

# Accountancy and Financial Management

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

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# Preface

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# Syllabus

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## 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. 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

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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

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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	Full Length Practical Question OR	15 Marks
Q.2	Full Length Practical Question	15 Marks
Q.3	Full Length Practical Question OR	15 Marks
Q.3	Full Length Practical Question	15 Marks
Q.4	Full Length Practical Question OR	15 Marks
Q.4	Full Length Practical Question	15 Marks
Q.5	(a) Theory Questions (b) Theory Questions OR	08 Marks 07 Marks
Q.5	Short Notes To be asked 05 To be answered 03	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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# 1 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.

**K** *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.

**K** *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;

**K** *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.

**K** *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.

**K** *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.

**K** *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.

**K** *Partners:* Persons who have entered into partnership with one another are called individually "partners".

**K** *Partnership:* The relationship between the persons is called "partnership".

**K** *Firm:* The partners are collectively called a "firm".

**K** *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 31<sup>st</sup> 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
<b>Total</b>		<b>4,61,000</b>	<b>4,61,000</b>

#### 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			
		<b>3,45,000</b>			<b>3,45,000</b>
To Rent		25,000	By Gross Profit		1,30,000
To Net Profit		1,08,000	By Commission Received		3,000
		<b>1,33,000</b>			<b>1,33,000</b>

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
		<b>2,08,000</b>			<b>2,08,000</b>
			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 31<sup>st</sup> 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
<b>Total</b>		<b>4,61,000</b>	<b>4,61,000</b>

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			
		<b>3,45,000</b>			<b>3,45,000</b>
To Rent		25,000	By Gross Profit		1,30,000
To Net Profit c/d		1,08,000	By Commission Received		3,000
		<b>1,33,000</b>			<b>1,33,000</b>
To Net Profit (Mani)		36,000	By Net Profit b/d		1,08,000
To Net Profit (Murthy)		72,000			
		<b>1,08,000</b>			<b>1,08,000</b>

### Distribution of Profits among Partners

Partner's profit sharing ratio  $\Rightarrow$  Mani : Murthy = 1 : 2

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

Partner's share of profits = Firm's profit  $\times$  Profit sharing proportion

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

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

$$\underline{\text{` } 1,08,000}$$

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
	<b>1,06,000</b>	<b>1,02,000</b>		<b>1,06,000</b>	<b>1,02,000</b>
			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.

**K 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.

↳ All these contributions together are identified as "Organisation"  
and

↳ 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			
		<b>21,33,000</b>			<b>21,33,000</b>
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			
		<b>3,75,850</b>			<b>3,75,850</b>
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			
		<b>2,81,100</b>			<b>2,81,100</b>

**Notes:**

K Distr. Pr ⇒ Distributable Profit; int. drw ⇒ Interest on Drawings; int ⇒ Interest; Sal ⇒ Salary; Comm ⇒ Commission; Pr ⇒ Profit Share.

K 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,

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

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

$$\text{C's Share} = ₹ 2,81,100 \times \frac{1}{3} = ₹ 93,700$$


---


$$\frac{₹ 2,81,100}{3}$$

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				
	<b>3,03,700</b>	<b>1,96,450</b>	<b>2,50,700</b>		<b>3,03,700</b>	<b>1,96,450</b>	<b>2,50,700</b>				
				By Bal b/d	2,82,700	1,94,350	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 31<sup>st</sup> December 2005**

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

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			
		<b>21,33,000</b>			<b>21,33,000</b>

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			
		<b>3,75,850</b>			<b>3,75,850</b>
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			
		<b>2,81,100</b>			<b>2,81,100</b>

Dr.				Partner's Capital A/cs				Cr.			
Particulars	A (in `)	B (in `)	C (in `)	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				
	<b>3,03,700</b>	<b>1,96,450</b>	<b>2,50,700</b>		<b>3,03,700</b>	<b>1,96,450</b>	<b>2,50,700</b>				
				By Bal b/d	2,82,700	1,94,350	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:

**K** 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 ` \_\_.

**K** 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,

**K** in the absence of an agreement between the partners, a partner is not entitled to pay any interest on drawings.

**K** 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 specified as absolute values or it may be taken as the ratio for 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 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:**

$$\begin{aligned} \frac{2}{9} : \frac{3}{9} : \frac{4}{9} &= \frac{2+3+4}{9} \\ &= \frac{9}{9} \\ &= 1 \end{aligned}$$

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

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.

$$\begin{aligned} \text{Goon: Doon: Moon} &= \frac{1}{2} : \frac{1}{3} : \frac{1}{4} \\ &= \frac{1}{2} \times 12 : \frac{1}{3} \times 12 : \frac{1}{4} \times 12 \end{aligned}$$

[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<sup>th</sup> 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:

- K** *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.
- K** *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.
- K** *@ 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:

- K** *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.
- K** *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.
- K** *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.
- K** *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:

- K *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.
- K *@ 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.

- K *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.
- K *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.
- K *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)".

⇒ "8% of Net Profits (₹ 1,25,000) before charging such commission".

$$\begin{aligned}\text{Commission} &= ₹ 1,25,000 \times 8\% \\ &= ₹ 10,000\end{aligned}$$

### 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

⇒ 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

⇒ Commission = Net Profit after Charging Commission × 8%

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

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

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

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

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

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

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

$$\Rightarrow x = 9,259.26$$

**Verify**

$$\begin{aligned} \text{Net Profit after charging such commission} &= ₹ 1,25,000 - ₹ 9,259.26 \\ &= ₹ 1,15,740.74 \end{aligned}$$

$$\begin{aligned} \text{Commission} &= \text{Net Profit after charging such commission} \times 8\% \\ &= 1,15,740.74 \times 8\% \\ &= ₹ 9,259.26 \end{aligned}$$

**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.

$$\text{Commission} = \text{Net Profit after Charging Commission} \times 8\%$$

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

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

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

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

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

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

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

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

x% of Net Profit

$$\text{K Before charging such commission} = \text{Net Profits before charging commission} \times x\%$$

$$\text{K After charging such commission} = \text{Net Profit before charging such commission} \times \frac{x}{100 + x}$$

**Example**

25% of net profits

K Before charging such commission = Net Profits before charging such commission  $\times$  25%.

K After charging such commission = Net Profit before charging such commission  $\times \frac{25}{100 + 25}$ .

**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
	<b>3,03,700</b>	<b>1,96,450</b>	<b>2,50,700</b>		<b>3,03,700</b>	<b>1,96,450</b>	<b>2,50,700</b>
				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				
	<b>2,00,000</b>	<b>75,000</b>	<b>1,00,000</b>		<b>2,00,000</b>	<b>75,000</b>	<b>1,00,000</b>				
				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				
	<b>1,03,700</b>	<b>1,21,450</b>	<b>1,50,700</b>	By Profit Share	93,700	93,700	93,700				
					<b>1,03,700</b>	<b>1,21,450</b>	<b>1,50,700</b>				
				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.

**K** *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.

**K** *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 31<sup>st</sup> December and balance sheet as on that date:

Trial Balance as on 31<sup>st</sup> 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 31<sup>st</sup> 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			
		<b>7,08,000</b>			<b>7,08,000</b>

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			
		<b>1,92,400</b>			<b>1,92,400</b>

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				
		<b>1,36,100</b>			<b>1,36,100</b>

## 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			
		<b>4,78,360</b>			<b>4,64,360</b>

**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 reserves		14,000
Reserves for doubtful debts		500
Drawings other than monthly payment:		
A	7,000	
B	6,000	
C	4,000	
	<b>6,92,500</b>	<b>6,92,500</b>

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		
	<b>4,82,000</b>		<b>4,82,000</b>		

**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		
		<b>1,60,000</b>		<b>1,60,000</b>

**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		
	<b>46,200</b>		<b>46,200</b>

## 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 receivable		700
			Prepaid rates		2,500
			Closing stock		35,000
		<b>2,50,700</b>			<b>2,50,700</b>

**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 31<sup>st</sup> 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		<i>Add: Unrecorded sales</i>	200	
<i>Less: Machinery</i>	1,000	68,000		84,200	
To Wages	10,000		<i>Less: Motor car sold</i>	2,000	82,200
<i>Less: For machinery</i>	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			
		<b>1,31,200</b>			<b>1,31,200</b>
To General expenses		4,000	By Gross profit c/d		26,100
To Rent & taxes	2,000				
<i>Less: Prepaid</i>	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				
<i>Add: New prov</i>	2,000				
<i>Less: Old prov</i>	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			
		<b>26,100</b>			<b>26,100</b>

## 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
		<b>1,91,020</b>			<b>1,91,020</b>

**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 31<sup>st</sup> 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		
	<b>9,38,400</b>		<b>9,38,400</b>

**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			
		<b>7,55,000</b>			<b>7,55,000</b>
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			
		<b>3,36,400</b>			<b>3,36,400</b>

**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			
	<b>1,43,400</b>			<b>1,43,400</b>

**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
	<b>87,100</b>	<b>80,800</b>	<b>24,500</b>		<b>87,100</b>	<b>80,800</b>	<b>24,500</b>

## 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			
		<b>4,10,000</b>			<b>4,10,000</b>

**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
Machinery	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		
	<b>9,25,000</b>		<b>9,25,000</b>

**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			
		<b>7,37,500</b>			<b>7,37,500</b>
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		
		<b>2,93,500</b>		<b>2,93,500</b>

Balance Sheet as on 31<sup>st</sup> 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
		<b>3,96,600</b>			<b>3,96,600</b>

**Illustration 6:** Ram and Kirti were in partnership in a retail business sharing profits in proportion of 3 : 2 as from 1<sup>st</sup> 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 accrued 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
	<b>3,91,000</b>	<b>3,91,000</b>

**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			
		<b>2,78,200</b>			<b>2,78,200</b>
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		
		<b>57,775</b>		<b>57,775</b>

**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 accrued 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
		<b>1,32,150</b>			<b>1,32,150</b>

Dr.

