7. ADVANCED CONCEPTS RELATING TO DISSOLUTION OF PARTNERSHIP FIRMS

NO. OF PROBLEMS IN 41E OF CA INTER: CLASSROOM - 09 ASSIGNMENT - 11

NO. OF PROBLEMS IN 41.5E OF CA INTER: CLASSROOM – 07 ASSIGNMENT – 09

NO. OF PROBLEMS IN 42.5(2E) OF CA INTER: CLASSROOM – 08 ASSIGNMENT - 08

MODEL WISE ANALYSIS OF PAST EXAM PAPERS OF IPCC & CA INTER

MODEL NO.	M-12	N-12	M-13	N-13	M-14	N-14	M-15	N-15	M-16	N-16	M-17	N-17	M-18 (O)	M-18 (N)	N-18 (O)	N-18 (N)	M-19 (O)	M-19 (N)	N-19 (O)	N-19(N)
Model – 1	-	16	16	-	-	16	-	-	-	-	16	-	-	15	-	-	-	-	-	-
Model – 2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Model – 3	-	-	-	16	-	-	-	16	16	-	-	16	-	-	-	-	20	-	-	-
Model – 4	-	-	4	-	-	-	4	-	4	-	-	4	-	-	-	-	-	-	-	-

Model – 1 : Amalgamation of Firms

Model – 2 : Conversion of Partnership firm into a company

Model – 3 : Sale of Partnership firm

SIGNIFICANCE OF EACH PROBLEM COVERED IN THIS MATERIAL

PROBLEM No. in this material	PROBLEM No. in NEW SM	PROBLEM No. in OLD SM	PROBLEM No. in OLD PM	RTP	MTP	Previous Exams	Remarks
CR -1	-	PQ NO-1	Q.No.1	N18 (O)	-	-	-
CR -2				M18,N16	N18(N&O)		
CR- 3	ILL-5	ILL-5	-	-	-	-	-
CR -4	ILL-4	ILL-4	-	-	-	-	-
CR -5	ILL-2	ILL-2		-	-	-	-
CR -6	ILL-6	ILL-6	-	N18 (O)	-	-	-
CR -7	ILL-7	ILL-7	-	-	-	-	-
CR-8	-	PQ NO-3	Q.No.3	-	-	M-15	-
ASG- 1	ILL-1	ILL-1	-	-	-	-	-
ASG- 2						M18(O)	
ASG -3				M18,N16	N18(N&O)		
ASG -4	-	ILL-6	Q.No.9	-	-	N-15	-
ASG-5	-	-	-	-	-	M -19	-
ASG -6	-	ILL-6	Q.No.9	-	-	N-15	-
ASG- 7	-	-	-	M-17	-	-	-
ASG- 8	ILL-9	ILL-9	-	-	-	-	-

THEORY

MODEL 1: AMALGAMATION OF FIRMS

I. **Amalgamation of Partnership firms:**

1. **Meaning of Amalgamation:** Under amalgamation, two or more firms transfer their businesses to a new firm which is formed to take over such businesses.
2. **Revaluation on Amalgamation:** Usually all the assets and liabilities are revalued in order to ascertain the true position as on the date of amalgamation.
3. How to close the books of amalgamating firms:

   Practical Steps to close the books of amalgamating firms:

   Step 1: Prepare Revaluation Account to ascertain the Profit/Loss on Revaluation of all Assets and Liabilities, and transfer such Profit/Loss to the Partners' Capital Accounts in the profit sharing ratio.

   Step 2: On raising Goodwill of the firm, Goodwill should be debited and partners' capital accounts should be credited in their profit sharing ratio.

   Step 3: Realise those assets which have not been taken over by the new firm and transfer such unsold assets (if any) to the Capital accounts of all the partners in the ratio of their Capitals.

   Step 4: Discharge those liabilities which have not been taken over by the new firm and transfer such undischarged liabilities (if any) to the Capital Accounts of all the Partners in the ratio of their Capitals.

