisation A/c.

(b) Cash Account

(c) Partner's Account.

Solution

Q. 1.

Partners Capital A/c

	K	E	P		K	E	P
To Current A/c	-	-	450	By Balance b/d	5,000	3,000	2,000
To Realisation A/c	-	1,400	-	By current A/c's	500	1,500	-
(Motor Car)	4,500	2,700	1,800	By B's Loan A/c.	1,000	-	-
To Equity Share of Pur. Co.	1,200	1,200	600	By Cash/Bank (Received)	-	840	870
	40	40	20				
To Preference Share of Pur. Co	760	-	-				
To Realistion A/c. (Loss)							
To Cash/Bank (Pais) (Bal. Fig.)							
	6,500	5,340	2,870		6,500	5,340	2,870

Realisation A/c

	₹			₹
To Plant	8,000	By Purchasing Co. (PC)		13,000
To Fixtures	2,000	By Cash/Bank (Drs.)		4,200
To Stock	2,800	By Creditors (discount)		100
To Debtors	6,000	By E's Capital A/c. (Motor Car)		1,400
		By Loss transfer to		
		K:	40	
		E:	40	
		P:	20	
		(2:2:1)		100
	18,800			18,800

Cash/Bank A/c

	₹		₹
To Balance b/d (Cash)	150	By Balance b/d (Bank O/D)	2,400
To Purchasing Co.	1,000	By creditors	3,900
To Realistion A/c. (Drs.)	4,200	By K's Capital A/c	760
To E's Capital A/c	840		
To P's Capital A/c.	870		
	7,060		7,060

Creditors A/c

	₹		₹
To Cash/Bank/Ac	3,900	By Balance b/d	4,000
To Discount transfer to Realisation A/c		100	
	4,000		4,000

Purchasing Co A/c

	₹		₹
To Realisation a/c	13,000	By Equity Share of Pur. Co.	9,000
		By Preference Share of Pur. Co.	3,000
		By Cash/Bank	1,000
	13,000		13,000

Equity Share of Purchasing Co.

	₹		₹
To purchasing Co.	9,000	By K's Capital A/c. By E's Capital A/c. By P's Capital A/c (5:3:2)	4,500 2,700 1,800
	9,000		9,000

Preference Share of Purchasing Co.

	₹		₹
To Purchasing Co.	3,000	By K's Capital A/c. By E's Capital A/c. By P's Capital A/c (2:2:1)	1,200 1,200 600
	3,000		3,000

B's Loan A/c

	₹		₹
To K's Capital A/c.	1,000	By Balance b/d	1,000
	1,000		1,000

Calculation of Purchase Consideration

(Lumpsum Method)

Given To be discharged as	13,000
(i) Equity Shares	9,000
(ii) Preference Shares	3,000
(iii) Cash/Bank	1,000
	13,000

Q. 2 **Amit and Asit** were in partnership sharing profit and losses: Amit two-thirds; Asit one-third. The summarised partnership balance sheet as on 31st December, 1985 was as under;2:1

Liabilities		₹	Assets		₹
Fixed Capital Accounts:			Fixed Assets		70,000
Amit	50,000		Current Assets		
Asit	40,000	90,000	Stock	35,000	
Current Accounts:			Debtors	65,000	
Amit	20,000		Balance at Bank	15,000	1,15,000
Less:Asit (Dr.)	10,000	10,000			
Loan:Asit		30,000			
Creditors		55,000			
		1,82,000			1,85,000

The fixed assets included two cars having book values of ₹ 8,000 and ₹ 6,000 respectively.

The partners desiring to retire from business, accepted the offer of Western India Limited to acquire stock and fixed assets, other than motor cars at an agreed purchase price of ₹ 1,60,000/-.

The purchase consideration was to be satisfied by a cash payment of ₹ 56,000, the allotment by the company of the partners of 400, 5% preference shares of ₹ 100 each, and the balance by the allotment by the allotment by the company to the partners of 900 equity shares of ₹ 100 each.

The Debtors realised 61,000/- and Creditors are settled for ₹ 51,000/-.

The partners agreed that the following should be the basis of distribution on dissolution of the partnership.

1. Amit to take over one car at a valuation of ₹ 12,000 and Asit the other at ₹ 8,000.
2. Asit to be allotted preference shares to the value of his loan, the remainder to be allotted to Amit.
3. The equity shares to be allotted in proportion of fised capitals.
4. Both the preference and equity shares to be valued at ₹ 80 per share.
5. The balance to be settled in cash.

You are required to prepare:

(a) The realisation account;

(b) The bank account; and

(c) The partners, capital accounts showing the final settlement between them.

Solution

Q.2 Working Notes

Calculation of Purchase Consideration

	Lumpsum given =	1,60000
To be discharged as		
(i)	Cash/Bank	56,000
(ii)	Preference Shares (400× 80)	32,000
(iii)	Equity Shares (900× 80)	72,000
		1,60000

Creditors A/c

	₹		₹
To Cash/Bank To Realisation A/c. (Profit)	51,000 4,000	By Balance b/d	55,000
	55,000		55,000

Asits Loan A/c

	₹		₹
To preference Share of Western India Ltd.	30,000	By Balance b/d	30,000
	30,000		30,000

Partners Capital A/c

	Amit	Asit		Amit	Asit
To Current A/c	-	10,000	By Balance b/d	50,000	40,000
To Realisation A/c. (M.Car)	12,000	8,000	By Current a/c	20,000	-
		-	By Realisation A/c (Profit)	50,000	25,000
To Preference share of Western India Co.	2,000	32,000			
		15,000			
To Equity Share of Western india Co.	40,000				
To Cash/Bank (final payment) (Bal. Fig.)	66,000				
	1,20,000	65,000		1,20,000	65,000

Realisation A/c

		₹		₹
To Fixed Assets		70,000	By Western India Ltd.(PC)	1,60,000
To Stock		35,000	By Cash/Bank (D₹)	61,000
To Debtors		65,000	By Creditors (Profit)	4,000
To Net Profit transfer to			By Amits A/c.	12,000
Amit	50,000		By Asits A/c.	8,000
Asit	25,000	75,000		
		2,45,000		2,45,000

Cash/Bank A/c

	₹		₹
To Balance b/d	15,000	By Creditors	51,000
To Western India Ltd	56,000	By Amits Capita A/c	66,000
To Realisation (D₹)	61,000	By Ashits Capital A/c	15,000
	1,32,000		1,32,000

Western India Ltd. A/c

	₹		₹
To Realisation A/c.	1,60,000	By Equity Share of W.I.Ltd	72,000
		By Preference Share of Western India Ltd.	32,000
		By Cash/bank	56,000
	1,60,000		1,60,000

Equity Share of Purchasing Co.A/c

	₹		₹
To Western India Ltd.	72,000	By Amits Capital	40,000
		By Asits Capital (5:4)	32,000
	72,000		72,000

Preference Share of Purchasing Co, A/c

	₹		₹
To Western India Ltd.	32,000	By Asits loan	30,000
		By Amits Capital (Bal.fig.)	2,000
	32,000		32,000

Q. 3. Ram and Sham sharing profits equally wanted to convert their partnersip into limited company. Their Balance Sheet on 31st Dec., 1979 was as under:

Liabilities	₹	**Assets**	₹
Sundry Creditors	27,000	Sundry debtors	50,000
Loan	25,000	Bills receivable	7,000
Bank overdraft	10,000	Stock in trade	20,000
Reserve	15,000	Patents	5,000
Ram's Capital	25,000	Plant and Machinery	10,000
Sham's Capita	25,000	Land and Building	35,000
	1,27,000		1,27,000

(a) The goodwill of the firm was to be valued on the basis of twice the average profits calculated on the prevous three years' profits which were in 1977 ₹ 20,000, in 1978 ₹ 23,000 and in 1979 ₹ 26,000 after setting aside ₹ 5,000 to reserve each year and charging ₹ 1,500, ₹ 1,800 and ₹ 2,100 respectively in respect of income tax.

(b) The land and buildings and plant & machinery, were taken over at a revaluation of ₹ 75,000/- and ₹ 15,000 respectively.

(c) 10% Debentures of ₹ 1,00,000 were issued at a discount of 5%.

(d) Partners were issued 15,000 equity shares of ₹ 10 each towards purchase consideration and paid cash for the balance. Shares are to be distributed in the profit sharing ratio.

(e) The purchasing company immediately pays off sundry creditors, and bank overdraft and issues 10% preference shares of ₹ 100 each to loan creditor for ₹ 25,000.

You are required to give:

1. The statement showing how the purchase consideration was arrived at.
2. The realisation Account, and partner's capital accounts.
3. Opening Balance Sheet of the new company.

Solution

Q.3 Working Note

Calculation of Purchase consideration

(Net Assets method)

Revised value of assets taken over

Goodwill	59,600	
Land & Building	75,00	
Plant & Machinery	15,000	
Debtors	50,000	
Bills Receivable	7,000	
Stock	20,000	
Patents	5,000	2,31,600
Less: Revised value of Liabilities		
Creditors	27,000	
Loans	25,0100	
Bank overdraft	10,000	62,000
Net Assets/PC		1,69,600

To be discharged as		
(i) Equity Shares $(15{,}000 \times 10)$		1,50,000
(ii) Cash/Bank (Bal fig)		19,600
		1,69,600

Partner's Capital A/c's

	R	S		R	S
To Equity Share of purchasing co. To Cash/Bank	75,000 9,800	75,000 9,800	By Balance b/d By Reserve (1:1) By Realisation A/c.	25,000 7,500 52,300	25,000 7,500 52,300
	84,800	84,800		84,800	84,800

Realisation A/c

	₹		₹
To Sundry Assets To Net Profit transfer to R 52,300 S 52,300 (1:1)	1,27,000 1,04,600	By Creditors By Loans By Bank O/D By Purchasing Co.) (P.C.)	27,000 25,000 10,000 1,69,600
	2,31,600		2,31,600

Calculation of Goodwill

Year	Net Profit	
1977	26,500 $(20{,}000 + 5{,}000 + 1{,}500)$	..... Average $= \frac{89{,}400}{3} = 29{,}800$
1978	29,800 $(23{,}000 + 5{,}000 + 1{,}800)$	
1979	33,100 $(26{,}000 + 5{,}000 + 2{,}100)$	..... Goodwill 29,800 2 59,600
	89,400	59,600

In the Books of Purchasing Co.

Particulars				Debit	Credit
(i)	For Purchase of Business				
	Business purchase A/c.....	Dr		1,69,600	
	To Ram & Sham A/c.				1,69,600
(ii)	For Assets & Liabilities taken over				
	Goodwill A/c......	Dr		59,600	
	Land & Building A/c.....	Dr		75,000	
	Plant & Machinery A/c..	Dr		15,000	
	Debtors A/c.....				

	Dr		50,000	
	Bills Receivable A/c..... Dr		7,000	
	Stock A/c.....		20,000	
	Dr		5,000	
	Patents A/c.....			27,000
	Dr			25,000
	To Creditors A/c			10,000
	To Loans A/c			1,69,600
(iii)	To Bank O/D A/c		1,69,600	
	To Business Purchase A/c.			1,50,000
	For Discharge of P/C.			19,600
	Ram & Sham A/c..... Dr.			
	To Equity Share Capital A/c.			
(iv)	To Cash/Bank A/c		95,000	
	For Issue of Debentures		5,000	
	Cash/Bank/A/c..... Dr.			1,00,000
	Discount on Issue A/c..... Dr.		27,000	
(v)	To 10% Debenture A/c.		10,000	
	For Payment to Creditors & Bank O/D			37,000
	Creditors A/c..... Dr.			
	Bank O/D A/c..... Dr.		25,000	
(vi)	To Cash/Bank A/c.			25,000
	For discharge of Loan creditor			
	Loan Creditor A/c..... Dr.			
	To 10% Preference Share Capital A/c.			

Balance Sheet as on...

Liabilities	**₹**	**Assets**	**₹**
Equity Share Capita	1,50,000	Goodwill	59,600
10% Preference Share Capital	25,000	Land & Building	75,000
10% Debentures	1,00,000	Plant & Machinery	15,000
		Debtors	50,000
		Stock	20,000
		Bills Reveivable	7,000
		Patents	50,000
		Cash/Bank (95,000-19,600 -37,000)	37,400
		Discount on Debenture	5,000
	2,75,000		2,75,000

Q. 4. Amar, Akbar and Anthony carry on business in partnership under the style of M/s. 'A' & Co. Sharing profits and losses in the ratio of 5:3:2. They have floated 'A' Pvt. Ltd. For the purpose of take over of their business. The following is the Balance sheet of the firm as on 30th September, 1983.

M/s. A & Co.

Balance Sheet as on 30.9.1983

		₹			₹
Creditors		50,000	Cash		6,000
Capitals:			Bank		14,000
Amar	1,01,000		Debtors	60,000	58,000
Akbar	1,51,000	3,85,000	Less: Provision for doubtful debts	2,000	42,000
Anthony	1,33,000		Stock		
			Fixed Assets		
			Written down value		3,00,000
			Expenditure in relation to		
			'A' Pvt. Ltd.:		
			Formation exp.	12,000	
			Bank A/c. In opened in		15,000
			the name of 'A' Pvt. Ltd.		
			Representing deposit of		
			par value of 300 equity		
			shares of ₹ 10 each		
			subscribed equallay by		
			Amar, Akbar and		
			Anthony as subscribers		
			to the M/AA/A	3,000	
		4,35,000			4,35,000

On that day 'A' Pvt. Ltd. Took over the business for a total consideration of ₹ 5,00,000. The purchase consideration was to be discharged by the allotment of equity shares of ₹ 10 eadh at par in the profit sharing ration and 15% debentures of ₹ 100/- each at par for surplus capital.

The directors of 'A' Pvt. Ltd. Revalued the fixed assets of 'A' Co. At ₹ 4,00,000. You are asked to

(a) State the number of equity shares & debentures allotted by 'A' Pvt. Ltd. To Amar, Akbar and Anthony by showing your workings.

(b) Show journal entries in connection with the above transactions in the bookd of 'A' Pvt. Ltd.