Current Account

Cr.

Particulars	Ram	Kirti	Vikram	Particulars	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				
	<b>15,324</b>	<b>10,216</b>	<b>4,885</b>		<b>15,324</b>	<b>10,216</b>	<b>4,885</b>

**Illustration 7:** Jaya and Bhaduri were partnership were sharing profit in the ratio of 3 : 2 from 1<sup>st</sup> January 2003. They admitted Amit into partnership giving him 1/6<sup>th</sup> 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		
	<b>3,43,798</b>		<b>3,43,798</b>

**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 1/5<sup>th</sup> 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			
		<b>2,75,660</b>			<b>2,75,660</b>
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			
		<b>64,088</b>			<b>64,088</b>

## Balance Sheet as on 31-12-2003

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

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
	<b>22,165</b>	<b>14,777</b>	<b>6,788</b>		<b>22,165</b>	<b>14,777</b>	<b>6,788</b>

**Illustration 8:** The following is the trial balance of firm as on 31<sup>st</sup> 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		
	<b>7,00,500</b>		<b>7,00,500</b>

**Adjustments:**

- (i) D and E were partners sharing profits and losses equally.
- (ii) Mr. F was admitted to the partnership on 1<sup>st</sup> July, 2005.
- (iii) On 31<sup>st</sup> 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 1<sup>st</sup> 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			
		<b>6,10,500</b>			<b>6,10,500</b>

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			
	<b>1,02,750</b>	<b>1,02,750</b>		<b>1,02,750</b>	<b>1,02,750</b>
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			
	<b>65,100</b>	<b>65,100</b>		<b>65,100</b>	<b>65,100</b>

## 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
		<b>2,19,100</b>			<b>2,19,100</b>

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				
	<b>1,31,783</b>	<b>92,183</b>	<b>32,234</b>		<b>1,31,783</b>	<b>92,183</b>	<b>32,234</b>				

**Illustration 9:** X and Y were partners sharing profit and loss as 3 : 2. On 1-7-2003, M, manager, joins for 1/4<sup>th</sup> 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
	<b>1,20,000</b>	<b>1,20,000</b>

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

You are required to prepare final accounts for the year ended 31.12.2003 and 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			
	<b>25,000</b>	<b>25,000</b>		<b>25,000</b>	<b>25,000</b>

**Dr. Profit and Loss Appropriation 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			
	<b>12,900</b>	<b>15,800</b>		<b>12,900</b>	<b>15,800</b>

**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
		<b>84,700</b>			<b>84,700</b>

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				
	<b>46,500</b>	<b>31,700</b>	<b>9,500</b>		<b>46,500</b>	<b>31,700</b>	<b>9,500</b>				

**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		
	<b>5,00,000</b>		<b>5,00,000</b>

On 1<sup>st</sup> 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			
		<b>3,33,600</b>			<b>3,33,600</b>

**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			
	<b>75,550</b>	<b>75,550</b>		<b>75,550</b>	<b>75,550</b>

## 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
		<b>3,61,100</b>			<b>3,61,100</b>

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
	<b>75,358</b>	<b>95,736</b>	<b>95,737</b>		<b>75,358</b>	<b>95,736</b>	<b>95,737</b>

**Illustration 11:** X and Y shared profit and losses equally. Their trial balance as on 31<sup>st</sup> 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	
	<b>2,75,000</b>	<b>2,75,000</b>

**Additional information:**

- (i) Z retired on 30<sup>th</sup> 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			
	<b>81,250</b>	<b>45,000</b>		<b>81,250</b>	<b>45,000</b>

**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				
	<b>27,500</b>	<b>15,000</b>		<b>27,500</b>	<b>15,000</b>

**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				
	<b>12,500</b>	<b>11,250</b>		<b>12,500</b>	<b>11,250</b>

## 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
		<b>1,74,500</b>			<b>1,74,500</b>

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	
	<b>18,125</b>	<b>18,125</b>	<b>12,000</b>		<b>18,125</b>	<b>18,125</b>	<b>12,000</b>

# 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 31<sup>st</sup> 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	<u>25,000</u>	70,000		
General Reserves		30,000		
Mr. A's loan		10,000		
Mr. B's loan		20,000		
Creditors		20,000		
		<b>1,50,000</b>		<b>1,50,000</b>

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

<b>1. Realisation</b>	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
<b>2. Realisation</b>	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						
<b>3. Realisation</b>	44,000						
Less: Realisation expences	400						
Balance	43,600						
Paid to A, B & C	43,600				14,533	14,533	14,534
<b>Profit on realisation (bal fig.)</b>					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	<u>20,000</u>		
Creditors	70,000		
	80,000		
	<b>1,50,000</b>		<b>1,50,000</b>

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
	<b>54,600</b>		<b>18,200</b>	<b>18,200</b>	<b>18,200</b>

**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 (Secured by stock)	1,00,000		
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 31<sup>st</sup> 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	<u>54,000</u>	1,94,000	Current Accounts:	
			R	8,000
			M	<u>6,000</u>
				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
<b>Note 1:</b> Capital per unit of profit	$\frac{80,000}{4} = 20,000$	$\frac{52,000}{3} = 17,333.33$	$\frac{48,000}{3} = 16,000$
<b>Note 2:</b> 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
June 30	Balance	-	-	31,280	23,460	23,460
	Realisation (36,000 + 60,000)	34,800				
	Less: Paid P, R and M	-34,800		-13,920	-10,440	-10,440
July 31 (Final)	Balance	-	-	31,280	23,460	23,460
	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
<b>Note 1:</b> Capital per unit of profit	$\frac{48,400}{5}$ = 9,680	$\frac{26,160}{3}$ = 8,720	$\frac{29,840}{2}$ = 14,920
<b>Note 2:</b> 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
1 <sup>st</sup>	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

2 <sup>nd</sup>	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
3 <sup>rd</sup> 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 30<sup>th</sup> September, 2003. The following was their Balance Sheet on the date:

Liabilities		Assets	
Capital Accounts:			
Madhuri	20,000	Fixed assets	40,000
Tabu	5,000	Current Assets	22,000
Juhi	10,000	Bank	13,000
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 1<sup>st</sup> 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
31 <sup>st</sup> October, 2003 (first)	10,000	5,000
15 <sup>th</sup> November, 2003 (second)	26,000	12,000
30 <sup>th</sup> 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 31<sup>st</sup> December 2003 on which date the Balances Sheet of the firm was as under:

Balance sheet as at 31<sup>st</sup> 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
15 <sup>th</sup> January 2004	7,500	4,500	1,000
31 <sup>st</sup> January 2004	10,500	500	500
15 <sup>th</sup> February 2004	8,500	8,500	1,000
28 <sup>th</sup> February 2004	10,500	500	400
15 <sup>th</sup> 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

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31-1	Realisation (10,500 + 500 – 500)	10,500			
	Less: Paid to creditors	5,000	5,000	-	-
	Balance to Partners Loan (pro-rata 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
	<b>1,60,000</b>		<b>1,60,000</b>

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

1 <sup>st</sup> Realisation	40,000
2 <sup>nd</sup> Realisation	30,000
3 <sup>rd</sup> Realisation	54,000
4 <sup>th</sup> 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		
	<b>80,000</b>		<b>80,000</b>

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	<u>14,000</u>	2,24,000			
Creditors		2,10,000			
		<b>4,34,000</b>			<b>4,34,000</b>

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	<u>11,000</u>	60,000			
Creditors		10,000			
		<b>70,000</b>			<b>70,000</b>

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

1 <sup>st</sup> Realisation	6,000
2 <sup>nd</sup> Realisation	9,000
3 <sup>rd</sup> Realisation	15,000
4 <sup>th</sup> 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	<u>10,000</u>	40,000		
		<b>75,000</b>		<b>75,000</b>

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	<u>4,000</u>	31,000			
		<b>46,000</b>			<b>46,000</b>

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

1 <sup>st</sup> Realisation	10,000
2 <sup>nd</sup> Realisation	15,000
3 <sup>rd</sup> 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	<u>5,000</u>	35,000			
		<b>69,000</b>			<b>69,000</b>