   Step 5: Transfer all Accumulated Reserves/ Profits/ Losses to the Capital Accounts of all the Partners in the ratio of their Capitals.

   Step 6: Close the accounts of liabilities taken over and the Accounts of Assets taken over by passing the following journal entry:

   New Firm's Account Dr. [With excess of Agreed Values of Assets taken over the Agreed Amount of Liabilities taken over]

   Liabilities taken over Dr. [With Agreed Amount of Liabilities taken over]

   (Individually)

   To Assets taken over (Individually) [With Agreed Values of Assets taken over]

   Step 7: Close the partner's Capital Accounts and the New Firm's Account by passing the following Journal entry:

   Partner's Capital Accounts (Individually) Dr. (With Individual Capital of Partners)

   To New Firm's Account (With Total)

4. How to open the books of the New Firm:

   Assets taken over (Individually) Dr. [With Agreed Values of Assets taken over]

   To Liabilities taken over (Individually) [With Agreed Amount of Liabilities taken over]

   To Partner's Capital Accounts (Individually) [With individual Capital of Partners]

MODEL 2: CONVERSION OF PARTNERSHIP FIRM IN TO A COMPANY

When a partnership firm is converted into a company, it is nothing but dissolution of a firm resulting on account of conversion into a company. Thus, the same accounting procedure is followed for closing the books of the firm as followed for simple dissolution of a firm.

At times partnerships also are reconstructed like joint stock companies, with the help of creditors if they are satisfied that if by taking of further risk or forgoing a part of the debt, the chances of recovery of their loan and capital would improve.

It usually entails preparation of Reconstruction Account for determining the past losses which belong to old partners and writing them off to the debit of their capital accounts. If a creditor agrees to join as a partner the whole or only a part of the account standing to the credit of his loan account is transferred to his capital account.

MODEL 3: SALE OF PARTNERSHIP FIRM TO A COMPANY

When a partnership firm is sold to a company, it is nothing but dissolution of a firm resulting on account of sale to a company. Thus, the same accounting procedure is followed for closing the books of the firm as followed for simple dissolution of a firm.

LIMITED LIABILITY PARTNERSHIP

Term	Definition
Limited Liability Partnership	Partnership formed and registered under Limited Liability Partnership (LLP) Act, 2008
Limited Liability Partnership Agreement	Any Written Agreement between a) the Partners of LLP, or b) the Limited Liability Partnership and its Partners } Which determines the mutual rights and duties of the Partners and their rights and duties in relation to that LLP?
Partner in relation to LLP	Any Person who becomes a Partner in LLP in accordance with LLP Agreement.
Designated Partner	Any Partner designated as such pursuant to Sec. 7 of LLP Act.

Differentiate an ordinary partnership firm with an LLP. Under what circumstances, an LLP can be wound up by the tribunal?

	Key Elements	Partnerships	LLPs
1	Applicable Law	Indian Partnership Act 1932	The Limited Liability Partnerships Act, 2008
2	Registration	Optional	Compulsory with ROC
3	Creation	Created by an Agreement	Created by Law
4	Body Corporate	No	Yes
5	Separate Legal Entity	No	Yes
6	Perpetual Succession	Partnerships do not have perpetual succession.	It has perpetual succession and individual partners may come and go.
7	Number of Partners	Minimum 2 and Maximum 20 (subject to 10 for banks)	Minimum 2 but no maximum limit
8	Ownership of Assets	Firm cannot own any assets.	The partners own the assets of the firm. The LLP as an independent entity can own assets.
9	Liability of Partners / Members	Unlimited: Partners are severally and jointly liable for actions of other partners and the firm and their liability extends to personal assets.	Limited to the extent of their contribution towards LLP except in case of intentional fraud or wrongful act of omission or commission by a partner.
10	Principal Agent Relationship	Partners are the agents of the firm and of each other.	Partners are agents of the firm only and not of other partners.

