9. PARTNERSHIP ACCOUNTS-II

MODEL WISE ANALYSIS OF PAST EXAM PAPERS OF IPCC

MODEL NO.	N-11	M-12	N-12	M-13	N-13	M-14	N-14	M-15	N-15	M-16	N-16
Model – 1	-	-	-	-	-	-	-	16	-	-	-
Model – 2	16	-	-	-	-	-	-	-	-	-	-
Model – 3	-	16	-	-	-	16	-	-	-	-	16
Model – 4	-	-	-	-	-	-	-	-	-	-	-
Model – 5	-	-	16	16	-	-	16	-	-	-	-
Model – 6	-	-	-	-	16	-	-	-	16	16	-
Model – 7	-	-	-	4	-	-	-	4	-	4	-

Model – 1 : Dissolution of Firm

Model – 2 : Garner vs. Murray rule

Model – 3 : Piecemeal Distribution-Higher Relative Capital method

Model – 4 : Piecemeal Distribution-Maximum loss Method

Model – 5 : Sale to company

Model – 6 : Amalgamation of Firms

Model – 7 : Theory

THEORY

DISSOLUTION OF A FIRM

Dissolution of Partnership Vs Dissolution of a Firm: The term 'Dissolution' stands for Discontinuation. Under the Indian Partnership Act, 1932, the dissolution may be either of partnership or of a firm.

Dissolution of partnership refers to the change in the existing relations of the partners. The firm continues its business. It may take place on admission/retirement/death etc. **Dissolution of a firm** means the dissolution of partnership between all the partners of the firm. (i.e. closing of the business permanently)

Reasons for Dissolution:

1. On the insolvency of all the partners or all except one partner
2. On business becoming unlawful
3. On the expiry of the term for which the firm was formed
4. On the completion of the venture(s) for which the firm was formed
5. On the death of a partner; subject to contract between the partner etc.

Settlement of A/cs:

1. **Application of Assets:** The assets of the firm (including the sums, if any, contributed by the partners to make up the deficiencies of capital) shall be applied in the following manner and order:
   a. In paying firm's debts to the third parties;
   b. In paying to each partner rateably what is due to him on A/c of advances;
   c. In paying to each partner rateably what is due to him on A/c of capital;
   d. The residue, if any, shall be divided among the partners in their profit-sharing ratio.

2. **Treatment of Firm's Debts & Private Debts:** Where there are firm's debts and partners' private debts, the following provisions shall apply:

   a. Firm's property shall be applied first in payment of firm's debts then the surplus, if any, shall be applied in the payment of partner's private debts to the extent to which the concerned partner is entitled to share in the surplus; and

   b. Partner's private property shall be applied first in payment of his private debts and the surplus, if any, in payment of firm's debts if the firm's liabilities exceed the firm's assets.

3. **Realisation A/c:** To close the books of A/cs of a dissolved firm and to compute the net effect of realisation various assets and payments of various liabilities, a Realisation A/c is opened. Such Realisation A/c is only prepared once during the life time of a firm.

   a) On Transfer of Assets to Realisation A/c:

❅	Realisation A/c Dr To Sundry assets (individually)	(With the total) (Individual book values)

Notes:

1. All the recorded assets (i.e. including goodwill, joint life policy but excluding fictitious assets, cash balance, bank balance & Current A/c and Capital A/c debit Realization A/c.
2. In case of dissolution of a firm on A/c of 'Sale of Business', unless otherwise stated, Cash & Bank balances shall also be transferred to the Realisation A/c.

   b) On Transfer of Outsiders' Liabilities to Realisation A/c:

❅	Sundry Liabilities (Individually) Dr To Realisation A/c	(Individual book values) (With the total)

Notes:

1. That portion of any provision/fund which represents a liability expected to arise in future, should also be transferred to Realisation A/c.
2. Loan from a relative of a partner is an external liability whereas loan from any partner is not an external liability since its payment can be made only after the repayment of outsiders' liabilities. No doubt, loan from partner is having priority as to repayment over the repayment of any part of capital.

   c) On Realisation of all Assets (whether recorded or unrecorded):

❅	**When the assets are sold for cash:** Cash (or) Bank A/c Dr To Realisation A/c	XXX	 XXX
❅	**When the assets are taken away by any of the partners:** Concerned Partner's Capital A/c Dr To Realisation A/c	XXX	 XXX
❅	**When the assets are given away to any of the creditors towards the full (or) partial payment of his dues:** ---No journal entry may be passed---		

Note:

1. Firm's assets which are not appearing in its books are called firm's unrecorded assets.

   d) On Discharge of Outsiders' Liabilities (recorded or unrecorded):

❅	**When the liabilities are discharged in cash:** Realisation A/c Dr To Cash (or) Bank A/c	XXX	 XXX

❅	**When any of the partners agree to discharge a liability:** Realisation A/c Dr To Concerned Partner's Capital A/c	XXX	XXX

Note:

1. Firm's liabilities which are not appearing in its books are called unrecorded liabilities.

e) On Payment of Realisation Expenses:

❅	**When such expenses are paid in cash:** Realisation A/c Dr To Cash (or) Bank A/c	XXX	XXX
❅	**When any of the partners agrees to do dissolution work for an agreed remuneration:** Realisation A/c Dr To Concerned Partner's Capital A/c	XXX	XXX

f) On Transfer of the Balance in Realisation A/c:

❅	**In case of Profit on Realisation:** Realisation A/c Dr To All Partners' Capital A/cs	XXX	XXX
❅	**In case of Loss on Realisation:** All Partners' Capital A/cs Dr To Realisation A/c	XXX	XXX

g) On Payment of Partner's Loan/Advances:

❅	Partner's Loan/Advance A/c Dr To Cash/Bank A/c	XXX	XXX

Note: Where a Partner's Capital A/c shows a debit balance. His loan (to firm) A/c should be transferred to his Capital A/c to the extent of debit balance and the balance, if any, in his Loan A/c (To firm) should be paid off.

h) On Transfer of the Accumulated Profits & Losses:

❅	**In case of accumulated profits & reserves (i.e. Credit Balance in P & L A/c. General Reserve):** Profit & Loss A/c Dr General Reserve Dr To All Partners' Capital A/c's	XXX XXX	XXX
❅	**In case of accumulated losses, (e.g. debit balance in P & L A/c, Deferred Revenue Expenditure):** All Partners' Capital A/cs Dr To Profit & Loss A/c To Deferred Revenue Expenditure A/c	XXX	XXX XXX

i) On Transfer of the Balance in Current A/c(s) (if any):

❅	**In case of debit balance in a Current A/c of a partner:** Concerned Partner's Capital A/c Dr To concerned Partner's Current A/c	XXX	XXX
❅	**In case of credit balance in a current A/c of a partner:** Concerned Partner's Current A/c Dr To Concerned Partner's Capital A/c	XXX	XXX

j) On Making Payment to/by a Partner:

❅	**In case of payment by a partner having a debit balance in his Capital A/c:** Cash (or) Bank A/c Dr To Concerned Partner's Capital A/c	XXX	XXX

❁	**In case of payment to a partner having a credit balance in his Capital A/c:** Concerned Partner's Capital A/c Dr To Cash (or) Bank A/c	XXX	 XXX

Treatment of Goodwill:

Particulars	If Goodwill is Already Appearing in the Books	If Goodwill is not Appearing in the Books
On Transfer to Realisation A/c	Realisation A/c Dr To Goodwill A/c	The question of transfer does not arise at all.
On Sale for cash	Cash (or) Bank A/c Dr To Realisation A/c	Cash (or) Bank A/c Dr To Realisation A/c
On being taken over by any of the partners	Concerned Capital A/c Dr To Realisation A/c	Concerned Capital A/c Dr To Realisation A/c

Preparation of Balance Sheet as on date of Dissolution: Whenever the dissolution of a firm takes place on a date other than the date on which the Accounting year of the firm ends, the balance sheet as on the date of dissolution is required to be prepared.

Taking over the business of a dissolved firm by some of its partners to continue the same business:

❁	**In case of taking over of the assets:** Joint A/c of concerned Partners Dr To Realization A/c	XXX	 XXX
❁	**In case of taking over of the liabilities:** Realization A/c Dr To Joint A/c of concerned Partners	XXX	 XXX

Note:

1. In case only one partners takes over the business of a dissolved firm, then instead of Joint A/c, his Personal (Business Purchase) A/c, is opened.

Guarantee of Minimum profit to a Partner: Such Guarantee may be provided by one or some or all of the partners in an existing profit sharing ratio or in some other agreed ratio. If in any year, the actual Share of Profit of a Guaranteed Partner is less than the Guaranteed Amount, then the deficiency (i.e. excess of Guaranteed Amount over actual Share of Profit) is borne by the Guaranteeing Partners in their agreed ratio.

Note:

1. Unless otherwise stated, it is presumed that all the existing partners (other than the Guaranteed Partner) have given such guarantee in their existing profit sharing ratio.

Where some of the Partners are Solvent and Others Insolvent: In effect, the decision in Garner Vs. Murray should be applied to this:

1. The solvent partners should contribute to the deficiency of capital (caused by loss on realisation) in cash their share only and not the insolvent partners' share.
2. The net effect of what has been stated above is that the deficiency of capital of the insolvent partner gets distributed among the solvent partners in the ratio of their last agreed capitals.

Criticism of Garner Vs. Murray:

1. It does not apply when the firm is having only two partners.
2. It considers only the book capital of the partners, ignoring the private estate of the solvent partners. If a partner contributed more capital than that of the other partners, he will have to bear more burden than other partners contributing less capital.
3. If a partner is having a nil capital balance or a debit balance, he will not have to bear the deficiency of the insolvent partner.

4. Introduction of cash by the solvent partners to make good their share of loss on realisation is unnecessary, when the balance of the capital A/cs of the solvent partners are sufficient to bear the deficiency of the insolvent partner.

Applicability of Garner Vs. Murray to India: Section 48 of the Indian Partnership Act 1932 is identical with the section 44 of the Partnership Act in Great Britain and further there has been no case law in India which has examined this question. Therefore, it is justified to assume that Garner Vs. Murray will also apply in India.