Solution

Q.4. **Partners Capital A/c**

	Amar	Akbar	Anthony		Amar	Akbar	Anthony
To Equity Share of A Ltd. (Purchasing Co.)	1,000	1,000	1,000	By Balance b/d	1,01,000	1,51,000	1,33,000
To Deb. Of Purchase Co.	--	90,000	92,000	By Realisation A/c. (Net Profit)	59,000	35,400	23,600
To Eq. Share of purchase of	1,59,000	95,400	63,6000				
	1,60,000	1,84,400	1,56,6000		1,60,000	1,86,400	1,56,600

Realisation A/c

	₹		₹
To Cash	6,000	By Creditors	50,000
To Bank	14,000	By R.B.D	2,000
To Debtors	60,000	By Purchasing Co. (P.C)	5,00,000
To stock	42,000		
To Fixed Assets	3,00,000		
To Preliminery Expenses of A of 'A' Ltd.	12,000		
To Net Profit transfer to			
Amar 59,000			
Akbar 35,400			
Anthony(5:3:2) 23,600	1,18,000		
	5,52,000		5,52,000

Purchasing Co. A/c

	₹		₹
To Reallisation A/c. (P.C)	5,00,000	By Debenture of Purchasing co.	1,82,000
		By Equity Share of Purchasing Company	3,18,000
	5,00,000		5,00,000

Equity Share of Purchasing Co A/c

	₹		₹
To Purchasing Co.	3,18,000	By Amar's Capital A/c.	1,59,000
		By Akbars Capital A/c.	95,400
		By Anthonys Capital A/c.	63,600
	3,18,000		3,18,000

Working Note

Statement of Surplus Capital

	5	3	2
	Amar (1,60,000-1,0000)	**Akbar** (1,86,400-1,000)	**Anthony** (1,56,600-1,000)
Final Balance	1,59,000	1,85,400	1,55,600
Capital in profit sharing ratio taking Amar's Capital as base	1,59,000	95,400	63,600
Excess Capital	—	90,000	92,000
To be discharged as debentures			
5 : 1,59,000			
3 : (?) = 95,400			
5 : 1,59,000			
2 : (?) = 63,600	$\frac{1,59,000}{5}$	$\frac{1,85,400}{3}$	$\frac{1,55,600}{2}$
One Share	31,800	61,800	77,800

In the Books of M/s A & Co.

Particulars				Debit	Credit
(i)	For Purchase of Business			5,00,000	
	Business purchase A/c....	Dr			
	To M/s A & Co.				5,00,000
(ii)	For Assets & Liabilities taken over				
	Fixed Assets A/c.....	Dr		4,00,00	
	Cash A/c.....	Dr		6,000	
	Bank A/c.	Dr		14,000	
	Debtors A/c	Dr		60,000	
	Stock A/c.	Dr		42,000	
	Preliminary Expenses A/c.....	Dr		12,000	
	Goodwill A/c.....	Dr		18,000	
	To R.B.D A/c.				2,000
	To Creditors A/c.				50,000
	To Business Purchase A/c				5,00,000
	For Discharge of P.C				

(iii)	M/s A & Co. A/c.....	Dr		5,00,000	
	To Equity Share A/c.				
	To 15% Debenture A/c.				3,18,00
(iv)	For issue of Shares for subscriber of MAAA				1,80,000
	Cash/Bank/A/c.....	Dr		3,000	
	To Equity Share Capital A/c.				3,000

Q. 5 John, James and Jack are partners of Jill and Co. Sharing profits and losses in the ration of 2:2:1. On 30th June 1981, their Balance sheet was as under:

		₹		₹
Creditors		60,000	Building	25,000
Capitals			Machinery	30,000
John	1,10,000		Stock	1,00,000
James	90,000		Debtors	1,50,000
Jack	50,000	2,50,000	Bank	5,000
		3,10,000		3,10,000

On that day they floated Jill & Co. Pvt.Ltd. Which took over the working capital at ₹ 2,00,000 and the goodwill of the firm at ₹ 50,000. It discharged the purchase consideration in the form of 9% debentures in respect of ultimate surplus capital, 10% redeemable preference shares in respect of the balance of initial surplus capital and equity shares for the balance, all issued at par. John took over the building at an agreed valuation of ₹ 40,000. James took over the machinery at an agreed valuation of ₹ 50,000. Jill & Co. (P) Ltd. Agreed to pay monthly rent of ₹ 40,000. James took over the machinery at an agreed valuation of ₹ 50,000. Jill & Co. (P) Ltd. Agreed to pay monthly rent of ₹ 1,000 to John for the occupation of the building and monthly compensation of ₹ 2,000 to James for the use of machinery.

The formation expenses of Jill & Co. Pvt. Ltd. Amounted to ₹ 6,000 which were agreed to be paid by the new company to Jack, the partner who was in charge of promotion, by 30th September, 1981.

You are required to:

(a) Close the books of partnership;

(b) Prepare a statement showing the allotment of various types of capital amongst the partner;

(c) Pass the opening journal entries in the books of Jill & Co. Pvt. Ltd. As on 1.7.1981.

Solution

Q.5 Working Notes

Calculation of Purchase Consideration

(Net Assets Method)

Revised Value of Assets Taken Over

Working Capital	2,00,000
Goodwill	50,000
Net Assets/P.C	2,50,000
To be Discharged as	
(i) Equity Shares	1,90,000
(ii) Preference Shares	45,000
(iii) 9% Denentures	15,000
	2,50000

In the Books of Jill & Co. Pvt. Ltd.

Particulars				Debit	Credit
((i)	For Purchase of Business				
	Business Purchase A/c.....	Dr		2,50,000	
	To John James & Jack A/c.				2,50,000
((ii)	For Assets & Liabilities taken over				
	Working Capital A/c......	Dr.		2,00,000	
	Goodwill A/c.....	Dr.		50,000	
	To Business purchase A/c.				2,50,000
((iii)	For Discharge of P.C.				
	John, James & Jack A/c......	Dr.		2,50,000	
	To Equity Shares A/c.				1,90,000
	To Preference Shares A/c.				45,000
	To 9% Debentures A/c.				15,000
((iv)	For Preliminary Expenses A/c....	Dr.		6,000	
	To Mr. Jack A/c.				6,000

Working Notes

Statement of Excess Capital

	2	2	1
	John	**James**	**Jack**
Final Balance	1,06,000	76,000	68,000
Adjustment of partners capital in P S R taking James Capital as base	76,000	76,000	38,000 (2:2:1)
∴ Excess capital	30,000	--	30,000
Taking John's Capital as abse. ∴ Extra Excess Capital ∴ 15,000 in 9% Debenture to Jack 45,000 in 10% preference share to John & Jack (30,000+15,000) 1,90,000 in Equity Share in 2:2:1	30,000 --	-- --	15,000 15,000
∴ One share	$\frac{106,000}{2}$ = 53,000 $\frac{30,000}{2}$ 15,000	$\frac{76,000}{2}$ 38,000 $\frac{30,000}{1}$ 30,000	$\frac{68,000}{1}$ 68,000

Partners Capital A/c's

	John	James	Jack		John	James	Jack
To Realisation A/c.				By Balance b/d	1,10,000	90,000	50,000
(Building)	40,000	--	--				
To Realisation A/c	--	50,000	--	By Realisation A/c	36,000	36,000	18,000
(Machinery)			15,000	(Net profit)			
To 9% Debentures of Purchase Co.	--	--	15,000				
	30,000	--	38,000				
To 10% Preference Share of Pur. Co.	76,000	76,000					
To Equity Share of purchase Co,							
	1,46,000	1,26,000	68,000		1,46,000	1,26,000	68,000

Realisation A/c

	₹		₹
To Building	25,000	By Creditors	60,000
To Machinery	30,000	By Purchasing Co. (PC)	2,50,.000
To Stock	1,00,000	By John's Capital A/c. (Building)	40,000
To Debtors	1,50,000	By James Capital A/c. (Machinery)	50,000
To Bank	5,000		
To Net Profit transfer to			
John 36,000			
James 36,000			
Jack (2:2:1) 18,000			
	90,000		
	4,00,000		4,00,000

Purchasing Co. Ac

	₹		₹
To Realisation	2,50,000	By 9% Debentures of purchase co.	15,000
		By 10% Pref. Shares of Purchase Co.	45,000
		By Equity Shares of purchasing co.	1,90,000
	2,50,000		2,50,000

Q.6. M,B and G were in partnership sharing profits and losses equally. Their balance sheet on 31st Dec., 1984 was as follows:

Liabilities		₹	**Assets**	₹
Bills payable		12,075	Goodwill	5,000
Creditors		20,625	Machinery	22,500
Capital Accounts:			Furniture	2,625
M	28,125		Investments	1,500
B	9,375		Stock	17,550
G	3,750	41,250	Debtors	22,625
			Cash	2,150
		73,950		73,950

They decided to sell their business to MBG Ltd. As G who was the working partner, was found to be mismanaging the affairs of the firm. A sum of ` 5,000 reveived from the firm's debtors was not credited to their accounts but was misapropriated by him. Stocks were overstated by ₹ 3,750.

Repairs to machinery amounting to ₹ 3,000 had been wrongly capitalised, during 1982 the rate of 10% of the diminishing balance.

MBG Ltd. Acquired all the partnership assets except the investments, which B agreed to take at ₹ 1,250. For the purpose of sale the assets were valued as follows:

Goodwill ₹ 1,250, Furniture ₹ 1,625, Stock ₹ 12,500 Machinery at book value Debtors at book value less 5% M agreed to discharge the creditors. For the purpose of paying the bills payable, M and B introduced cash in their profit sharing proportion.

G being insolvent, is unable to meet an deficiency that may arise.

The purchase consideration was settled by the allotment at a premium of ₹ 10 per share, of sufficient fully paid equity shares of Face value of ₹ 100 each in MBG Ltd., B agreed to take 200 shares and the balance was to be given to M.

Prepare necessary ledger accounts in the books of Partnership Firm.

Solution

Working Note

Calculation of P.C. (Net assets method)

Revised Value of Assets

Goodwill		1,250
Furniture		1,625
Stock		12,500
Machinery (22,500-2,187)		20313
Debtors (22,625 - 5,000 = 17,625- 5%)		16,744
Bad Debts@ 5%	17,625	
	(–) 881	
Cash		2,150
Less: Liabilities at revised value		54,582
Net Assets/P.C		Nil
To be discharged as		54,582
$\frac{54582}{110}$(496) Equity shares · 110		54,560
Cash		22
		54,582
Repairs to machinery RS. 3000/- wrongly capitalised in 1982 @ 10% WDV.		

∴1982	3,000
Dep. 10% 1983	300
1983	2,700
(–) Dep. @ 10%	270
1984	2,430
(–) Dep. @10%	243
W.D.V. On 31.12.1984	2,187

Partners Capital A/c.

	M	B	G		M	B	G
To Profit/Loss Adj. To Drs. To Balance c/d	1979 - 26,146	1979 - 7,396	1979 5,000 -	By Balance b/d By Balance b/d	28,125 -	9,375 -	3,750 3,229
	28,125	9,375	6,979		28,125	9,375	6,979

	M	**B**	**G**		**M**	**B**	**G**
To Balance b/d To Equity Share To Real (Invt.) To Real A/c (Loss) To G's Cap, (Capital Ad.) To Cash/Bank (final pay)	- 32,560 - 2,394 4,382 15,866	- 22,000 1,250 2,394 1,240 -	3229 - - 2,393 - -	By Balance b/d By Creditors By Cash/Bank (B/P) By Cash/Bk. (Real Loss) By M & B's Capital By Cash/Bank	26,146 20625 6,037 2,394 - -	7,396 - 6,038 2,394 - 11,056	- - - - 5,622 -
	55,202	26,884	5,622		55,202	26,884	5,622

Profit/Loss Adj. A/c.

	₹			₹
To Stock	3,750	By Loss Transfer to		
To Machinery	2,187	M	1,979	
		B	1,979	
		G (1:1:1)	1,979	5,937
	5,937			5,937

Journal Entries for Rectification

	Particulars				Debit	Credit
(1)	G's A/c.....			Dr	5,000	5,000
	To Debtors A/c					
(2)	Profit/Loss A/c...			Dr	3,750	3,750
	To Stock A/c.					
(3)	Machinery	3,000	1982			
	(-)	300	10% Depreciation 82			
		2,700				
	(-)	270	10% Depreciation 83		2,187	
		2,430				2,187
	(-)	243	10% Depreciation 84			
		2,187	(Balance to Today)			
			(to be removed from Machinery			
(4)	A/c.)					
	Profit/Loss (ADJ.) A/c......			Dr		
	To Machinery a/c.					

Realisation A/c

	₹			₹
To Sunday Assets		By Purchasing Co. (Pc)		54,582
To Cash/Bank	2,150	By B's Capital (inv.)		1,250
To Goodwill	5,000	By Loss transfer to		
To Machinery (22,500-2,187)	20,313	M	2,394	
To Furniture	2,625	B	2,394	
To Investments	1,500	G (1:1:1)	2,393	7,181
To Stock (17,550-3,750)	13,800			
To Debtors (22,625 -5,000)	17,625			
	63,013			**63,013**

Creditors A/c.

	₹		₹
To M's Capital	20,625	By Balance b/d	20,625
	20,625		20,625

Bills Payable A/c.

	₹		₹
To Cash/Bank	12,075	By Balance b/d	12,075
	12,075		12,075

Cash/Bank A/c.

	₹		₹
To purchasing Co.	22	By Bills Payable	12,0758
To M's Capital	6.037	By M's Capital	15,866
To B's Capital	6,0.8		
To M's Capital	2,394		
To B's Capital	2,394		
To B's Capital	11,056		
	27,941		27,941

Purchasing Co.

	₹		₹
To Realisation	54,582	By Equity Share	54,560
		By Cash	22
	54,582		54,582

Equity Share of P. Co.

