

3. ADVANCED CONCEPTS RELATING WITH DISSOLUTION OF PARTNERSHIP FIRMS**ASSIGNMENT SOLUTIONS****PROBLEM NO: 1**

Adjustment for raising & writing off of Good will

Goodwill raised in old firms			Total (Rs.)		Written off new ratio (Rs.)		Difference (Rs.)	
Partner	S & co (Rs.)	T & co (Rs.)						
B	45,000	-	45,000	Cr	55,000	Dr	10,000	Dr
S	15,000	33,333	48,333	Cr	36,666	Dr	11,667	Cr
T	-	16,667	16,667	Cr	18,334	Dr	1,667	Dr

Journal entries in the books of BST & CO

Date	Particulars	Debit (Rs.)	Credit (Rs.)
31-10	Cash A/c Dr.	10,000	
	Bank A/c Dr.	15,000	
	T&CO A/c Dr.	50,000	
	Debtors A/c Dr.	80,000	
	Stock A/c Dr.	60,000	
	Furniture A/c Dr.	10,000	
	Machinery A/c Dr.	90,000	
	Building A/c Dr.	50,000	
	To Provision for Bad debts A/c		4,000
	To X&CO A/c		40,000
	To Creditors A/c		60,000
	To B's Capital A/c (W.N.1)		1,65,750
	To S Capital A/c (W.N.1)		95,250
	(Being asset & liability of S&CO recorded)		
	Cash A/c Dr.	5,000	
	Bank A/c Dr.	20,000	
	X&CO A/c Dr.	30,000	
	Debtors A/c Dr.	1,00,000	
	Stock A/c Dr.	70,000	
	Furniture A/c Dr.	3,000	
	Vehicles A/c Dr.	1,00,000	
	To Provision for Bad debts		5,000
	To S&CO		50,000
	To Sundry Creditors		58,000
	To S Capital (W.N.2)		1,43,333
	To T Capital (W.N.2)		71,667
	(Being assets & liability of T&CO recorded)		
	B's Capital A/c Dr.	10,000	
	T's Capital A/c Dr.	1,667	
	To S's Capital A/c		11,667
	(Being difference in goodwill adjusted)		
	S&CO A/c Dr.	50,000	
	To T & CO		50,000
	(Being inter firm owings eliminated)		
	B's Current A/c Dr.	54,250	
	To B's Capital A/c		54,250
	(Being B's Capital to bring cash debited to B's Current A/c)		
	S's Capital A/c Dr.	1,10,250	
	To S's Current A/c		1,10,250
	(Being surplus amount in S's capital transferred to current A/c)		

W.N 1: Capital Balance in S & CO:

Particulars	B Capital (Rs)	S Capital (Rs)
Balances	1,20,000	80,000
Add: Reserves	18,750	6,250
Add: Profit on revaluation after adjustment of provision (40,000 - 4,000)	27,000	9,000
	1,65,750	95,250

W.N 2: Capital Balance in T & CO

Particulars	S Capital (Rs)	T Capital (Rs)
Balances	1,00,000	50,000
Add: Reserves	33,333	16,667
Add: Profit on revaluation after adjustment of provision (20,000 - 5,000)	10,000	5,000
	1,43,333	71,667

W.N 3: Capitals in New firm BST & CO

Particulars	B (Rs.)	S (Rs.)	T (Rs.)
Balance Credited from S & CO	1,65,750	95,250	-
Balance Credited from T & CO	-	1,43,333	71,667
Total	1,65,750	2,38,583	71,667
Goodwill Adjustment	(10,000)	11,667	(1,667)
	1,55,750	2,50,250	70,000
Proportionate capitals based on T's Share (3:2:1)	(2,10,000)	1,40,000	70,000
Adjusted in current accounts	54,250	1,10,250	-
	Deficiency	Surplus	

Note: T Capital is Rs. 70,000 and it is 1/6 of total. The total there fore is Rs. 4,20,000

PROBLEM NO: 2

Dr. Partners Current Accounts (1.04.20X1 to 31.03.20X2) Cr.

Particulars	X	Y	Z	Particulars	X	Y	Z
1.03.20X1				31.03.20X1			
To Bal. b/d	-	-	10,000	By Bal. b/d	40,000	30,000	-
To x's current a/c – goodwill – (W.N.1)	-	30,000	15,000	By Y's current A/c (goodwill): (W.N.1)	30,000	-	-
To X's current A/c – Revaluation profit – (W.N.2)	-	20,000	10,000	By Z's current A/c (goodwill) - (W.N.1)	15,000	-	-
To X's Capital A/c - Transfer	121000	-	-	By Y's current A/c(W.N.2) (Revaluation Profit)	20,000	-	-
				By Z's current A/c (W.N.2) (Revaluation Profit)	10,000	-	-
				By Joint life policy (52,000 - 40,000)	6,000	4,000	2,000
				By Bal. c/d	-	16,000	33,000
	1,21,000	50,000	35,000		1,21,000	50,000	35,000
(01.04.X1)				31.03.X2)			
To Bal. b/d	-	16,000	33,000	By Profit & Loss appropriation	-	29,136	14,568
(31.03.X2)				31.03.X2)			
To Drawings	-	15,000	8,000	By Bal. c/d	-	1,864	26,432
		31,000	41,000			31,000	41,000

Dr. Partners Current Accounts (01.04.20X2 to 30.06.20X2) Cr.