Application of Garner Vs. Murray for Fixed & Fluctuating Capital:

1. **Fixed Capital:** Under this method insolvent partner's loss should be borne by solvent partners only in the ratio of their Capital A/cs but not Current A/cs.
2. **Fluctuating Capital:** Under this method in order to ascertain the last agreed capital, all sorts of adjustments like reserves, undrawn profits or accumulated losses, drawings etc are to be made excepting the profit or loss arising out of realisation of Assets & Liabilities.

Where all the Partners are Insolvent: when the liabilities of the firm cannot be paid in full out of the firm's assets as well as personal assets of the partners, then all the partners of the firm are said to be insolvent. Under such circumstance it is better not to transfer the amount of creditors to realisation account. Creditors may be paid the amount available including the amount contributed by the partners. The unsatisfied portion of creditor account is transferred to capital accounts of the partners in the profit sharing ratio. Then capital accounts are closed. In doing so first close the partner's capital account which is having the worst position. The last account will be automatically closed.

In order, to close the books of the firm, Realisation A/c is prepared in the usual manner without transferring the liabilities to Realisation A/c. All liabilities are discharged directly to the extent possible. Any balance left unpaid is transferred to Deficiency A/c. The Partners' Capital A/cs are then closed by transferring to Deficiency A/c. The Accounting Entries are:

❅	**For payment of liabilities:** Liabilities A/c Dr To Cash (or) Bank A/c To Deficiency A/c	 (Actual amount paid) (Unpaid amount)
❅	**For closing Partners' Capital A/cs:** Deficiency A/c Dr To Partners Capital A/cs	

Gradual Realisation of Assets & Piecemeal Distribution:

Priority of Distribution: Practically, Assets & Liabilities can't be realised and discharged at a time. They can be realised and discharged gradually. Therefore, available cash at any particular point of time should be utilized in the following manner:

1. To meet the Realisation Expenses.
2. To pay off Preferential Creditors (e.g., Government rates and taxes, etc)
3. To pay off other Creditors. All the creditors are to be paid off in the ratio of their individual claim. But a secured creditor get a priority over ordinary creditors up to the amount realised from that particular asset by which his claim is secured by the firm. But for the balance of his claim, he is at par with other ordinary creditors.
4. To pay off Partners' Loans.
5. To pay off Partners' Capitals.

Methods available to discharge the liabilities in the above order are:

1. Maximum Loss Method;
2. Surplus Capital Method/Highest Relative Capital Method/Relative Capital Method;

1. **Maximum Loss Method:** This method is suitable when a partner or (partners) is known to be insolvent or is likely to be so. Under this method, every instalment realised is considered as final realisation, i.e., the remaining assets and claims are worthless. The maximum possible loss (Balance due ***minus*** assets realised) is distributed among all the partners in the profit-sharing ratio. In case, any partner(s) apportioned loss exceeds his balance due then, he is assumed for this purpose to be insolvent and his negative balance will be shared by the solvent partners in their Capital Ratio (assuming Garner Vs. Murray). This process is repeated till the negative balance is abolished. The partners having positive balance is paid-off first.

   The same principle is to be followed for all subsequent realisations.

   Notes:

   1. Cash in hand is to be considered as first realisation; and
   2. For calculating capital ratio, balance of Capital A/c and share of reserve and surplus are to be considered when capitals are fluctuating. However, when capitals are fixed, no adjustment is required.

2. **Surplus Capital Method:** This method is suitable when the following two conditions are satisfied:

   1. The partners' profit-sharing ratio is not as per their capital contribution; and
   2. All the partners are solvent and are likely to remain so

   The partners with the absolute surplus capitals are paid off first, followed by payment to others having surplus capitals. At last, payment is to be made to the partners in the profit-sharing ratio. The surplus capital is calculated as follows:

   Step 1: Divide adjusted capital (Capital A/c + Current A/c + Share of Reserve) of each partner by his profit-sharing ratio. The smallest quotient should be taken as **Base Capital.**

   Step 2: Calculate relative capital by multiplying base capital & profit-sharing ratio of each partner.

   Step 3: Calculate surplus capital by deducting relative capital (Step 2) from adjusted capital of each partner.

   Step 4: Divide surplus capital (Step 3) by profit-sharing ratio of each partner. The smallest quotient should be taken as **Revised Base Capital.**

   Step 5: Again, calculate relative capital by multiplying revised base capital and profit-sharing ratio.

   Step 6: Calculate absolute surplus capital by deducting revised base capital from surplus capital (Step 3).

Can a partner be called upon to pay the liability of the LLP? If yes, under what circumstances?

Under section 27 (3) LLP Act, 2008, any obligation of the LLP arising out of a contract or otherwise shall be the sole obligation of the LLP. The partners of an LLP in the normal course of business are not liable for the debts of the LLP. The liabilities of an LLP shall be met out of the assets / properties of the LLP. However, under section 28 (2) of the a partner shall be liable for his own wrongful acts or commissions, but shall not be liable for the wrongful acts or commissions of other partners of the LLP. Wrongful acts will include acts of fraud and wilful omissions. Hence, the liability may fall only on that partner, who is guilty of any wrongful acts or commissions in respect of debts or liabilities acquired by such acts.

Under what circumstances, an LLP can be wound up by the Tribunal.

Answer:

Under following circumstances, an LLP can be wound up by the Tribunal:

i) If the LLP decides that it should be wound up by the Tribunal;

ii) If for a period of more than six months, the number of partners of the LLP is reduced below two;

iii) If the LLP is unable to pay its debts;

iv) If the LLP has acted against the interests of the integrity and sovereignty of India, the security of the state or public order;

v) If the LLP has defaulted in the filing of the Statement of Account and Solvency with the Registrar for five consecutive financial years;

vi) If the Tribunal is of the opinion that it is just and equitable that the LLP be wound up.

PROBLEMS FOR CLASSROOM DISCUSSION

DISSOLUTION OF PARTNERSHIP AND FINAL SETTLEMENT OF ACCOUNTS

Problem 1: **(PRINTED SOLUTIONS AVAILABLE)** X, Y and Z are partners of the firm XYZ and Co., sharing Profits and Losses in the ratio of 4 : 3 : 2. Following is the Balance Sheet of the firm as at 31st March, 2012:

Balance Sheet as at 31st March, 2012

Liabilities	Rs.	Assets	Rs.
Partners' Capitals:		Fixed Assets	5,00,000
X	4,00,000	Stock in trade	3,00,000
Y	3,00,000	Sundry debtors	5,00,000
Z	2,00,000	Cash in hand	10,000
General Reserve	90,000		
Sundry Creditors	3,20,000		
	13,10,000		**13,10,000**

Partners of the firm decided to dissolve the firm on the above said date.

Fixed assets realized Rs. 5,20,000 and book debts Rs. 4,40,000.

Stocks were valued at Rs. 2,50,000 and it was taken over by partner Y.

Creditors allowed discount of 5% and the expenses of realization amounted to Rs. 6,000.

You are required to prepare:

1. Realisation account;
2. Partners capital account; and
3. Cash account. **(PM)**

(Ans: (i) Realisation loss X-35,555; Y-26,667; Z-17,778 (ii) Partners capital a/c transferred Cash X-4,04,445; Y-53,333; Z-2,02,222. (iii) Cash a/c total 9,70,000)

(Solve problem no. 1 and 2 of assignment problems as rework)

Note: ____

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Problem 2: Read, Write and Add give you the following Balance Sheet as on 31st March, 2011.

Liabilities		Rs.	Assets	Rs.
Capital Accounts:			Plant and Machinery at cost	30,000
Read	30,000		Fixtures and Fittings	2,000
Write	10,000		Stock	10,400

Add 2,000	42,000	Debtors 18,400 **Less:** Provision (400)	18,000
Read's Loan	15,000	Joint Life Policy	15,000
Sundry Creditors	17,800	Patents and Trademarks	10,000
Loan on Hypothecation of Stock	6,200	Cash at Bank	8,000
Joint Life Policy Reserve	12,400		
	93,400		**93,400**

The partners shared profits and losses in the ratio of Read 4/9, Write 2/9 and Add 1/3. Firm was dissolved on 31st March, 2011 and you are given the following information:

1. Add had taken a loan from insurers for Rs. 5,000 on the security of Joint Life Policy.

   The policy was surrendered and Insurers paid a sum of Rs. 10,200 after deducting Rs. 5,000 for. Add's loan and Rs. 300 as interest thereon.
2. One of the creditors took some of the patents whose book value was Rs. 6,000 at a valuation of Rs. 4,500. The balance to that creditor was paid in cash.
3. The firm had previously purchased some shares in a joint stock company and had written them off on finding them useless. The shares were now found to be worth Rs. 3,000 and the loan creditor agreed to accept the shares at this value.
4. The remaining assets realized the following amount:

	Rs.
Plant and Machinery	17,000
Fixtures and Fittings	1,000
Stock	9,000
Debtors	16,500
Patents 50% of their book value	

5. The liabilities were paid and a total discount of Rs. 500 was allowed by the creditors.
6. The expenses of realization amounted to Rs. 2,300.

Prepare the Realisation Account, Bank Account and Partners Capital Accounts in columnar form. **(PM)**

(Ans: Realisation loss Read-2,800, Write-1,400, Add-2,100; Bank a/c Total 74,400; Partners capital a/c transferred to bank Read-27,200, Write-8,600, Add-(5,400))

(Solve problem no. 3 of assignment problem as rework)

Note: ______________________________

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Problem 3: **(PRINTED SOLUTIONS AVAILABLE)** E, P and G were in partnership sharing profits and losses - E. one – half, P. one-third and G. one – sixth. No interest was allowed on capital or charged on drawings, but loans from partners carried interest at the rate of 12 per cent per annum. The balance sheet of the partnership as on 31st March, 2000 was as follows:

Particulars	**Rs.**	***Particulars***	**Rs.**
Capital Accounts E: 40,000 P: 20,000	60,000	Machinery Fixtures and Fittings Motor Vehicle	60,000 10,000 20,000
E's Loan	20,000	Stock	35,000
Trade Creditors	70,000	Debtors	40,000
Bank Overdraft	20,000	G's Capital Account	5,000
	1,70,000		***1,70,000***

Owing to pressure by creditors and persistent negligence by G. the firm had to be dissolved on June 30, 2000. Between March 31, 2000 and June 30, 2000 goods were purchased of the value of Rs.25,000 and sales amounted to Rs.30,400. In addition to payments to trade creditors, payments to third parties were made during the same period for wages, Rs.10,000 and expenses Rs.6,000. The partners' drawings during this period were: E. Rs.4,000; P. Rs.2,000; and G. Rs.1,000;

On June 30, 2000 the debtors amounted to Rs.35,000 and trade creditors to Rs.80,000 and stock was valued at Rs.30,000.