	₹		₹
To Purchasing Co.	54,560	By B's Capital (200×110)	22,000
		By M's Capital (296×110)	32,560
	54,560		54,560

Distribution of Capital Deficiency of 'G'

Capital Deficiency		5,622
	M	**B**
Capital Ratio	26,146	7,396
M =	$\frac{26,146}{33,542}$ 5,622 4,382	
B's =	$\frac{7,396}{33,542}$ 5,622 1,240	

Q. 7. M.N and O were partners sharing profits and losses in the ratio of 4:3:1 and decided to sell of their business to JK Ltd.

Balance Sheet of M.N,O as on December 31, 1983

Liabilities	₹	Assets	₹
Sundry Creditors	20,000	Cash in hand	4,560
M/s Capital A/c.	40,000	Furniture	5,440
N's Capital A/C.	30,000	Sundry Debtors	25,000
O's Capital A/c.	10,000	Stock	15,000
		Plant and Machinery	50,000
	1,00,000		1,00,000

JK Ltd. Took over the furniture, stock and plant and machinery at ₹ 1,00,000 payable in fully paid shares of ₹ 10 each. The company has undertaken to collect the firm's debtors and agreed to pay the firm's debtors and 2% on payments to firm's creditors.

In January, 1984 the Company collected ₹ 23,000 from firm's debtors in full settlement, and paid ₹ 18,500 to the firm's sundry creditors in full satisfaction of their claim. After deducting the commission, the company has remitted the balance of cash to tks of the firm after giving opening entries for Acquisition etc.

Solution

Q.7 Working Note

(1) Calculation of P.C.

P.C.=1,00,000

(2) Net Assets

Revised Value of Assets taken

Furniture	5,440
Stock	15,000
Plant & Machinery	50,000
	70,440
Less: Revised value of liabilities taken	—
Net Assets	70,440

Goodwill = Net Payment – Net Assets

= 1,00,000 – 70,440 = 29,560

(3) Mode of Payment

10,000 Equity Share of ₹ 10 each fully paid 1,00,000

Journal Entries in the Books of JK Ltd.

Particulars				Debit	Credit
(1)	For Business Purchase				
	Business Purchase A/c.....	Dr		1,00,000	
	To M.N & O A/c (vendor firm)				1,00,000
(2)	For Net Assets Taken over				
	Furniture A/c.....	Dr		5,440	
	Stock A/c.....	Dr		15,000	
	Plant & Machinery A/c.....	Dr		50,000	
	Goodwill A/c.....	Dr		29,560	
	To Business Purchase A/c.				1,00,000
(3)	For Net Payments Made				
	M,N & O A/c....	Dr		1,00,000	
	To Equity Share Capital A/c.				1,00,000
(4)	For Commission Adjusted out of net collection & balance cash paid				
	(a) Cash A/c.....	Dr		23,000	
	To Vendor Suspense A/c.				23,000
	(Collection from Debtors)				
	(b) Vendor Suspense A/c....	Dr			
	To Cash A/c.			18,500	
	(Payment to Creditors)				18,500
	(c) Vendor suspense A/c.....	Dr			
	To Commission A/c.				
	(3% on 23,000 + 2% on 18,500)			1,060	
	(690 + 370 = 1,060)				1,060
	(d) Vendor Suspense A/c.....	Dr			
	To Cash A/c.				
				3,440	
					3,440

Q. 8. Asha and Bina are in partnership and share profits losses in equal proportion. On 30th September, 1989, they sold their assets to Ashawadi Ltd.

Balance Sheet as on 30.9.89 Stood as Under

Liabilities		₹	Assets	₹
Creditors		49,000	Sundry Assets	1,63,500
Capital			Cash in hand	4,700
Asha	47,800			
Bina	50,400	98,200		
Loan from Sagar		21,000		
		1,68,200		1,68,200

The buyer, Ashwadi Ltd. Agree as follows:

(i) To pay ₹ 1,59,300 for sundry assets and ₹ 30,000 as goodwill.

(ii) To deposit ₹ 50,000 immediately to enable payments to creditors and the balance on completion of all formalities on 31.12.89. They agree to pay interest at 5% p.a. On the balance of purchase price.

Asha and Bina are to be allowed interest at 10% p.a. On their opening capital. Sagar loan account is to be credited with interest at 12% p.a.

Show necessary ledger accounts in the books of vendors, ignore fractions.

Solution

Q. 8. Working Notes

(1) Calculation of P.C.

Net Assets Method

Revised value of Asts taken

Sundry Assets	1,59,300
Goodwill	30,000
Less: Revised vaue of Liab. Taken P.C	1,89,300

Realisation A/c

		₹		₹
To Sundry Assets		1,63,500	By Creditors	49,000
To Cash/Bank (Creditors Paid)		49,000	By Ashawadi Ltd. (P.C.)	1,89,300
To Interest			By Ashawadi Ltd. (Interest on PC)	1,741
Asha's Capital	1,195			
Bina's Capital	1,260		$(1,39,300 \times 5/100 \times 3/12)$	
Sagar's Loan	630			
To Profit transfer to capital				
Asha	12,228	24,456		
Bina	12,228			
		2,40,041		2,40,041

Partner's Capital A/c

Particulars	Asha	Bina	Particulars	Asha	Bina
To Cash/Bank	61,223	63,888	By Balance	47,800	50,400
			By Realisation (Interest)	1,195	1,260
			By Realisation (Profit)	12,228	12,228
	61,223	63,888		61,223	63,888

Sagar's Loan A/c

	₹		₹
To Cash/Bank	21,630	By Balance	21,000
		By Realisation (Interest)	630
	21,630		21,630

Ashawadi Ltd.

	₹		₹
To Realisation A/c. (PC)	1,89,300	By Cash/Bank A/c	50,000
To Realisation A/c. (Interest on P.C.)	1,741	By Cash/Bank A/c	1,41,041
	1,91,041		1,91,041

Cash/Bank A/c

	₹		₹
To Balance b/f	4,700	By Realisation A/c.	49,000
To Ashawadi Ltd A/c.	50,000	By Sagar's Loan A/c.	21,630
To Ashawadi Ltd A/c.	1,41,041	By Asha's Capital a/c	61,223
		By Bina Capital A/c.	63,888
	1,95,741		1,95,741

Q. 9. A and B were equal partners in a firm. Their Balance Sheet as on 31st December, 1992 was as under:

Liabilities	₹	Assets		₹
Sundry Creditors	25,000	Cash		7,000
Loan on Mortgage	10,000	Sundry Debtors	16,000	
Capital Accounts		Less:R.D.D	1,000	
A		Stock		15,000
B	55,000	Furniture		18,000
	20,000	Buildings		6,000
				64,000
	1,10,000			1,10,000

On the above date, A.B. Ltd. Took over the business of the firm. The company agreed

1. To take over Sundry Debtors at ₹ 14,000; Stock at ₹ 22,000; Furniture at ₹ 4,000; Buildings at ₹ 70,000 and Goodwill at ₹ 22,000.
2. To take over Sundry Creditors from whom a discount of ₹ 2,000 would be earned.
3. To take over Mortgage Loan with outstanding but unrecorded interest of ₹ 1,000.
4. To pay the expenses of realisatim which amounted to ₹ 2,000.
5. To pay the purchase price of Buildings in its shares of ₹ 100 each and the balance of purchase consideration in cash. The partners agreed to divide the shares as A3/5 and B 2/5.

Show the Ledger Accounts to close the books.

Solution

Q. 9 Calculation of P.C.

Net Assets Method		
Assets taken over at revised values		
Sundry Debtors	14,000	
Stock	22,000	
Furniture	4,000	
Buildings	70,000	
Goodwill	22,000	132,000
Less: Liabilities taken over at revised values		
Sundry Creditors	23,000	
Mortgage loan	11,000	34,000
		98,000
Add: For Realisation Expenses		2,000
P.C.		1,00,000
Discharge of P.C.		
(1) Equity Shares of 100/-each	70,000	
(2) Cash	30,000	
P.C.	1,00,000	

In the Books of A & B

Realistion A/c

		₹		₹
To Sundry Debtors		16,000	By R.D.D	1,000
To Stock		18,000	By Sundry Creditors	25,000
To Furniture		6,000	By Loan on Mortgage	10,000
To Buildings		64,000	By AB Ltd. (PC)	1,00,000
To Cash/Bank (Exp.)		2,000		
To Real Profit				
A	15,000			
B	15,000	3,000		
		1,36,000		1,36,000

AB Ltd. A/c

	₹		₹
To Reallisation A/c.	1,00,000	By Cash/Bank A/c.	30,000
		By Equity Shares of AB Ltd.	70,000
	1,00,000		1,00,000

Partners Capital A/c.

	A	B		A	B
To Equity Shares of AB Ltd.	42,000	28,000	By Balance b/d	55,000	20,000
To Cash/Bank A/c.	28,000	7,000	By Realistion Profit	15,000	15,000
	70,000	35,000		70,000	35,000

Cash/Bank A/c

	₹		₹
To Balance b/d	7,000	By Realisation (Exp.)	2,000
To AB Ltd.	30,000	By A's Capital A/c.	28,000
		By B's Capital A/c.	7,000
	37,000		37,000

Equity Shares of AB Ltd.

	₹		₹
To AB Ltd.	70,000	By A's Capital A/c.	42,000
		By B's Capital A/c.	28,000
	70,000		70,000

Q. 10. A, B and C share profits and losses of a business as 1/2, 1/3 and 1/6 respectively. Their Balance sheet as on 31st March, 1994 was as follows:

Liabilities	**₹**	**Assets**	**₹**
Capital A/c.A	70,000	Goodwill	10,000
B	80,000	Land	20,000
C	10,000	Building	1,10,000
General Reserve	18,000	Machinery	50,000
Investment Fluctuation Fund	4,000	Motor Car	28,000
		Furniture	12,000
C's Loan	33,000	Investment	18,000
Mrs. A's Loan	15,000	Loose Tools	7,000
Creditors (trade)	76,000	Stock	18,000
Creditors (Expenses)	20,000	Bills Receivable	20,000
Bills Payable	14,000	Debtors	
Bank overdraft	60,000	40,000	
		Less:Provision 2,000	38,000
		Cash at Bank	1,000
		C's Current A/c.	56,000
		Profit and Loss A/c.	12,000
	4,00,000		4,00,000

The partners decided to convert the firm into a Ltd. Company ABC Ltd. With an authorised capita of ₹ 10,00,000 divied into ₹ 100 equity shares.

The Terms were:

(i) Motor Car, Furniture, Investment, Loose Tools, Debtors, and Cash are not to be taken over by the company.

(ii) Bills payable, and Bank Overdraft are to be taken over.

(iii) The purchase price is settled at ₹ 1,95,000 payable as to ₹ 75,000 in cash and the balance in company's fully paid shares of ₹ 100 each.

The remaining assets and liabilities were disposed as follows:

Investment was taken over by A for ₹ 13,000; Debtors realised ₹ 20,000; Motor car, Furniture, and Loose Tools fetch ₹ 24,000; ₹ 40,000 and ₹ 1,000 respectively. A agreed to pay his wife's loan and the creditors were paid ₹ 74,000 in full settlement. Creditors for expenses were paid in full. The realisation expenses amounted to ₹ 500.

The equity shares were distributed in profit sharing ratio amongst the partners.

You are required to show the necessary ledger accounts, assuming that the liabilities even if not taken over are transferred to the Realisation A/c.

Solution

Q. 10 Calculation P.C.

Given	₹	1,95,000
Discharge	(1) Cash	75,000
	(2) Equity Shares	1,20,000
		1,95,000

Realisation A/c

		₹			₹
To Goodwill		10,000	By R.B.D		2,000
To Land		20,000	By C's Loan		35,000
To Building		1,10,000	By Mrs. A Loan		15,000
To Machinery		50,000	By Creditors (Exp.)		76,000
To Motor Car		28,000	By Bills Payable		20,000
To Furniture		12,000	By Bank overdraft		14,000
To investments		18,000	By ABC Ltd. (PC)		60,000
To Loose Tools		7,000	By A's Capital A/c. (Inv.)		1,95,000
To Stock		18,000	By Cash/Bank A/c		13,000
To Bills Receivable		20,000	Debtors	20,000	
To Debtors		40,000	Motor Car	24,000	
To A's Capital A/c (Mrs. A loan)		15,000	Furniture	40,000	
To Cash/Bank			Loose Tools	1,000	85,000
Trade Creditors	74,000				
Creditors for Exp.	20,000				
C's Loan	33,000	1,27,000			
To Cash/Bank (Expenses)		500			
To Real Profit:					
A	18,750				
B	12,500				
C	6,250	37,500			
		5,13,000			5,13,000

Partners Capital A/c

	A	B	C		A	B	C
To C's	-	-	56,000	By Balance b/d	70,000	80,000	10,000
Current	6,000	4,000	2,000				
To P&L	13,000	-	-	By General	9,000	6,000	3,000

A/c. To Real A/c. To Equity Share of ABC Ltd To Cash/Bank	60,000 35,750	40,000 55,833	20,000 -	Res. By Invest Fl.Fund By Real A/c. By Real Profit By Cash/Bank	2,000 15,000 18,750 -	1,333 - 12,5000 -	667 - 6,250 58,083
	1,14,750	99,833	78,000		1,14,750	99,833	78,000

Cash/Bank A/c

	₹		₹
To Balance b/d	1,000	By Real (Liab.paid)	1,27,000
To ABC Ltd.	75,000	By Real (Exp.)	500
To Real(Assets sold)	85,000	By A's Capital A/c.	35,750
To C's Capital A/c.	58,083	By B's Capital A/c.	55,833
	2,19,083		2,19,083

ABC Ltd.

	₹		₹
To Realisation	1,95,000	By Cash/Bank	75,000
		By Equity Share of ABC Ltd.	1,20,000
	1,95,000		1,95,000

Equity Share of ABC Ltd.

