Chapter 5

Amalgamation of Firms

Meaning

Amalgamation of firms means a closure of two or more business firms and starting of one new partnership firm. It means two or more firms doing similar business close their respective business and start a business under the name and style of new firm. There may be several objectives of amalgamation such as to increase the size of the business by pooling together the capital of all partners, to increase the profitability by enhancing the level of business operations.

Following are some of the objectives of amalgamation:

(a) To increase the level of operations.

(b) To eliminate the competition among the firms doing similar business.

(c) To increase the size of capital.

(d) To increase the profitability by increasing the level of operations with more capital.

(e) To enjoy the benefit of better managerial skills by introducing new partners in the firm.

ACCOUNTING FOR AMALGAMATION

In India, Accounting Standards are prepared by The Institute of Chartered Accountants of India (ICAI). These accounting standards set the rules and regulations to prepare financial statement in India. Accounting Standard 14 deals with accounting for amalgamation. According to this accounting standard, amalgamation can be effected in two ways, i.e.,

(a) Amalgamation in the nature of merger and

(b) Amalgamation in the nature of purchase

As far as syllabus of S.Y.B.Com. is concerned, we have to deal with amalgamation in the nature of purchase.

AMALGAMATION IN THE NATURE OF PURCHASE

Accounting Procedure (Steps to Solve the Problem):

(A) Computation of Purchase Consideration

(B) Closing the Books of Old Firms

(C) Opening the Books of New Firms

(A) Computation of Purchase Consideration

When two or more business firms close their business and a new business firm is started, the new firm has to pay some compensation to the owners of old firms (vendor firms). Therefore, the amount which the new firm agrees to pay the old firms is called as 'Purchase Consideration'.

There are two methods to compute purchase consideration:

- *Lumpsum Method:* Under this method, the new firms pays a lumpsum amount to the old (vendor) firms. The amount is fixed. There is no need to do any calculation to arrive at the amount of purchase consideration, it will be directly given.
- *Net Asset Method:* Under this method, the amount of purchase consideration is equal to the net assets transferred from old firms to the new firms. **Purchase consideration is calculated by deducting the amount of liabilities taken over by the new firm from the assets taken over.** It is calculated as follows:

Particulars	`	`
Assets taken over at Revised Values:		
Goodwill	XX	
Land and Buildings	XX	
Furniture	XX	
Plant and Machinery	XX	
Stock	XX	
Debtors	XX	
Cash	XX	
Bank	XX	XXX
Less: Liabilities taken over at agreed values:		
Creditors	XX	
Bank Overdraft	XX	
Bills Payable	XX	
Any other liability taken over	XX	XX
Net Asset/Purchase Consideration		XXX

(B) Closing the Books of the Old Firms

Ledger Accounts to be prepared:

1. Realization Account – To realize the assets and liabilities of vendor firms.
2. Partner's Capital and/or Current Accounts – To calculate the final balance of the partner to be transferred to the books of new firm.
3. New firm Account – To settle the Purchase Consideration.

Proforma Journal Entries

Sr. No.	Accounting Transactions	Journal Entries
1	Open Necessary Ledger Accounts and transfer the opening balances to the respective ledger accounts	No Entry
2	Accumulated Profits and Reserves to Partner's Capital/Current Account	Profit and Loss A/c Dr. Reserves A/c Dr. To Partner's Capital/Current A/c
3	Transfer Accumulated Losses to Partner's Capital/Current Account	Partner's Capital/Current A/c Dr. To Profit and Loss A/c
4	Transfer all the assets to Realization A/c at their books values (Note: Cash and Bank balance to be transferred only to the extent taken over by the new firm)	Realization A/c Dr. To Sundry Assets A/c
5	Transfer all the liabilities to Realization Account at their book values	Sundry Liabilities A/c Dr. To Realization A/c
6	Record Purchase Consideration	New Firm A/c Dr. To Realization A/c
7	Realization of assets not taken over by the new firm	Bank A/c Dr. To Realization A/c
8	Payment of liabilities not taken over by the new firm	Realization A/c Dr. To Bank A/c
9	Assets taken over by partner	Partner's Capital A/c Dr. To Realization A/c
10	Liabilities taken over by partner	Realization A/c Dr. To Partner's Capital A/c
11	Record unrecorded assets	Assets A/c Dr. To Partner's Capital A/c
12	Realization of unrecorded assets	Bank A/c Dr. To Assets A/c

13	Record unrecorded liabilities	Partner's Capital A/c Dr. To Liabilities A/c
14	Payment of unrecorded liabilities	Liabilities A/c Dr. To Bank A/c
15	Payment of realization expenses	Realization A/c Dr. To Bank A/c
Close the Realization Account and find out Profit/Loss on Realization and transfer the same to Partner's Capital/Current Account		
16	Profit on Realization	Realization A/c Dr. To Partner's Capital/Current A/c
17	Loss on Realization	Partner's Capital/Current A/c Dr. To Realization A/c
Close Partner's Current Account and transfer the balance to Partner's Capital A/c, if applicable		
18	Transfer the current account balance to capital accounts	Partner's Current A/c Dr. To Partner's Capital A/c
Close partner's capital account and transfer the final balance of capital to new firm's account		
19	Final Adjustment	Partner's Capital A/c Dr. To New Firm A/c
Finally close the new firm account, it will tally		

(C) Opening Entries in the Books of New Firm

Statement to be prepared – Balance Sheet to record the assets and liabilities taken over from vendor firms and purchased by the new firm.

Proforma Opening Journal Entries

Sr. No.	Accounting Transactions	Journal Entries
1	Record the purchase of business	Sundry Assets A/c Dr. To Sundry Liabilities A/c To Partner's Capital A/c
2	Write off Goodwill if given	All Partner's Capital A/c Dr. To Goodwill A/c
Adjust Capital Account as per new Profit Sharing Ratio and transfer the difference		
3	(a) Adjustment of Surplus	Partner's Capital A/c Dr. To Cash A/c To Partner's Current A/c To Partner's Loan A/c

	(b) Adjustment of Deficit	Cash A/c Dr. Partner's Current A/c Dr. Partner's Loan A/c Dr. To Partner's Capital A/c
Prepare Opening Balance Sheet of the New Firm		

Illustrations

1. The Balance Sheet of M/s White and M/s. Red as on 31st December, 2011 were as follows:

Liabilities	White `	Red `	Assets	White `	Red `
Capital:			Buildings	40,000	45,000
W	30,000	–	Plant	25,000	23,000
H	40,000	–	Furniture	15,000	20,000
R	–	40,000	Debtors	20,000	40,000
D	–	50,000	Stock	23,000	30,000
Creditors	50,000	30,000	Cash & Bank Balance	4,000	12,000
Bank Loan	–	35,000			
Outstanding Expenses	7,000	15,000			
	1,27,000	**1,70,000**		**1,27,000**	**1,70,000**

The two firms decided to amalgamate and form into M/s Pink with effect from 31st December, 2011. Partners would share profits and losses equally between themselves as they were doing prior to amalgamation and they agreed to following revaluation of assets and liabilities:

Particulars	White `	Red `
Buildings	45,000	50,000
Plant	20,000	20,000
Furniture	10,000	12,000
Debtors	15,000	30,000
Stock	22,000	30,000
Creditors	45,000	30,000
Bank Loans	–	32,000
Outstanding Expenses	4,000	11,000

In addition to the above, it was decided:

(a) Goodwill of White and Red were valued at ` 40,000 and ` 50,000 respectively and it should be written off in the New Firm.

(b) That the reconstructed capitals of the partners would be ` 40,000 each. The difference, if any, should be transferred to Current Account.

You are required to show:

(i) the accounts in the books of M/s White

(ii) the Opening Balance Sheet of the New Firm.