In the winding-up the assets realised the following amounts:

Particulars	**Rs.**
Machinery	40,000
Fixtures and Fittings	5,000
Motor Vehicle	25,000
Debtors	30,000
Stock	27,000

The creditors were paid in full. The costs of winding up came to Rs.2,000. Partners were able to contribute any sum required of them. P had joined the firm on 1st April, 1996, paying Rs.10,000 as Premium; it was agreed at that time that the partnership would be for 10 years.

You are required to prepare:

a. Account to show the realisation and distribution of the partnership assets, and

b. Partners' capital accounts in columnar form.

(Ans.: Balance in Realizaton Account: (30,000), balance in Partners' capital account as on 30th june 2000 – E: 27,900; P: 12,600; G: (8,700))

Note: ____

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DISSOLUTION: DUE TO INSOLVENCY OF ALL PARTNERS

Problem 4: Amal and Bimal are in equal partnership. Their Balance Sheet stood as under on 31st March, 2012 when the firm was dissolved:

Liabilities	**Rs.**	**Assets**	**Rs.**
Creditors A/c	4,800	Plant & Machinery	2,500
Amal's Capital A/c	750	Furniture	500
		Debtors	1,000
		Stock	800
		Cash	200
		Bimal's drawings	550
	5,550		**5,550**

The assets realised as under:

Particulars	**Rs.**
Plant & Machinery	1,250
Furniture	150
Debtors	400
Stock	500

The expenses of realisation amounted to Rs. 175. Amal's private estate is not sufficient even to pay his private debts, whereas Bimal's private estate has a surplus of Rs. 200 only.

Show necessary ledger accounts to close the books of the firm. **(SM)**

(Ans: Realisation loss Amal-1,337, Bimal-1,338; Cash a/c total 2,700; Partners Capital a/c transferred to Deficiency a/c Amal-587, Bimal-1,688.)

(Solve problem no.4 of assignment problem as rework)

Note: ____

DISSOLUTION DUE TO INSOLVENCY AND APPLICABILITY OF THE DECISION IN GARNER VS MURRAY

Problem 5: (PRINTED SOLUTIONS AVAILABLE) Neptune, Jupiter, Venus and Pluto had been carrying on business in partnership sharing profits and losses in the ratio of 3:2:1:1. They decide to dissolve the partnership on the basis of the following Balance Sheet as on 30th April, 2014:

Liabilities	Rs.	Assets	Rs.
Capital Account:		Premises	1,20,000
Neptune 1,00,000		Furniture	40,000
Jupiter 60,000	1,60,000	Stock	1,00,000
General Reserve	56,000	Debtors	40,000
Capital Reserve	14,000	Cash	8,000
Sundry Creditors	20,000	**Capital Overdrawn:**	
Mortgage Loan	80,000	Venus 10,000	
		Pluto 12,000	22,000
	3,30,000		**3,30,000**

1. The assets were realised as under:

Particulars	Rs.
Debtors	24,000
Stock	60,000
Furniture	16,000
Premises	90,000

2. Expenses of dissolution amounted to Rs. 4,000.
3. Further creditors of Rs. 12,000 had to be met.
4. General Reserve unlike Capital Reserve was built up by appropriation of profits.

You are required to draw up the Realisation Account, Partners' Capital Accounts and the Cash Account assuming that Venus became insolvent and nothing was realised from his private estate. Apply the principles laid down in Garner vs Murray. **(PM)**

(Ans: Realisation a/c Loss Rs.1,26,000; Total of Cash a/c Rs.3,08,000; Total of Partners Capital a/c Neptune - 1,84,000; Jupiter - 1,16,000; Venus - 28,000; Pluto - 30,000)

(Solve problem no. 5 of assignment problem as rework)

Note: ____

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Problem 6: Thin', 'Short' and 'Fat' were in partnership sharing profits and losses in the ratio of 2:2:1. On 30th September, 2012 their Balance Sheet was as follows:

Liabilities	RsRs.	Assets	Rs.
Capital Accounts :		Premises	50,000
Thin 80,000		Fixtures	1,25,000
Short 50,000		Plant	32,500
Fat 20,000	1,50,000	Stock	43,200
Current Accounts :		Debtors	54,780
Thin 29,700			
Short 11,300			
Fat (Dr.) (14,500)	26,500		
Sundry Creditors	84,650		
Bank Overdraft	44,330		
	3,05,480		**3,05,480**

'Thin' decides to retire on 30th September, 2012 and as 'Fat' appears to be short of private assets, 'Short' decides that he does not wish to take over Thin's share of partnership, so all three partners decide to dissolve the partnership with effect from 30th September, 2012. It then transpires that 'Fat' has no private assets whatsoever.

The premises are sold for Rs.60,000 and the plant for Rs.1,07,500. The fixtures realize Rs.20,000 and the stock is acquired by another firm at book value less 5%. Debtors realise Rs.45,900. Realisation expenses amount to Rs.4,500.

The bank overdraft is discharged and the creditors are also paid in full.

You are required to write up the following ledger accounts in the partnership books following the rules in Garner vs. Murray :

1. Realisation Account ;
2. Partners' Current Accounts;
3. Partners' Capital Accounts showing the closing of the firm's books.

(Ans.: Loss on realisation is 35,540, Total of current A/c Thin 29,700 short 14,216, Fat 21,608, Total of capital A/c Thin 1,09,700 short 64,216, Fat 21,608)

(SM) (Solve problem no. 6 of assignment problem as rework)

Note: ____________________

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Problem 7: A, B, C and D sharing profits in the ratio of 4:3:2:1 decided to dissolve their partnership on 31st March 2012 when their balance sheet was as under: **(SM)**

Liabilities		Rs.	Assets	Rs.
Creditors		15,700	Bank	535
Employees Provident Fund		6,300	Debtors	15,850
Capital Accounts:			Stock	25,200
A	40,000		Prepaid Expenses	800
B	20,000	60,000	Plant & Machinery	20,000
			Patents	8,000
			C's Capital A/c	3,200
			D's Capital A/c	8,415
		82,000		**82,000**

1. One of the creditors took some of the patents whose book value was Rs.5,000 at a valuation of Rs.3,200. Balance of the creditors were paid at a discount of Rs.400.
2. There was a joint life policy of Rs.20,000 (not mentioned in the balance sheet) and this was surrendered for Rs.4,500.
3. The remaining assets were realised at the following values:- Debtors Rs.10,800; Stock Rs.15,600; Plant and Machinery Rs.12,000; and Patents at 60% of their book-values. Expenses of realisation amounted Rs.1,500.

D became insolvent and a dividend of 25 paisa in a rupee was received in respect of the firms claim against his estate. Prepare necessary ledger accounts.

(Ans.: Loss on realisation is 23,050, total of bank A/c is 71,860)

(Solve problem no. 7 of assignment problem as rework)

Note: ____________________

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DISSOLUTION: DUE TO INSOLVENCY OF ONE PARTNER

Problem 8: A, B, C and D are sharing profits and losses in the ratio 5 : 5 : 4 : 2. Frauds committed by C during the year were found out and it was decided to dissolve the partnership on 31st March, 2012 when their Balance Sheet was as under:

Liabilities	Rs.	Assets	Rs.
Capital:		Building	1,20,000
A	90,000	Stock	85,500
B	90,000	Investments	29,000
C	-	Debtors	42,000
D	35,000	Cash	14,500
General reserve	24,000	C	15,000
Trade creditors	47,000		
Bills payable	20,000		
	3,06,000		**3,06,000**

Following information is given to you:

1. A cheque for Rs. 4,300 received from debtor was not recorded in the books and was misappropriated by C.
2. Investments costing Rs. 5,400 were sold by C at Rs. 7,900 and the funds transferred to his personal account. This sale was omitted from the firm's books.
3. A creditor agreed to take over investments of the book value of Rs. 5,400 at Rs. 8,400. The rest of the creditors were paid off at a discount of 2%.
4. The other assets realized as follows:

Building	105% of book value
Stock	Rs. 78,000
Investments	The rest of investments were sold at a profit of Rs. 4,800
Debtors	The rest of the debtors were realized at a discount of 12%

5. The bills payable were settled at a discount of Rs. 400.
6. The expenses of dissolution amounted to Rs. 4,900
7. It was found out that realization from C's private assets would only be Rs. 4,000.

Prepare the necessary Ledger Accounts. **(PM)**

(Ans: Realisation a/c profit A-171, B-171, C-137, D-69; Cash a/c Total 2,78,676; Partners capital a/c transferred to cash A-90,528, B-90,528, C-35,292)

(Solve problem no. 8 of assignment problem as rework)

Note: ____

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DISSOLUTION: PIECEMEAL DISTRIBUTION

Problem 9: (PRINTED SOLUTION AVAILABLE) The following is the Balance Sheet of A, B, C on 31st December, 2012 when they decided to dissolve the partnership:

Liabilities	Rs.	Assets	Rs.
Creditors	2,000	Sundry Assets	48,500
A's Loan	5,000	Cash	500
Capital Accounts:			
A	15,000		
B	18,000		
C	9,000		
	49,000		**49,000**

The assets realised the following sums in installments:

I	1,000
II	3,000
III	3,900
IV	6,000
V	20,100 (Including saving in expenses)
	34,000

The expenses of realisation were expected to be **Rs.**500 but ultimately amounted to Rs.400 only. Show how at each stage the cash received should be distributed between partners. They share profits in the ratio of 2:2:1. **(SM)** *(Ans: Loss by partners A-6,000, B-6,000, C-3,000)*

(Solve problem no. 9 of assignment problem as rework)

Note: ____

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Problem 10: Ajay Enterprises, a Partnership firm in which A, B and C are three partners sharing profits and losses in the ratio of 4 : 3 : 3. the balance sheet of the firm as on 31st December, 2011 is as below:

Liabilities	Rs.	Assets	Rs.
A' s Capital	15,000	Factory Building	24,160
B' s Capital	7,500	Plant & Machinery	16,275
C' s Capital	15,000	Debtors	5,400
B' s Loan	4,500	Stock	12,390
Sundry Creditors	16,500	Cash at Bank	275
	58,500		**58,500**

On balance sheet date all the three partners have decided to dissolve their partnership. Since the realization of assets was protracted, they decided to distribute amounts as and when feasible and for this purpose they appoint C who was to get as his remunerations 1% of the value of the assets realized other than cash at Bank and 10% of the amount distributed to the partners.