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

1 <sup>st</sup> Realisation	12,000
2 <sup>nd</sup> Realisation	25,000
3 <sup>rd</sup> 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 2<sup>nd</sup> 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 3<sup>rd</sup> 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  $\frac{1}{2}$ ,  $\frac{1}{4}$  and  $\frac{1}{4}$  respectively. On the date of dissolution, their Balance Sheet stood as follows:

<b>Liabilities</b>	₹	<b>Assets</b>	₹
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		
	<b>61,000</b>		<b>61,000</b>

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  $\frac{3}{10}$ ,  $\frac{5}{10}$  and  $\frac{2}{10}$  respectively. Their balance sheet on 31<sup>st</sup> December, 2001 is as follows:

<b>Liabilities</b>	₹	<b>Assets</b>	₹
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	<u>3,000</u>		
	<b>67,000</b>		
	<b>84,000</b>		<b>84,000</b>

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

	<b>Book Value of Assets Realised</b>	<b>Amount Realised</b>
<b>2002</b>		
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	<u>2,000</u>	8,000	
	<b>8,000</b>		<b>8,000</b>

The partnership dissolved and the assets were realised as follows:

1 <sup>st</sup> Realisation	1,000
2 <sup>nd</sup> Realisation	1,500
3 <sup>rd</sup> 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	<u>15,000</u>	37,500			
Sundry Creditors		16,500			
		<b>54,000</b>			<b>54,000</b>

Assets realised as under:

1 <sup>st</sup> Installment	16,250
2 <sup>nd</sup> Installment	12,750
3 <sup>rd</sup> Installment	10,000
4 <sup>th</sup> 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 30<sup>th</sup> 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	<u>18,000</u>	80,000			
Loan A/c – Shyam		5,000			
Creditors		15,000			
		<b>1,00,000</b>			<b>1,00,000</b>

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 15<sup>th</sup> September. Draw up a Memorandum of distribution of cash, which was realised as follows:

5 <sup>th</sup> July	12,600
30 <sup>th</sup> August	30,000
15 <sup>th</sup> 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 31<sup>st</sup> 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			
<b>Total</b>		<b>75,000</b>			<b>75,000</b>

It was decided on 15<sup>th</sup> 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				
	<b>61,000</b>				<b>61,000</b>

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	<u>2,000</u>	32,000			
		<b>62,000</b>			<b>62,000</b>

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	<u>35,000</u>	1,35,000			
		<b>2,15,000</b>			<b>2,15,000</b>

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		
	<b>69,000</b>		<b>69,000</b>

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

1 <sup>st</sup> Realisation	12,000
2 <sup>nd</sup> Realisation	25,000
3 <sup>rd</sup> 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 2<sup>nd</sup> 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		
	<b>73,800</b>		<b>73,800</b>

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		
	<b>61,000</b>		<b>61,000</b>

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 31<sup>st</sup> 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
	<b>2,21,400</b>		<b>2,21,400</b>

The realisation of assets is as follows:

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

Dissolution expenses were originally provided for an estimated amount of ₹ 8,100 but the actual amount spent on 29<sup>th</sup> 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		
	<b>1,70,000</b>		<b>1,70,000</b>

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		
	<b>2,00,000</b>		<b>2,00,000</b>

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

### 1. 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.'

#### 1.1 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'.

#### 1.2 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.

### 2. 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.

### 3. 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.

### 4. DIFFERENT FORMS OF 'AMALGAMATION' OF FIRMS

Amalgamation of firms may take any of the following forms:

#### 4.1. 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.

#### 4.2. 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.

#### 4.3. 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.

#### **4.4. 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.

### **5. ACCOUNTING PROCEDURE**

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

#### **5.1 Old firms**

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

##### **5.1.1. 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.

##### **5.1.2. Books to be Closed**

As a result, the books of account of the firms are closed, as in case of dissolution.

##### **5.1.3. 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.

##### **5.1.4. 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.

## **5.2. New Firm**

### **5.2.1. 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.

### **5.2.2. 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'.

### **5.2.3. 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.

### **5.2.4. Devising New Profit Sharing Ratio**

The partners, who come together on amalgamation, have to agree upon their new profit/loss sharing ratio.

### **5.2.5. 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 with Dr. awal of excess capital. The excess/deficit may even be transferred to current accounts/loan accounts of the partners.

## **6. ACCOUNTING ENTRIES**

### **6.1. 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.**

### 6.1.1. Revaluation Method

In this method, all the adjustment are made through 'Revaluation Account' and then the entry for the take-over is passed. The accounting entries are as under:

**Step 1:** Open revaluation account and partners' capital accounts.

**Step 2:** Transfer reserves, if any, and profit and loss A/c debit balance, if any, to the partner's capital A/cs.

The entry for the same is:

(a) Transfer of reserves:

Debit: Reserves A/c

(b) Transfer of debit balance in profit and loss A/c

Debit: Partners capital A/cs

Credit: Profit and loss A/c

**Step 3:** Revalue the assets and liabilities and also record the unrecorded assets and liabilities. The entries are:

(a) Appreciation in the value of an asset:

Debit: Asset A/c

Credit: Revaluation A/c

(b) Fall in the value of an asset:

Debit: Revaluation A/c

Credit: Asset A/c

(c) Increase in the value of a liability:

Debit: Revaluation A/c

Credit: Liability A/c

(d) Fall in the value of a liability:

Debit: Liability A/c

Credit: Revaluation A/c

(e) Recording an unrecorded asset:

Debit: Asset A/c

Credit: Revaluation A/c

(f) Recording an unrecorded liability:

Debit: Revaluation A/c

Credit: Liability A/c

**Step 4:** Assets not taken over by the new firm but sold outside or taken over by a partner:

Debit: Cash/Bank A/c or Partner's capital A/c

Credit: Respective asset A/c

(Any profit or loss on sale of the asset is transferred to Revaluation A/c as under:

Profit: Debit: Asset A/c

Credit: Revaluation A/c

Loss: Debit: Revaluation A/c

Credit: Asset A/c

**Step 5:** Liability not taken over by the new firm paid directly or taken over by a partner:

Debit: Respective liability A/c

Credit: Cash/Bank A/c or Partner's capital A/c

(Any profit or loss on discharge of the liability is transferred to revaluation A/c as under:

Profit: Debit: Liability A/c

Credit: Revaluation A/c

Loss: Debit: Revaluation A/c

Credit: Liability A/c

**Step 6:** The revaluation account is closed by transferring the profit or loss to the partners capital accounts in their profit sharing ratio.

**Step 7:** At this stage, we may prepare the revised Balance Sheet of the firm with new values. The final capitals as per the capital accounts of the partners are ascertained. (This step may be omitted)

**Step 8:** Now, we have to pass the final closing entry.

Debit: Liabilities A/c

Debit: Partner's capital A/c (Final balances)

Credit: Assets A/c

With this, the books of the old firm are closed and the final capitals of the partners become the initial capital of these partners in the new firm.

**The revaluation method is generally used when a firm is "absorbed" by another existing firm. This method is excluded from the syllabus**

### **6.1.2 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” have already been discussed in para 5 of chapter 3 in this book; principally they would remain the same except for certain changes.

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).

**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 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 withdraw 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:

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

- The profits will be shared by them in the new firm 1:2.
- The total capital of the new firm would be ₹ 15,00,000, the difference to settled in cash.

#### In the Books of A

Dr.			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 <u>40,000</u>	
Stock                70,000			1,90,000
Debtors              90,000		By Business Purchase A/c (WN 1)	9,66,000
Furniture            80,000			
Machinery          3,50,000			
Building            4,50,000			
Prepaid Expenses <u>15,000</u>			
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			1,40,000	
Expenses	25,000		38,000	(–) 1,78,000
Bills Payable	–	(–) 25,000		
		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 <u>10,00,000</u>		Building	5,20,000
	15,00,000	Machinery	5,70,000
Creditors (including o/s		Furniture	1,28,000
Expenses)	1,65,000	Current Assets:	
Bills Payable	38,000	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	<u>50,000</u>				
	1,25,000				
Currim	60,000				
Dilawar	<u>55,000</u>	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	40,000	
2007	35,000	
2006	45,000	
2005	44,000	
Total	₹ 1,64,000	
Annual average	41,000	
3 years purchase	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				
Less: Provision for Doubtful Debts	75,000		45,000	
	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	L F	Debit ₹	Credit ₹
	Reserves A/c To Arvind's Capital A/c To Babu's Capital A/c (Being Reserves transferred in Profit Sharing Ratio)	Dr.	40,000	24,000 16,000
	Realisation A/c To Sundry Assets A/c (Being Assets transferred: Cash – 3,000; Bank – 7,000; Debtors – 75,000, Stock – 50,000, Furniture – 5,000, Machinery – 60,000)	Dr.	2,00,000	2,00,000
	Sundry Liabilities A/c To Realisation A/c (Being liabilities transferred; Creditors – 15,000; Jai's loan – 20,000)	Dr.	35,000	35,000
	JDBD & Co. A/c To Realisation A/c (Being Recording of Purchase Consideration)	Dr.	2,99,250	2,99,250
	Realisation A/c To Arvind's Capital A/c To Babu's Capital A/c (Being Profit on Realization Transferred in Profit	Dr.	1,34,250	80,550 53,700

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

**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			
To Capital:	2,00,000		
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	1,19,700	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	1,19,700

Dr.