Solution:

Computation of Purchase Consideration

Particulars	White & Co.	Red & Co.
Assets taken over at received values:	45,000	50,000
Building	20,000	20,000
Plant	10,000	12,000
Furniture	15,000	30,000
Debtors	22,000	30,000
Stock	4,000	12,000
Cash & bank balance	40,000	50,000
Goodwill	1,56,000	2,04,000
Less: Liabilities taken over:		
Creditors	45,000	30,000
Bank loans	–	32,000
Outstanding expenses	4,000	11,000
Net Assets/Purchase Consideration	**1,07,000**	**1,31,000**

Ledger Accounts in the Books of White & Co.

Dr. **Realization Account** **Cr.**

Particulars	`	`	Particulars	`	`
To Sundry Assets A/c:			By Sundry Liabilities:		
Building	40,000		Creditors	50,000	
Plant	25,000		Bank loans	7,000	57,000
Furniture	15,000		By Pink & Co.		1,07,000
Debtors	20,000				
Stock	23,000	1,27,000			

Cash & Bank Balance		4,000			
To Partner's Capital A/cs (profit on realization)					
W	18,500				
H	18,500	37,000			
		1,64,000			**1,64,000**

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

Particulars	W	H	Particulars	W	H
To Pink & Co.	48,500	58,500	By Balance b/d	30,000	40,000
			By Realization A/c	18,500	18,500
	48,500	**58,500**		**48,500**	**58,500**

Dr. **Pink & Co. Account** **Cr.**

Particulars		`	Particulars		`
By Realization A/c		1,07,00	By W's Capital A/c		48,500
			By H's Capital A/c		58,500
		1,07,000			**1,07,000**

Pink & Co.

Opening Balance Sheet as on 31st December, 2011

Liabilities	`	`	Assets	`	`
Capital A/cs:			Building		95,000
W	40,000		Plant		40,000
H	40,000		Furniture		22,000
R	40,000		Debtors		45,000
D	40,000	1,60,000	Stock		52,000
D's Current A/c		8,000	Cash & bank balance		16,000
Creditors		75,000	Current A/cs:		
Bank Loan		32,000	W	14,000	
Outstanding Expenses		15,000	H	4,000	
			R	2,000	20,000
		2,90,000			**2,90,000**

Working Note: 1

Adjustment of Capital A/c of Partners

	Particulars	**W**	**H**	**R**	**D**
(a)	Capitals transferred from old firms	48,500	58,500	60,500	70,500
(b)	Goodwill written off in equal proportion	22,500	22,500	22,500	22,500
(c)	Adjusted Capital	26,000	36,000	38,000	48,000
(d)	Required capital in new firm	40,000	40,000	40,000	40,000
(e)	Surplus/deficit (to be transferred to Current A/c)	(14,000)	(4,000)	(2,000)	8,000

2. Following is the Balance Sheet of two firms as at 31st March, 2011.

Liabilities	**P & Co.** `	**R & Co.** `	**Assets**	**P & Co.** `	**R & Co.** `
Capital:			Premises	–	10,000
P	10,000	–	Computers	10,000	–
Q	15,000	–	Furniture	5,000	10,000
R	–	20,000	Stock	9,000	15,000
S	–	30,000	Debtors	6,000	14,000
General Reserve	–	5,000	Bank	4,000	10,000
Creditors	4,000	5,000	Cash	1,000	3,000
Bills Payable	6,000	2,000			
	35,000	**62,000**		**35,000**	**62,000**

It was mutually agreed to amalgamate the business from 1st April, 2011.

Terms of amalgamation were as follows:

(a) Premises was valued at ` 15,000 and computers at ` 7,000.

(b) Furniture was not taken over by new firm.

(c) A reserve of 5% is to be created on debtors.

(d) Goodwill was valued as: M/s P & Co. at ` 20,000 and that of M/s R & Co. at ` 25,000.

(e) The new firm also assumed other assets and liabilities of old firm at book value.

Show necessary ledger accounts in the books of M/s R & Co. and prepare Balance Sheet of new firm after amalgamation.

Solution:

Computation of Purchase Consideration

Particulars	P & Co.	R & Co.
Assets taken over at received values:		
Building	-	15,000
Plant	7,000	-
Furniture	9,000	15,000
Debtors	6,000	14,000
Bank	4,000	10,000
Cash	1,000	3,000
Goodwill	20,000	25,000
	47,000	82,000
Less: Liabilities taken over:		
Creditors	4,000	5,000
Bill Payable	6,000	2,000
R.D.D.	300	700
Net Assets/Purchase Consideration	**36,700**	**74,300**

Ledger Accounts in the Books of M/s R & Co.

Dr. **Realization Account** **Cr.**

Particulars	`	`	Particulars	`	`
To Sundry Assets A/c:			By Sundry Liabilities:		
Premises	10,000		Creditors	5,000	
Furniture	10,000		Bill Payable	2,000	7000
Stock	15,000		By New Firm A/c (P : C)		74,300
Debtors	14,000		By R's Capital A/c	5,000	
Bank	10,000		By S's Capital A/c (furniture realized)	5,000	10,000
Cash	3,000	62,000			
To Capital A/cs:					
R	14,650				
S	14,650	29,300			
		91,300			**91,300**

Dr. **Patner's Capitals Account** **Cr.**

Particulars	R	S	Particulars	R	S
To Realization A/c (furniture)	5,000	5,000	By Balance b/d	20,000	30,000
To New Firm A/c	32,150	42,150	By General Reserve A/c	2,500	2,500
			By Realization A/c	14,650	14,650
	37,150	**47,150**		**37,150**	**47,150**

Opening Balance Sheet of New Firm as on 1st April, 2011

Liabilities	`	`	Assets	`	`
Capitals:			Goodwill Premises		45,000
P	15,850		Computer		15,000
Q	20,850		Stock		7,000
R	32,150		Debtors		24,000
S	42,150	1,11,000	Bank		19,000
Creditors		9,000	Cash		14,000
Bill Payable		8,000			4,000
		1,28,000			**1,28,000**

3. Following is the Balance Sheet of two firms as at 31st March, 2011.

Liabilities	AB & Co. `	CD & Co. `	Assets	AB & Co. `	CD & Co. `
Capital:			Buildings	–	15,000
A	20,000	–	Premises	20,000	–
B	20,000	–	Furniture	10,000	15,000
C	–	30,000	Stock	15,000	15,000
D	–	30,000	Debtors	10,000	25,000
Creditors	10,000	14,000	Bank	5,000	10,000
Loan	10,000	6,000			
	60,000	**80,000**		**60,000**	**80,000**

It was mutually agreed to amalgamate the business from 1st April, 2011.

Terms of amalgamation were as follows:

(a) Premises was valued at ` 10,000 and computers at ` 12,000.

(b) Furniture of AB & Co. was valued at ` 8,000 and that of CD & Co. was not taken over by new firm.

(c) A reserve of 5% is to be created on debtors.

(d) Goodwill was valued as: M/s AB & Co. at ` 25,000 and that of M/s CD & Co. at ` 30,000.

(e) The new firm also assumed other assets and liabilities of old firm at book value.

(f) The profit sharing ratio in the new books of new firm shall be A – 3; B – 2; C – 3; D – 2.

Show necessary ledger accounts in the books of M/s AB & Co. and prepare Balance Sheet of new firm after amalgamation.

Solution:

Computation of Purchase Consideration

Particulars	AB & Co.	CD & Co.
Assets taken over at received values:		
Building	–	12,000
Premises	10,000	–
Furniture	8,000	–
Stock	15,000	15,000
Debtors	10,000	25,000
Bank	5,000	10,000
Goodwill	25,000	30,000
	73,000	92,000
Less: Liabilities taken over:		
Creditors	3,000	4,000
Loan	2,000	1,000
R.D.D.	500	1,250
Net Assets/Purchase Consideration	**67,500**	**85,750**

Journal Entries in the Books of M/s AB & Co.