Assets were realized piecemeal as under:

First instalment	Rs. 18,650
Second installment	Rs. 17,320
Third installment	Rs. 10,000
Last instilment	Rs. 7,000
Dissolution expenses were provided for estimated amount of	Rs. 3,000
The creditors were settled finally for	Rs. 15,900

Prepare a statement showing distribution of cash amongst the partners by 'Higher Relative Capital Method'. **(PM)**

(Ans: Loss suffered by partners A-4,340, B- 3,255, C- 3,255)

(Solve problem no. 10 of assignment problem as rework)

Note: ____

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Problem 11: The partners P, Q & R have called you to assist them in winding up the affairs of their partnership on 31.12.2013. Their balance sheet as on that date is given below:

Liabilities	Amount Rs.	Assets	Amount Rs.
Capital Accounts:		Land & Building	50,000
P	65,000	Plant & Machinery	46,000
Q	50,500	Furniture & Fixture	10,000
R	32,000	Stock	14,500

Sundry Creditors	16,000	Debtors	14,000
		Cash at Bank	9,000
		Loan P	13,000
		Loan Q	7,000
	1,63,500		**1,63,500**

1. The partners share profit and losses in the ratio of 4:3:2.

2. Cash is distributed to the partners at the end of each month.

3. A summary of liquidation transactions are as follows:

January 2014

1. Rs. 9,000 - collected from debtors; balance is uncollectable.

2. Rs. 8,000 - received from the sale of entire furniture

3. Rs. 1,000 - Liquidation expenses paid.

4. Rs. 6,000 - Cash retained in the business at the end of month

February 2014

1. Rs. 1,000 - Liquidation expenses paid.

2. As part payment of his capital, R accepted a machinery for Rs. 9,000 (book value Rs. 3,500)

3. Rs. 2,000 - Cash retained in the business at the end of month

March 2014

1. Rs. 38,000 - received on the sale of remaining plant and machinery.

2. Rs. 10,000 - received from the sale of entire stock.

3. Rs. 1,700 - Liquidation expenses paid.

4. Rs. 41,000 - Received on sale of land & building.

5. No Cash is retained in the business.

You are required to prepare a schedule of cash payments amongst the partners by "Higher Relative Capital Method". **(PM)** ***(Ans: Loss P-10,311, Q- 7,733, R- 5,156)***

(Solve problem no. 11 of assignment problems as rework)

Note: ____

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<u>Problem 12:</u> Daksh Associates is a reputed firm. On account of certain misunderstanding between the partners, it was decided to dissolve the firm as on 31st December, 2011. Their Balance Sheet as on 31st December, 2011 was follows:

Liabilities		Rs.	Assets	Rs.
Capitals:			Land and Buildings	7,00,000
Daksh	3,00,000		Other Fixed Assets	3,00,000
Yash	2,00,000		Stock in Trade	2,00,000
Siddhart (Minor)	<u>1,00,000</u>	6,00,000	Debtors	4,00,000
Trade Loans		3,00,000	Bills Receivable	1,50,000
Bank Overdraft		3,00,000	Goodwill	30,000
Other Loans		2,00,000	Cash	20,000
Creditors		2,00,000		
Siddhart's Loan		2,00,000		
		18,00,000		**18,00,000**

It was decided that Mr. Daksh shall be in-charge of Realisation. He shall set apart Rs. 10,000 towards expenses. He shall be paid a remuneration of 5 percent on the amounts distributed to the partners towards their contribution other than loans. Assets realized are as under:

		Rs.
1-1-2012	Debtors	3,50,000
15-1-2012	Fixed Assets	4,00,000
1-2-2012	Debtors	50,000
15-2-2012	Bills Receivable	1,40,000
1-3-2012	Fixed Assets	50,000
15-3-2012	Land and Buildings	8,00,000

Prepare a statement showing how the money received on various dates will be distributed assuming:

1. The actual expenses of realization amounted to Rs. 20,005.
2. The firm is solvent.
3. The profit sharing ratio was as under:

	Profit	Loss
Daksh	2	1
Yash	2	1
Siddhart	1	Nil
	5	**2**

4. The final dissolution is made on 15th March, 2012.

(SM) ***(Ans: Balance Due Daksh-Rs.19,050; Yash-Rs.19,050; Siddhart-Nil)***

Note: ____

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AMALGAMATION OF FIRMS

Problem 13: (PRINTED SOLUTIONS AVAILABLE) P and Q are partners of P & Co. sharing Profit and Losses in the ratio of 3:1 and Q and R are partners of R & Co., sharing profits and losses in the ratio of 2:1. On 31st March, 2009, they decide 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. The Balance Sheets of two firms on the above date are as under:

Liabilities	P & Co.	R & Co.	Assets	P & Co.	R & Co.
Capitals:			**Fixed assets:**		
P	2,40,000	----	Building	50,000	60,000
Q	1,60,000	2,00,000	Plant & machinery	1,50,000	1,60,000
R	----	1,00,000	Office equipment	20,000	6,000
Reserves	50,000	1,50,000	**Current assets:**		
Sundry creditors	1,20,000	1,16,000	Stock-in-trade	1,20,000	1,40,000
Due to P & Co.	----	1,00,000	Sundry debtors	1,60,000	2,00,000
Bank overdraft	80,000	-----	Bank balance	30,000	90,000
			Cash in hand	20,000	10,000
			Due from R & Co.	1,00,000	-----
	6,50,000	**6,66,000**		**6,50,000**	**6,66,000**

The amalgamated firm took over the business on the following terms:

1. Building of P & Co. was valued at Rs. 1,00,000.
2. Plant and machinery of P & Co. was valued at Rs. 2,50,000 and that of R & Co. at Rs. 2,00,000.
3. All stock in trade is to be appreciated by 20%.
4. Goodwill valued of P & Co. at Rs. 1,20,000 and R & Co. at Rs. 60,000, but the same will not appear in the books of PQR & Co.

5. Partners of new firm will bring the necessary cash to pay other partners to adjust their capitals according to the profit sharing ratio.
6. Provisions for doubtful debts has to be carried forward at Rs. 12,000 in respect of debtors of P & Co. and Rs. 26,000 in respect of debtors of R & Co.

You are required to prepare the Balance Sheet of new firm and capital accounts of the partners in the books of old firms. **(PM)**

(Ans: Balance sheet total Rs.14,20,000)

(Solve problem no. 12 of assignment problem as rework)

Note: ____

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Problem 14: A and B are partners of AB & Co. sharing profits and losses in the ratio of 2:1 and C and D are partners of CD &Co. sharing profits and losses in the ratio of 3:2. On 1st April 2011 they decided to amalgamate and form a new firm M/s. AD & Co. wherein all the partners of the both the firm would be partners sharing profits and losses in the ratio of 2:1:3:2 respectively to A,B,C and D.

The balance sheets on that date were as under:

Liabilities	AB &Co.	CD &Co.	Assets	AB &Co.	CD &Co.
Capitals:			Building	75,000	90,000
A	1,50,000		Machinery	1,20,000	1,00,000
B	1,00,000		Furniture	15,000	12,000
C		1,20,000	Stock	24,000	36,000
D		80,000	Debtors	65,000	78,000
Reserve	66,000	54,000	Due from CD & Co.	47,000	-
Due to AB &Co.	-	47,000	Cash at Bank	18,000	15,000
Creditors	52,000	35,000	Cash in hand	4,000	5,000
	3,68,000	**3,36,000**		**3,68,000**	**3,36,000**

The amalgamated firm took over the business on the following terms:

1. Building was taken over at Rs.1,00,000 and Rs.1,25,000 of AB &Co. and CD & Co. respectively. And machinery was taken over at Rs.1,25,000 and Rs.1,10,000 of AB & Co. and CD &Co. respectively.
2. Goodwill of AB & Co. was worth Rs.75,000 and that of CD & Co. Was worth Rs.50,000. Goodwill account was not be opened in the books of the new firm, the adjustments being recorded through capital accounts of the partners.
3. Provision for doubtful debts has to be carried forward at Rs.5,000 in respect of debtors of AB & Co. and Rs.8,000 in respect of CD & Co.

You are required to:

1. Compute the adjustments necessary for goodwill.
2. Pass the Journal entries in the books of AD & Co. assuming that excess/ deficit capital (taking D's capital as base) with reference to share in profits are to be transferred to current accounts. **(May-2011)**

(Solve problem no. 13 of assignment problem as rework)

Note: ____

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SALE OF PARTNERSHIP FIRM TO A COMPANY

Problem 15: 'S' and 'T' were carrying on business as equal partner. Their Balance Sheet as on 31st March, 2011 stood as follows:

Liabilities		Rs.	Assets	Rs.
Capital accounts:			Stock	2,70,000
S	6,40,000		Debtors	3,65,000
T	6,60,000	13,00,000	Furniture	75,000
Creditors		3,27,500	Joint life policy	47,500
Bank overdraft		1,50,000	Plant	1,72,500
Bills payable		62,500	Building	9,10,000
		18,40,000		**18,40,000**

The operations of the business were carried on till 30th September, 2011. S and T both withdrew in equal amounts half the amount of profits made during the current period of 6 months after 10% per annum had been written off on building and plant and 5% per annum written off on furniture. During the current period of 6 months, creditors were reduced by Rs. 50,000, Bills payable by Rs. 11,500 and Bank overdraft by Rs. 75,000. The Joint Life policy was surrendered for Rs. 47,500 on 30th September, 2011. Stock was valued at Rs. 3,17,000 and debtors at Rs. 3,25,000 on 30th September, 2011. The other items remained the same as on 31st March, 2011.