	₹		₹
To ABC Ltd.	1,20,000	By A's Capital A/c.	60,000
		By B's Capital A/c.	40,000
		By C's Capital A/c.	20,000
	1,20,000		1,20,000

Q.11. Veeru & Naru are carrying on business in name of Veena & Co. Sharing profit in ratio of 2:3. On 31.3.1995 their Balance Sheet was:

	₹		₹
Naru Account	88,000	Property	72,000
Veeru Account	60,000	Stock	40,000
General Reserve	24,000	Debtors	48,000
Loan Naru	16,000	Machinery	60,000

Bank Overdraft	32,000	Advances	8,000
Creditor	20,000	Cash/Bank	12,000
	2,40,000		2,40,000

On same date Veeru Pvt. Ltd. Was incorporated to take over the running business of Veena & Co., on the following terms:

(i) Good will of the firm is to be valued at 2 years purchase of average profits of past five years. The firm used to transfer ₹ 4,000 every year to General Reserves. The profits after above transfer were ₹ 12,800; ₹ 14,000; ₹ 15,000; ₹ 14,200 and ₹ 15,400.

(ii) Plant is overvalued by ₹ 6,000 and property is indervalued by ₹ 8,000. Other assets and liabilities except Loan on Naru are taken over at book value.

(iii) the company decided to allot.

(a) 12% Preferance Shares to that partner who has excess Capital after all necessary adjustment to the extent of such amount.

(b) Equity Shares for balance amount payable.

(iv) The face vale of shares is ₹ 10.

Show the necessary journal enteries in the books of both parties of the above agreement.

Solution

Q. 11 Goodwill:

$$\frac{16{,}800+18{,}000+19{,}000+18{,}200+19{,}400}{5}$$

$$=\frac{91{,}400}{5}=18.280$$

Twice Average Profits = 18.280 ×2 = 36,560

Calculation of Purchase Consideration

Net Assets Method:			
Assets taken over (At agreed value)			
Goodwill	36,560		
Plant	54,000		(60,000-6,000)
Property	80,000		(72,000 + 8,000)
Stock	40,000		
Debtors	48,000		
Cash	12,000		

Advances	8,000	2,78,560	
(–) Liability taken over (at agreed value):			
Bank O/D	32,000		
Creditors	20,000	52,000	
Net Assets/PC		2,26,560	
P.C. Discharged as:			
(1) 12% Preference Share		14,000	(For Excess cap.)
(2) Equity Share		2,12,560	(Balance)
		2,26,560	

Books of Veena & Co.

	Particulars			Debit	Credit
(1)	Realisation A/c	Dr.		2,40,000	
	To Property A/c				72,000
	To Stock A/c				40,000
	To Debtors A/c				48,000
	To Machinery A/c				60,000
	To Advances A/c				8,000
	To Cash/Bank A/c				12,000
	(Being Sundry Assets transfered)				
(2)	Bank Overdraft A/c	Dr.		32,000	
	Creditors A/c			20,000	
	To Realisation A/c				52,000
	(Being Sundry Liabilities transfered)				
(3)	General Reserve A/c	Dr.		24,000	
	To Veeru's Capital A/c				9,600
	To Naru's Capital A/c				14,400
	(Being General Reserve Distributed				
(4)	Veeru Pvt.Ltd A/c	Dr		2,26,560	
	To Realisation A/c				2,26,560
	(Being the Amount of P/C)				
(5)	8% Preference Share of Veena Pvt. Ltd.	Dr.		14,000	
	Equity Share of Veena Pvt. Ltd. A/c.	Dr.		2,12,560	
	To Veeru Pvt.Ltd. A/c.	Dr			
	(Being P/C discharged)				2,26,560
(6)	Realisation A/c	Dr.		38,560	
	To Veeru's Capital A/c				15,424
	To Naru's Capital A/c				23,136
	(Being Profit on realisation transferred to partners Capital A/c.)				

(7)	Naru's Loan A/c	Dr.		16,000	
	To Naru's Capital A/c				16,000
	(Being Partners loan transfer to partners capital A/c.)				
(8)	Naru's Capital A/c	Dr.		14,000	
	To 8%Preference Share of Veena Pvt. Ltd.				14,000
	(Being Preference Share given to Naru as per excess capital)				
(9)	Naru's Capital A/c.	Dr.		1,27,536	
	Veeru's Capital A/c			85,024	
	To Equity Share Capital A/c				2,12,560
	(Being Partners Capital A/c. Closed)				

Notes:

1. In the absence of any information regarding Discharge of Naru's Loan, it is transferred to Naru's Capital A/c.
2. Statement of Excess Capital

	Veeru	**Naru**
Opening Balance	60,000	88,000
(+) Gen. Reserve	9,600	14,400
(+) Realisation Net profit	15,424	23,136
(+) Loan	–	16,000
Total	85,024	1,41,536

3. Distribution of Equity Shares will result into fraction which is assumed to be settled by partners in cash.

   ... Capital in PSR 85,024 : 1,27,536

   ... Excess Capital -- : 14,000

Books of Veena Pvt. Ltd.

Particulars				**Debit**	**Credit**
(1)	Business Purchase A/c.	Dr.		2,26,560	
	To Veeru & Co. Account				2,26,560
	(Being the amount of P.C.)				
(2)	Goodwill A/c			36,560	
	Plant A/c	Dr.		54,000	
	Property A/c	Dr.		80,000	
	Stock A/c	Dr.		40,000	
	Debtors A/c	Dr.		48,000	
	Cash/Bank A/c	Dr.		12,000	

	Advance A/c Dr.		8,000	
	To Bank O/D A/c			32,000
	To Creditors A/c			20,000
	To Business purchase A/c			2,26,560
	(Being Assets & Liabilities taken over at agreed value)			
(3)	Veeru & Co. A/c. Dr.		2,26,560	
	To 8% Prefereance Share Capital A/c.			14,000
	To Equity Share Capital A/c.			2,12,560
	(Being PC discharged)			

Q. 12. VIJAY and DIPAK are in partnership sharing profits and losses in proportion of 5:3. Their Balance Sheet as on 31st December, 1995 reads as under:

	₹		₹
Capital account		Property	40,000
VIJAY	50,000	Equipment	60,000
DIPAK	30,000	Furnitures	10,000
Current Account:		Investments	15,000
VIJAY	10,000	Stocks	25,000
DIPAK	30,000	Debtors	35,000
Loans	40,000	Cash	5,000
Creditors	30,000		
	1,90,000		1,90,000

On 31st December, 1995 Jaidip Private Limited is incorporated to take over running business of this firm on the following term:

1. The Company will pay consideration as under:-
   (a) Allot 15% preference shares of nominal value of ₹ 80,000, to be distributed in ratio of capita.
   (b) Issue equity shares of par of nominal value of ₹ 1,00,000.
   (c) Cash ₹ 20,000
2. The Company takes over all assets and liabilities except investment and Bank Balance. The firm owns vehicle worth ₹ 25,000 which is fully written off. The vehicle is also taken over by Company.
3. Investments are taken over by Mr. Dipak at agreed value of ₹ 20,000.
4. The Company revalued property at ₹ 80,000. Equipment at ₹ 50,000, Furniture ₹ 5,000, vehicles ₹ 25,000, Stock ₹ 27,000, and Debtors ₹ 33,000.

5. The Company alloted 14% Debentures toward payment of Loan.

Show (i) Accounts in the books of firm,

(ii) Balance Sheet of Jaidip private Limited.

Solution

Q. 12.

Calculation of PC

Net Payments method	
(a) 15% Preference Shares	80,000
(b) Equity Shares	1,00,000
(c) Cash	20,000
(d) 14% Debentures (For Loan)	40,000
PC	2,40,000

In the Books of Vijay & Dipak

Realisation a/c

		₹		₹
To Property		40,000	By Creditors	30,000
To Equipment		60,000	By Jaidip Pvt.Ltd(PC)	2,40,000
To Furnitures		10,000	By Dipak's Cap. (Inv.)	20,000
To Investments		15,000		
To Stock		25,000		
To Debtors		35,000		
To Reval Profit				
Vijay	65,625			
Dipak (5:3)	39,375	1,05,000		
		2,90,000		2,90,000

Partners Capital A/c

	Vijay	Dipak		Vijay	Dipak
To Realisation (Inv.)	-	20,000	By Balance b/d	50,000	30,000
To Preference Share of Jaidip Pvt. Ltd. (5:3)	50,000	30,000	By Current A/c.	10,000	30,000
To Equity Shares of Jaidip Pvt.Ltd (5:3)	62,500	37,500	By Real Profit	65,625	39,375
To Cash/Bank	13,125	11,875			
	1,25,625	99,375		1,25,625	99,375

To Balance b/d To Jaidip Pvt.Ltd	5,000 20,000	By Vijay's A/c By Dipak's A/c.	13,125 11,875
	25,000		25,000

Cash/Bank A/c

Loans A/c

	₹		₹
To 14% Debenture of Saidip Pvt. Ltd.	40,000	By Balance c/d	40,000
	40,000		40,000

Note:

Equity shares of purchasing company is assumed to be distributed in PSR i.e. 5:3.

Securities in Jaidip Pvt.Ltd.

	Deb.	Eq.Sh.	Pref.sh.		Deb.	Eq.Sh.	Pref.Sh.
To Jaidip Pvt.Ltd	40,000	1,00,000	80,000	By Loan By Viay (5:3) By Dipak (5:3)	40,000 - -	- 62,500 37,500	- 50,000 30,000
	40,000	1,00,000	80,000		40,000	1,00,000	80,000

Jaidip Pvt.Ltd.

	₹		₹
To Realisation A/c	2,40,000	By 14% Deb.of Jaidip Pvt. Ltd. By Pref. Sh. of Jaidip Pvt.Ltd. By Eq. Share of Jaidip Pvt. Ltd. By Cash/Bank A/c.	40,000 80,000 1,00,000 20,000
	2,40,000		2,40,000

Balance Sheet of Jaidip Pvt.Ltd.

Liabilities	₹	**Assets**	₹
Share Capital:		Property	80,000
15% Preference Share Capital	80,000	Equipment	50,000
Equity Share Capital	1,00,000	Furniture	5,000
14% Debentures	40,000	Vehicles	25,000

Bank overdraft (to pay cash)	20,000	Stoxk	27,000
Creditors	30,000	Debtors	33,000
		Goodwill	50,000
Total	2,70,000	Total	2,70,000

Net Assets = 1.90,000 (i.e. 2,20,000 — Creditors 30,000)

PC paid = 2,40,000

∴ Paid more = Loss= Goodwill = 50,000

Q. 13. Snow View Ltd., was registered with an authorised capital of 1,00,000 Equity Shares of ₹ 10 each and it acquired the business of Mr. Bansal at an agreed price of ` 2,50,000.

The Balance Sheet of Mr. Bansal at the date of acquisition was as follows:

Liabilities	**₹**	**Assets**	**₹**
Capital	2,00,000	Freehold Premises	1,00,000
Reserve	20,000	Plant and Machinery	80,000
Sundry Creditors	50,000	Stock	20,000
Billy Payable	30,000	Debtors	
		27,500	25,000
		2,500	75,000
		Less: Provisions	
		Cash at Bank	
	3,00,000		3,00,000

The Purchase Consideration was to be discharged by the issue of 20,000 Equity Shares of ` 10 each as fully paid-up and the balance in cash.

You are asked to journalise the transactions in the books of Snow View Ltd. Prepare also the opening Balance Sheet of the Company.

Solution

Q. 13

Journal Entries

			Dr.(₹)	**Cr (₹)**
Business Purchase A/c	Dr.		2,50,000	
To Mr.Bansal's A/c				2,50,000
(Purchase consideration due to vendor on purcahse of the business as per agreement dated)				

Freehold Premises A/c.	Dr.		1,00,000	
Plant and Machinery A/c.	Dr.		80,000	
Stock A/c.	Dr.		20,000	
Debtors A/c.	Dr.		27,500	
Bank a/c.	Dr.		75,000	
Goodwill a/c.	Dr.		30,000	
To Provision for Bad Debts A/c.				2,500
To Sundry Creditors A/c.				50,000
To Bills Payable A/c				30,000
To Business Purchase A/c.				2,50,000
(Taking over the assets and the liabilities of the vendor debiting the difference to Goodwill Account)				
Mr Bansal's A/c	Dr.		2,50,000	
To Euity Shares Capital A/c				2,00,000
To Bank A/c				50,000
(Allotment of 20,000 Equity Shares of ` 10 each to vendor as fully paid-up for consideration other than cash and payment of the balance ` 50,000 in cash as per Board's resolution)				

Balance Sheet of Snow View Ltd. As at....

Liabilities	**Amount ₹**	**Assets**		**Amount ₹**
Share Capital		Fixed Assets		
Authorised Capital 1,00,000		Goodwill		30,000
Equity Shares of ₹ 10 each issued,	<u>10,00,000</u>	Freehold Premises		1,00,000
Subscribed and Paid-up Capital		Plant and Machinery		80,000
20,000 Equity Shares of ₹ 10 each issued to vendors as fully paid-up for consideration other than cash		Investments		Nil
Reserves and Surplus	2,00,000	Loans and Advances		
Secured Loan	Nil	Current Assets		
Unsecured Loan	Nil	Stock		
Current Liabilities and Provisions	NIl	Debtors	27,500	20,000
Current Liabilities		Less:Provision	<u>2,500</u>	
Bill Payable		Cash at Bank		25,000
Sundry Creditors	30,000			25,000
	50,000			
	2,80,000			**2,80,000**

Q. 14. (Where purchase consideration is not given in the problem).

Woodlands Ltd., registered with a capital of ₹ 10,00,000 in equity shares of ₹ 10 each acquired the business of M/s A and B, the Balance Sheet of whom at the date of acquisition was as follows:

Liabilities		**₹**	**Assets**	**₹**
Bills Payable		16,000	Cash at Bank	29,000
Sundry Creditors		30,000	Bills Receivable	13,000
Reserve Fund		14,000	Sundry Debtors	48,000
Capital Accounts			Stock	18,000
A	70,000		Furniture and Fixtures	2,000
B	70,000	1,40,000	Plant and Machinery	40,000
			Land and Buildings	50,000
		2,00,000		2,00,000

The assets and liabilities were subject to the following revaluation.

Plant and Machinery to be depreciated by 10%

Furniture and Fittings to be depreciated by 15%

Land and Buildings to be appreciated by 20%

A provision to be made for Bad Debtson Debtors @ 2-1/2%

Goodwill of the firm was valued at ₹ 24,000.