**Partner's capital A/c**  
**In the Books of BD & Co.**  
**Journal Entries**

Cr.

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

## 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	<u>32,875</u>				
		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 &amp; 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 &amp; Co.

## Balance Sheet as on 1st July 2007

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

Capitals:					
Arvind	1,79,550		Stock		1,14,000
Babu	1,19,700		Furniture		1,20,000
Currim	92,875		Machinery		10,000
Dilavar	<u>87,875</u>		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	<u>1,000</u>	
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	2,000	1,000			
Fluctuation Fund					
₹	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	L F	Debit ₹	Credit ₹
	Realisation A/c Dr.		1,01,000	15,000
	To Cash at Bank 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 Firm A/c			66,000
(Being balances in Partner's Capital A/c Adjusted)			

## Ledger Accounts

Dr.

## Realisation A/c

Cr.

		₹			₹
To Sundry Assets:			By Sundry Liabilities		
Cash at Bank	15,000		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	<u>6,000</u>	
Machinery	15,000				
Goodwill	<u>9,000</u>				
			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	48,000

**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	<u>1,000</u>	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	<u>13,500</u>	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	<u>60,000</u>	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	<u>11,100</u>	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	₹	₹
<b>Assets:</b>		
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
<b>Less: Liabilities</b>		
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	<u>9,900</u>	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	₹	₹
<b>Assets:</b>		
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
<b>Less: Liabilities</b>		
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 and 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	<u>6,600</u>
				Balance c/d	45,350
					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	<u>1,050</u>	Debtors	18,000
	19,950	Less: Provision for	
Capitals: J	80,000	Doubtful Debts	<u>1,800</u>
K	40,000		16,200
M	40,000	Stock	32,000
N	<u>80,000</u>	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	<u>35,000</u>
Capitals:			37,000
J	50,000	Stock	55,000
K	<u>40,000</u>	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	6,500
Outstanding Wages	1,000	Debtors	24,500
Loan from bank	20,000	Stock	36,000
Capital A/cs: M	25,000	Plant and machinery	10,000
N	<u>15,000</u>		
	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 Liabilities		
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	13,180			
		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	

**Partner'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 &amp; 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 <u>13,540</u>			
	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	L F	Debit ₹	Credit ₹
	Bank A/c Dr.		5,500	
	Debtors A/c "		24,500	
	Stock A/c "		33,500	
	Plant and Machinery A/c "		6,500	
	Goodwill A/c "		20,000	
	Provision for Discount on Creditors A/c "		405	
	To Provision for Doubtful Debts A/c			1,225
	" Creditors A/c			16,000
	" Bank Loan A/c			20,000
	" M's Capital A/c			32,030
	" D's Capital A/c			21,150
	(Being the Assets and Liabilities taken over from M/s MN)		90,405	90,405
	Creditors A/c Dr.		2,500	
	To Debtors A/c			2,500
	(Being the debts due from each other written off) (See note)			
	J's Capital A/c Dr.		10,310	
	K's Capital A/c "		13,540	
	C's Capital A/c "		2,030	



**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:

- Goodwill of Don & Co. Was worth ₹ 60,000; Goodwill of John & 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.
- Buildings, plant and machinery and vehicles are taken over at ₹ 50,000. ₹ 90,000 and ₹ 1,00,000 respectively.
- 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:

- 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			
	" Ram aur Shyam A/c			4,000
	" Creditors A/c			40,000
	" B capital A/c			60,000
	" S capital A/c			1,65,750
	(Being the assets and liabilities of Don & Co. Taken over)			95,250
			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	<u>5,000</u>	
Revaluation Profit (2:1)	<u>15,000</u>	5,000
	₹	
	1,43,333	71,667

We now record adjusting entries for goodwill and writing off the inter-firm debts.

Date	₹	LF	Debit ₹	Credit ₹
(3)	S's capital A/c 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)	Dr. "  "	5,000 3,333	5,000 3,333
(4)	Don & Co.'s A/c To John & Co's A/c (Being the closure of the above 2 accounts by transferring the balances on amalgamation of the 2 firms)	Dr.	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	L F	Debit ₹	Credit ₹
(5)	B's Capital A/c 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)	Dr. " "  " " "	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

**Illustration 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 Dr.		10,000	
	Furniture A/c Dr.		2,000	
	Stock A/c Dr.		8,000	
	Debtors A/c Dr.		8,000	
	Bank A/c Dr.		2,000	
	To Bills Payable A/c			2,000
	To Sundry Creditors A/c (8,000–1,000)			7,000
	To Sundry Debtors A/c (inter firm debts)			1,000
	To A's Capital A/c			10,000
	To B's Capital A/c			10,000
	(Being the Assets and Liabilities of M/s × & Co. Taken over)			
			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	<u>8,750</u>	Stock	33,000
	57,500	Debtors	9,000
Sundry Creditors	22,000	Bank	15,500
Bills Payable	15,000		
	₹ 94,500		₹ 94,500

### Illustration 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 summarised 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	<u>10,000</u>		Stocks	14,000	9,200
	25,000		Debtors	8,600	
R	6,000		Less: P.D.D	<u>400</u>	
S	<u>2000</u>				
		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 ₹
<b>Assets:</b>		
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
<b>Liabilities:</b>		
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 Liabilities	
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
		Stock			12,000
	35,700	Debtors			8,500
Trade creditors		Cash at bank			3,400
	12,000				
	₹		₹		
	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 <u>7,500</u>		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 <u>1,690</u>	
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 <u>5,000</u>	
Debtors 9,000			25,000
Furniture 12,000		By MO & Co. A/c	
Premises 35,000		(Purchase Consideration)	86,000
Machinery 14,000			
Goodwill <u>5,000</u>			
	92,000		
To Profit on Realisation to:			
M 9,500			
N <u>9,500</u>			
	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 &amp; 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 &amp; 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 <u>50,000</u>					
	70,000				
To Profit on Realisation to:					
O                   14,000					
P <u>14,000</u>					
	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 &amp; Co.

## Balance Sheet as at 31-12-2007

Liabilities		₹	Assets		₹
<b>Capital Accounts:</b>			<b>Fixed Assets:</b>		
M	49,500		Goodwill	24,000	
N	36,500		Land	66,800	

O	52,000		Premises	53,000
P	<u>36,000</u>		Plant and Machinery	9,000
		1,74,000	Furniture	18,000
<b>Current Liabilities:</b>			Investments	16,200
Sundry Creditors (30,000 – 3,000)		27,000	<b>Current Assets:</b>	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. ₹
<b>Assets:</b>		
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,
<b>Less: Liabilities:</b>		
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	L F	Debit ₹	Credit ₹
(1)	Realisation A/c To Plant and Machinery A/c To Stock in Trade A/c To Stock in Debtors A/c (Being assets transferred to realisation account)	Dr.	30,000	7,500 10,000 12,500
(2)	Sundry Creditors A/c To Realisation A/c (Being liabilities transferred to realisation account)	Dr.	10,000	10,000

(3)	M/s Raj and Rohan A/c To Realisation A/c (Being purchase consideration due)	Dr.		21,937	21,937
(4)	Realisation Raj To Raj Capital A/c (Being profit on realisation)	Dr.		1,937	1,937
(5)	Bank Overdraft A/c To Raj Capital A/c (Being bank overdraft taken over by Raj personally)	Dr.		5,000	5,000
(6)	Raj Capital A/c To M/s Raj and Rohan A/c (Being capital account settled)	Dr.		21,937	21,937

**In the Books of Rohan  
Journal Entries**

Date	Particulars	L F	Debit ₹	Credit ₹
(1)	Realisation A/c 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)	Dr.	28,500	10,500 5,000 11,000 2,000
(2)	Sundry Creditors A/c To Realisation A/c (Being liabilities transferred to realisation account)	Dr.	8,500	8,500
(3)	M/s Raj and Rohan A/c To Realisation A/c (Being purchase consideration due)	Dr.	23,175	23,175
(4)	Realisation A/c To Rohan Capital A/c (Being profit on realisation)	Dr.	3,175	3,175
(5)	Rohan Capital A/c To M/s Raj and Rohan A/c (Being capital account settled)	Dr.	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 <u>25,175</u>		Plant and Machinery	16,200
	45,162	Current Assets	12,500
Sundry Creditors	16,500	Stock	
		Debtors                   21,500	
		<b>Less: Provision for</b>	
		Bad Debts <u>538</u>	20,962
		Cash at Bank	2,000
₹	61,662	₹	61,662

**Working Note:****Calculation of Purchase Consideration:**

Particulars	Raj ₹	Rohan ₹
<b>Assets:</b>		
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
<b>Less: Liabilities:</b>		
RDD (2½% of debtors)	263	279
Creditors (book value)	10,000	6,500
	10,263	6,775
<b>Purchase Consideration</b>	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 &amp; 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 &amp; 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 Debtors A/c Cash A/c To Creditors A/c To C's Capital A/c (Being the assets, liabilities and capital of C taken over)	Dr. Dr. Dr.   	15,000 2,500 10,000	7,500 20,000