On 30th September, 2011 the firm sold its business to ST Ltd. The value of goodwill was estimated at Rs. 5,40,000 and the remaining assets were valued on the basis of the Balance Sheet as on 30th September, 2011. The ST Ltd. paid the purchase consideration in equity shares of Rs. 10 each. You are required to prepare a Realization Account and Capital accounts of the partners. **(PM)**

(Ans: Profit on realisation S-2,70,000, T-2,70,000; Total of Partner's capital a/c S-9,50,000, T-9,70,000)

(Solve problem no. 14 of assignment problem as rework)

Note: ____

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Problem 16: A and B were carrying on business sharing profits and losses equally. The firm's Balance Sheet as at 31.12.2011 was:

Liabilities		Amount (Rs.)	Assets		Amount (Rs.)
Sundry Creditors		60,000	Stock		60,000
Bank overdraft		35,000	Machinery		1,50,000
Capital A/c's:			Debtors		70,000
A	1,40,000		Joint Life Policy		9,000
B	1,30,000	2,70,000	Leasehold Premises		34,000
			Profit & Loss A/c		26,000
			Drawings Accounts:		
			A	10,000	
			B	6,000	16,000
		3,65,000			**3,65,000**

The business was carried on till 30.6.2012. The partners withdrew in equal amounts half the amount of profits made during the period of six months after charging depreciation at 10% p.a. on machinery and after writing off 5% on leasehold premises. In the half year, sundry creditors were reduced by Rs.10,000 and bank overdraft by Rs.15,000.

On 30.6.2012, stock was valued at Rs.75,000 and Debtors at Rs.60,000; the Joint Life Policy had been surrendered for Rs.9,000 before 30.6.2012 and other items remained the same as at 31.12.2011.

On 30.6.2012, the firm sold the business to a Limited Company. The value of goodwill was fixed at Rs.1,00,000 and the rest of the assets were valued on the basis of the Balance Sheet as at 30.6.2012. The company paid the purchase consideration in Equity Shares of Rs.10 each.

You are required to prepare: (a) Balance Sheet of the firm as at 30.6.2012; (b) The Realisation Account; (c) Partners' Capital Accounts showing the final settlement between them. **(SM)**

(Ans.: Total of balance sheet is 3,09,800, Total of Realisation A/c is 4,09,800)

(Solve problem no. 15 of assignment problem as rework)

Note: ____

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Problem 17: A, B and C were in partnership sharing profits and losses 3:2:1. There was no provision in the agreement for interest on capitals or drawings.

A died on 01.01.2011 and on that date, the partners' balance was as under:

Capital Account: A – Rs.60,000; B- Rs.40,000; C- Rs.20,000

Current Account: A – Rs.29,000; B – Rs.20,000; C – Rs.5,000 (Dr.).

By the partnership agreement, the sum due to A's estate was required to be paid within a period of 3 years, and minimum installment of RRs.20,000 each were to be paid, the first such installment falling due immediately after death and the subsequent installments at half-yearly intervals. Interest @ 5% p.a. was to be credited half-yearly.

In ascertaining his share, goodwill (not recorded in the books) was to be valued at Rs.60,000 and the assets, excluding the Joint Endowment Policy (mentioned below), were valued at Rs.36,000 in excess of the book values.

No Goodwill Account was raised and no alteration was made to the book values of fixed assets. The Joint Assurance Policy shown in the books at Rs.20,000 matured on 1.1.2011, realizing Rs.26,000; payments of Rs.20,000 each were made to A's Executors on 1.1.2011, 30.6.2011 and 31.12.2011. B and C continued trading on the same terms as previously and the net profit for the year to 31.12.2011 (before charging the interest due to A's estate) amounted to Rs.32,000. During that period, the partner's drawings were: B- Rs.15,000; and C- Rs.8,000.

On 1.1.2012, the partnership was dissolved and an offer to purchase the business as a going concern for Rs.1,40,000 was accepted on that day. A cheque for that sum was received on 30.6.2012. The balance due to A's estate, including interest, was paid on 30.6.2012 and on that day, B and C received the sums due to them.

You are required to write-up the Partners' Capital and Current Accounts from 1.1.2011 to 30.6.2012. Show also the account of the executors of A. **(May – 15, SM)**

(Ans.: Balance of Current A/c transferred to Capital A/c of B - 5,190, C - (12,905) and Balance of partner's capital A/c – B - 45,190; C - 7,095; Amount paid to A's Executors on 30.06.2012 - 87,715)

Note: ____

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CONVERSION OF PARTNERSHIP FIRM IN TO A COMPANY

Problem 18: Hari, Lal and Jay have been in partnership for a number of years, sharing profits/losses in the ratio of 2:2:1 as wholesale stationers trading under the name 'Hari Brothers'. They decide to convert their partnership into a limited company (with effect from 1st January, 2013) to be known as Hari Ltd.

Immediately prior to this conversion the balance sheet of partnership as at 31st December 2012 was as follows:

Balance Sheet As on 31st December 2012

Liabilities	Rs.	Rs.	Assets	Rs.
Capital accounts:			**Fixed assets:** **(at written down value)**	
Hari	70,000		Land & Buildings	50,000

Lal	30,000		Plant & Machinery	30,000
Jay	20,000	1,20,000	Motor vehicles	20,000
Current accounts:			**Current Assets:**	
Hari	7,000		Inventories	60,000
Lal	5,000		Debtors	25,000
Jay	3,000	15,000	Axis Bank account	5,000
Current liabilities:				
Creditors	25,000			
Dena Bank account	20,000	45,000		
Long-term liabilities:				
Loan-Hari	3,000			
Loan-Gopi Ltd.	7,000	10,000		
		1,90,000		**1,90,000**

The terms of conversion are that Hari Ltd. is to take over the assets and liabilities of Hari Brothers as follows:

	Valuation for take-over Rs.
Land and Building	96,000
Plant and Machinery	28,000
Inventories	60,000
Debtors	24,000
Creditors	25,000
Goodwill	10,000

The closing balance in Axis Bank account is to be transferred to Dena Bank account before all the other dissolution entries are effected in the partnership ledgers.

Lal took over one of the motor vehicles at an agreed amount of Rs. 2,000. Remaining motor vehicles taken over by Hari ltd for Rs.15,000. All other liabilities were paid from the Dena Bank account.

The purchase consideration is discharged by an issue at par of Rs. 60,000 10% Debentures (fully paid) to the partners in their capital account proportions as shown in the above balance sheet plus equity shares in Hari Ltd. of Rs. 1 each (fully paid to make up the balance due to each partner).

You are required to

1. Prepare (a) Realisation Account (b) Partners' Capital Accounts (c) Bank account of Axis Bank and Dena Bank in the books of Hari Brothers;
2. 'Business purchase account' and 'Hari Brothers' account in Hari Ltd.'s books. **(SM)**

(Ans: (i) (a) Profit on realisation a/c Hari-20,000,Lal-20,000,Jay-10,000
(b) Total of Partner's capital a/c Hari-97,000,Lal-55,000,Jay-33,000,
(c) Total of Bank a/c Axis bank-5,000, Dena bank-30,000
(ii) Total of Business purchase a/c-2,33,000,
Total of Hari brothers a/c-1,83,000)

(Solve problem no. 16 of assignment problem as rework)

Note: ____

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Problem 19: (PRINTED SOLUTIONS AVAILABLE) Ramesh, Roshan and Rohan were partners of the firm '3R Enterprises' sharing profits and losses in the ratio of 3:2:1 respectively. On 31st March, 2011 their Balance Sheet stood as follows:

Liabilities	Rs.	Assets	Rs.
Ramesh's Capital A/c	16,80,000	Land and Buildings	14,00,000
Roshan's Capital A/c	11,60,000	Machinery	11,00,000
Rohan's Capital A/c	6,70,000	Furniture	6,10,000

General Reserve	6,30,000	Stock	8,40,000
Creditors	6,00,000	Debtors	6,00,000
		Cash at Bank	1,90,000
	47,40,000		**47,40,000**

On the above-mentioned date, the partners decided to convert their firm into a private limited company and named it '3R Enterprises (Private) Ltd.'. The company took over all the assets including cash at bank and all the creditors for Rs. 42,00,000 payable in the form of fully paid equity shares of Rs. 10 each. It recorded in its books, land and buildings at Rs. 16,40,000, machinery at Rs. 9,90,000 and created a provision for bad debts @ 5% on debtors. The expenses of the take-over came to Rs. 23,000 which were paid and borne by the company.

The expenses of getting the company incorporated were Rs. 57,000.

The partners distributed the company's shares amongst themselves in their profit sharing ratio. They settled their accounts by paying or receiving cash.

Prepare Realization Account and all the partners' capital accounts in the firm's ledger and pass journal entries in the books of the company for all of its transactions mentioned above.

(PM) ***(Ans: Profit on realisation a/c Ramesh's capital-30,000, Roshan's capital-20,000, Rohan's capital-10,000; Total of Partners capital a/c Ramesh-21,00,000, Roshan-14,00,000, Rohan-7,85,000)***

Note: ____

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Problem 20: The following is the Balance Sheet of M/s. P and Q as on 31st March, 2012:

Liabilities	Rs.	Assets	Rs.
Capital Accounts:		Machinery	54,000
P	50,000	Furniture	5,000
Q	30,000	Investment	50,000
Reserves	20,000	Stock	20,000
Loan Account of Q	15,000	Debtors	21,000
Creditors	40,000	Cash	5,000
	1,55,000		**1,55,000**

It was agreed that Mr. R is to be admitted for a fourth share in the future profits from 1st April, 2012. He is required to contribute cash towards goodwill and Rs. 15,000 towards capital.