	Particulars	L/F	Debit `	Credit `
1.	Realization A/c Dr.		60,000	
	To Premises A/c			20,000
	To Furniture A/c			10,000
	To Stock			15,000
	To Debtors			10,000
	To Bank A/c			5,000
	(Being assets transferred to Realization A/c at book values)			

2.	Creditors Dr. Loan A/c Dr. To Realization A/c (Being liabilities transferred to Realization A/c at book values)		3,000 2,000	 5000
3.	New Firm A/c Dr. To Realization A/c (Being purchase consideration due)		67,500	 67,500
4.	Realization A/c Dr. To A's Capital A/c To B's Capital A/c (Being profit on realization transferred)		12,500	 6,250 6,250
5.	A's Capital A/c Dr. B's Capital A/c Dr. To New Firm A/c (Being final capital balance transferred to New Firm Books)		36,250 31,250	 67,500

Opening Balance Sheet of New Firm as on 1st April, 2011

Liabilities	`	`	Assets	`	`
Capitals:			Goodwill		55,000
A	36,250		Building		12,000
B	31,250		Premises		10,000
C	45,375		Furniture		8,000
D	40,375	1,53,250	Stock		30,000
Creditors		7,000	Debtors		33,250
Loans		3,000	Bank		15,000
		1,63,250			**1,63,250**

Working Note: 1

Ledger Accounts In the Books of CD & Co.

Dr. **Realization Account** **Cr.**

To Sundry Assets A/c (at book value)		80,000	By Sundry Liabilities (Creditors + Loan)		5,000
To Capital A/c			By New firm (P.C.)		85,750
C	12,875		By Partners Capital A/c (furniture realized)		15,000
D	12,875	25,750			
		1,05,750			**1,05,750**

Capital A/c

Particulars	C	D	Particulars	C	D
To Realization A/c	7,500	7,500	By Balance b/d	40,000	35,000
To New Firm A/c	45,375	40,375	By Realization A/c	12,875	12,875
	52,875	**47,875**		**52,875**	**47,875**

4. Mr. A and Mr. B are partners in AB & Co. and Mr. C and Mr. D are partners in CD & Co. It was agreed that on 1st April, 2011 that the old firms be amalgamated into one new firm ABCD & Group. The respective Balance Sheet of the old firms as on 31st March, 2011 were as follows:

Liabilities	AB & Co. ₹	CD & Co. ₹	Assets	AB & Co. ₹	CD & Co. ₹
Capital Accounts:			Buildings	35,000	40,000
A	60,000	--	Furniture	5,000	6,000
B	40,000	--	Motor	15,000	7,000
C	--	45,000	Stock	35,000	27,000
D	--	30,000	Debtors	20,000	20,000
Creditors	25,000	20,000	Bank	15,000	–
Bank Overdraft	–	5,000			
	1,25,000	**1,00,000**		**1,25,000**	**1,00,000**

Profit Sharing Ratio:

	A	B	C	D
Old Firms	3	2	3	2
New Firms	5	4	4	3

Terms and Conditions of Amalgamation:

(a) Provision for doubtful debts @ 5% to be made on debtors.

(b) Liabilities to be taken over at book values.

(c) New firm to take over the assets of old firms as under:

Assets	AB & Co. ₹	CD & Co. ₹
Stock	30,000	20,000
Motor	10,000	5,000
Furniture	3,000	–
Building	45,000	–
Goodwill	40,000	30,000

(g) The capitals of the partners in the firm were ` 2,00,000 to be contributed in the profit sharing ratio, any adjustment to be made in cash.

You are required to prepare necessary ledger accounts in the books of M/s CD & Co. and the opening Balance Sheet of the new firm.

Solution:

Computation of Purchase Consideration

Particulars	AB & Co.	CD & Co.
Assets taken over at received values:		
Building	45,000	40,000
Furniture	3,000	6,000
Motor	10,000	5,000
Stock	30,000	20,000
Debtors	20,000	20,000
Bank	15,000	–
Goodwill	40,000	30,000
	1,63,000	1,21,000
Less: Liabilities taken over:		
Creditors	25,000	20,000
Bank overdraft	–	5,000
R.D.D.	1,000	1,000
Net Assets/Purchase Consideration	**1,37,000**	**95,000**

Ledger Accounts in the Books of M/s CD & Co.

Dr. **Realization Account** **Cr.**

Particulars	`	`	Particulars	`	`
To Sundry Assets A/c:			By Sundry Liabilities		
Building	40,000		Creditors	20,000	
Furniture	6,000		Bank overdraft	5,000	25,000
Motor	7,000		By New Firm A/c (P.C. due)		95,000
Stock	27,000				
Debtors	20,000	1,00,000			
To Partner's Capital A/c:					
A	12,000				
B	8,000	20,000			
		1,20,000			**1,20,000**

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

Particular	C	D	Particular	C	D
To New Firm A/c	57,000	38,000	By Balance b/d	45,000	30,000
			By Realization A/c	12,000	8,000
	57,000	**38,000**		**57,000**	**38,000**

Dr. **New Firm Account** **Cr.**

Particulars	`	Particulars	`
To Realization A/c (P.C. Due)	95,000	By C's Capital A/c	57,000
		By D's Capital A/c	38,000
	95,000		**95,000**

Opening Balance Sheet of New Firm as on 1st April, 2011

Liabilities	`	`	Assets	`	`
Capitals:			Goodwill		70,000
A	62,500		Building		85,000
B	50,000		Furniture		9,000
C	50,000		Motor		15,000
D	37,500	2,00,000	Stock		50,000
Current A/cs:			Debtors		38,000
A	19,700		Bank		15,000
B	4,800				
C	7,000				
D	500	32,000			
Creditors		45,000			
Loan		5,000			
		2,82,000			**2,82,000**

Working Note: 1

Find Adjustment of Capital Balances

Particular	A	B	C	D
(a) Capital balance transferred from old firm	82,000	54,800	57,000	38,000
(b) Required balance in new firm	62,500	50,000	50,000	37,500
Surplus/Deficit to be adjusted transferred to Partner's Loan A/c	19,700	4,800	7,000	500

5. Following is the Balance Sheet of two firms namely M/s A & Co. and M/s C & Co. as at 31st March, 2011.

Liabilities	**M/s A & Co. (`)**	**M/s C & Co. (`)**	**Assets**	**M/s A & Co. (`)**	**M/s C & Co. (`)**
Capitals:	20,000		Land	25,000	30,000
A	20,000	-	Vehicle	15,000	-
B	-	-	Furniture	5,000	15,000
C	-	40,000	Stock	10,000	20,000
D	-	40,000	Debtors	12,000	25,000
General Reserve	15,000	6,000	Bank	3,000	6,000
Creditors	10,000	8,000	Cash	-	4,000
Outstanding Expenses	5,000	6,000			
	70,000	**1,00,000**		**70,000**	**1,00,000**

It was mutually agreed to amalgamate the business from 1st April, 2012.

Terms of amalgamation were as follows:

1. Land was valued at ` 35,000 and ` 40,000 for M/s A & Co. and M/s C & Co. respectively.
2. Vehicle was taken over by Mr. B for ` 10,000.
3. Furniture of M/s C & Co. was not taken over by new firm and that of M/s A & Co. is taken over at book value.
4. A reserve of 5% is to be created on debtors.
5. Goodwill was valued as: M/s A & Co. at ` 30,000 and that of M/s C & Co. at ` 35,000.
6. The new firm also assumed other Assets and Liabilities of old firms at book value.

Show necessary accounts in the books of old firms and the Balance Sheet of new firm M/s. Prem Raj & Co. after amalgamation.

Solution:

Computation of Purchase Consideration

Particulars	**Mr. A & Co.**	**Mr. C & Co.**
Assets taken over at received values:		
Land	35,000	40,000
Furniture	5,000	-----
Stock	10,000	20,000
Debtors	12,000	25,000
Bank	3,000	6,000
Cash balance	-----	4,000
Goodwill	30,000	35,000
	95,000	1,30,000
Less: Liabilities taken over:		
Creditors	10,000	8,000
Outstanding expenses	5,000	6,000
R.D.D.	600	1,250
Net Assets/Purchase Consideration	**79,400**	**1,14,750**

Ledger Accounts in the Books of Ms A & Co.