The purchase consideration was to be discharged as follows:

(i) Allotment of 10,000 Equity Shares of ₹ 10 each at ₹ 12 each

(ii) Allotment of 500 14% Debentures of ₹ 100 each at a discount of 10%.

(iii) Balance in cash.

The cost of acquisition of the company amounted to ₹ 5,000.

You are required to show the journal entries in the books of the company and prepare the opening Balance Sheet of the company after the acquisition.

Solution

	₹	**₹**
Calculation of Purchase consideration-		
Assets taken over		
Cash at Bank		29,000
Bills Receivable		13,000
Sundry Debtors	48,000	
Less: Provision for Bad Debts @ 2-1/2%	1,200	46,800

Stock		18,000
Furniture and Fixtures	2,000	
Less: Depreciation @ 10%	300	1,700
Plant and Machinery	40,000	
Less: Depreciation @ 10%	4,000	36,000
Land and Buildings	50,000	
Add: Appreciation @ 20%	10,000	60,000
Goodwill		24,000
Cross Assets taken over		2,28,,500
Less: Liabilities taken over		
Bills payable	16,000	
Sundry Creditors	30,000	46,000
Net: Assets acquired or purchase consideration		1,82,500
To be discahrged as		
Eq. Shares ($10,000 \times 12$)	1,20,000	
Debentures (500×90)	45,000	
Cash	17,500	1,82,500

Journal Entries

				Dr.(₹)	Cr. (₹)
(1)	Business Purchase A/c.	Dr.		1,82,500	
	To M/s A and B's A/c				1,82,5000
	(Purchase consideration due to vendors on purchase of the business as per agreement dated..)				
(2)	Bank A/c			29,000	
	Bills Receivable A/c	Dr.		13,000	
	Sundry Debtors A/c	Dr.		48,000	
	Stock A/c	Dr.		18,000	
	Furniture and Fixture A/c	Dr.		1,700	
	Plant and Machinery A/c	Dr.		36,000	
	Land and Buildings A/c	Dr.		60,000	
	Goodwill A/c	Dr.		24,000	
	To Provision for Bad Debts A/c				1.200
	To Bills Payable A/c				16,000

	To Sundry Creditors A/c			30,000
	To Business Purchase A/c			1,82,500
	(Taking over the various assets and the liabilities of the vendor)			
(3)	M/s A and B's A/c Dr.		1,82,500	
	Discount on Issue of Debentures A/c Dr.		5,000	
	To Equity Share Capital a/c			1,00,000
	To Share Premium A/c			20,000
	To 14% Debentures A/c			50,000
	To Bank A/c			17,500
	(Allotment of 10,000 Equity Shares of ₹ 10 each at a premium of ₹ 2 per share and 500 debentures of Es. 100 each at a discount of 10% to vendors for consideration other than cash and the balance of ₹ 17,500 paid in cash as per Board resolution dated.)			
(4)	Goodwill A/c. Dr.		5,000	
	To Bank A/c			5,000
	(Payment of cost of acquisition; added to goodwill since it increases the cost of acquiring the business)			
(5)	Share Premium A/c Dr.		5,000	
	Discount on Issue of Debentures A/c			5,000
	(Writing off of capital losses against Share Premium Account as per Section 78)			

Balance Sheet of Woodlands Ltd. As at...

Liabilities	Amount	Assets	Amount
Share Capital		Fixed Assets	
Authorised Capial		Goodwill	29,000
1,00,000 Equity Shares of ₹ 10 each	10,00,000	Land and Building	60,000
		Plant and Machinery	36,000
Issued, Subscribed and paid-up capital 10,000 equity Shares of ₹ 10 each issued to vendors as fully paid-up for consideration other than cash		Furniture and Fixtures	1,700
		Investments	Nil
		Currents Assets,Loans and Advances	
	1,00,000		
Reserves and Surplus:		Stock	18,000
Share Premium A/c	15,000	Sundry Debtors 48,000	

Secured Loan		Less:Provision 1,200	46,800
500 14% Debentures of ₹ 100 each	50,000	Cash at Bank	6,500
Unsecured Loans	Nil	B.Loans and Advance Bill Receivable	13,000
Current Liabilities and Provisions			
A.Current Liabilities			
Bills Payable	16,000		
Sundry Creditors	30,000		
	2,11,000		2,11,000

Q. 15. X, Y and Z were trading in partnership. They shared profits and losses in the ration of 5:4:3 respectively.

They formed a limited company on 31.3.93 with an autorised capital of ₹ 3,00,000 to take over the business of the partnership. The share capital is to be suitably divided into different classes of shares. The trial balance of the Partnership as on 31.3.93 was as under:

	Debit ₹	**Credit** ₹
Capital Assets as on 1.4.92		
X		
Y		94,500
Z		63,000
Drawings:		31,500
X	30,000	
Y	30,000	
Z	22,500	
Plant and Machinery at cost	1,27,500	
Depreciation on Plant and Machinery		37,500
Stock and Work-in-Progress	96,300	
Debtors/Creditors	99,750	1,27,950
Bank Balance	1,32,450	
Profit for the year		1,84,950
	5,38,500	5,38,500

Profit for the year is subject to interest on partners capital accounts, which is to be provided at the rate of 5% per annum on the balance at the beginning of the year.

You are informed that:

(i) Plant and Machinery to be valued at the written down value which is ` 99,000

(ii) Goodwill is not required to be valued. Shares in the Company are to be issued to partners at par, in such number and such classes as will give the partners the same rights as regards capital, interest and profit as they had in partnership.

(iii) The other assets and liabilities are to be transferred at their values in the books of the partnership as on 31.3.93.

You are required to prepare:

(i) Profit and Loss appropriation account of the partnership for the year ended 31.3.93.

(ii) Capital Accounts

(iii) Computation showing division of shares into different classes.

(iv) Balance sheet of the company immediately on acquisition of partnership business and issue of shares.

Solution

(i) Profit and Loss Appropriation A/c for the year ended 31.3.93

Dr. **Cr.**

		₹		₹
To Interest on Capital			By Balance b/d	1,84,950
X's Capital	4,725			
Y's Capital	3,150			
Z's Capital	1,575	9,450		
To Balance transferred to				
X's Capital (5/12)		73,125		
Y's Capital (4/12)		58,500		
Z's Capital (3/12)		43,875		
		1,84,950		1,84,950

(ii) Partner's Capital Accounts

Dr. **Cr.**

	X ₹	Y ₹	Z ₹		X ₹	Y ₹	Z ₹
To Drawings	30,000	30,000	22,500	By Balance b/d	94,500	63,000	31,500
To Balance c/d	1,46,100	97,650	56,700	By Interest on Cap.	4,725	3,150	1,575
				By P/L app a/c.	73,125	58,500	48,875
				By Realisation A/c.	3,750	3,000	2,250

	1,76,100	1,27,650	79,200		1,76,100	1,27,650	79,200
To Equity Shares in Ltd.	94,500	75,600	56,700	By Balance b/d	1,46,100	97,650	56,700
To 5% Pre. Shares in Ltd.	51,200	22,000	–				
To Cash	400	50					
	1,46,100	97,650	56,700		1,46,100	97,650	56,700

Dr. **Realisation A/c** **Cr.**

	₹		₹
To Sundry Assets	4,56,000	By Sundry Creditors	1,27,050
To Partners' Capital A/c-Profit		By Depreciation on Machinery	37,500
X's Capital	3,750	By Co. Ltd.-Purchase Consideration	3,00,450
V's Capital	3,000		
Z's Capital	2,250		
	4,65,000		4,65,000

(iii) Computation of Division of Shares

Taking z's capital as the basis (3/12 share)equity shares may be allotted in the ratio of 5:4:3 X,Y and Z Partners who have contributed excess capital may be allowed interest as compensation for excess contribution. Hence 5% Preference Shares of ₹ 100 each may be allotted to X and Y, ₹ 400 and 50 have to be paid in cash to X and Y as the authorised capital is ₹ 3,00,00.

	X (₹)	Y (₹)	Z (₹)	Total (₹)
Shares to be allotted				
22,680 Equity shares of ₹ 10 each (PSR)	94,500	75,600	56,700	2,26,800
5% Pref. Shares of ₹ 100 each (Excess cap.)	51,200	22,000	–	73,200

(iv) Balance Sheet of ....Ltd. As on 31.3.93

Liabilities	Amount	Assets	Amount
Share Capital:		Fixed Assets:	
Authorised Issued, subscribed and paid-up 22,680 Equity Shares of ₹ 10 each fully paid-up		Plant and Machinery	99,000
		Current Assets:	
		Stock and Working-in-Progress	96,300
	2,26,800	Sundry Debtors	99,750
732 5% Pre. Shares of ₹ 100 each fully paid-up	73,200	Cash at Bank	1,32,000
Current Liabilities and Provisions			
Sundry Creditors	1,27,050		
	4,27,050		**4,27,050**

Calculation of Purchase Consideration

Assets Taken over:	₹
Plant and Machinery	99,000
Stock and Working-in Progress	96,300
Debtors	99,750
Bank	1,32,450
	4,27,500
Less: Liabilities	
Sundry Creditors	1,27,050
Purchase Considerations	3,00,450

Sale to a Company

Cash contribution = X = Final Balance = $3600 \quad \frac{X}{5}$

Or X = $3600 \quad \frac{X}{5} \text{ or } \frac{4X}{5} \quad 3{,}600$

X = ₹ 4,500

Dr. **Realisation Account** **Cr.**

To Fixed Assets	68,000	By Provision doubtful Debts		1,000
To Stock	46,000	By Creditors		45,000
To Debtors	30,000	By Bank loan		30,000
To Cash (Bank Loan)	30,000	By Cash (assets realised)		40,000
To Cash (Creditors)	29,500	By Capital Accounts (Loss):		
		A	43,750	
		B	26,250	
		C	17,500	87,500
	2,03,500			2,03,500

Dr. **Capital Accounts** **Cr.**

	A	B	C		A	B	C
To Profit and loss A/c	12,500	7,500	5,00	By Balance b/d	40,000	35,000	15,000
To Realisation (Loss)	43,750	26,250	17,500	By LIC Policy	7,500	4,500	3,000

				By Cash	-	3000	-
				By Cash			4,500
				By B's Capital (b/f)	8,750		
	56,250	42,500	22,500		56,250	42,500	22,500

Dr. **Cash Account** **Cr.**

To Balance b/d	12,000	By Realisation A/c	
To Realisation A/c	40,000	(30,000 + 29,500)	59,500
To B's Capital A/c	3,000		
To C's Capital A/c	4,500		
	59,500		59,500

Sale to a Company

19.6 Sometimes, assets and liabilities of the partnership firm are sold to a company. When there is a complete or partial take over of assets and liabilities of a partnership firm by a company, it is known as dissolution through sale to a company. The price payable by the company for assets and liabilities taken over is known as 'Purchase Consideration'. The purchase consideration (or price) can be computed in any one of the following ways, if lumpsum consideration is not given in the examination problem:

- The value of net assets taken over by the purchasing company is the amount payable. It is computed as follows:

Agreed value of Individual Assets taken Over	xxx
Less: Agreed Value of Individual Liabilities Taken Over	xxx
Value of Net Assets Taken Over (Purchase Consideration)	xxx

- Sometime, the agreed values of assets and liabilities, not taken over are not given in the problem. The problem specifies the payments made by the company in cash/shares/debentures etc. To arrive at purchase consideration all payments made by the company to the firm (irrespective the purpose and form of payment) are added together. It is done as under:

Cash Paid	xxx
Issue Price of Equity Shares	xxx
Issue Price of Preference Shares	xxx
Issue Price of Debentures	xxx
Total Price of Debentures	xxx

Known as 'Payment Method' of purchase consideration. The journal entries passed to deal with purchase consideration are as under:

Purchase Consideration Due:

Purchasing Company A/c		
To Realisation A/c	Dr.	(With the amount of purchase consideration
Purchase Consideration Received		
Cash/Bank/A/c	Dr.	(With various payments received showing securities at their issue price)
Equity shares in Purchasing company A/c	Dr.	
Deference shares in Purchasing Company A/c	Dr.	
Debentures in Purchasing Company A/c	Dr.	
To Purchasing Company A/c		

Accept for the above mentioned steps dealing with realisation of assets and liabilities taken over by the purchasing company, all other steps are to be followed as usual. A point worth noting is that cash/Bank balance on the date of dissolution is also transferred to the realisation account provided is taken over by the purchasing company.

Distribution of Shares and debentures among partners. The ratio in which shares/debentures are be shared by the partners is generally given in the examination problem. However, if the question silent on this point, securities are distributed in the ratio of final balances appearing in the capital accounts of partners at the time of final settlement of accounts. Sometimes division of shares among partners is done is such a way as to preserve the rights as previously existed between them, that is, maintain the same profit ration and to preserve the priority in regard to repayment of capital.It's procedure is explained in the following illustration.

Illustration 21. A,B and C share profits and losses in the ratio 3:2:1 after allowing interest on capital @ 9% p.a. Their capitals on 31st December, 2000 were: A ₹ 50,000, B, ₹ 30,000 and C ₹ 20,000. On 1st January 2001 the business was converted into a limited company and was valued at ₹ 1,30,000. Suggest a scheme of capitalisation, whereby the mutual interest of partners may remain intact as far as possible.

[CA ––Adapted]

The total capital being ₹ 1,00,000 and the value placed on the business being ₹ 1,30,000, there is goodwill of ₹ 30,000 to be shared by the partners in the ratio of 3:2:1 or A ₹ 15,000, B ₹ 10,000 and Ca ₹ 5,000. The capital will now be : A ₹ 65,000, B ₹ 40,000 and C ₹ 25,000.