Date	Particulars	X	Y	Z	Date	Particulars	X	Y	Z
01.04.X2	To Bal. b/d	-	1,864	26,432	30.6.X2	By realization A/c	-	31,674	15,837
	To Y's Capital	-	29,810	-		By Z's capital	-	-	10,595
		-	31,674	26,432			-	31,674	26,432

Dr. Partner's capital Accounts					Cr.				
Date	Particulars	X	Y	Z	Date	Particulars	X	Y	Z
01.04.X1	To X's Execution	1,81,000	-	-	01.04.X1	By Bal. b/d	60,000	40,000	20,000
	To Bal. c/d	-	40,000	20,000		By X's Current A/c	1,21,000	-	-
		1,81,000	40,000	20,000			1,81,000	40,000	20,000
31.03.X2	To Bal. c/d	-	40,000	20,000	01.04.X1	By Bal. b/d	-	40,000	20,000
		1,81,000	40,000	20,000			1,81,000	40,000	20,000
01.04.X2	To Z's Current A/c	-	-	10,595	01.04.X2	By Bal. b/d	-	40,000	20,000
30.06.X2	To Bank	-	69,810	9,405	01.04.X2	By Y's Current A/c	-	29,810	-
		-	69,810	20,000			-	69,810	20,000

Dr. X's Executor's Account				Cr.	
Date	Particulars	Amount	Date	Particulars	Amount
01.04.X1	To Bank	30,000	01.04.X1	By X's Capital	1,81,000
01.04.X1	To Bal. b/d	1,51,000			1,81,000
		1,81,000			1,81,000
30.09.X1	To Bank	30,000	01.04.X1	By Bal. b/d	1,51,000
30.09.X1	To Bal. b/d	1,25,530	30.09.X1	By Interest (1,51,000 x 6%) x(6/12)	4,530
		1,55,530			1,55,530
31.03.X2	To Bank	30,000	01.10.X1	By Bal. b/d	1,25,530
	To Bal. b/d	99,296	31.03.X2	By Interest (1,25,530 x 6%) x(6/12)	3,766
		1,29,296			1,29,296
30.06.X2	To Bank	1,00,785	01.04.X2	By Bal. b/d	99,296
		1,00,785	30.06.X2	By Interest (99,296 x 6%) x(3/12)	1,489
					1,00,785

Working notes:**1. Adjustment of Goodwill**

Particulars	X	Y	Z
Share of goodwill before death	45,000 Cr.	30,000 Cr.	15,000 Cr.
Share of goodwill after death	-	60,000 Dr.	30,000 Dr.
	45,000 Cr.	30,000 Dr.	15,000 Dr.

2. Adjustment in relation to revaluation of assets

Particulars	X	Y	Z
Share of profit on revaluation credited to partners	30,000 Cr.	20,000 Cr.	10,000 Cr.
Debited to continuing parties	-	40,000 Dr.	20,000 Dr.
	30,000 Cr.	20,000 Dr.	10,000 Dr.

3. Ascertainment of profit in the year 31-03-20X2

Particulars	X
Profit before changing interest on balance due to X's Executor	52,000
Less: Interest payable to X's executor	
From 1-04-20X1 to 30-09-20X1	4,530
From 1-10-20X1 to 31-03-20X2	3,766
Balance of profit to be shared by Y and Z in 2:1	43,704

4. Ascertainment of sundry Assets in the year 31-03-20X2

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Capital of Y	40,000	Sundry Assets (b / f)	1,31,000
Capital of Z	20,000	Partner's current A/c	
X's Executor	99,296	Y	1,864
		Z	26,432
	1,59,296		1,59,296

5. Dr.		Realisation A/c		Cr
Particulars	Amount (Rs.)	Particulars	Amount (Rs.)	
To Sundry Assets	1,31,000	By Bank A/c	1,80,000	
To Interest A/c	1,489	(Purchase Consideration)		
To Partners Account of Y - 31,674 of Z - 15,837	47,511			
	1,80,000		1,80,000	

6. Dr.		Bank A/c		Cr
Particulars	Amount	Particulars	Amount	
To Purchase consideration	1,80,000	By X's Executors A/c	1,00,785	
		By Y	69,810	
		By Z	9,405	
	1,80,000		1,80,000	

PROBLEM NO: 3

(i) In the books of XYZ & Co.