Dr. **Realization Account** **Cr.**

Particulars	`	`	**Particulars**	`	`
To Sundry Assets A/c			By Sundry Liabilities		
Land	25,000		Creditors	10,000	
Vehicle	15,000		Outstanding expenses	5,000	15,000
Furniture	5,000		By New Firm A/c		79,400
Stock	10,000		By B's capital A/c (vehicle taken over)		10,000
Debtors	12,000				
Bank	3,000	70,000			
To Partner's Capital A/c (profit on realization):					
A	17,200				
B	17,200	34,400			
		1,04,400			**1,04,400**

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

Particulars	A	B	Particulars	A	B
To Realization A/c	------	10,000	By Balance b/d	20,000	20,000
To New Firm A/c	44,700	34700	By General Reserve	7,500	7,500
			By Realization A/c	17,200	17,200
	44,700	**44,700**		**44,700**	**44,700**

Dr. **New Firm Account** **Cr.**

Particulars	`	Particulars	`
To Realization A/c	79,400	By A's Capital A/c	44,700
		By B's Capital A/c	34,700
	79,400		**79,400**

Ledger Accounts in the Books of M/s C & Co.

Dr. **Realization Account** **Cr.**

	`	`		`	`
To Sundry Assets A/c			By Sundry Liabilities:		
Land	30,000		Creditors	8,000	
Furniture	15,000		Outstanding exp.	6,000	14,000
Stock	20,000		By New Firm A/c		1,14,750
Debtors	25,000		By C's capital A/c	7,500	
Bank	6,000		By D's capital A/c (furniture realized)	7,500	15,000
Cash	4,000	1,00,000			
To Partner's Capital A/cs (profit on realization):					
C	21,875				
D	21,875	43,750			
		1,43,750			**1,43,750**

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

Particulars	W	H	Particulars	W	H
To Realization A/c	7,500	7,500	By Balance b/d	40,000	40,000
To New Firm A/c	57,375	57,375	By General Reserve	3,000	3,000
			By Realization A/c	21,875	21,875
	64,875	**64,875**		**64,875**	**64,875**

Dr. **New Firm Account** **Cr.**

Particulars	`	Particulars	`
To Realization A/c	1,14,750	By C's Capital A/c	57,375
		By D's Capital A/c	57,375
	1,14,750		**1,14,750**

Opening Balance Sheet of New Firm as on 1st April, 2011

Liabilities	`	`	Assets	`	`
Capitals:			Goodwill		65,000
A	44,700		Land		75,000
B	34,700		Furniture		5,000
C	57,375		Stock		30,000
D	57,375	1,94,150	Debtors		35,150
Creditors		18,000	Bank		9,000
Outstanding expenses		11,000	Cash		4,000
		2,23,150			**2,23,150**

6. M/s M & Co. having M and N as partners decided to amalgamate with M/s R & Co. having R and S as partners on the following terms and conditions:

   The following are the Balance Sheets of both the firms on the date of amalgamation:

Liabilities	M & Co. `	R & Co. `	Assets	M & Co. `	R & Co. `
Creditors	25,000	10,000	Cash	15,000	10,000
Bills Payable	5,000	-	Investments	15,000	10,000
Loans:			Debtors	15,000	26,000
M	5,000	-	Furniture	10,000	10,000
R	-	10,000	Premises	25,000	-
Reserves	10,000	5,000	Land	-	29,000
Capital:			Machinery	15,000	
M	35,000		Goodwill	10,000	
N	25,000				
R		35,000			
S		25,000			
	1,05,000	**85,000**		**1,05,000**	**85,000**

The new firm to take over investments at 15% depreciation; debtors at book value; premises at ` 35,000; land at ` 50,000; machinery at ` 10,000; such cash which remained after discharge of partners' loans by the respective old firms before amalgamation.

The new firm also assumed other liabilities of old firms.

The new firm M/s MNRS & Co. to consider goodwill of both the firms at ` 20,000 each.

You are required to close the books of M/s M & Co. and M/s R & Co. by preparing following ledger accounts: Realization Account, Partners' Capital Accounts and New Firms' Account.

Solution:

Computation of Purchase Consideration

Particulars	**M/s M & Co.**	**M/s R & Co.**
Assets taken over at received values:		
Goodwill	20,000	20,000
Machinery	10,000	–
Land	–	50,000
Premises	35,000	–
Furniture	10,000	10,000
Debtors	15,000	26,000
Investments	12,750	8,500
Cash	10,000	–
	1,12,750	1,14,500
Less: Liabilities taken over:		
Creditors	25,000	10,000
Bill Payable	5,000	–
Net Assets/Purchase Consideration	**82,750**	**1,04,500**

Ledger Accounts in the Book of Old Firm
M/s M & Co.

Dr. Realization Account Cr.

Particulars	`	`	Particulars	`	`
To Sundry Assets:			By Sundry Liabilities:		
Cash	10,000		Creditors	25,000	
Investment	15,000		Bill Payable	5,000	30,000
Debtors	15,000		By New Firm A/c (P.C. Due)		82,750
Furniture	10,000				
Premises	25,000				
Machinery	15,000				
Goodwill	10,000	1,00,000			
To P. Capital A/c:					
M	9,563				
N	3,187	12,750			
		1,12,750			**1,12,750**

Dr. Partner's Capital Accounts Cr.

Particulars	M	N	Particulars	M	N
To New Firm A/c	52,063	30,687	By Balance b/d	35,000	25,000
			By Reserves	7,500	2,500
			By Realization A/c	9,563	3,187
	52,063	**30,687**		**52,063**	**30,687**

Dr. New Firm Account Cr.

Particulars	`	Particulars	`
To Realization A/c	82,750	By M's Capital A/c	52,063
		By N's Capital A/c	30,687
	82,750		**82,750**

Dr. **Realization Account** **Cr.**

Particulars	`	`	Particulars	`	`
To Sundry Assets A/c:			By sundry Liabilities A/c:		
Cash (10,000 – 10,000)	–		Creditors		10,000
Investment	10,000		By New Firm A/c		1,04,500
Debtor	26,000				
Furniture	10,000				
Land	29,000	75,000			
To Partner's Capital A/c:					
R	19,750				
S	19,750	39,500			
		1,14,500			**1,14,500**

Dr. **Partner's Capital Accounts** **Cr.**

Particulars	R	S	Particulars	R	S
To New Firm A/c	57,250	47,250	By Balance b/d	35,000	25,000
			By Reserves	2,500	2,500
			By Realization A/c	19,750	19,750
	57,250	**47,250**		**57,250**	**47,250**

Dr. **New Firm Account** **Cr.**

Particulars	`	Particulars	`
To Realization A/c	1,04,500	By P's Capital A/c	57,250
		By S's Capital A/c	47,250
	1,04,500		**1,04,500**

7. Two independent firms carrying on similar business under the name and style of M/s Jay & Co. and M/s Viru & Co. decided to amalgamate and form M/s Gabber & Co. on 1st January 2012; when their respective Balance Sheets were as follows:

Liabilities	Mr. Jay & Co. `	Mr. Viru & Co. `	Assets	Mr. Jay & Co. `	Mr. Viru & Co. `
Capital:			Furniture	10,500	9,000
A	60,000	–	Buildings	60,500	21,000
B	30,000	–	Investments	–	15,000
C	–	40,000	Stock	30,000	20,000
D	–	20,000	Debtors	20,000	35,000
Creditors	35,000	45,000	Cash at Bank	9,000	15,000
Loan	5,000	10,000			
	1,30,000	**1,15,000**		**1,30,000**	**1,15,000**

Terms of Amalgamations were as under:

In case of M/s Jay & Co.:

(a) Goodwill was valued at ` 20,000.

(b) Buildings were taken to be worth ` 75,000.

(c) Stock was taken to be worth ` 22,000.

(d) Provision for doubtful debts to be created at 5% on sundry debtors.