Taking B's capital as the basis, A's capital should be ₹ 60,000, i.e. 40,000×3/2 and C's capital should be ₹ 30,000. Both A and C have ₹ 5,000 excess. Since interest on capital is meant to compensate those whose capital in excess of proportionate limits and since in the case of partners it is an appropriation of profit, it will be proper give 9% preference shares to A a and C for ₹ 5,000 each and the remaining amount of ₹ 1,20,000 can be in the form of equity shares to be divided among A, B and C in the ratio of 3:2:1. They will then share the company's profit in the ratio of 3:2:1 after allowing preference dividend.

Sale to a Company

Illustration 22: A,B and C were partners sharing profits and losses in the ratio 2:2:1. Their balance sheet on the date of dissolution was as follows:

Liabilities	Amount	Assets	Amount
Capital Accounts: A 5,000		Plant and machinery	8,000
B 3000		Motor car	2,000
C 2,000	10,000	Stock	2,800
Current Accounts A 500		Debtors	6,000
B 1,500	2,000	Cash	150
Loan	1,000	C's current A/c	450
Creditors	4,000		
Bank overdraft	2,400		
	19,400		19,400

X Ltd. Agreed to take over assets with the exception of debtors, cash and motor car for ₹ 13,000. X Ltd agreed to discharge purchase consideration by issuing ₹ 3,000 6% preference shares at par, 100 equity shares of ₹ 50 each at a premium of ₹ 40 per share and the balance in cash.

Debtors realised ` 4,200 and creditors were settled at ₹ 3,900. B agreed to take over motor car at ₹ 1,400 A agreed to discharge loan account. Equity shares were distributed in capital ratio and preference shares were distributed in profit sharing ratio.

Prepare necessary ledger accounts.

[CA — Modified]

Dr. Realisation Account Cr.

To Plant and Machinery	8,000	By Creditors	4,000
To Motor Car	2,000	By Loan	1,000
To Stock	2,800	By X Ltd.	13,000

To Debtors	6,000	By B's capital A/c (M.Car)	1,400
To A's Capital A/c (loan)	1,000	By Cash (Debtors)	4,200
To Cash (Creditors)	3,900	By Capital Accounts: (Loss)	
		A 40	
		B 40	
		C 20	100
	23,700		23,700

Dr. **Capital Accounts** **Cr.**

	A	B	C		A	B	C
To Ralisation A/d	-	1,400	-	By Balance b/d	5,000	3,000	2,000
To Current a/c (450 + 20)	-	-	470	By Realisation A/c	1,000	-	-
To Preference shares in X Ltd.	1,200	1,2000	600	By Current A/c (Balance - loss on realisation)	460	1,460	-
To Equity Shares in X Ltd.	4,500	2,700	1,800	By Cash (balancing figure)	-	840	870
To Cash/A/c (balancing figure)	760	-	-				
	6,460	5,300	2,870		6,460	5,300	2,870

Dr. **Cash and Bank Account** **Cr.**

To Balance b/d	150	By Balance b/d (Bank overdraft)	2,400
To Realisation A/c	4,200	By Realisation A/c	3,900
To X Ltd.	1,000	By A's Capital A/c	760
To B's Capital A/c	840		
To C's Capital A/c	870		
	7,060		7,060

Illustration 23: A, B and C share profit of a partnership business as 3:2:1 respectively. Their balance sheet as at December 31,2001 was as follows:

Liabilities		**Amount**	**Assets**	**Amount**
Capital Accounts:	A	70,000	Goodwill	10,000
	B	80,000	Land	20,000
	C	10,000	Building	1,10,000

General Reserve	18,000	Machinery		50,000
Investment Fluctuation Fund	4,000	Motor		28,000
C's Loan	33,000	Furniture		12,000
Mrs. A's Loan	15,000	Investment		18,000
Creditors	76,000	Loose Tools		7,000
Outstanding Expenses	20,000	Bills Receivable		20,000
Bills Payable	14,000	Debtors	40,000	
Bank Overdraft	60,000	Less provision	2,000	38,000
		Cash		1,000
		C's current Account		56,000
		Profit and Loss Account		12,000
	4,00,000			4,00,000

The partners decided to convert their firm into a joint stock company. For this purpose M N Ltd. Was incorporated with an authorised capital of ₹ 10,00,000 divided into equity shares of ₹ 100 each and the business of the firm was sold to the company as at the date of the balance sheet given above on the following terms:

- Motor, furniture, investments, loose tools, debtors and cash are not to be taken over by the company.
- Liabilities for bills payable and bank overdraft are to be taken over by the company.
- The purchase consideration is settled at ₹ 1,95,500 payable as to ` 75,500 in cash and the balance in company's fully paid shares of ` 100 each.

The remaining assets and liabilities of the firm are directly disposed off by the firm as per the details given below:

Investments are taken over by A for ₹ 13,000, Debtors realise in all ₹ 20,000, motor, furniture and loose tools were sold for ₹ 24,000, ₹ 4,000 and ₹ 1,000 respectively. A agrees to pay his wife's loan and creditors were paid ₹ 74,000 in final settlement of their claim. Outstanding liability for expenses is met in full. The realisation expenses amounted to ₹ 500.

The equity shares received from the purchasing company are divided amongst the partners in their profit sharing ratio.

You are required to pass journal entries in the books of the partnership firm.

[CA — Adapted]

	Realisation A/c Dr.		3,33,000	
	To Goodwill A/c			10,000

	To Land A/c			20,000
	To Building A/c			1,10,000
	To Machinery A/c			50,000
	To Motor A/c			28,000
	To Furniture A/c			12,000
	To Investment A/c			18,000
	To Loose Tools A/c			7,000
	To Stock A/c			18,000
	To Bills Receivable A/c			20,000

Sale to a Company

To Debtors A/c (For transfer of assets except cash)				40,000
Provision on Debtors A/c Investment Fluctuation Fund A/c Creditors A/c Outstanding Expenses A/c Bills Payable A/c Bank Dues draft A/c To Realisation A/c (For transfer of liabilities and provision on assets)	Dr. Dr. Dr. Dr. Dr. Dr.		2,000 4,000 76,000 20,000 14,000 60,000	1,76,000
Cash A/c A's Capital A/c To Realisation A/c (For assets realised in cash and investments taken over by A)	Dr. Dr.		49,000 13,000	62,000
Realisation A/c To Cash A/c (For payment of creditors and outstanding expenses)	Dr.		94,000	94,000
Realisation A/c To Cash A/c (For payment of realisation expenses)	Dr.		500	500
M N Ltd. To Realisation A/c (For purchase consideration due)	Dr.		1,95,500	1,95,500
Realisation A/c	Dr.		6,000	

To A's Capital A/c			3,000
To B's Capital A/c			2,000
To C's Capital A/c			1,000
(For transfer of realisation profit)			
General Reserve A/c Dr.		18,000	
To Profit and Loss A/c			12,000
To A's Capital A/c			3,000
To B's Capital A/c			2,000
To C's Capital A/c			1,000
(For transfer of general reserve and accumulated loss)			
Mrs A's Loan A/c Dr.		15,000	
C's Loan A/c Dr.		33,000	
To A's Capital A/c			15,000
To C's Capital A/c			33,000
(For transfer of loan to capital accounts)			
C's Capital A/c Dr.		56,000	
To C's Current A/c			56,000
(For transfer of current to capital account)			
Cash A/c Dr.		75,500	
Equity shares in M N Ltd. Dr.		1,20,000	
To M N Ltd. A/c			1,95,500
(For purchase consideration received)			

Dissolution of Partnership Firm

A's Capital A/c Dr.		60,000	
B's Capital A/c Dr.		40,000	
C's Capital Dr.		20,000	
To Equity shares in M N Ltd.			1,20,000
(For distribution of shares)			
Cash A/c Dr.		31,000	
To C's Capital A/c			31,000
(For Cash brought by C)			
A's Capital A/c Dr.		18,000	
B's Capital A/c Dr.		44,000	
To Cash A/c			62,000
(For payment made to A & B)			

Illustration 24: On 31-3-2001, the balance sheet of A and B sharing profits as 2:1 was as follows:

Capital Accounts:	A 50,000		Fixed Assets		75,000
	B 40,000	90,000	Stock		35,000
Current Accounts			Debtors	70,000	
	A 20,000		Less: Provision	5,000	65,000
Less:	B 10,000	10,000	Bank		15,000
B's Loan		30,000			
Creditors		55,000			
Reserve		5,000			
		1,90,000			1,90,000

The firm was dissolved on the above date, Following additional information was made available:

1. Fixed assets included two motor cars having book value of ₹ 8,000 and ₹ 6,000 respectively.
2. X Ltd. Acquired fixed assets (other than motor cars) and stock at price of ₹ 1,60,000.
3. The purchase consideration was to be satisfied by a cash payment of ₹ 56,000, the allotment of 8,000 equity shares of ₹ 10 each at 10% discount and the allotment of 200, 12% preference shares of ₹ 100 each.
4. A agreed to take over one car at a valuation of ₹ 12,000 and B took the other car at ₹ 8,000.
5. B was to be allotted preference shares to the value of his loan and the remaining preference shares were allotted to A.
6. The equity shares were distributed between A and B ain proportion to their capital and the balance was settled in cash.
7. Debtors realised ₹ 61,000 and creditors ware settled at ₹ 51,000.

   Prepare Realisation Account, Current Accounts and Capital Accounts.

[B. Com., Delhi — Modified]

Payment of Purchase consideration of ₹ 1,60,000 is as under :

Bank	56,000
Equity shares	72,000 (8,000 × 9)
Preference shares (balancing figure)	32,000 (200 × 160)
	1,60,000

Sale to a Company

Dr. **Realisation Account** **Cr.**

To Fixed Asset	75,000	By Provision on Debtors	5,000
To Stock	35,000	By Creditors	55,000
To Debtors	70,000	By X Ltd.	1,60,000
To Bank (Creditors)	51,000	By Bank (Debtors)	61,000
To Profit to:		By A's Current A/c	12,000
A's Current A/c	46,667	By B's Current A/c	8,000
B's Current a/c	23,333		
	3,01,000		3,01,000

Current Accounts

	A	B		A	B
To Balance b/d		10,000	By Balance b/d	20,000	-
To Realisation A/c	12,000	8,000	By Reserve	3,333	1,667
(Assets taken over)			By Realisation A/c (Profit)	46,667	23,333
To Capital A/c (balancing figure)	58,000	7,000			
	70,000	25,000		70,000	25,000

Dr. **Capital Account** Cr.

	A	B		A	B
To 12% Preference shares in X Ltd.	2,000	-	By Balance b/d	50,000	40,000
To Equity shares in X Ltd.	40,000	32,000	By Current A/c	58,000	7000
To Cash A/c (balancing figure)	66,000	15,000			
	1,08,000	47,000		1,08,000	47,000

Dr. **X Ltd.** **Cr.**

To Realisation A/c	1,60,000	By Bank	56,000
		By Preference shares in X Ltd.	32,000
		By Equity shares in X Ltd.	72,000
	1,60,000		1,60,000

Dr. **Bank Account** Cr.

To Balance b/d	15,000	By Realisation (Creditors)	51,000
To X Ltd.	56,000	By A's Capital	66,000
To Realisation (Debtors)	61,000	By B's Capital	15,000
	1,32,000		1,32,000

Dr. **Preference shares in X Ltd. Account** Cr.

To X Ltd.	32,000	By B's Loan A/c	30,000
(200 × 160)		By A's Capital A/c	2,000
	32,000		32,000

Dr. **Equity shares in X Ltd. Account** Cr.

To X Ltd.	72,000	By A's Capital A/c	40,000
(8,000 × 9)		By B's Capital A/c	32,000
	72,000		72,000

Dissolution of Partnership Firm

Alternatively, the purchase consideration may be calculated on the basis of payment if the question states that preference shares are issued at 60% premium.

Net payment	Bank	- 56,000	
	Preference shares	- 32,000	
	Equity shares	- 72,000	1,60,000

If the question states, that fixed assets (other than cash) are valued at ` 1,20,000 and stock at ` 40,000 the purchase consideration by net Assets method is follows:

Fixed Assets (Other than car)	1,20,000	
Stock	40,000	1,60,000

Illustration 25: A, B and C share profits and losses in the ratio of 5:3:2. Their firm was dissolved due to misconduct of B and their balance sheet on that date was as under:

Balance Sheet as at 31-3-2001

Liabilities		Amount	Assets	Amount
Capital Accounts:			Land and Building	2,00,000
A	3,00,000		Plants	2,00,000
B	2,00,000		Sundry Debtors	50,000
C	1,00,000	6,00,000	Stock	1,50,000
Current Accounts:			Bills Receivable	50,000
A	50,000		Cash	1,00,000

B	30,000	80,000	Current Account:		
			C		50,000
Sundry Creditors		40,000			
Bills Payable		80,000			
		8,00,00 0			8,00,000

The whole business of the firm was sold to X Company Limited, on that day on the following terms:

1. X Company Limited will issue the following securities in consideration for transfer of business:

   10,000 equity shares @ ₹ 15 each; 15,000 preference shares @ ₹ 15 each; and 20,000 debentures @ ₹ 14.725 each.

2. The agreed value of assets and liabilities of partnership firm are as follows:

   Land & Building - ₹ 3,00,000; Plants - ₹ 1,50,000; Sundry Debtors - ₹ 47,500; Stock - ₹ 1,40,000; Bills Receivable - ₹ 50,000; Sundry Creditors - ₹ 38,000 and Bills Payable - ₹ 80,000.

C was admitted to the partnership firm on 1-4-98 and paid goodwill premium for her share of ₹ 30,000 based on 5 years purchase of super profit method. A and B were sharing profits in equal ratio before C's admission. It is mutually decided that preference shares will be distributed in profit sharing ratio and debentures and cash will be shared equally by all the partners.

Prepare the necessary accounts, to close the books of the firm.