The following further information is furnished:

1. P & Q share the profits in the ratio 3 : 2.
2. P was receiving salary of Rs.750 p.m. from the very inception of the firm in 2005 in addition to share of profit.
3. The future profit ratio between P, Q & R will be 2:1:1. P will not get any salary after the admission of R.
4. It was agreed that the value of goodwill of the firm shall appear in the books of the firm. The goodwill of the firm shall be determined on the basis of 3 years' purchase of the average profits from business of the last 5 years. The particulars of the profits are as under:

Year ended	Profit/(Loss)
31st March, 2008	25,000
31st March, 2009	12,500
31st March, 2010	(2,500)
31st March, 2011	35,000
31st March, 2012	30,000

The above Profits and Losses are after charging the Salary of P. The Profit of the year ended 31st March, 2008 included an extraneous profit of Rs. 40,000 and the loss for the year ended 31st March, 2010 was on account of loss by strike to the extent of Rs. 20,000.

5. The cash trading profit for the year ended 31st March, 2013 was Rs. 50,000 before depreciation.
6. The partners had drawn each Rs. 1,000 p.m. as drawings.
7. The value of other assets and liabilities as on 31st March, 2013 were as under:

Particulars	Rs.
Machinery (before depreciation)	60,000
Furniture (before depreciation)	10,000
Investment	50,000
Stock	15,000
Debtors	30,000
Creditors	20,000

8. Provide depreciation @ 10% on Machinery and @ 5% on Furniture on the Closing Balance and interest is accumulated @ 6% on Q's loan. The loan along with interest would be repaid within next 12 months.
9. Investments are held from inception of the firm and interest is received @ 10% p.a.
10. The partners applied for conversion of the firm into a Private Limited Company. Certificate was received on 1st April, 2013. They decided to convert Capital A/cs of the partners into share capital in the ratio of 2:1:1 on the basis of a total Capital as on 31st March, 2013. If necessary, partners have to subscribe to fresh capital or withdraw.

Prepare the Profit and Loss Account of the firm for the year ended 31st March, 2013 and the Balance Sheet of the Company on 1st April, 2013. **(PM)**

(Ans: Net Profit of P's capital-23,800, Q's capital-11,900, R's capital-11,900; Total of balance sheet 1,77,500)

(Solve problem no. 17 of assignment problem as rework)

Note: ____

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RECONSTRUCTION OF FIRM

Problem 21: Dhan & Daver were carrying on the business as equal partners. The firm's Balance Sheet as on 31st March 2013 was as follows.

Liabilities	RsRs.	Assets	Rs.
Sundry Trade Creditors	49,850	Goodwill	18,000
Loan due to Mehta	6,600	Furniture	2,000
Bank overdraft	34,550	Stock on hand (at Cost)	51,200
Capital A/cs:		Trade debtors 40,000	
Dhan 10,000		**Less:** 5% Discount 2,000	38,000
Daver 11,400	21,400	Bills receivable	3,000
		Cash in hand	200
	1,12,400		**1,12,400**

A Trade debt of RRs.20,000 proved to be wholly irrecoverable, and the firm called a meeting of its creditors. As a result of the meeting:

1. Creditors for Rs.30,000 reduced their claims by 25%;
2. Creditors whose claims amounted to Rs.19,850 accepted the stock at book value in satisfaction.
3. The Bank O.D. was paid by Mistry (a friend) as guarantor who reduced his claim against the firm in respect thereof by Rs.4,000.

4. The bills receivable were handed over to the loan creditors, who cancelled the balance owing to him in favour of Daver.

5. Daver's wife introduced Rs.6,000 as loan.

You are required to prepare Ledger A/cs to show how the foregoing arrangements would be recorded in the books of the firm; and Reconstructed Balance Sheet of the firm.

(Ans.: loss on reconstruction: Rs. 7,500; Balance of Capital accounts – Dhan: Rs. 6,250; Daver: Rs. 11,250; total of balance sheet: Rs. 76,550)

Note: ______________________________

ASSIGNMENT PROBLEMS

Problem 1: P, Q and R are the Partners sharing profits and losses as to 2:2:1. Their balance sheet as on 31st march, 2011 is as follows: **(PM)**

Liabilities	Rs.	Assets	Rs.
Capital accounts:		Plant and machinery	1,08,000
P	1,20,000	Fixtures	24,000
Q	48,000	Stock	60,000
R	24,000	Sundry debtors	48,000
Reserve fund	60,000	Cash	60,000
Creditors	48,000		
	3,00,000		**3,00,000**

They decided to dissolve the business. The following are the amounts realized:

Plant and machinery	Rs.1,02,000
Fixtures	Rs.18,000
Stock	Rs.84, 000
Sundry Debtors	Rs.44,400

Creditors allowed a discount of 5% and realization expenses amounted to Rs.1,500. There was an unrecorded asset of Rs.6,000 which was taken over by Q at Rs.4,800. A bill for 4,200 due for sales tax was received during the course of realization and this was also paid.

You are required to prepare:

1. Realisation Account
2. Partner's Capital Accounts.
3. Cash Account

(Ans.: Profit on Realization P -3,960, Q- 3,960, R- 1,980, total of cash A/c is 3,08,400)

Problem 2: A, B & C decided to dissolve their partnership on 30th June, 2003. Their balance sheet is as follows:

Liabilities		Rs.	*Assets*	Rs.
Creditors		3,400	Cash at bank	2,500
Capitals:			Debtors	6,200
A	12,000		Stock	3,700
B	9,000		Loose Tools	800
C	6,000	27,000	Motor Vehicles	1,200
			Plant & Machinery	6,000
			Freehold premises	10,000
		30,400		**30,400**

B & C 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 figures shown below: Stock – Rs.4,000 Loose Tools – Rs.500 Motor vehicles – Rs.2,500 Plant & Machinery – Rs.7,800 Freehold premises – Rs.8,400 Goodwill – Rs.6,000. Debtors realise Rs.5,900 and discounts amounting to Rs.72 are secured on payments due to creditors. The partnership agreement of A, B & C provides that Trading Profit or Loss shall be divided in the ratio of 3:2:1 and that capital profits or losses shall be divided in proportion of their respective capitals.

You are required to Prepare

a. The necessary A/cs of A, B & C giving effect to these transactions and

b. Opening entry in the books of B & C.

c. Draw up the opening Balance Sheet of B & C who bring necessary cash to pay A in the ratio of 3:2. *(Ans.: Balance in Realizaton Account: 34,950, total of balance sheet: 2,27,658)*

Problem 3: Ram, Rahim & Auntony were in partnership sharing profits and losses in the ratio of 1/2, 1/3 & 1/6 respectively. They decided to dissolve the partnership firm on 31.3.1998, when the Balance Sheet of the firm appeared as under:

Balance Sheet of the firm as on 31.3.1998

Liabilities		Rs.	*Assets*	Rs.
Sundry Creditors		5,67,000	Goodwill a/c	4,56,300
Bank Overdraft		6,06,450	Plant and Machinery	6,07,500
Joint Life Policy Reserve		2,65,500	Furniture	64,650
Loan from Mrs. Ram		1,50,000	Stock	2,36,700
Capital A/cs:			Sundry Debtors	5,34,000
Ram	4,20,000		Joint Life Policy	2,65,500
Rahim	2,25,000		Commission Receivable	1,40,550
Auntony	1,20,000	7,65,000	Cash on Hand	48,750
		23,53,950		**23,53,950**

The following details are relevant for dissolution:

a. The joint life policy was surrendered for Rs.2,32,500.

b. Ram took over Goodwill and Plant & Machinery for Rs.9,00,000

c. Ram also agreed to discharge Bank Overdraft and loan from Mrs. Ram

d. Furniture & stocks were divided equally between Ram & Rahim at an agreed valuation of Rs.3,60,000.

e. Sundry debtors were assigned to firm's creditors in full satisfaction of their claims.

f. Commission receivable was received in time.

g. A bill discounted was subsequently returned dishonored and proved valueless Rs.30,750 (including Rs.500 noting charges).

h. Ram paid the expenses of dissolution amounting to Rs.18,000.

i. Auntony agreed to receive Rs.1,50,000 in full satisfaction of his rights, title & interest in the firm.

You are required: To show A/cs relating to closing of books on dissolution of the firm.
(Ans.: Balance in Realisation Account: 1,11,600)

Problem 4:

Balance Sheet as at 30.10.13

Liabilities	Rs.	Assets	Rs.
Capitals:		Fixed Assets	1,00,000
P	5,000	Cash	10,000

Q	3,000		
R	2,000		
Bank Loan	60,000		
Sundry Creditors	40,000		
	1,10,000		**1,10,000**

All the partners were declared insolvent. Profit sharing ratio 5:3:2. Assets realized Rs.60,000. Prepare necessary ledger accounts to close the books of the firm.

(Ans: Loss on realisation a/c P-20,000, Q-12,000, R-8,000; Total of partners' capital a/c P-20,000, Q-12,000, R-8,000; Total of Deficiency a/c-30,000; Total of Bank loan a/c- 60,000; Total of Creditors a/c-40,000; Total of cash a/c-70,000)

Problem 5: P, Q, R and S had been carrying on business in partnership sharing profits & losses in the ratio of 4:3:2:1. They decided to dissolve the partnership on the basis of following Balance Sheet as on 30th April, 2011:

Liabilities	RRs.	Assets	Rs.
Capital Accounts:		Land & building	2,46,000
P 1,68,000		Furniture & fixtures	65,000
Q 1,08,000	2,76,000	Stock	1,00,000
General reserve	95,000	Debtors	72,500
Capital reserve	25,000	Cash in hand	15,500
Sundry creditors	36,000	**Capital overdrawn:**	
Mortgage loan	1,10,000	R 25,000	
		S 18,000	43,000
	5,42,000		**5,42,000**

1. The assets were realised as under:

	Rs.
Land & building	2,30,000
Furniture & fixtures	42,000
Stock	72,000
Debtors	65,000

2. Expenses of dissolution amounted to **Rs.**7,800.
3. Further creditors of Rs.18,000 had to be met.
4. R became insolvent and nothing was realized from his private estate.