In case of M/s Viru & Co.:

(a) Goodwill was valued at ` 25,000.

(b) C and D should pay off their loan.

(c) Investments not to be taken over by the new firm.

(d) Stock was valued at ` 17,000.

(e) Of the Debtors, 5% may be provided as doubtful debts reserve.

It was further decided that:

(a) Total capital of the new firm shall be ` 1,50,000 and the capital of each partner shall be in profit sharing proportion, i.e., 3 : 2 and 3 : 2. Difference to be transferred to their current accounts.

(b) Goodwill account in the new firm shall be written off.

Close the books of two firms by realization method and show the Balance Sheet of the new firm. Pass necessary journal entries also.

Solution:

Computation of Purchase Consideration

Particulars	M/s Jay & Co.	M/s Viru & Co.
Assets taken over at received values:		
Furnitures	10,500	9,000
Building	75,000	21,000
Stock	22,000	17,000
Debtors	20,000	35,000
Cash at bank	9,000	15,000
Goodwill	20,000	25,000
	1,56,500	1,22,000
Less: Liabilities taken over:		
Creditors	35,000	45,000
Loans	5,000	–
R.D.D.	1,000	1,750
Net Assets/(Purchase Consideration)	**1,15,500**	**75,250**

Ledger Accounts in the Books of M/s Jay & Co.

Dr. **Realization Account** **Cr.**

Particulars	`	`	Particulars	`	`
To Sundry Assets:			By Sundry Liabilities:		
Furniture	10,500		Creditors	35,000	
Building	60,500		Loan	5,000	40,000
Stock	30,000		By New Firm A/c		1,15,500
Debtors	20,000				
Cash	9,000	1,30,000			
To Partner's A/cs:					
A	12,750				
B	12,750	25,500			
		1,55,500			**1,55,500**

Dr. **Partner's Capital Accounts** **Cr.**

Particulars	Mr. Jay & Co.	M/s Viru & Co.	Particulars	Mr. Jay & Co.	M/s Viru & Co.
To New Firm A/c	72,750	42,750	By Balance b/d	60,000	30,000
			By Realization A/c	12,750	12,750
	72,750	**42,750**		**72,750**	**42,750**

Dr. **New Firm Account** **Cr.**

Particulars	`	Particulars	`
To Realization A/c (P.C. Due)	1,15,500	By A's Capital A/c	72,750
		By B's Capital A/c	42,750
	1,15,500		**1,15,500**

Journal Entries in the Books of M/s Jay & Co.

Date	Particulars		L/F	Debit `	Credit `
1	Realization A/c	Dr.		1,30,000	
	To Furniture's A/c				10,500
	To Building A/c				60,500
	To Stock A/c				30,000
	To Debtors A/c				20,000
	To Cash at Bank A/c				9,000
	(Being assets transferred to Realization A/c at book values)				
2	Creditors A/c	Dr.		35,000	
	Loan A/c	Dr.		5,000	
	To Realization A/c				40,000
	(Being liabilities transferred to Realization A/c at book values)				
3	New Firm A/c	Dr.		1,15,500	
	To Realization A/c				1,15,500
	(Being purchase consideration due)				
4	Realization A/c	Dr.		25,500	
	To A's Capital A/c				12,750
	To B's Capital A/c				12,750
	(Being profit on realization transferred to Partner's Capital A/c)				
5	A's Capital A/c	Dr.		72,750	
	B's Capital A/c	Dr.		42,750	
	To New Firm A/c				1,15,500
	(Being final balance of Capital A/c transferred to New Firm A/c				

Ledger Accounts in the Books of M/s Viru & Co.

Dr. **Realization Account** **Cr.**

Particulars	`	`	Particulars	`	`
To Sundry Assets:			By Sundry Liabities:		
Furniture's	9,000		Creditors	45,000	
Building	21,000		Loan	10,000	55,000
Investment	15,000		By New Firm A/c (P.C. Due)		65,250
Stock	20,000		By C's Capital A/c	7,500	
Debtors	35,000		By D's Capital A/c	7,500	15,000
Cash at bank	5,000	10,5000			
To Cash/Bank (loan paid)		10,000			
To Partner's Capital A/cs:					
A	10,125				
B	10,125	20,250			
		1,35,250			**1,35,250**

Dr. **Partner's Capital Accounts** **Cr.**

Particulars	A	B	Particulars	A	B
To Realization A/c (Investment realized)	7,500	7,500	By Realization b/d	40,000	20,000
To New Firm A/c	42,625	22,625	By Realization A/c	10,125	10,125
	50,125	**30,125**		**50,125**	**30,125**

Dr. **New Firm Account** **Cr.**

Particulars	`	Particulars	`
To Realization A/c (P.C. Due)	65,250	By C's Capital A/c	42,625
		By D's Capital A/c	22,625
	65,250		**65,250**

Journal Entries in the Books of M/s Viru & Co.

Date	Particulars		L/F	Debit `	Credit `
1	Realization A/c	Dr.		1,05,000	
	To Furniture A/c				9,000
	To Building A/c				21,000
	To Investment A/c				15,000
	To Stock A/c				20,000
	To Debtors A/c				35,000
	To Cash at Bank A/c				5,000
	(Being assets transferred to Realization A/c at book values)				
2	Creditors A/c	Dr.		45,000	
	Loans A/c	Dr.		10,000	
	To Realization A/c				55,000
	(Being liabilities transferred)				
3	New Firm A/c	Dr.		65,250	
	To Realization A/c				65,250
	(Being purchase consideration due)				
4	Realization A/c	Dr.		10,000	
	To Cash/Bank A/c				10,000
	(Being loan repaid)				
5	C's Capital A/c	Dr.		7,500	
	D's Capital A/c	Dr.		7,500	
	To Realization A/c				15,000
	(Being investment realized)				
6	Realization A/c	Dr.		20,250	
	To C's Capital A/c				10,125
	To D's Capital A/c				10,125
	(Being profit on realization transferred to Partner's Capital Accounts)				
7	C's Capital A/c	Dr.		42,625	
	D's Capital A/c	Dr.		22,625	
	To New Firm A/c				65,250
	(Being capital balance transferred)				

Opening Entries in the Books of New Firm

Date	Particulars		L/F	Debit (`)	Credit (`)
1	Goodwill A/c	Dr.		20,000	
	Furniture A/c	Dr.		10,500	
	Buliding A/c	Dr.		75,000	
	Stock A/c	Dr.		22,000	
	Debtors A/c	Dr.		20,000	
	Cash at Bank A/c	Dr.		9,000	
	To Creditors A/c				35,000
	To Loans A/c				5,000
	To R.D.D. A/c				1,000
	To A's Capital A/c				72,750
	To B's Capital A/c				42,750
	(Being assets and liabilities of M/s Jay & Co. taken over)				
2	Furniture A/c	Dr.		9,000	
	Goodwill A/c	Dr.		25,000	
	Building A/c	Dr.		21,000	
	Stock A/c	Dr.		17,000	
	Debtors A/c	Dr.		35,000	
	Cash at Bank A/c	Dr.		5,000	
	To creditors A/c				45,000
	To R.D.D. A/c				1,750
	To C's Capital A/c				42,625
	To D's Capital A/c				22,625
	(Being assets and liabilities of M/s Viru & Co. taken over)				
3	A's Capital A/c	Dr.		13,500	
	B's Capital A/c	Dr.		9,000	
	C's Capital A/c	Dr.		13,500	
	D's Capital A/c	Dr.		9,000	
	To Goodwill A/c				45,000
	(Being goodwill written off in new)				
4	A's Capital A/c	Dr.		14,250	
	B's Capital A/c	Dr.		3,750	
	To A's Current A/c				14,250
	To B's Current A/c				3,750
	(Being surplus in Capital A/c transferred to Current A/c)				
5	C's Current A/c	Dr.		15,875	
	D's Current A/c	Dr.		16,375	
	To C's Capital A/c				15,875
	To D's Capital A/c				16,375
	(Being deficit in Capital A/c adjust from Current A/c)				