(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:

$$A : 3/4 \times 3/5 = 9/20$$

$$B : 3/4 \times 2/5 = 6/20$$

$$C : 1/4 = 5/20$$

(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 ₹
<b>Assets:</b>		
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
<b>Less: Liabilities:</b>		
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	₹
<b>To Sundry Assets:</b>		<b>By Sundry Liabilities:</b>	
Cash in hand      2,000 (12,000 – 10,000)		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 <u>90,000</u>			
	2,00,000		
To Realisation Profit to:			
Sonia            13,000			
Mohan <u>6,500</u>			

	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. Realisation A/c Cr.**

Particulars	₹	Particulars	₹
To Sundry Assets:		By Sundry Liabilities:	
Cash in hand	16,000	Creditors	60,000
Stock	44,000		
Debtors	50,000	By Partners' Capital A/c	
Furniture and fixture	10,000	(NSC):	
5% NSC	<u>40,000</u>	Atal (3/5)	24,000
	1,60,000	Advani (2/5)	16,000
			40,000
To Realisation Profit to:		By Hindustan Trading Corporation A/c	
Atal (3/5)	16,500	(Purchase Consideration)	87,500
Advani (2/5)	<u>11,000</u>		
	27,500		
₹	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 Corporation A/c	52,500	35,000	By Realisation A/c	16,500	11,000
₹	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	<u>35,000</u>		87,500
	87,500				87,500

**Hindustan Trading Corporation  
Balance Sheet as at 1-4-2008**

Liabilities	₹	Assets	₹
<b>Capital Accounts:</b>		<b>Fixed Assets:</b>	
Sonia	54,000	Furniture and Fixtures	30,000
Mohan	36,000	Office Premises	99,000
Atal	54,000	<b>Current Assets:</b>	
Advani	<u>36,000</u>	Stock	98,000
	1,80,000	Debtors	80,000
<b>Current Accounts:</b>		<b>Less: Provision for Bad Debts</b>	<u>4,000</u>
Sonia	45,200		76,000
Mohan	<u>11,300</u>	Cash in Hand	18,000
	56,500	<b>Current Accounts:</b>	
	1,10,000	Atal	15,300
		Advani	<u>10,200</u>
			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	19,000	Plant and 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 Grey & Co.as at 31st March, 2008

Liabilities	₹	Assets	₹
X's Capital A/c	10,000	Goodwill	10,000
Y's Capital A/c	2,000	Stock	20,000
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) 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	L F	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 &amp; Co.

## Journal Entries

Date	Particulars	L F	Debit ₹	Credit ₹
(1)	Revaluation A/c Dr. To Sundry Debtors A/c To Goodwill A/c (Being the loss on settlement of debt and goodwill devalued)		13,000	3,000 10,000
(2)	Stock A/c Dr. To Revaluation A/c (Being stock appreciated through revaluation account)		2,500	2,500
(3)	X's Capital A/c Dr. Y's Capital A/c Dr. To Revaluation A/c (Being results of revaluation shared by X and Y)		5,250 5,250	10,500
(4)	Cash A/c Dr. To Y's Capital A/c (Being cash contributed by Y to make up his required capital contribution)		7,250	7,250
(5)	X's Capital A/c Dr. To Cash A/c (Being X paid back cash to bring his capital within the required norms)		3,750	3,750
(6)	Red & Co. A/c Dr. Sundry Creditors A/c Dr. To Stock A/c To Sundry Debtors A/c To Cash A/c To Bank A/c (Being the entry for transfer of business to Red & Co.)		5,000 28,000	7,500 7,000 9,500 9,000
(7)	X's Capital A/c Dr. Y's Capital A/c Dr. To Red & Co. A/c (Being capital accounts of X and Y closed by transfer to the Grey & Co. account)		1,000 4,000	5,000

**In the Books of Red & Co.**  
**Journal Entries**

Date	Particulars	L F	Debit ₹	Credit ₹
(1)	Plant and Machinery A/c Stock A/c Sundry Debtors A/c To Sundry Creditors A/c To A's Capital A/c To B's Capital A/c To B's Loan A/c (Being the entry for acquisition of business of Black & Co.) (Being the loss on settlement of debt and goodwill devalued)	Dr. Dr. Dr.	8,000 30,000 10,000	7,000 2,000 3,000 36,000 0
(2)	Stock A/c Sundry Debtors A/c Cash A/c Bank A/c To Sundry Creditors A/c To X's Capital A/c To Y's Capital A/c (Being the entry for transfer of business to Red & Co.)	Dr. Dr. Dr. Dr.	7,500 7,000 9,500 9,000	28,000 0 1,000 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.	<u>7,000</u>
Y	4,000	Bank	37,500
B's Loan	36,000	Debtors:	
Sundry Creditors:		Black & Co.	10,000
Blue & Co.	7,000	White & Co.	<u>7,000</u>
Grey & Co.	<u>28,000</u>	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:

- 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;
- Buildings, machinery and vehicles were taken over at ₹ 50,000. ₹ 90,000 and 1,00,000 respectively;
- 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:

- Compute the adjustments necessary for PQR;
- 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 &amp; Co.

**Journal Entries**

Date	Particulars	L F	Debit ₹	Credit ₹
1.10.07	Cash A/c Dr. Bank A/c Dr. R & Co. A/c Dr. Sundry Creditors A/c Dr. Stock A/c Dr. Furniture A/c Dr. Machinery A/c Dr. Buildings A/c Dr. To Provision for Doubtful Debts A/c To X & Co. A/c To Sundry Creditors A/c To P's Capital A/c To Q's Capital A/c Being the entry for acquisition of business of M/s. S & Co.		10,000 15,000 50,000 80,000 60,000 10,000 90,000 50,000	4,000 40,000 60,000 1,65,750 95,250
1.10.07	Cash A/c Dr. Bank A/c Dr. X & Co. A/c Dr. Sundry Debtors A/c Dr. Stock A/c Dr. Furniture A/c Dr. Vehicles A/c Dr. To Provision for Doubtful Debts A/c To Sundry Debtors A/c To Q's Capital A/c To R's Capital A/c (Being the entry for acquisition of business of M/s. T & Co.)		5,000 20,000 38,000 1,00,000 70,000 3,000 1,00,000	5,000 50,000 58,000 1,43,333 71,667

1.10.07	P's Capital A/c R's Capital A/c To Q's Capital A/c (Being adjustment for goodwill done in books)	Dr. Dr.	10,000 1,667	11,667
1.10.07	Q & Co. A/c To R & Co. A/c (Being common debts cancelled)	Dr.	50,000	50,000
1.10.07	B's Current A/c To P's Capital A/c (Being amount credited to B's capital account to bring capital in profit-sharing ratio)	Dr.	54,250	54,250
1.10.07	Q's Capital A/c To Q's Current A/c (Being excess in S's capital reduced to make it proportionate)	Dr.	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	1,20,000	80,000
Add: Proportionate Reserve (3 : 1)	18,750	6,250
Add: Revaluation Profit* (3 : 1)	27,000	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	1,00,000	50,000
Add: Proportionate Reserve (2 : 1)	33,333	16,667
Add: Revaluation Profit* (2 : 1)	10,000	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	34,000	Cash	25,000
Capital Accounts:		Debtors	62,000
J 1,20,000		Stock	37,000
K 90,000		Tools	8,000
L 60,000		Motor Cars	12,000
	2,70,000	Machinery	60,000
		Freehold Building	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:		Goodwill	60,000
K	1,75,200	Freehold Building	84,000
L	1,16,800	Machineries	78,000
		Motor Cars	25,000
		Tools	5,000
		Stock	40,000
		Cash	
₹	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	<u>16,160</u>				
	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	1,52,320		
To K's Capital A/c	60,960				
To L's Capital A/c	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 or 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	5,600	6,700
M/s. Sathe's loan	5,000		Stock	20,400	18,300
Capital:		50,000	Debtors	15,000	20,000
Ram	40,000		Furniture	4,000	5,000
Shyam	20,000	–	Premises	40,000	–
Seeta		15,000			
Geeta		10,000			
₹	85,000	50,000	₹	85,000	50,000

The two firms decided to amalgamate their business from 1<sup>st</sup> 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:

- 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.
- 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

- 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.
- V to takeover his firm's investment at a value of ₹ 7,600.
- 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 in the 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:

- Profits and losses were to be shared: J two-fifths, K-two-fifths and L one-fifth.
- 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.
- 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.
- 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:

- The partners' Capital accounts recording these transaction as on 1st Jan. 2008 and
- 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 <u>1,000</u>	
Capital A/c			13,000
M           12,500		Stock	7,500
N <u>10,000</u>		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	<u>10,000</u>		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:

- 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.
- 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.
- OP's assets were valued thus: Debtors ₹ 10,000; Stock ₹ 10,000; Office furniture ₹ 3,000 and Goodwill ₹ 4,000.
- O took over the motor vans at an agreed value of ₹ 5,000.
- 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.
- 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 from 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:

- P & Q would not takeover the loan or R & S
- 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
- The capitals of partners in the new firm should be ₹ 14,000 each partner introducing cash, if necessary.