   Applying the principles laid down in Garner Vs. Murray, prepare the Realisation Account, Partners' Capital Accounts and Cash Account. **(PM)**

(Ans.: Loss on Realisation A/c 1,00,300, Total of cash A/c is 5,10,740)

Problem 6: M/s X, Y and Z who were in partnership sharing profits and losses in the ratio of 2:2:1 respectively, had the following Balance Sheet as at December 31, 2012:

Liabilities	Rs.	Assets	Rs.
Capital : X	29,200	Fixed Assets	40,000
Y	10,800	Stock	25,000
Z	10,000	Book Debts 25,000	
Z's Loan	5,000	Less: Provision (5,000)	20,000
Loan from Mrs. X	10,000	Cash	1,000
Sundry Trade Creditors	25,000	Advance to Y	4,000
	90,000		**90,000**

The firm was dissolved on the date mentioned above due to continued losses. After drawing up the balance sheet given above, it was discovered that goods amounting to Rs. 4,000 have been purchased in November, 2012 and had been received but the purchase was not recorded in books.

Fixed assets realised Rs. 20,000; Stock Rs. 21,000 and Book Debt Rs. 20,500. Similarly, the creditors allowed a discount of 2% on the average. The expenses of realisation come to Rs. 1,080. X agreed to take over the loan of Mrs. X. Y is insolvent, and his estate is unable to contribute anything.

Give accounts to close the books; work according to the decision in Garner vs. Murray. **(SM)**

(Ans: Loss on realisation a/c X - 9,600, Y - 9,600, Z - 4,800; Total of Creditors - 29,000; Total of cash a/c 76,900; Total of capital a/c's X - 47,200, Y - 13,600, Z - 14,000)

Problem 7: The firm of Kapil & Dev has four partners and as of 31st March 2003, its Balance Sheet stood as follows:

Balance Sheet as at 31st March, 2003

Liabilities		Rs.	Assets	Rs.
Capital A/c s:			Land	50,000
F. Kapil	2,00,000		Buildings	2,50,000
S. Kapil	2,00,000		Office equipment	1,25,000
R. Dev	1,00,000	5,00,000	Computers	70,000
Current A/cs:			Debtors	4,00,000
F. Kapil	50,000		Stocks	3,00,000
S. Kapil	1,50,000		Cash at Bank	75,000
R. Dev	1,10,000	3,10,000	Other Current Assets	22,600
Loan from NBFC		5,00,000	**Current A/c:**	
Current liabilities.		70,000	B. Dev	87,400
		13,80,000		**13,80,000**

The partners have been sharing Profits & Losses in the ratio of 4:4:1:1. It has been agreed to dissolved the firm on 1.4.2003 on the basis of the following understanding:

a. The following assets are to be adjusted to the extent indicated with respect to the book values: Land: 200%, Buildings: 120%, Computers: 70%, Debtors: 95%, Stocks: 90%.

b. In the case of the loan, the lenders are to be paid at their instance a pre-payment premium of 1%.

c. B. Dev is insolvent and no amount is recoverable from him. His father, R. Dev, however, agrees to bear 50% of his deficiency. The balance of the deficiency is agreed to be appropriated according to law.

Assuming that the Realisation of the Assets & Discharge of Liabilities is carried out immediately, show the Cash A/c, Realisation A/c & the Partner's A/cs.

(Ans.: Balance in Realization Account: 24,000)

Problem 8: P, Q and R were partners sharing profits and losses in the ratio of 3 : 2 : 1, no partnership salary or interest on capital being allowed. Their balance sheet on 30th June, 2012 is as follows:

Liabilities		Rs.	Assets	Rs.
Fixed Capital:			**Fixed assets:**	
P	20,000		Goodwill	40,000
Q	20,000		Freehold Property	8,000
R	10,000	50,000	Plant and Equipment	12,800
Current Accounts:			Motor Vehicle	700
P	500		**Current Assets:**	
Q	9,000	9,500	Stock	3,900

Loan from P	8,000	Trade Debtors 2,000	
Trade Creditors	12,400	**Less** : Provision (100)	1,900
		Cash at Bank	200
		Miscellaneous losses:	
		R's Current Account	400
		Profit and Loss Account	12,000
	79,900		**79,900**

On 1st July, 2012 the partnership was dissolved. Motor Vehicle was taken over by Q at a value of Rs.500 but no cash passed specifically in respect of this transaction. Sale of other assets realised the following amounts:

Particulars	Rs.
Goodwill	Nil
Freehold Property	7,000
Plant and Equipment	5,000
Stock	3,000
Trade Debtors	1,600

Trade Creditors were paid Rs.11,700 in full settlement of their debts. The costs of dissolution amounted to Rs.1,500. The loan from P was repaid, P and Q were both fully solvent and able to bring in any cash required but R was forced into bankruptcy and was only able to bring 1/3 of the amount due

You are required to show:

1. Cash and Bank Account,
2. Realization Account, and
3. Partners Fixed Capital Accounts (after transferring Current Accounts' balances). **(SM)**

(Ans.: Total of cash A/c is 59,600, Loss on realisation A/c is 51,000, Total of Partners capital a/c P-45,500, Q-42,000, R-10,900)

Problem 9: Amar, Akbar and Antony are in partnership. The following is their Balance Sheet as at March 31, 2010 on which date they dissolved their partnership. They shared profit in the ratio of 5:3:2.

Liabilities	Rs.	Assets	Rs.
Creditors	80,000	Plant and machinery	60,000
Loan A/c – Amar	20,000	Premises	80,000
Capital A/cs - Amar	1,00,000	Stock	60,000
Akbar	30,000	Debtors	1,20,000
Antony	90,000		
	3,20,000		**3,20,000**

It was agreed to repay the amounts due to the partners as and when the assets were realised, viz.

April 15, 2010	Rs.60,000
May 1, 2010	Rs.1,46,000
May 31, 2010	Rs.94,000

Prepare a statement showing how the distribution should be made under maximum loss method and write up the cash account and partners' capital accounts. **(PM)**

(Ans.:Loss on realisation Amar-10,000, Akbar-6,000, Antony-4,000)

Problem 10: The firm of LMS was dissolved on 31.3.2012, at which date its Balance Sheet stood as follows:

Liabilities	Rs.	Assets	Rs.
Creditors	2,00,000	Fixed Assets	45,00,000
Bank Loan	5,00,000	Cash and Bank	2,00,000
L's Loan	10,00,000		
Capital - L	15,00,000		
M	10,00,000		
S	5,00,000		
	47,00,000		**47,00,000**

Partners share profits equally. A firm of Chartered Accountants is retained to realise the assets and distribute the cash after discharge of liabilities. Their fees which include all expenses is fixed at Rs. 1,00,000. No loss is expected on realisation since fixed assets include valuable land and building.

Realizations are:

S. No.	Amount in Rs.
1	5,00,000 (including cash and bank)
2	15,00,000
3	15,00,000
4	30,00,000
5	30,00,000

The Chartered Accountant firm decided to pay off the partners in 'Higher Relative Capital Method'. You are required to prepare a statement showing distribution of cash with necessary workings. **(SM)** ***(Ans: Realisation profit credited to partners L-15,66,667, M-15,66,667, N-15,66,666)***

Problem 11: The partners A, B & C have called upon you to assist them in winding up the affairs of their partnership on 30th June, 2012. Their Balance Sheet as on that date is given below:

Liabilities	RRs.	Assets	Rs.
Sundry Creditors	17,000	Cash at Bank	6,000
Capital A/cs:		Sundry Debtors	22,000
A 67,000		Stock in trade	14,000
B 45,000		Plant & Equipment	99,000
C 31,500	1,43,500	Loan-A	12,000
		Loan-B	7,500
	1,60,500		**1,60,500**

1. The partners share Profits & Losses in the ratio of 5:3:2.
2. Cash is distributed to the partners at the end of each year.
3. A summary of liquidation transactions are as follows:

July 2012	
Rs.16,500	Collected from Debtors; balance is uncollectible
Rs.10,000	Received from sale of entire stock
Rs.1,000	Liquidation expenses paid.
Rs.8,000	Cash retained in the business at the end of the month.
August 2012	
Rs.1,500	Liquidation expenses paid. As part payment of his Capital C accepted piece of equipment for Rs.1,000 (book value Rs.4,000)
Rs.2,500	Cash retained in the business at the end of the month.
Sept. 2012	
Rs.75,000	Received on sale of remaining plant and equipment
Rs.1,000	Liquidation expenses Paid. No cash retained in the business.

Prepare a schedule of cash payments as of 30th September, showing how the cash was distributed under surplus capital method. **(SM)**

(Ans.: Loss to be borne – A: Rs. 18,000; B: Rs. 10,800; C: 7,200)

Problem 12: B and S are partners of S & Co. sharing profits and losses in the ratio of 3:1. S and T are partners of T & Co. sharing profits and losses in the ratio of 2:1. On 31st October, 2011, they decided to amalgamate and form a new firm M/s. BST & Co. wherein B, S and T would be partners sharing profits and losses in the ratio of 3:2:1. Their balance sheets on that date were as under:

Liabilities	S & Co.	T & Co.	Assets	S & Co	T & Co
Due to X & Co	40,000	–	Cash in hand	10,000	5,000
Due to S & Co	–	50,000	Cash at bank	15,000	20,000
Other:			Due from T & Co	50,000	–
Creditors	60,000	58,000	Due from X & Co	–	30,000
Reserves	25,000	50,000	Other Debtors	80,000	1,00,000
Capitals:			Stock	60,000	70,000
B	1,20,000	---	Furniture	10,000	3,000
S	80,000	1,00,000	Vehicles	–	80,000
T	----	50,000	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:

1. Goodwill of S & Co. was worth Rs.60,000 and that of T & Co. Rs.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.
2. Building, machinery and vehicles were taken over at Rs.50,000, Rs.90,000 and Rs.1,00,000 respectively
3. Provision for doubtful debts has to be carried forward at Rs.4,000 in respect of debtors of S & Co. and Rs.5,000 in respect of debtors of T & Co.

You are required to:

1. Compute the adjustments necessary for goodwill.
2. Pass the journal entries in the books of BST & Co. assuming that excess/deficit capital (taking T's Capital as base) with reference to share in profits are to be transferred to current accounts. **(SM) (Nov. 2013)**

Problem 13: Firm X & Co. consists of partners A and B sharing Profits and Losses in the ratio of 3 : 2. The firm Y & Co. consists of partners B and C sharing Profits and Losses in the ratio of 5 : 3.