Capital Adjustment in the Books of New Firm

Sr. No.	Particulars	A	B	C	D
(a)	Balance transferred from old firm	72,750	42,750	42,625	22,625
(b)	Goodwill written off	13,500	9,000	13,500	9,000
(c)	Adjusted capital	59,250	33,750	29,125	13,625
(d)	Required capital in new firm	45,000	30,000	45,000	30,000
(e)	Surplus/deficit adjusted through Current A/c	14,250	3,750	(15,875)	(16,375)

Balance Sheet of New Firm as on 1st Jan. 2012

Liabilities	`	`	Assets	`	`
Capital A/cs:			Furnitures		19,500
A	45,000		Building		96,000
B	30,000		Stock		39,000
C	45,000		Debtors		52,250
D	30,000	1,50,000	Cash at bank		14,000
Current A/cs:			Current A/c:		
A	14,250		C	15,875	
B	3,750	18,000	D	16,375	32,250
Creditors		80,000			
Loans		5,000			
		2,53,000			**2,53,000**

8. M/s AB & Co. having partners A and B, sharing profits and losses in the proportion of 2 : 1. They agreed to amalgamate their business with the business of Mr. C as on 31st December 2011. Their respective Balance Sheets as on 31st December, 2011 were as under:

Liabilities	AB & Co. `	Mr. C `	Assets	AB & Co. `	Mr. C `
Capitals:			Premises	80,000	45,000
A	2,50,000	–	Machinery	2,00,000	70,000
B	1,25,000	–	Stock	35,000	17,000
C	–	1,50,000	Bank Balance	45,000	15,000
Creditors	50,000	45,000	Debtors	75,000	55,000
Bills Payable	10,000	7,000			
	4,35,000	**2,02,000**		**4,35,000**	**2,02,000**

Terms of amalgamation were as under:

1. All the partners shall share future profits and losses in the equal proportion.
2. Goodwill is to be revalued at 3 times the average profit of the last three years which were ` 2,40,000 in aggregate and ` 1,25,000 of C in aggregate. It was decided to adjust the goodwill in Partner's Capital Accounts.
   (a) Following revaluations are to be considered for transferring to the new firms:

   Machinery to be revalued at ` 1,70,000 and ` 56,000 for AB & Co. and Mr. C respectively.

   R.D.D. to be created at 5% on debtors of both the firms.
3. The above adjustments should be regarded as affecting the aggregate profit of the last 3 years for the purpose of calculation of goodwill.
4. Premises of AB & Co. was taken over by Mr. B at an agreed value of ` 65,000.
5. C's premises was revalued at ` 50,000.

Prepare Partner's Capital Accounts recording the effect of amalgamation and prepare the opening Balance Sheet of the new firm.

Solution:

Computation of Purchase Consideration

Particulars	AB & Co.	Mr. C
Assets taken over at received values:		
Building	55,000	–
Furniture	10,500	7,500
Stock	30,000	22,500
Debtors	10,000	–
Bank	41,000	–
Cash	–	10,000
Goodwill	60,000	20,000
	2,06,500	60,000
Less: Liabilities taken over:		
Creditors	13,000	11,000
Net Assets/Purchase Consideration	**1,93,500**	**49,000**

Ledger Accounts in the Books of M/s AB & Co.

Dr. Realization Account Cr.

Particulars	`	`	Particulars	`	`
To Sundry Assets:			By Sundry Liabilities:		
Building	40,000		Creditor	13,000	
Furniture	12,000		R.D.D.	1,000	14,000
Stock	30,000		By New Firm A/c		1,93,500
Debtor	12,000				
Bank balance	41,000	1,35,000			
To partner's Capital A/cs (profit):					
A	36,250				
B	36,250	72,500			
		2,07,500			**2,07,500**

Dr. Partner's Capital Accounts Cr.

Particulars	A	B	Particulars	A	B
To New Firm A/c	1,03,250	90,250	By Balance b/d	50,000	40,000
			By Current A/c	17,000	14,000
			By Realization A/c	36,250	36,250
	1,03,250	**90,250**		**1,03,250**	**90,250**

Dr. New Firm Account Cr.

Particulars	`	Particulars	`
To Realization A/c (P.C New)	1,93,500	By A's Capital A/c	1,03,250
		By B's Capital A/c	90,250
	1,93,500		**1,93,500**

Ledger Accounts in the Books of Mr. C

Dr. Realization Account Cr.

Particulars	`	`	Particulars	`	`
To Sundry Assets:			By Sundry Liabilities:		
Cash	10,000		Loan from D	10,000	
Furniture	7,500		Creditors	8,000	
Stock	22,500		Bank overdraft	2,000	20,000
Debtors	24,000	64,000	By New Firm		49,000

To Cash A/c:			By Cash A/c (Debtor Realized)		22,000
D's Loan	10,000				
Bank Overdraft	2,000	12,000			
To C's Capital A/c		15,000			
		91,000			**91,000**

Dr. **Mr. C's Capital Account** **Cr.**

Particulars	`	Particulars	`
To New Firm A/c	49,000	By Balance b/d	30,000
		By Current A/c	4,000
		By Realization A/c	15,000
	49,000		**49,000**

Dr. **New Firm Account** **Cr.**

Particulars	`	Particulars	`
To Realization A/c (P.C. Due)	49,000	By C's Capital A/c	49,000
	49,000		**49,000**

Statement showing Adjustment of Capital Balance

Particulars	A	B	C
Balance transferred from old firm	1,03,250	90,250	49,000
Required capital in new firm	1,00,000	50,000	50,000
Surplus/deficit to be transferred to Loan A/c	3,250	40,250	1,000

Opening Balance Sheet of New Firm as on 21st March, 2011

Liabilities	`	`	Assets	`	`
Capitals:			Goodwill		80,000
A	1,00,000		Building		55,000
B	50,000		Furniture		18,000
C	50,000	2,00,000	Stock		52,500
Partner's Loan:			Debtors		10,000
A	3,250		Bank Balance		41,000
B	40,250	43,500	Cash		10,000
Creditors		24,000	C's Loan A/c		1,000
		2,67,500			**2,67,500**

9. M/s White & Co. and M/s Red & Co. doing similar business decided to amalgamate into Pink & Co. with effect from 1st April, 2012. Their respective Balance Sheets as on 31st March, 2012 were as under:

Liabilities	White & Co. `	Red & Co. `	Assets	White & Co. `	Red & Co. `
B's Capital	40,000		Goodwill	–	20,000
C's Capital		25,000	Plant	23,000	–
D's Capital		15,000	Stock	34,000	9,000
Creditors	20,000	26,000	Debtors	17,000	15,000
Bank Overdraft	21,000	–	Cash	–	10,000
			Bank	–	12,000
			A's Capital	7,000	–
	81,000	**66,000**		**81,000**	**66,000**

The following further information is given:

(a) C & D share profits and losses in the proportion of 2 : 1.

(b) Goodwill of White & Co. is fixed at ` 30,000 and that of Red & Co. at ` 45,000. It was decided that the goodwill should be written off in the books of new firm.

(c) White & Co. owes ` 12,000 to Red & Co.

(d) Stock of White & Co. includes ` 15,000 worth of goods purchased from Red & Co. whose practice is to sell goods at cost plus 25%.

(e) The two pairs of partners as between themselves will share profits in the ratio of 2 : 1 but net profit sharing amongst the partners will remain undisturbed.

(f) Mr. B will make a gift of ` 12,000 to Mr. A towards his capital.

(g) The total capital of Pink & Co. will be ` 1,00,000. Each partner will contribute his proportionate capital. Adjustment to be made on cash.

Give Journal entries in the books of Red & Co. and Opening Balance Sheet of Pink & Co.