You are required to:

- Close the books of M/s R & S.
- 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 31<sup>st</sup> 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 at ₹ 37,500, and leasehold properties at ₹ 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 - ₹ 28,165 (cr.) Shyam- ₹ 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 31<sup>st</sup> 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 Pratap at ₹ 40,000. Goodwill account is not to appear in the books of the firm
- (ii) the following assets of M/s Akbar and 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	60,000	Debtors	24,000
Q	40,000	Investments	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	30,000	Debtors	48,000
D	30,000		
₹	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 doubtful debts	2,000	1,000
S	15,000	—			
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:

- R, S, A, L and S are to share profits and losses in the ration of 3:2:2:2:1.
- 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.
- 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 " " "	<u>2,000</u>
		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 firm, 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 firm 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 of ABCD. State your assumptions, if any, clearly.

(Ans.: Balance sheet total ₹ 2,021,000)

(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:

- The capital of the partnership would be ₹ 3 lakhs which would be contributed by them in the ratio 2:1
- 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.
- 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 to 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 two-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		Assets	S & R	
	₹	K ₹		₹	K ₹
Capital a/cs:			Freehold premises	8,000	—5,000
S			Plant & equipment	7,000	
R	29,000	—		15,000	5,000
K	—	7,000	Work-in-progress	17,000	7,000
Trade creditors	9,000	4,000	Debtors	2,750	2,8000
Bank overdraft	—	3,300	Less: Provision	750	500
				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:

- Profits were to be shared in the ratio: S, one-half; R one-quarter; K, one-quarter.
- 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).
- 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
Fund	6,000	5,000	Furniture and fittings	30,000	20,000
Capitals:			Investments	50,000	40,000
P	1,50,000	–	Godown	10,000	–
Q	1,20,000	–	Land and building	1,50,000	1,08,000
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
Fund	6,000	5,000	Furniture and fittings	30,000	20,000
Capitals:			Investments	50,000	40,000
P	1,50,000	–	Godown	10,000	–
Q	1,20,000	–	Land and building	1,50,000	1,08,000
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 takeover 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 were 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 ratio 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		₹	76,000
		81,500			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 firm.
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 each partner will be his profit sharing ratio which 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:

Liabilities	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	Vehicles	22,500	29,500
Capital – D	–	14,000	Stock	45,000	20,000
Creditors	10,400	42,500	Investment	17,900	18,000
Loan from A	25,000	–	Debtors	25,000	–
Bank overdraft	–	1,500	Bank balance	42,000	31,300
Investment reserve	12,000	–		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:

- The fixed assets of both the firms to be taken over at 10% over book value and outstanding debtors at book value.
- The stocks of AB & Co. Were disposed of for ₹ 18,000 while that of CD & Co. Are taken over by the new firm.
- The firms shall pay of their liabilities. Shortfall, if any incash, is to be made good by the partners introducing the necessary cash.
- The investments were gifted to B.
- 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.
- 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.
- The new firm had to spent ₹ 1,800 on the amalgamation expenses.
- 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'

Company: <u>National Traders</u>			
<u>Accounting Features</u>			
<u>General</u>		<u>Invoicing</u>	
Integrate Accounts and Inventory	? Yes	Allow Invoicing	? Yes
Income/Expense Statement instead of P & L	? No	Enter Purchases in Invoice Format	? Yes
Allow Multi-Currency	? Yes	Use Debit/Credit Notes	? Yes
<u>Outstandings Management</u>		Use Invoice mode for Credit Notes	? Yes
Maintain Bill-wise Details (for Non-Trading A/cs also)	? Yes	Use Invoice mode for Debit Notes	? Yes
	? Yes	<u>Budgets &amp; Scenario Management</u>	
Activate Interest Calculation (use advanced parameters)	? Yes	Maintain Budgets and Controls	? Yes
	? Yes	Use Reversing Journals & Optional Vouchers	? Yes
<u>Cost/Profit Centres Management</u>		<u>Other Features</u>	
Maintain Payroll	? Yes	Enable Cheque Printing	? Yes
Maintain Cost Centres	? Yes	Set/Alter Cheque Printing Configuration	? No
Use Cost Centre for Job Costing	? No	Allow Zero valued entries	? Yes
More than ONE Payroll / Cost Category	? Yes	Maintain Multiple Mailing Details for Company & Ledgers	? No
Use Pre-defined Cost Centre Allocations during Entry	? No	Set/Alter Company Mailing Details	? No
Show Opening Balance for Revenue Items in Reports	? No	Enable Company Logo	? No

## 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

Cost Category Creation	
Name :	<b>Sales Project 1</b>
(alias) :	
Allocate Revenue Items	? Yes
Allocate Non-Revenue Items	? No

## 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

Cost Centre Creation	
Category	: Sales Project 1
Name	: <b>Salesman 1</b>
(alias)	:
Under	: <b>Primary</b>

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:

Cost Centre Allocations		National Traders		List of Cost Centres	
Payment No. 1				Salesman 1	Cost Centre
Particulars				Salesman 2	Cost Centre
Dr Conveyance				Salesman 3	Cost Centre
Cr Bal: ₹ 15,000.00 Dr				Salesman 4	Cost Centre
Cost Allocations for : <b>Conveyance</b>					
Upto: ₹ 15,000.00 Dr					
<b>Cost Category</b>					
<b>Name of Cost Centre</b>		<b>Amount</b>			
<b>Sales Project 1</b>					
Salesman 1		3,500.00			
Salesman 2		3,000.00			
Salesman 3		4,000.00			
Salesman 4		4,500.00			
		<b>15,000.00</b>			

- ✦ Complete the Payment Voucher

Accounting Voucher Creation		National Traders		Ctrl + M
Payment No. 1				1-Apr-2011 Friday
Particulars		Debit	Credit	
Dr Conveyance		15,000.00		
<i>Cur Bal: 15,000.00 Dr</i>				
Sales Project 1				
Salesman 1	3,500.00 Dr			
Salesman 2	3,000.00 Dr			
Salesman 3	4,000.00 Dr			
Salesman 4	4,500.00 Dr			
Cr Cash			15,000.00	
<i>Cur Bal: 5,85,000.00 Dr</i>				

### 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'

Company: National Traders			
Accounting Features			
<u>General</u>		<u>Invoicing</u>	
Integrate Accounts and Inventory	? Yes	Allow Invoicing	? Yes
Income/Expense Statement instead of P & L	? No	Enter Purchases in Invoice Format	? Yes
Allow Multi-Currency	? Yes	Use Debit/Credit Notes	? No
		Use Invoice mode for Credit Notes	? No
		Use Invoice mode for Debit Notes	? No
<u>Outstandings Management</u>		<u>Budgets &amp; Scenario Management</u>	
Maintain Bill-wise Details	? Yes	Maintain Budgets and Controls	? No
(for Non-Trading A/cs also)	? No	Use Reversing Journals & Optional Vouchers	? Yes
Activate Interest Calculation	? No		
(use advanced parameters)	? No		
<u>Cost/Profit Centres Management</u>		<u>Other Features</u>	
Maintain Payroll	? No	Enable Cheque Printing	? Yes
Maintain Cost Centres	? Yes	Set/Alter Cheque Printing Configuration	? No
Use Cost Centre for Job Costing	? No	Allow Zero valued entries	? No
More than ONE Payroll / Cost Category	? Yes	Maintain Multiple Mailing Details for Company & Ledgers	? No
Use Pre-defined Cost Centre Allocations during Entry	? <b>Yes</b>	Set/Alter Company Mailing Details	? No
Show Opening Balance for Revenue Items in Reports	? No	Enable Company Logo	? No

On the 'Auto-Cost Allocation' screen,

- ✦ Enter the 'Class Name' and press 'Enter'
- ✦ Select the appropriate 'Cost Category' and enter the required percentage

Auto Cost Allocations	
Cost Centre Classes	
Name: National Traders	
Class Name	
Salary	
Sales Project 1	
Salesman 1	30 %
Salesman 2	25 %
Salesman 3	25 %
Salesman 4	20 %

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:

Accounting Voucher Alteration		National Traders		Ctrl + M
Payment No. 2		Cost Centre/Classes : Salary		1 Apr. 2011 Friday
Particulars		Debit	Credit	
Dr Salary		50,000.00		
Cur Bal: 50,000.00 Dr				
Sales Project 1				
Salesman 1	15,000.00 Dr			
Salesman 2	12,500.00 Dr			
Salesman 3	12,500.00 Dr			
Salesman 4	10,000.00 Dr			
Cr Cash			50,000.00	
Cur Bal: 5,35,000.00 Dr				

## 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			Closing Balance
	Transactions			
	Debit	Credit		
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

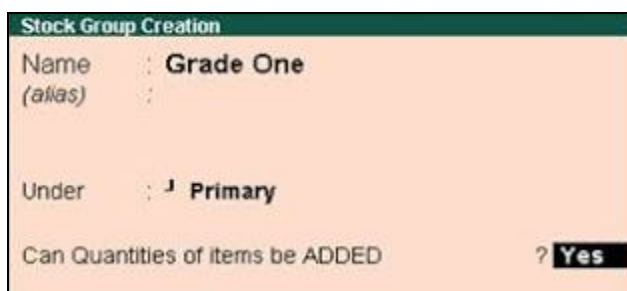


### 1.1 Creating a Stock Group

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)

S.No.	Name of Stock Group	Under	Items are Addable (Y/N)
1.	Group Two	Primary Group One	Yes
2.	Brand A	Group One	Yes
3.	Brand B	Group One	Yes

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.