On 31st March, 2012 it was decided to amalgamate both the firms and form a new firm XY & Co., wherein A, B and C would be partners sharing Profits and Losses in the ratio of 4:5:1.

Balance Sheet as at 31.3.2012

Liabilities	X & Co.	Y & Co.	Assets	X & Co.	Y & Co.
Capital:			Cash in hand/bank	40,000	30,000
A	1,50,000	---	Debtors	60,000	80,000
B	1,00,000	75,000	Stock	50,000	20,000
C	---	50,000	Vehicles	---	90,000
Reserve	50,000	40,000	Machinery	1,20,000	---
Creditors	1,20,000	55,000	Building	1,50,000	---
	4,20,000	**2,20,000**		**4,20,000**	**2,20,000**

The following were the terms of amalgamation:

1. Goodwill of X & Co., was valued at Rs. 75,000. Goodwill of Y & Co. was valued at Rs. 40,000. Goodwill account not to be opened in the books of the new firm but adjusted through the Capital accounts of the partners.
2. Building, Machinery and Vehicles are to be taken over at Rs. 2,00,000, Rs. 1,00,000 and Rs. 74,000 respectively.
3. Provision for doubtful debts at Rs. 5,000 in respect of X & Co. and Rs. 4,000 in respect of Y & Co. are to be provided.

You are required to:

1. Show, how the Goodwill value is adjusted amongst the partners.
2. Prepare the Balance Sheet of XY & Co. as at 31.3.2012 by keeping partners capital in their profit sharing ratio by taking capital of 'B' as the basis. The excess or deficiency to be kept in the respective Partners' Current accounts. **(SM)** ***(Ans: Total of Balance sheet 6,45,000)***

Problem 14: P and Q were carrying on business sharing profits and losses equally. The firm's Balance Sheet as at 31.12.2013 was:

Liabilities		Rs.	Assets		Rs.
Capital Accounts:			Plant		1,60,000
P	1,50,000		Building		48,000
Q	1,30,000	2,80,000	Debtors		75,000
Sundry Creditors		80,000	Stock		70,000
Bank Overdraft		45,000	Joint Life Policy		6,000
			Profit & Loss A/c		30,000
			Drawings Account:		
			P	9,000	
			Q	7,000	16,000
		4,05,000			**4,05,000**

The operations of the business were carried on till 30.06.2014. P and Q both withdrew in equal amount half the amount of profit made during the current period of six months after charging depreciation at 10% per annum on plant and after writing off 5% on building.

During the current period of six months, creditors were reduced by Rs. 20,000 and bank overdraft by Rs. 5,000.

The joint life policy was surrendered for Rs. 6,000 before 30th June 2014. Stock was valued at Rs. 84,000 and debtors at Rs. 68,000 on 30th June 2014. The other items remained the same as at 31.12.2013.

On 30.06.2014, the firm sold its business to PQ Ltd. The value of goodwill was estimated at Rs. 1,30,000 and the remaining assets were valued on the basis of the balance sheet as on 30.06.2014.

PQ Ltd. paid the purchase consideration in equity shares of Rs. 10 each.

You are required to prepare:

1. Balance sheet of the firm as at 30.06.2014,
2. Realisation account,
3. Partners' Capital Accounts showing the final settlement between them.

(SM) **(Ans: (a) Total of Balance sheet 3,49,600, (b) Profit on realisation P's capital-65,000, Q's capital-65,000, (c) Balance of partners P-1,33,800, Q-1,15,800)**

Problem 15: On 31st March 2012, Sri Raman acquires on payment of Rs.80,000 the business of M/s Gupta and Singh taking over at book value the following assets and liabilities:

Debtors	35,000
Furniture	3,000
Stock	46,000
Creditors	10,000

There was no change between 1st January, 2012 and 31st March, 2012 in the book value of the assets and liabilities not taken over.

The same set of books has been continued after the acquisition and no entries of the acquisition have been passed except for the payment of Rs.80,000 made by Sri Raman.

From the following balance sheet and trial balance prepare Business Purchase Account, Profit and Loss Account for the year ended 31st December, 2012 and Balance Sheet at that date.

Balance Sheet as at December, 2011

Liabilities	Rs.	Rs.	Assets	Rs.
Capital Accounts			Furniture	3,000
Sri Gupta	30,000		Investments	5,000
Sri Singh	20,000	50,000	Insurance Policy	2,000
Bank Loan		18,000	Stock	40,000
Creditors		12,000	Debtors	30,000
		80,000		80,000

On 31st December 2012 the trial balance is:

Particulars	Rs.	Rs.
Stock	40,000	
Furniture	3,000	
Investment	5,000	
Insurance policy	2,000	
Business purchase account	80,000	
Bank loan		18,000
Capital:		
Gupta		30,000
Singh		20,000
Raman		30,000
Bank	3,000	
Debtors	48,000	
Creditors		15,000
Purchases	3,20,000	
Expenses	12,000	
Sales		4,00,000
	5,13,000	**5,13,000**

Closing Stock – Rs.50,000

Problem 16: Prabhu & Co. is a partnership firm consisting of Mr. Prabhu, Mr. Bhola and Mr. Shiv who share profits and losses in the ratio of 2:2:1 and Bhagwan Ltd. is a company doing similar business. Following is the Balance sheet of the firm and that of the company as at 31.3.2012:

Liabilities	Prabhu & Co.	Bhagwan Ltd.	Assets	Prabhu & Co.	Bhagwan Ltd.
Equity share Capital:			Plant & machinery	2,50,000	8,00,000
Equity shares of Rs.10 each		10,00,000	Furniture & fixture	25,000	1,12,500
Partners' capital:			Stock in trade	1,00,000	4,25,000
Prabhu	1,00,000		Sundry debtors	1,00,000	4,12,500

Bhola	1,50,000		Cash at bank	5,000	2,00,000
Shiv	50,000		Cash in hand	20,000	50,000
General reserve	50,000	3,50,000			
Sundry creditors	1,50,000	6,50,000			
	5,00,000	**20,00,000**		**5,00,000**	**20,00,000**

It was decided that the firm Prabhu & Co. be dissolved and all the assets (except cash in hand and cash at bank) and all the liabilities of the firm be taken over by Bhagwan Ltd. by issuing 25,000 shares of Rs 10 each at a premium of Rs. 2 per share.

Partners of Prabhu & Co. agreed to divide the shares issued by Bhagwan Ltd. in the profit sharing ratio and bring necessary cash for settlement of their capital.

The creditors of Prabhu & Co. includes Rs. 50,000 payable to Bhagwan Ltd. An unrecorded liability of Rs 12,500 of Prabhu & Co. must also be taken over by Bhagwan Ltd.

Prepare:

i) Realisation account, Partners' capital accounts and Cash in hand/Bank account in the books of Prabhu & Co.

ii) Pass journal entries in the books of Bhagwan Ltd. for acquisition of Prabhu & Co.

(Ans: (a) Loss on realisation - 25,000)

Problem 17: The following is the Balance Sheet of Messers A and B as on 31st March 2011:

Liabilities		Rs.	Assets	Rs.
A's Capital	40,000		Land and Buildings	50,000
B's Capital	50,000	90,000	Stock	30,000
A's Loan		10,000	Debtors	20,000
General Reserve		10,000	Investment 6% Debentures in X Ltd.	20,000
Liabilities		20,000	Cash	10,000
		1,30,000		**1,30,000**

It was agreed that Mr. C is to be admitted for a fifth share in the future profits from 1st April 2011. He is required to contribute cash towards goodwill and Rs. 10,000 towards capital.

The following further information is furnished:

1. The partners A and B shared the profits in the ratio 3:2.
2. Mr. A was receiving a salary of Rs. 500 p.m. from the very inception of the firm in 1998 in addition to share of profit.
3. The future profit ratio between A, B and C will be 3:1:1. Mr. A will not get any salary after the admission of Mr. C.
4. **(a)** The goodwill of the firm shall be determined on the basis of 2 years' purchase of the average profits from business of the last 5 years. The particulars of the profits are as under:

			Rs.
Year ended	31-3-07	Profit	20,000
Year ended	31-3-08	Loss	10,000
Year ended	31-3-09	Profit	20,000
Year ended	31-3-10	Profit	25,000
Year ended	31-3-11	Profit	30,000

The above profits and losses are after charging the salary of Mr. A. The profit of the year ended 31st March 2007 included an extraneous profit of Rs. 30,000 and the loss of the year ended 31st March 2008 was on account of loss by strike to the extent of Rs. 20,000.
(b) It was agreed that the value of the goodwill of the firm shall appear in the books of the firm.

5. The trading profit for the year ended 31st March, 2012 was Rs. 40,000 before depreciation.

6. The partners had drawn each Rs. 1,000 p.m. as drawings.

7. The value of the other assets and liabilities as on 31st March, 2012 were as under:

	Rs.
Building (before depreciation)	60,000
Stock	40,000
Debtors	Nil
Investment	20,000
Liabilities	Nil

8. Provide depreciation at 5% on land and buildings on the closing balance and interest at 6% on A's loan.

9. They applied for conversion of the firm into a Private Limited Company i.e. ABC Pvt. Ltd. Certificate received on 1-4-2012. They decided to convert Capital A/cs of the partners into share capital in the ratio of 3 : 1 :1 on the basis of total Capital as on 31-3-2012. If necessary, partners have to subscribe to fresh capital or withdraw.

Prepare the Statement of Profit and Loss for the year ended 31st March, 2012 and the Balance Sheet of the company. **(SM)**

(Ans: Net profit to A's capital - 22,560, B's capital - 7,520, C's capital - 7,520; Total of balance sheet 1,69,720)

ABC ANALYSIS

	A Category	B Category	C Category
Class Room Problems	2, 3, 4, 6, 8, 9, 10, 11, 12, 15, 19, 20	1, 5, 7, 14, 16, 21	13, 17, 18
Assignment Problems	2, 3, 5, 8, 11, 14, 17	1, 4, 6, 7, 9, 10, 13	12

Verified by: G.S.R Sir, Satish Sir,
Executed by: Rajasekhar

THE END