Realisation Account

Particulars	Amount	Particulars	Amount
To Plant & Machinery	5,00,000	By Trade payables	3,00,000
To Furniture & Fixture	50,000	By ABC Ltd. (Refer W.N.)	6,00,000
To Inventories	2,00,000	By Partners' Capital Accounts(loss):	
To Trade receivables	2,00,000	X's Capital A/c	20,000
		Y's Capital A/c	20,000
		Z's Capital A/c	10,000
	9,50,000		9,50,000

Partners' Capital Accounts

	X	Y	Z		X	Y	Z
To Realisation A/c	20,000	20,000	10,000	By Balance b/d	2,00,000	3,00,000	1,00,000
To Shares in ABC Ltd.	2,40,000	2,40,000	1,20,000	By Gen. Reserve	40,000	40,000	20,000
To Cash A/c	-	80,000	-	By Cash A/c	20,000	-	10,000
	2,60,000	3,40,000	1,30,000		2,60,000	3,40,000	1,30,000

Cash and Bank Account

	Cash	Bank		Cash	Bank
To Balance b/d	40,000	10,000	By Cash A/c(Contra)*		10,000
To Bank A/c (Contra)*	10,000		By Y	80,000	
To X	20,000				
To Z	10,000				
	80,000	10,000		80,000	10,000

*It is assumed that cash at bank has been withdrawn to pay Rs. 80,000 to partner Y. However, payment to Y of Rs. 80,000 can also be made by cash Rs. 70,000 & by cheque Rs. 10,000.

(ii) In the Books of ABC Ltd.:

Journal Entries

	Particulars	Rs.	Rs.
1	Business Purchase Account Dr. To XYZ & Co. (Being business of XYZ & Co. purchased and payment due)	6,00,000	6,00,000
2.	Plant and Machinery Account Dr. Furniture and Fixture Account Dr. Inventories Account Dr. Trade Receivables Account Dr. To Trade Payables Account To Unrecorded Liability Account To Business Purchase Account	5,00,000 50,000 2,00,000 2,00,000 3,00,000 25,000 6,00,000	

	To Capital Reserve Account (Bal. Fig.) (Being takeover of all assets and liabilities)		25,000
3.	XYZ & Co. Dr. To Equity Share Capital Account To Securities Premium Account (Being purchase consideration discharged in the form of shares of Rs. 10 each issued at a premium of Rs. 2 each)	6,00,000	5,00,000 1,00,000
4.	Trade Payables Account Dr. To Trade Receivables Account (Being mutual owings eliminated)	1,00,000	1,00,000

Balance Sheet of ABC Ltd. (After takeover of XYZ & Co.) as at 31.3.2017

	Note no.	
Equity and Liabilities		
1. Shareholder's funds		
a) Share capital	1	25,00,000
b) Reserve and Surplus	2	8,25,000
2. Current liabilities:		
a) Trade Payables (3,00,000 + 13,00,000 – 1,00,000)		15,00,000
b) Others (Unrecorded Liability)		25,000
Total		48,50,000
Assets		
1. Non-current assets:		
a) Fixed assets		
i) Tangible assets	3	23,75,000
2. Current assets:		
a) Inventories (2,00,000 + 8,50,000)		10,50,000
b) Trade Receivables (2,00,000 + 8,25,000 – 1,00,000)		9,25,000
c) Cash and cash equivalent	4	5,00,000
Total		48,50,000

Notes to Accounts

1. Share Capital 2,50,000, Equity shares of Rs. 10 each fully paid up (out of which 50,000 shares has been issued for consideration other than cash)		25,00,000
2. Reserve and Surplus Securities Premium Capital Reserve General Reserve	1,00,000 25,000 7,00,000	8,25,000
3. Tangible assets Plant and Machinery (5,00,000 + 16,00,000) Furniture and fixture (50,000 + 2,25,000)	21,00,000 2,75,000	23,75,000
4. Cash and cash equivalent Cash at Bank Cash in hand	4,00,000 1,00,000	5,00,000

Working Note:**Computation of purchase consideration:**

50,000, Equity shares of Rs. 12 (10+2) each = Rs. 6,00,000

Equity shares distributed among partners:

Partner X = 20,000 shares @ Rs. 12 = Rs. 2,40,000

Partner Y = 20,000 shares @ Rs. 12 = Rs. 2,40,000

Partner Z = 10,000 shares @ Rs. 12 = Rs. 1,20,000

Rs. 6,00,000

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To **MASTER MINDS**, Guntur

Note: In the problem Trade receivables of ABC Ltd., was given as Rs. 8,50,000 but it need to rectified as Rs. 8,25,000 to get accurate answer.

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