Sl.No.	Name of Stock Group	Under	Items are Addable (Y/N)
1.	Brand C	Group Two	Yes
2.	Brand D	Group Two	Yes
3.			

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.

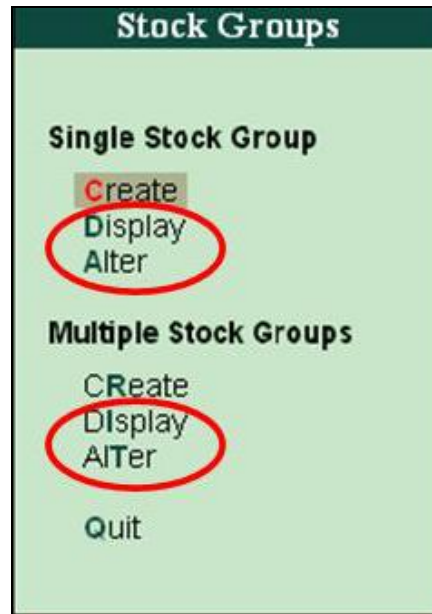
## Items are Addable? (Y/N)

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.

Stock Category Creation	
Name	: Monitor
(alias)	:
Under	: Primary
Accept ?	
Yes or No	

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.

S.No.	Name of Category	Under
1.	CRT	Monitor
2.	CDWriter	Primary
3.		

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**

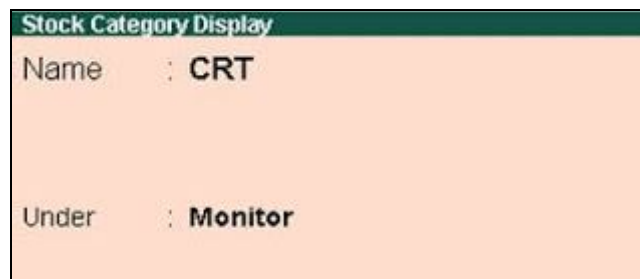
You can display the existing Stock Category in Single mode and multiple mode, since it is only display Tally.ERP 9 does not allow you to alter any information in display mode.

**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.

ABC Company		
Under Category		Monitor
Sl.No.	Name of Category	Under
1	CRT	Monitor

If you select **Monitor** from the **List of Categories**, all the sub categories related to Monitor will be displayed.

ABC Company		
Under Category		All Items
Sl.No.	Name of Category	Under
1	CDWriter	Primary
2	Monitor	Primary
3	CRT	Monitor

### 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.

Stock Category Alteration	
Name	: CDWriter
(alias)	: [REDACTED]
Under	: Primary

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.

S.No.	Name of Category	Under
1.	CDWriter	Primary
2.	Monitor	Primary
3.	GRT	Monitor

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 in turn 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.

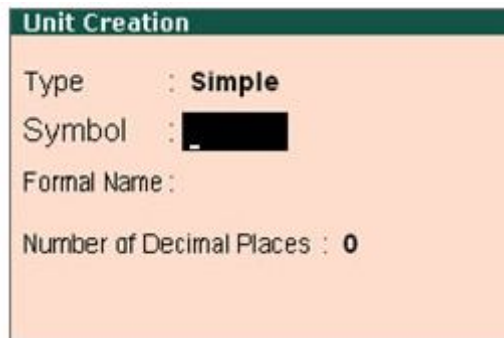
### Number of Decimal Places

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:



Type	: Simple
Symbol	: [redacted]
Formal Name	:
Number of Decimal Places	: 0

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		ABC Company	
Name (alias)	Brand A - 19" TFT		
Under	Brand A	<u>Tax Information</u>	
Units	Nos.	Rate of Duty (eg 5)	16.50
		Tarif Classification	
Opening Balance	Quantity : 5 Nos.	Rate per : 8,000.00 Nos.	Value : 40,000.00

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.



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.

ABC Company			
Name of Item : <b>Optical USB Mouse</b>			
Default Accounting Allocations for Sales Invoice			
Ledger Name	Percentage %	Rounding Method	Rounding Limit
Sales-Mouse	100		
Default Accounting Allocations for Purchase Invoice			
Ledger Name	Percentage %	Rounding Method	Rounding Limit
Purchase Mouse	100		

**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.

Stock Item Creation		ABC Company		Ctrl = M
Name: <b>Wheat Flour</b>		Part No:		
Description				
Remarks				
Set/Modify Default Ledgers for Invoicing: ? No				
Order	<input type="checkbox"/> Primary	<b>Tax Information</b>		<b>Behaviors</b>
Category	<input type="checkbox"/> Not Applicable	Tarif Classification	<input type="checkbox"/> Not Applicable	Costing Method: Avg. Cost
Units	No	Rate of Duty (kg %)		Market Variation Method: Avg. Price
Alternate Units	Kgs	<b>VAT Details</b>		Ignore Diff. due to Physical Counting: ? No
where	1 Kgs = 1 Nos	Commodity	<input type="checkbox"/> Not Applicable	Ignore Negative Balances: ? No
Maintain in Batches	? No	Rate of VAT (%)		Treat all Sales as New Manufacture: ? No
Set Components (BOM)	? No	MRP / Marginal		Treat all Purchases as Consumed: ? No
Set Standard Rates	? No			Treat all Rejections inward as Scrap: ? No
Opening Balance		Quantity	Rate per	Value

### 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

Valuation Methods
At Zero Price
Avg. Price
Last Sale Price
Std. Price

#### 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.

Stock Item Display		ABC Company	
Name	Optical USB Mouse	Part No.	112560051
Description	1 year Limited Warranty		
Remarks	Optical mouse features the world's best selling optical technology for incredibly smooth tracking		
Set/Modify Default Ledgers for Invoicing	? No		
Under Category	Brand A Mouse	Tax Information	Behaviour
Units	Nos.	Rate of Duty (eg 5)	0
Alternate Units where	1 Box = 10 Nos.	Tax Classification	
Maintain in Batches	? Yes	Costing Method	Avg. Cost
Track Date of Mfg	? Yes	Market Valuation Method	Avg. Price
Use expiry dates	? No	Ignore Diff. due to Physical Counting	? No
Alter Components (BoM)	? No	Ignore Negative Balances	? No
		Treat all Sales as New Manufacture	? No
		Treat all Purchases as Consumed	? No
		Treat all Rejections inward as Scrap	? No
Opening Balance	Quantity 10 Nos. (1 Box)	Rate per	300.00
		Value	3,000.00

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.

Multi Stock Item Display							
Under Group							For 1-Apr-2008
S.No	Name of Item	Under	Category	Units	Opening Qty	Rate per	Amount
1.	Brand A - 17" CRT	Brand A	CRT	Nos.	0 Nos.		
2.	Brand A - 19" TFT	Brand A	Not Applicable	Nos.	5 Nos.	8,000.00	40,000.00
3.	Optical USB Mouse	Brand A	Mouse	Nos.	10 Nos. (1 Box)	300.00 Nos.	3,000.00

### Altering a Stock Item

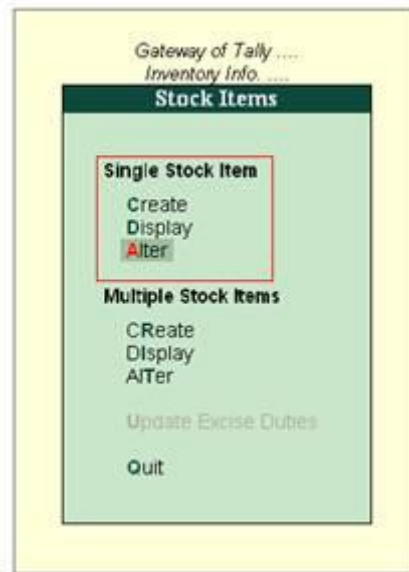
This option allows you to view the existing single Stock Item master and Multiple Stock Item masters in edit mode, here you are allowed to change the various information.

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.