Dr. **Realisation A/c** **Cr.**

To Land & Building	2,00,000	By Sundry Creditors	40,000
To Plants	2,00,000	By Bills Payable	80,000
To Sundry Debtors	50,000	By X Company Limited	6,69,500
To Stock	1,50,000		
To Bills Receivable	50,000		
To Cash	1,00,000		

Sale to a Company

Dr. **Cr.**

Transferred to Capital A/cs:				
	19,750			
	11,850			
	7,900	39,500		
		7,89,500		**7,89,500**

Dr. **X Company Limited** **Cr.**

A/c	6,69,500	By Equity Shares A/c	1,50,000
		By Preference Shares A/c	2,25,000
		By Debentures A/c	2,94,500
	6,69,500		**6,69,500**

Dr. **Equity Shares in X Co. Ltd. A/c** **Cr.**

Limited	1,50,000	By A"s Capital A/c	1,22,450
		By B's Capital A/c	27,550
	1,50,000		**1,50,000**

Dr. **Preference Shares in X Co. Ltd A/c** **Cr.**

Limited	2,25,000	By A"s Capital A/c	1,12,500
		By B's Capital A/c	67,500
		By C's Capital A/c	45,000
	2,25,000		**2,25,000**

Dr. **Debentures in X Co. Ltd A/c** **Cr.**

Limited	2,94,500	By A"s Capital A/c	98,166
		By B's Capital A/c	98,167
		By C's Capital A/c	98,167
	2,94,500		2,94,500

Dr. **Cash A/c** **Cr.**

	73,267	By A"s Capital A/c	36,634
		By B's Capital A/c	36,633
	73,267		**73,267**

Dr. **Partners' Current Accounts** **Cr.**

	A	B	C		A	B	C
	-	-	50,000	By Balance b/d	50,000	30,000	-
	-	12,000	-	By Realisation A/c	19,750	11,850	7,900
	69,750	-	-	By B's Current A/c	-	-	12,000
	-	29,850	-	By C's Capial A/c	-	-	30.100
	69,750	41,850	50,000		69,750	41,850	50,000

Dr. **Partner's Capital Accounts** **Cr.**

	A	B	C		A	B	C
To C'	-	-	30,100	By Balance b/d	3,00,000	2,00,000	1,00,000

To Preference A/c	1,12,500	67,500	45,000	By A's Current A/c	69,750	-	-
To Debentures A/c	98,166	98,167	98,167	By B's Current A/c	-	29,850	-
To Capital A/c	36,634	36,633	-	By Cash A/c (balancing figure)	-	-	73,267
To Equity A/c	1,22,450	27,550	-				
	3,69,750	2,29,850	1,73,267		3,69,750	2,29,850	1,73,267

Dr. **Sale to a Company** **Cr.**

To Profit transferred to Capital A/cs: A 19,750 B 11,850 C 7,900	39,500		
	7,89,500		7,89,500

Dr. **X Company Limited** **Cr.**

To Realisation A/c	6,69,500	By Equity Shares A/c By Preference Shares A/c By Debentures A/c	1,50,000 2,25,000 2,94,500
	6,69,500		6,69,500

Dr. **Equity Shares in X Co. Ltd A/c** **Cr.**

To X Company Limited	1,50,000	By A Capital A/c By B's Capital A/c	1,22,450 27,550
	1,50,000		1,50,000

Dr. **Preference Shares in X Co. Ltd. A/c** **Cr.**

To X Company Limited	2,25,000	By A/s Capital A/c By B's Capital A/c By C's Capital A/c	1,12,500 67,500 45,000
	2,25,000		2,25,000

Dr. **Debentures in X Co. Ltd. A/c** **Cr.**

To X Company Limited	2,94,500	By A'Capital A/c By B's Capital a/c By C's Capital A/c	98,166 97,167 98,167
	2,94,500		2,94,500

Dr. **Cash A/c** **Cr.**

To C'Capital A/c	73,267	By A Capital A/c	36,634
		By B C apital A/c	36,633
	73,267		73,267

Dr. **Partners Current Accounts** **Cr.**

	A	B	C		A	B	C
To Balance b/d	-	-	50,000	By Balance b/d	50,000	30,000	-
To C's Current A/c	-	12,000	-	By Realisation A/c	19,750	11,850	7,900
To A's Capital Ac	69,750	-	-	By B's Current A/c	-	-	12,000
To B's Capital A/c	-	29,850	-	By C's Capital A/c	-	-	30,100
	69,750	41,850	50,000		69,750	41,850	50,000

Dr. **Partners' Capital Accounts** **Cr.**

	A	B	C		A	B	C
To C's Current A/c	-	-	30,100	By Balance b/d	3,00,000	2,00,000	1,00,000
To Preference Shares A/c	1,12,500	67,500	45,000	By A's Current A/c	69,750	-	-
To Debentures A/c	98,166	98,167	98,167	By B's Current A/c	-	29,850	-
To Cash A/c	36,634	36,633	-	By Cash A/c *(balancing figure)*	-	-	73,267
To Equity Shares A/c	1,22,450	27,550	-				
	3,69,750	**2,29,850**	**1,73,267**		**3,67,750**	**2,29,850**	**1,73,267**

Dissolution of Partnership Firm

Working Notes: 1. Calculation of Purchase consideration.

Net Payment method			₹
Equity Shares	– 10,000@ ₹ 15	=	1,50,000
Preference Shares	– 15,000 @ ₹ 15	=	2,25,000
Debentures	– 20,000 @ ₹ 14,725	=	2,94,500
			6,69,500

Net Assets Method	₹
Land and Building	3,00,000

Plants	1,50,000
Sundry Debtors	47,500
Stock	1,40,000
Bills Receivable	50,000
Cash	1,00,000
	7,87,500
Less:	
Sundry Creditors	38,000
Bills Payable	80,000
	6,69,500

2. Unexpired benefit of goodwill premium paid by C = 2/5×30,000 = 12,000

Sacrificing ratio of A and B on admission of C: Old share - New share

A = 1/2 – 5/10 = Nil

B = 1/2 – 3/10 = 2/10

Hence, adjustment entry for return of premium due to premature dissolution is as under:

B's Current A/c	Dr.	12,000	
To C's Current A/c			12,000

3. As whole business of the firm was sold to X Company Limited, Cash balance of the Firm ` 1,00,000 is also transferred to realisation account. Cash brought in by C equal to De. Balance appearing in his account, after distribution of preference shares in profit sharing ratio and debentures equally, would be shared by A and B equally. The balance amount payable to A and B would be settled by transfer of equity shares in X Company Limited.

Illustration 26: A, R and M were carrying on business in partnership sharing profits and losses in the ratio of 5:4:3 respectively. The trial balance of the firm as on 31-3-2002 was the following:

Plant and Machinery at cost	1,05,000	-
Stock	60,200	-
Sundry Debtors	85,000	-
Sundry Creditors	-	1,05,200
Capital A/cs:		
A	-	70,000
R	-	50,000
M	-	30,000

Drawings A/cs:		
A	30,000	
R	25,000	
M	20,000	-

Dr. **Dissolution of Partnership Firm** **Cr.**

	A	B	C		A	B	C
				A/c			
	1,29,000	96,600	64,200		1,29,000	96,600	64,200
Equity Shares A/c	50,000	40,000	30,000	By Balance b/d	79,000	61,000	30,000
Preference Shares A/c	29,000	21,000	-				
	79,000	61,000	30,000		79,000	61,000	30,000

Working Note: Amount of purchase consideration is calculated as follows:

Plant and Machinery	80,000
Stock:	60,200
Cash at Bank (94,800-44,800)	85,000
	50,000
Less: Sundry Creditors	2,75,200
	1,05,200
	1,07,000

Purchase consideration is discharged by issue of equity and preference shares ascertained as under:

Statement showing the number and classes of shares issued

Particulars	A	R	M
Closing Capital balances (After adjustments)	79,000	61,000	30,000
Equity shares of ₹ 10 each to be issued, taking M's Capital as base ensuring same rights of shareholding	50,000	40,000	30,000
Chance to be settled by issue of 7 1/2% preference shares 80,000 - [(50,000 + 40,000 + 30,000)]	**29,000**	**21,000**	**-**

Since, purchase consideration is discharged by issue of :

Equity Shares	1,20,000
Preference Shares	50,000
	1,70,000

Gradual Realisation and Piecemeal Distribution

Till now the discussion was based on the implicit assumption, that all assets were reaslided and settlementwas done on the same date. In fact, assets are realised not on a single day but gradual base of gradual realisation of assets, the firm has two options:

- To distribute cash after final realisation : In this case, amounts finally due to all parties including partners are easily determined and settlement is done accordingly.
- To distribute cash as and when it is realised (Piecemeal Distribution of Cash): In this case, cash is utilised for settlement as and when it is available for distribution. The accounts are settled in the following order:

(i) ***Secured Liabilities:*** Secured liabilities are paid out of the cash realised by sale of mortgaged asset. Portion of liability not covered by the amount realised is treated as unsecured liability. However, if assets other than the mortgaged asset are realised first, then secured liabilities are treated at par with unsecured liabilities till the realisation of mortgaged asset.

(ii) ***Unsecured liabilities:*** After settling secured liabilities, unsecured liabilities are settled. If the amount available is not sufficient to clear all unsecured liabilities, it is distributed rateably among all unsecured liabilities.

(iii) Partner's Loan - After settling outside liabilities, partners loan are settled rateably.

(iv) ***Settlement of capital accounts of partners:*** The balances of capital accounts on the date of dissolution after adjustment for drawings, accumulated losses, reserves, accumulated profits etc. Are settled by following anyone of the two methods given below

A. Proportionate Capital Method

B. Maximum Loss Method

Proportionate Capital Method: Under this method, actual capital of the partners on the date of dissolution is compared with their proportionate capital (determined on the basis of minimum capital per unit of profit), to determine surplus capital of the partners. Surplus capital is paid first and any balance left thereafter is distributed in the profit sharing ratio. This ensures that final balances of partners show their share of realisation profit/loss and thus, no settlement need to be done at that point of time. The procedure is made clear in the following illustration:

Illustration 27: From the following information show surplus capital of partners:

	A	B	C
Actual Capital	20,000	15,000	5,000
Profit sharing Ratio	2	2	1

	A	B	C
Actual Capital	20,000	15,000	5,000
Profit Ratio	2	2	1
Capital Per Unit	10,000	7,5000	5,000
Proportionate Capital (taking minimum capital) per unit of ₹ 5,000 as base)	10,000	10,000	5000
Surplus Capital (Actual - Proportionate)	10,000	5,000	-

It means first ₹ 15,000 is not shared by C. Out of ₹ 15,000, A and B get ₹ 10,000 and ₹ 5,000 respectively. If cash available is less than ` 15,000 then surplus of A in comparison of B is detemined as under:

	A	**B**
Actual Capital	20,000	15,000
Profit Ratio	2	2
Capital Per Unit	10,000	7,500
Proportionate Capital (taking minimum capital per unit RS. 7,500 as base)	10,000	10,000
Surplus Capital	10,000	5,000

It means B will not share in first RS. 5,000.

Thus, distribution on the basis of proportionate capital should be as follows:

(i) Initial ₹ 5,000 to A only.

(ii) Next ₹ 10,000 (₹ 15,000 – ₹ 5,000) to A and B in ratio 2:2.

(iii) Balance of cash to A, B and C in the ratio 2:2:1.

Illustration 28: Determining surplus capital of A and B as compared to C from the following information:

	Capitals	**Profit Ratio**
A	10,000 (Cr.)	2
B	8,000 (Cr.)	2
C	2,000 (Dr.)	1

Dissolution of Partnership Firm

Dr. **Cr**

	A	**B**	**C**
Capital	10,000	8,000	–– 2,000
Ratio	2	2	1
Per Unit	5,000	4,000	–– 2000
Proportionate Capital	–– 4,000	–– 4,000	–– 2,000
Capital	14,000	12,000	––

Minimum Loss Method: Under maximum loss method, total unpaid capital of the partners is ined and cash available for distribution is subtracted from it. The balance left is treated as lum loss which is shared by partners in their profit sharing ratio. If it results in a debit balance partner's capital account, it is transferred to remaining partners in accordance with Garner vs. Rule. This process is repeated till all capital accounts show positive balances. Now, each is given cash equal to the balance shown by his account. At the time of each realilsation, this is repeated to determine distribution of cash at every stage. At the time of final realisation, partner with debit balance brings cash provided he is solvent and total cash available (including solution by partnres with debti balances) is distributed to settle the accounts of partners with balances.

Solution 29: A, B and C sharing profits in the ratio of 3:2:1 decided to dissolve the partnership firm on their balance sheet on their balance sheet on that date was as follows:

Accounts :	A 49,000		Cash		10,000
	B 21,000		Other Assets		90,000
	C 10,000	80,000	Drawings:		
		12,000		A 10,000	
Loan		18,000		B 10,000	
		10,000		C 5,000	25,000
		5,000			
		1,25,000			1,25,000

Information:

Realisation Expenses: Estimatesd- ₹ 4,000, Actual – ₹ 5,000.

Assets Realised: 15-1-2001- ₹ 20,000; 31-1-2001 — ₹ 4,000, 10-2-2001 ₹ 27,000 and 19-2-2001 — ₹ 26,000.

Statement showing distribution cash by applying:

A. Proportionate Capital Method.

B. Maximum loss Method.

Statement Showing Distribution of Cash (Proportionate Capital Method)

		Second Loan	Bills Payable	Creditors	Capital Accounts		
					A	B	C
Cash-	10,000	18,000	10,000	5,000	45,000	15,000	7,000
Less: estimated	4,000	-6,000					
Realisation Expenses							
Cash-	20,000	12,000					
Less: S. Loan	12,000	-12,000					
Balance	8,000		–5333	–2667			
(between Bills Payable and Creditors (2:1)							

Amalgamation of Firms

Goodwill account should be raised in the books of amalgamating firms;

The new firm account should be debited with the assets taken over should be credited and liabilities taken over debited;

The partners capital accounts should be debited and new firm account should be credited.

Books of the new firm: Debit all assets and credit all liabilities taken over at their revised values and credit the capital accounts of the partners with amounts recorded in point no. 6 above. Then adjust, if required, the capital accounts in the light of requirement of the new firm.