Solution:

Computation of Purchase Consideration

Particulars	White & Co.	Red & Co.
Assets taken over at received values:		
Goodwill	30,000	45,000
Plant	23,000	

Stock	34,000	9,000
Debtors	17,000	15,000
Cash	–	10,000
Bank	–	12,000
	1,04,000	91,000
Less: Liabilities taken over:		
Creditors	20,000	26,000
Bank Overdraft	21,000	–
Net Asset/Purchase Consideration	**63,000**	**65,000**

Journal Entries in the Books of Red

Date	Particulars		L/F	Debit `	Credit `
1	Realization A/c	Dr.		66,000	
	To Goodwill A/c				20,000
	To Stock A/c				9,000
	To Debtors A/c				15,000
	To Cash A/c				10,000
	To Bank A/c				12,000
	(Being assets transferred to Realization A/c of book values)				
2	Creditors A/c	Dr.		26,000	
	To Realization A/c				26,000
	(Being creditors transferred to Realization A/c)				
3	Pink & Co. A/c	Dr.		65,000	
	To Realization A/c				65,000
	(Being purchase consideration recovered)				
4	Realization A/c	Dr.		25,000	
	To C's Capital A/c				16,667
	To D's Capital A/c				8,333
	(Being profit on realization transferred to Partner's Capital A/c)				
5	C's Capital A/c	Dr.		41,667	
	D's Capital A/c	Dr.		23,333	
	To Pink & Co. A/c				65,000
	(Being final capital balance transferred to New Firm A/c)				

Working Note:

Ledger Accounts in the Books of M/s White & Co.

Dr. **Realization Account** **Cr.**

Particulars	₹	₹	**Particulars**	₹	₹
To Sundry Assets A/c:			By Sundry Liabilities:		
Plant	23,000		Creditors	20,000	
Stock	34,000		Bank Overdraft	21,000	41,000
Debtors	17,000	81,000	By Pink & Co. A/c		63,000
To Partner Capital A/c (profit on realization):					
A					
B		23,000			
		1,04,000			**1,04,000**

Dr. **Partner's Capital Accounts** **Cr.**

Particulars	₹	₹	**Particulars**	₹	₹
To Balance b/d	7,000	–	By Balance b/d	–	40,000
To A's Capital A/c	–	12,000	By B's Capital A/c	12,000	–
To Pink & Co. A/c	20,000	43,000	By Realization A/c	15,000	15,000
	27,000	**55,000**		**27,000**	**55,000**

Dr. **New Firm Account** **Cr.**

Particulars	₹	**Particulars**	₹
To Realization A/c	63,000	By A's Capital A/c	20,000
		By B's Capital A/c	43,000
	63,000		**63,000**

In the Book of Red & Co. Realization Account

Particulars	`	`	Particulars	`	`
To Sundry Assets A/c:			By Sundry Liabilities:		
Goodwill	20,000		By Creditors A/c		26,000
Stock	9,000		By Pink & Co. A/c (P.C. Due)		65,000
Debtor	15,000				
Cash	10,000				
Bank	12,000	66,000			
To Partner's Capital A/c:					
C	16,667				
D	8,333	25,000			
		91,000			**91,000**

Dr. **Partner's Capital Accounts** **Cr.**

Particulars	C	D	Particulars	C	D
To Pink & Co. A/c	41,667	23,333	By Balance b/d	25,000	15,000
				16,667	8,333
	41,667	**23,333**		**41,667**	**23,333**

Dr. **New Firm Account** **Cr.**

Particulars	`	Particulars	`
To Realization A/c	65,000	By C's Capital A/c	41,667
		By D's Capital A/c	23,333
	65,000		**65,000**

Statement showing Adjustment of Capital

Sr. No.	Particulars	A	B	C	D
(a)	Balance transferred from old firm	10,000	43,000	41,667	23,333
(b)	Goodwill written off	3,000	13,000	34,667	17,333
(c)	Adjusted capital	7,000	30,000	7,000	6,000
(d)	Required capital in new firm	16,667	16,666	44,445	22,222
(e)	Surplus/deficit to be adjusted in cash	(9,667)	13,334	(37,445)	(16,222)

Pink & Co.
Balance Sheet as on 1st April, 2012

Liabilities	`	`	Assets	`	`
Capital:			Plant		23,000
A	16,667		Stock (43,000 – 3,000)		40,000
B	16,666		Debtors (17,000 + 15,000 – 12,000)		20,000
C	44,445		Bank		12,000
D	22,222	1,00,000	Cash (10,000 + 9,667 + 37,445 + 16,222 – 13,334)		60,000
Bank overdraft		21,000			
Creditors (20,000 + 26,000 – 12,000)		34,000			
		1,55,000			**1,55,000**

10. A and B and C and D are the partners of AB & Co. and CD & Co. respectively. C and D are sharing in the ratio of 2 : 1 and A and B are sharing in equal proportion. Their Balance Sheets 31st December, 2011 were as under:

Liabilities	AB & Co. `	CD & Co. `	Assets	AB & Co. `	CD & Co. `
Capitals:			Buildings	70,000	30,000
A	1,00,000	–	Machinery	40,000	35,000
B	1,00,000	–	Furniture	5,000	30,000
C	–	80,000	Stock	30,000	20,000
D	–	60,000	Debtors	80,000	30,000
Reserves	20,000	10,000	Bank	20000	10,000
Creditors	20,000	–	Cash	5,000	5,000
Loans:					
X	10,000	–			
Y	–	10,000			
	2,50,000	**1,60,000**		**2,50,000**	**1,60,000**

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

Terms of Amalgamation:

(a) The new firm shall take over all the assets and liabilities of both the firms subject to following revaluations:

AB & CO. – Buildings ` 75,000, Machinery ` 30,000, Stock ` 22,000

CD & Co. – Machinery ` 27,000, Stock ` 15,000.

(b) Provision for doubtful debts shall be made @ 5% on Debtors.

(c) Goodwill is to be valued at 2 year's purchase of last four year's average profits.

The aggregate profits for the last four years were ` 2,50,000 and ` 2,00,000 of AB & CO. and CD & Co. respectively.

You are required to:

(a) Pass journal entries in the books of both the firms.

Solution:

Computation of Purchase Consideration

Particulars	AB & Co.	CD & Co.
Assets taken over at revised values:		
Building	75,000	30,000
Machinery	30,000	27,000
Furniture	5,000	30,000
Stock	22,000	15,000
Debtors	80,000	30,000
Bank	20,000	10,000
Cash	5,000	5,000
Goodwill	1,25,000	1,00,000
	3,62,000	2,47,000
Less: Liabilities taken over:		
Creditors	20,000	–
X's Loan	10,000	–
Y's Loan	–	10,000
R.D.D.	4,000	1,500
Net Assets/Purchase Consideration	**3,28,000**	**2,35,500**

Journal Entries in the Books of AB & Co.

Date	Particulars		L/F	Debit ₹	Credit ₹
1	Realization A/c To Building A/c To Machinery To Furniture A/c To Stock A/c To Debtors To Bank A/c To Cash A/c (Being assets transferred to realization A/c at book value)	Dr.		2,50,000	 70,000 40,000 5,000 30,000 80,000 20,000 5,000
2	Creditors A/c X's Loan A/c To Realization A/c (Being liabilities transferred to Realization A/c at book value)	Dr. Dr.		20,000 10,000	 30,000
3	ABCD & Co. A/c To Realization A/c (Being purchase consideration recorded)	Dr.		3,28,000	 3,28,000
4	Realization A/c To A's Capital A/c To B's Capital A/c (Being profit on realization transferred to Capital A/c)	Dr.		1,08,000	 54,000 54,000
5	A's capital A/c B's capital A/c To ABCD & Co. A/c (Being final capital transferred to New Firm A/c)	Dr. Dr.		1,64,000 1,64,000	 3,28,000

Journal Entries in the Books of CD & Co.