Stock Item Alteration		Alt. Company	
Name	Optical USB Mouse	Part No.	112560051
Description	1 year Limited Warranty		
Remarks	Optical mouse features the world's best, cutting optical technology for incredibly smooth tracking		
Set/Modify Default Ledgers for Invoicing	? No		
<b>Under Brand A</b>		<b>Tax Information</b>	
Category	Mouse	Rate of Duty (eg 5%)	16.58
Units	No.	Tax Classification	
Alternate Units	Box		
where	1 Box = 10 Nos.		
Margin in Batches	? Yes		
Track Date of Mfg	? Yes		
Use expiry dates	? No		
Alter Components (BOM)	? No		
Alter Standard Rates	? No		
		<b>Costing Method</b>	<b>Relevance</b>
		Marked Valuation Method	Avg. Cost
			Avg. Price
		Ignore Diff. due to Physical Counting	? No
		Ignore Negative Balances	? No
		Treat all Sales as New Manufacture	? No
		Treat all Purchases as Consignment	? No
		Treat all Rejections inward as Scrap	? No
		<b>Quantity</b>	<b>Rate per</b>
Opening Balance	10 Nos.	300.00 Nos.	3,000.00
	(1 Box)		

### 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.

Multi Stock Item Alteration		ABC Company		Ctrl + M			
Under Group		All Items		Per 1-Apr-2008			
S.No.	Name of Item	Under	Category	Units	Opening Qty	Rate per	Amount
1.	Brand A - 17" CRT	Brand A	CRT	Nos.			
2.	Brand A - 19" TFT	Brand A	Not Applicable	Nos.	5 Nos.	0,000.00 Nos.	40,000.00
3.	Optical USB Mouse	Brand A	Mouse	Nos.	10 Nos. (1 Box)	300.00 Nos.	3,000.00

**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.

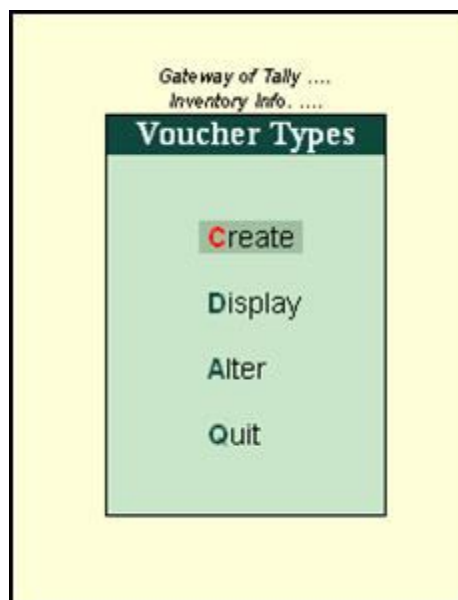
#### Pre- defined voucher types:

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

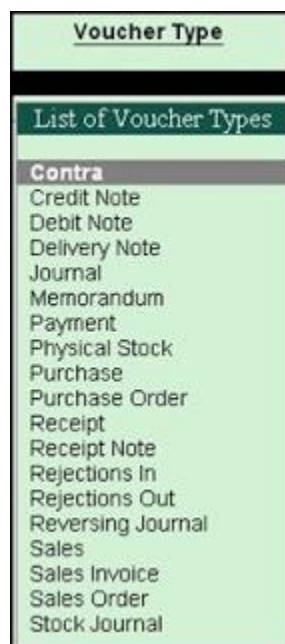


### Display/Alter A Predefined Voucher Type

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: Manufacturing Journal (alias)		
General	Printing	Name of Class
Type of Voucher : Stock Journal Abb. : Stk Jnl	Print after saving Voucher ? No	
Method of Voucher Numbering ? Automatic		
Use Advance Configuration ? No		
Use EFFECTIVE Dates for Vouchers ? No		
Make 'Optional' as default ? No		
Use Common Nomenclature ? Yes		
Use as a Manufacturing Journal ? <input checked="" type="checkbox"/> Yes		

**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

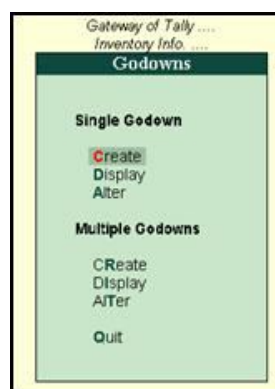
First you have to Create Chennai and Bangalore locations and then you have to create Godowns under the respective location.

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:

Godown Creation	
Name	: Chennai
(alias)	:
Under	: Primary
<b>Use for:</b>	
Our Stock with Third Party	? No
Third Party Stock with us	? <b>No</b>

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.

<u>Godown Configuration</u>	
Allow ALIASES along with Names	? Yes
Allow Language ALIASES along with Names	? No
Use ADDRESSES for Godowns	? <b>Yes</b>

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.

Godown Creation	
Name	: Godown A
(alias)	:
Address	: No. 31, New Colony Street, Chennai - 600105 Tamil Nadu India
Under	: Chennai
Allow Storage of materials	? <b>Yes</b>
<u>Use for:</u>	
Our Stock with Third Party	? No
Third Party Stock with us	? No

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.

Sl.No.	Name	Under
1.	Godown B	Chennai
2.	Godown C	Bangalore
3.		

### 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/Altering Stock 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.

Inventory Features			
<b>General</b>		<b>Invoicing</b>	
Integrate Accounts and Inventory	? No	Allow Invoicing	? Yes
Allow Zero valued entries	? No	Enter Purchases in Invoice Format	? Yes
<b>Storage &amp; Classification</b>		Use Debit/Credit Notes	? Yes
Maintain Multiple Godowns / Excise Units	? Yes	Use Invoice mode for Credit Notes	? No
Maintain Stock Categories	? Yes	Use Invoice mode for Debit Notes	? No
Maintain Batch-wise Details (set Expiry Dates for Batches)	? Yes	Separate Discount column on Invoices	? No
Use different Actual & Billed Qty	? No	<b>Purchase Management</b>	
<b>Order Processing</b>		Track additional costs of Purchase	? No
Allow Purchase Order Processing	? No	<b>Sales Management</b>	
Allow Sales Order Processing	? No	Use Multiple Price Levels	? No
Allow Job Order Processing (Note: Enables Maintain Multiple Godowns and Use Material In/Out)	? No	<b>Other Features</b>	
		Use Tracking Numbers (Delivery/Receipt Notes)	? No
		Use Rejection Inward/Outward Notes	? No
		Use Material In/Out	? No
		Use Cost Tracking for Stock Item	? No

F1: Accounts    F2: Inventory    F3: Statutory    F6: Add-Ons

### 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.

Item Allocations for : Calpol Tablets					
Godown	Batch / Lot No.		Quantity	Rate per	Amount
	Mfg Dt.	Expiry Date			
Rule 11 Invoicing	<b>001</b>		2,500 Packets	25.60 Pkts	64,000.00
	Apr-2011	1-Apr-2012	(25,000 Sacket)		
( )					
					2,500 Packets 64,000.00

In the manufacturing date field, by default it takes the voucher date in the format of month and year. In Expiry date field, 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.

Item Allocations for : Calpol Tablets					
Godown	Batch / Lot No.		Quantity	Rate per	Amount
	Mfg Dt.	Expiry Date			
Rule 11 Invoicing	<b>001</b>				
	Apr-2011	1-Apr-2012			

List of Active Batches

Name	Expiry	Balance
<input type="checkbox"/> New Number		
<b>001</b>	<b>1-Apr-2012</b>	<b>2,500 Packets</b>

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

**Stock Group Creation**

Name : **Computers**

Under :  **Primary**

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 the group 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	Can 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:

**Multi Stock Group Creation** National Traders Ctrl + M

Under Group : **Peripherals**

S.No.	Name of Stock Group	Under	Items are Addable (Y/N)
1.	Accessories	Peripherals	Yes
2.	Components	Peripherals	Yes

Accept ?  
Yes or No

✦ 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.

Unit Creation	
Type	: Compound
<b>Units with Multiplier Factors</b> (example: Kgs of 1000 gms)	
First Unit Conversion	Accept ?  Yes or No
Box of 100	

**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:

Stock Item: <b>HCL PIV</b>			
Standard Cost		Standard Selling Price	
Applicable From	Rate per	Applicable From	Rate per
<b>1-Apr-2009</b>	<b>17,500.00 Nos</b>	<b>1-Apr-2009</b>	<b>21,500.00 Nos</b>

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



- ✦ **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	
<b>Computers</b>	<b>9 Nos</b>	<b>17,322.22</b>	<b>1,55,900.00</b>	
HCL PIV	5 Nos	17,500.00	87,500.00	
IBM PIV	4 Nos	17,100.00	68,400.00	
<b>Peripherals</b>			<b>32,350.00</b>	
Accessories			2,600.00	
CD ROM Diska 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	
<b>Printers</b>			<b>97,900.00</b>	
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	
<b>Grand Total</b>	<b>9 Nos</b>		<b>2,86,150.00</b>	

**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 wants to maximise net income, it would select FIFO Method.
  6. LIFO Method of pricing issues is useful during the period of inflation.
  7. Weighted Average Method of pricing issues involves adding different prices 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

- (1) FIFO
- (2) LIFO
- (3) Weighted Average

## Group B

- (i) Last In First Out
- (ii) Average of the prices
- (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 Stock 200 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]

## REFERENCES

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