Illustration 37: Two partnership firms, carrying on the business under the styles of Black & Co. And White & Co. Respectively, decide to amalgamate into Grey & Co. With effect from 1 April, 2001. The respective balance sheets are as follows:

Balance Sheet of Black & Co. As at 31st March, 2001

Liabilities	Amount	Assets	Amount
B's Capital A/c	19,000	Plant & Machinery	10,000
Sundry Creditors	10,000	Stock	20,000
Bank Overdraft	15,000	Sundry Debtors	10,000
		A's Capital A/c	4,000
	44,000		**44,000**

A and B share the profits and losses in the proportion of 1:2

Balance Sheet of White & Co. As at 31st March, 2001

Liabilities	Amount	Assets	Amount
X' Capital A/c	10,000	Goodwill	10,000
Y's Capital A/c	2,000	Stock	5,000
Sundry Creditors	28,000	Sundry Debtors	10,000
		Cash	6,000
		Bank	9,000
	40,000		**40,000**

X and Y share profits and losses in the proportion of 1:1

The following further information is given:

1. All fixed assets are to be devalued by 20%;
2. Stocks are to be appreciated by 50%;
3. Black & Co. Owes to White & Co. ₹ 5,000 as on 31st March, 2001. This debt is settled at ₹ 2,000;
4. Goodwill is to be ignored for the purpose of the amalgamation;
5. The fixed capital A/cs in the new firm are to be : A - ₹ 2,000; B - 3,000; X- ₹ 1,000; Y - ₹ 4,000;

6. B takes over the bank overdraft of Black & Co. And gifts to A the amount of money to be brought in by A to make up his capital cotribution;
7. X is paid off in cash from White & Co. And Y brings in sufficient cash to make up his required capital contribution.

Close the books of the amalgamating firms, pass the entries in the books of the new firm and make their balance sheet after the amalgamation.

Dissolution of Partnership Firm

Journal of Black & Co.

Revaluation A/c To Plant and Machinery A/c (Being the plant & machinery devalued)	Dr.		2,000	 2,000
Stock A/c Sundry Creditors A/c To Revaluation A/c (Being stock appreciated and profit from settlement recorded through revaluation account)	Dr. Dr.		10,000 3,000	 13,000
Revaluation A/c To A's Capital A/c To B's Capital A/c (Being results of revaluation shared by A and B)	Dr.		11,000	 3,667 7,333
Bank Overdraft A/c To B's Capital A/c (Being bank overdraft taken over by B)	Dr.		15,000	 15,000
B's Capital A/c To A's Capital A/c (Being gift by B to A, to make up his capital contribution)	Dr.		2,333	 2,333
Grey & Co. A/c Sundry Creditors A/c To Plant and Machinery A/c To Stock A/c To Sundry Debtors A/c (Being capital entry for transfer of business to Grey & Co.)	Dr. Dr.		41,000 7,000	 8,000 30,000 10,000
A's Capital A/c B's Capital A/c To Grey & Co. (Being capital accounts of A and B closed by transfer to the Grey & Co. Account)	Dr. Dr.		2,000 39,000	 41,000

Once there are no liquid assets in Black & Co. From which B can repaid ` 36,000, the excess amount will be in Grey & Co. As loan from B.

Journal of White & Co.

Revaluation A/c Dr.		13,000	
To Sundry Debtors A/c			3,000
To Goodwill A/c			10,000
(Being the loss on settlement of debt and goodwill devalued)			
Stock A/c Dr.		2,500	
To Revaluation A/c			2,500
(Being stock appreciated through revaluation account)			
X's Capital A/c Dr.		5,250	
Y's Capital A/c Dr.		5,250	
To Revaluation A/c			10,500
(Being results of revaluation shared by X and Y)			
Cash A/c Dr.		7,250	
To Y's Capital A/c			7,250
(Being cash contributed by Y to make up his required capital contribution)			
X's Capital A/c Dr.		3,750	
To Cash A/c			3,750
(Being X paid back cash to bring his capital within the required norms)			
Grey & Co. A/c Dr.		5,000	
Sundry Creditors A/c Dr.		28,000	
To Stock A/c			7,500
To Sundry Debtors A/c			7,000
To Cash A/c			9,500
To Bank A/c			9,000
(Being the entry for transfer of business to Grey & Co.)			
X's Capital A/c Dr.		1,000	
Y's Capital A/c Dr.		4,000	
To Grey & Co.			5,000
(Being capital accounts of X and Y closed by transfer to the Grey & Co. Account)			

Journal of Grey & Co.

Plant and Machinery A/c Dr.		8,000	
Stock A/c Dr.		30,000	
Sundry Debtors A/c Dr.		10,000	
To Sundry Creditors A/c			7,000
To A's Capital A/c			2,000
To B's Capital A/c			3,000
To B's Loan A/c			36,000
(Being the entry for acquisition of business of Black & Co.)			

Stock A/c	Dr.		7,500	
Sundry Debtors A/c	Dr.		7,000	
Cash A/c	Dr.		9,500	
Bank A/c	Dr.		9,000	
To Sundry Creditors A/c				28,000
To X's Capital A/c				1,000
To Y's Capital A/c				4,000
(Being the entry for transfer of business to Grey & Co.)				

Balance Sheet of Grey & Co. As at 1st April, 2001

Liabilities		Amount	Assets		Amount
Capital Accounts:			Plant and Machinery		8,000
A		2,000	Stock:		
B		3,000	Black & Co.	30,000	
X		1,000	White & Co.	7,500	37,500
Y		4,000	Debtors		
B's Loan		36,000	Black & Co.	10,000	
Sundry Creditors:			White & Co.	7,000	17,000
Black & Co.	7,000		Cash		9,500
White & Co.	28,000	35,000	Bank		9,000
		81,000			81,000

Illustration 38: B and S are partners of S & Co. Sharing profits and losses in the ratio of 3:1. S and T are partners of T & Co. Sharing profits and losses in the ratio of 2:1.

On 31st October, 2001, they decided to amalgamate and form a new firm M/s. BST & Co. Wherein B,S and T would be partners sharing profits and losses in the ration of 3:2:1. Their balance sheets on that date were as under:

Liabilities	S & Co.	T & Co.	Assets	S & Co.	T & Co.
Due to x & Co.	40,000		Cash in hand	10,000	5,000
Due to S & Co.		50,000	Cash at bank	15,000	20,000
Other Creditors	60,000	58,000	Dur from T & Co.	50,000	
Reserve	25,000	50,000	Due from X & Co.		30,000
Capital Accounts:			Other Debtors	80,000	1,00,000
B	1,20,000		Stock	60,000	70,000
S	80,000	1,00,000	Furniture	10,000	3,000
T		50,000	Vehicles		80,000
			Machinery	75,000	
			Buildings	25,000	
	3,25,000	**3,08,000**		**3,25,000**	**3,08,000**

The amalgamated firm took over the business on the following :

(a) Goodwill of S & Co. Was worth ₹ 60,000 and that of Ta & Co. ₹ 50,000. Goodwill account was not to be opened in the books of the new firm, th eadjustments being recorded through capital accounts of the partners;

(b) Buildings, machinery and vehicles were taken over at ₹ 501,000, ₹ 90,000 and ₹ 1,00,000 respectively;

(c) Provision for doubtful debts has to be carried forward at ₹ 4,000 in respect of debtors of S & Co. And ₹ 5,000 in respect debtors of T & Co.

You are required to :

(i) Computer the adjustments necessary for goodwill;

(ii) Pass the journal entries in the books of BST & Co. Assuming that Excess/deficit capital (taking T's capital as base) with reference to share in profits are to be transferred to current accounts.

[CA – Adapted]

Adjustment for goodwill needed due to amalgamation.

Raised in old profit-sharing ration			**Written off in new ratio**	**Difference**
S & Co.	T & Co.	Total		
45,000		45,000(Cr.)	55,000(Dr.)	10,000(Dr.)
15,000	33,000	48,333 (Cr.)	36,666 (Dr.)	11,667 (r.)
	16,667	16,667 (Cr.)	18,334 (Dr.)	1,677 (Dr.)
60,000	50,000	1,10,000	1,10,000	

Journal of BST & Co.

Cash A/c	Dr.		10,000	
Bank A/c	Dr.		15,000	
T & Co.	Dr		50,000	
Sundry Debtors A/c	Dr.		80,000	
Furniture A/c	Dr.		60,000	
Machinery A/c	Dr.		10,000	
Buildings A/c	Dr.		50,000	
To Provision for Doubtful Debts Ac				4,000
To X & Co. A/c				40,000
To Sundry Creditors A/c				60,000
To B's Capital A/c				1,65,750
To S's Capital A/c				95,250
(Being the entry for acquisition of business of M/s. & Co.)				
Cash A/c	Dr.		5,000	

Bank A/c Dr.			20,000	
X & Co. Dr.			30,000	
Sundry Debtors A/c Dr.			1,00,000	
Stock A/c Dr.			70,000	
Furniture A/c Dr.			3,000	
Vehicles A/c Dr.			1,00,000	
To Provision for Doubtful Debts A/c				5,000
To S & Co. A/c				50,000
To Sundry Creditors A/c				58,000
To S's Capital A/c				1,43,333
To T's Capital A/c				71,667
(Being the entry for acquisition of business of M/s. T & Co.)				
B's Capial A/c Dr.			10,000	
T's Capital A/c Dr.			1,667	
To S's Capital A/c				11,667
(Being adjustment for goodwill done in books)				
S & Co. A/c Dr.			50,000	
To T & Co. A/c				50,000
(Being common debts cancelled)				
B's Current A/c Dr.			54,250	
To B' s Capital A/c				54,250
(Being amount credited to B's capital account to bring capital in profit-sharing ratio)				
S's Capital A/c Dr.			1,10,250	
To S's Current A/c				1,10,250
(Being excess in S's capital reduced to make it proportionate)				

Woring Notes:

(i) Calculation of balance of capital account of transfer of business to M/s. BST & Co.

S & Co.	B's Capital	S's Capital
Amount as per balacne sheet	1,20,000	80,000
: Proportionate Reserve (3:1)_	18,750	6,250
: Revaluation Profit (3:1)	27,000	9,000
	1,65,750	95,250

000 (Building) + 15,000 (Machinery) - 4,000 (Provision fo rDoubtful Debts) = ₹ 36,000

(ii) Calculation of the capital of the new firm and respective partners share:

	B	S	T
Balance as per note- (i).	1,65,750	95,250	
		1,43,333	71,667
	1,65,750	2,38,583	71,667
Goodwill adjustment	-10,000	+11,667	-1,667
	1,55,750	2,50,250	70,000
Al Capital ₹ 4,20,000 in the ratio of 3:2:1 ng T's capital as the base transfer to Current Account	2,10,000 54,250 (Dr.)	1,40,000 1,10,250 (Cr.)	70,000

Capital is ₹ 70,000 and it is 1/6 of total. The total capital of the firm therefore is ₹ 4,20,000.

Illustration 39: On 31st March, 2001, Sri Raman acquires on payment of ₹ 80,000 the business of Messrs. Ota and singh taking over at book value the following assets and liabilities:

	₹
Debtors	35,000
Furniture	3,000
Stock	46,000
Creditors	10,000

There was no change between 1st January, 2001 and 31st March, 2001 in the book value of the assets and liabilities not taken over.

The same set of books has been continued after the acquisition and no entries of the acquisition have been passed except for the payment of ₹ 80,000 made by Sri Raman.

From the following balance sheet and trial balance Business Purchase Account, Profit and Loss Account for the year ended 31st December, 2001 and Balance Sheet at that date.

Balance Sheet as at 1-1-2001

Liabilities		Amount	Assets	Amount
Capital Accouts:			Furniture	3,000
	₹		Investments	5,000
Sri Gupta	30,000		Insurance Policy	2,000
Sri Singh	20,000	50,000	Stock	40,000
Bank Loan		18,000	Debtors	30,000
Creditors		12,000		
		80,000		80,000

On 31st December, 2001 the trial balance is:

	Dr.	Cr.
Stock	40,000	
Furniture	3,000	
Investment	5,000	
Insurance Policy	2,000	
Business Purchase Account	80,000	
Bank Loan		18,000
Capital Accounts:		
Gupta		30,000
Singh		20,000
Raman		30,000
Bank	3,000	
Debtors	48,000	
Creditors		15,000-
Purchases	3,20,000	
Expenses	12,000	
Sales		4,00,000
	5,13,000	**5,13,000**

Closing Stock ₹ 50,000

[CA-Adapted]

Business Purchase Account

To Balance b/d	80,000	By Bank Loan	18,000
To Investments	5,000	By Gupta Capital A/d	30,000
To Insurance Policy	2,000	By Singh's Capital A/c	20,000
		By Goodwill A/c	6,000
		By Profit & Loss A/c (profit upto 31-3-2001)	13,000
	87,000		87,000

Better way is to adjust profit upto 31-3-2001 and goodwill in capital accounts of partners and then transfer usted capital balances to business purchase account.

Profit & Loss Account of Raman for the year ended 31st December, 2001

Opening Stock	40,000	By Sales	4,00,000
Purchases	3,20,000	By Closing Stock	50,000
Expenses	12,000		
Capital Gupta (Profit upto 31st March)	13,000		
Net Profit			
Raman's Capital	65,000		
	4,50,000		**4,50,000**

Balance Sheet of Raman as on 31st December, 2001

Liabilities		Amount	Assets	Amount
Raman's Capital	30,000		Goodwill	6,000
Add : Profit	65,000	95,000	Furniture	3,000
Sundry Creditors		15,000	Stock in trade	50,000
			Sundry Debtors	48,000
			Cash at Bank	3,000
		1,10,000		1,10,000

Working Notes:

	₹
Goodwill	
Value of Assets taken over	
Stock	46,000
Debtors	35,000
Furniture	3,000
	84,000
Less: Creditors	10,000
Net Assets	74,000
Goodwill (Balancing figure)	6,000
Purchase Consideration	80,000

Profit 31st March, 2001:

	as on 1 st January ₹	as on 31st March ₹
Debtors	30,000	35,000
Stock	40,000	46,000
Furniture	3,000	3,000
	73,000	84,000
Less: Creditors	12,000	10,000
Net Assets	61,000	74,000

Profit upto 31-3-2001 — Equal to increase in net assets = 74,000 – 61,000 = ₹ 13,000.