Date	Particulars		L/F	Debit ₹	Credit ₹
1.	Realization A/c To Building A/c To Machinery A/c To Furniture A/c To Stock A/c To Detors A/c	Dr.		1,60,000	 30,000 35,000 30,000 20,000 30,000

	To Bank A/c To Cash A/c (Being assets transferred to realization at their book value)			10,000 5,000
2.	Y's Loan A/c Dr. To Realization A/c (Being Y's loan transferred to Realization A/c)		10,000	 10,000
3.	Reserves A/c Dr. To C's Capital A/c To D's Capital A/c (Being accumulated reserves distributed between the partners)		10,000	 5,000 5,000
4.	ABCD & Co. A/c Dr. To Realization A/c (Being purchase consideration recorded)		2,35,500	 2,35,500
5.	Realization A/c Dr. To C's Capital A/c To D's Capital A/c (Being profit on realization transferred to Partner's Capital A/c)		85,500	 42,750 42,750
6.	C's Capital A/c Dr. D's Capital A/c Dr. To ABCD & Co. A/c (Being final capital balance transferred to ABCD & Co. Books)		1,27,750 1,07,750	 2,35,500

Exercise

1. Jay & Co. consisting of Jay and Vijay as partners sharing profits and losses in equal proportion and Viru & Co. consisting of Jay and Suresh as partners decide to amalgamate their business with effect from 31st December 2011 on which date their respective Balance Sheet stood as under:

Liabilities	Jay & Co. ₹	Viru & Co. ₹	Assets	Jay & Co. ₹	Viru & Co. ₹
Capitals:			Furniture	4,000	10,000
Jay	20,000	50,000	Motor Car	20,000	16,000
Vijay	20,000	–	Goodwill	–	24,000
Suresh	–	10,000	Stock	16,000	50,000
Reserve	–	4,000	Debtors	16,000	4,000

Creditors	16,000	30,000	Investments:		
Bills Payable	4,000	26,000	Shares in Z Ltd.	–	10,000
			Cash at Bank	4,000	16,000
	60,000	**1,20,000**		**60,000**	**1,20,000**

Notes:

(a) Jay & Co. owes ` 2,000 to Viru & Co.

(b) On the above date, the investments held by Z & Co. in Z Ltd. were realized at a premium of 20%. These had earlier been fully written off in addition to the Reserve created owing to the shares being partly paid.

(c) Goodwill of X & Co. was to be valued at Nil.

Show journal entries in the books of new amalgamated firm to record the opening entries and close the books of the old firms.

2. Two firms Ramesh & Co. and Dinesh & Co. agreed to amalgamate their business. Their position as on 31st December, 2011 were as follows:

Balance Sheet of Ramesh & Co.
as at 31st December, 2011

Liabilities	`	Assets	`
Creditors	1,50,000	Cash at Bank	1,20,000
Capitals:		Debtors	1,50,000
P	1,80,000	Stock	40,000
Q	1,20,000	Building	1,10,000
		Furniture	30,000
	4,50,000		**4,50,000**

Balance Sheet of Dinesh & Co.
as at 31st December, 2011

Liabilities	`	Assets	`
Creditors	75,000	Cash at Bank	90,000
Capitals:		Debtors	1,30,000
R	1,20,000	Stock	30,000
S	80,000	Furniture	25,000
	2,75,000		**2,75,000**

Creditors of Ramesh & Co. and Debtors of Dinesh & Co. were not taken over by the new firm called Suresh & Co. Building was retained by Ramesh & Co. but the new firm agreed to pay a monthly rent of ` 2,000. The cash for working of the new firm was estimated at ` 1,60,000 to be provided by the partners in their new profit sharing ratio which was as under:

P – 3, Q – 2, R – 3 and S – 2.

Close the books of the old firms and give opening Balance Sheet of Suresh & Co.

3. The Balance Sheets of the two firms as on 31st December, 2011 were as follows:

Liabilities	X & Co. `	Z & Co. `	Assets	X & Co. `	Z & Co. `
Capitals:			Cash	13,500	7,500
A	1,50,000	–	Investments	16,500	–
B	1,25,000	–	Debtors	40,000	30,000
C	–	1,20,000	Stock	1,50,000	1,20,000
D	–	80,000	Furniture	30,000	20,000
Creditors	50,000	25,000	Machinery	1,00,000	1,10,000
Outstanding Expenses	5,000	2,500			
Loan	–	50,000			
Reserve	20,000	10,000			
	3,50,000	**2,87,500**		**3,50,000**	**2,87,500**

A and B shared profits and losses in the proportion of 3 : 2.

(a) The two firms decided to amalgamate as from 1st January, 2012 on the following terms and conditions:

(b) Goodwill of X & Co. was valued at ` 1,00,000 and that of Z & Co. at ` 50,000.

(c) The new firm would not take over the investments of X & Co. and the loans of Z & Co.

(d) A provision for doubtful debts at 5% on Debtors of both the firms and also a provision for discount at 2% on Creditors of both the firms be made.

(e) An unrecorded asset with Z & Co. valued at ` 5,000 was not taken over by the new firm.

(f) Other assets to be revalued as under:

	X & Co.	**Z & Co.**
Stock	1,35,000	95,000
Furniture	25,000	17,000
Machinery	90,000	75,000

Give accounts to close the books of the old firms; and Opening Balance Sheet of the new firm.

4. Mr. A and Mr. B, the two sole traders doing similar business decided to amalgamate their business and conduct their business under the name of AB & Co.:

Liabilities	Mr. A `	Mr. B `	Assets	Mr. A `	Mr. B `
Capital	1,00,000	75,000	Land	42,000	35,000
Reserves	12,000	4,000	Machinery	25,000	18,000
Creditors	25,000	12,000	Stock	19,000	15,000
Bank Overdraft	–	7,000	Debtors	29,000	20,000
			Investment	12,000	10,000
			Cash	10,000	–
	1,37,000	**98,000**		**1,37,000**	**98,000**

All the assets and liabilities were taken over by the newly formed partnership firm expect the following revaluations:

(a) Mr. A's Machinery and Debtors are to be valued at ` 20,000 and ` 25,000 respectively.

(b) Mr. B's investments were taken over by Mr. B at an agreed value of ` 7,000.

(c) Mr. B's stock was to be valued at ` 13,000.

(d) It was decided to create a R.D.D. @ 5% on the debtors of both the firm.

(e) The capitals of A and B should be ` 1,00,000 and ` 75,000 respectively in the books of the partnership firm, any difference is to be adjusted through cash.

Close the books of the sole traders and open the books of partnership firm by preparing necessary ledger accounts in the books of sole traders and opening balance sheet in the books of partnership firm.

5. Following were the Balance Sheets as on 31st December, 2011 of two firms, M/s PQ & Co. and M/s RS & Co.

Liabilities	M/s PQ & Co. `	M/s RS & Co. `	Assets	M/s PQ & Co. `	M/s RS & Co. `
Capitals:			Cash at Bank	5,600	7,000
P	40,000	–	Stock	20,400	18,000
Q	20,000	–	Debtors	15,000	20,000
R	–	15,000	Furniture	4,000	5,000
S	–	15,000	Building	40,000	–

Creditors	15,000	20,000			
Mrs. P's Loan	10,000	–			
	85,000	**50,000**		**85,000**	**50,000**

The two firms decided to amalgamate their business as from 1st January, 2012. For this purpose, it was agreed that Mrs. P's Loan should be repaid by the old firm. Goodwill of M/s PQ & Co. was fixed at ` 15,000 and that of M/s RS & Co. at ` 20,000. Building was revalued at ` 50,000. The stock of M/s PQ & Co. was found overvalued by ` 5,000, whereas stock of M/s RS & Co. was undervalued by ` 4,000.

Furniture of M/s PQ and Co. was not taken over by new firm, whereas the furniture of other firm was taken over at book value.

The total capital of the new firm was to be ` 1,00,000 and the capital of each partner was to be equal in the books of new firm. Adjustments to be made through their current accounts. Prior to that, Goodwill Account in the new firm was to be written off.

Prepare Realization Account, Partner's Capital Account in the books of M/s PQ & Co. and Opening Balance Sheet of New firm.

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