Liabilities of Designated Partners (Sec.8): Unless otherwise provided in the LLP Act, Designated Partner shall be **(RTP N18 (O))**

a) **Responsible for doing of all acts**, matters and things as are required to be done by the LLP in respect of compliance of the provisions of the LLP Act, including **filing of any Document**, Return, Statement, Report, etc. pursuant to the Act and as may be specified in the LLP Agreement,

b) Liable to all penalties imposed on the LIP for any **contravention** of the provisions of LLP Act.

PROBLEMS FOR CLASSROOM DISCUSSION

MODEL 1: AMALGAMATION OF FIRMS

PROBLEM NO 1: (PRINTED SOLUTION 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 have 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. ***(A) (NEW SM, SIMILAR: RTP N18 (O), RTP N16, N17 - 16M) (ANS: BALANCE SHEET TOTAL RS.14,20,000)***

(SOLVE PROBLEM NO. 1 OF ASSIGNMENT PROBLEM AS REWORK)

Note: ____

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MODEL 2: CONVERSION OF PARTNERSHIP FIRM INTO A COMPANY

PROBLEM NO 2: Mohit, Neel and Om were Partners sharing Profits and Losses in the ratio of 5:3:2 respectively. The Trial Balance of the Firm 31st March, 2016 was the following:

Particulars	Amount (Rs.)	Amount (Rs.)
Machinery at Cost	2,00,000	
Inventory	1,37,400	
Trade receivables	1,24,000	
Trade payables		1,69,400

Capital A/c's:		
Mohit		1,36,000
Neel		90,000
Om		46,000
Drawing A/c's:		
Mohit	50,000	
Neel	46,000	
Om	34,000	
Depreciation on Machinery		80,000
Profit for the year ended 31st March		2,48,600
Cash at Bank	1,78,600	
	7,70,000	**7,70,000**

Interest on Capital Accounts at 10% p.a. on the amount standing to the credit of Partners' Capital Account at the beginning of the year, was not provided before preparing the above Trial Balance. On the above date, they formed a MNO Private Limited Company with an authorized Share Capital of 2,00,000 in shares of Rs.10 each to be divided in different classes to take over the business of Partnership firm.

You are provided the following information:

1. Machinery is to be transferred at Rs.1,40,000.

2. Shares in the Company are to be issued to the partners, at par, in such numbers, and in such classes as will give the partners, by reason of their shareholdings alone, the same rights as regards interest on capital and the sharing of profit and losses as they had in the partnership.

3. Before transferring the business, the partners wish to draw from the partnership profits to such an extent that the bank balance is reduced to Rs.1,00,000. For this purpose, sufficient profits of the year are to be retained in profit-sharing ratio.

4. Assets and liabilities except Machinery and Bank are to be transferred at their book value as on the above date.

<u>You are required to prepare:</u>

a) Statement showing the workings of the Number of Shares of each class to be issued by the company, to each partner.

b) Capital Accounts showing all adjustments required to dissolve the Partnership.

c) Balance Sheet of the Company immediately after acquiring the business of the Partnership and Issuing of Shares. ***(RTP N16, RTP M18 (O), MTP2 N18 (N&O))***

(ANS.: A) MOHIT: 13,600 PREF. SHARES, 3,000 EQUITY SHARES; NEEL: 9,000 PREF. SHARES, 1,800 EQUITY SHARES; OM: 4,600 PREF. SHARES, 1,200 EQUITY SHARES; TOTAL OF BALANCE SHEET: RS. 5,01,400)

(SOLVE PROBLEM NO. 2 OF ASSIGNMENT PROBLEM AS REWORK)

Note: ____

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<u>PROBLEM NO 3:</u> 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	<u>20,000</u>	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 affected 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. ***(A) (NEW 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. 3,4 OF ASSIGNMENT PROBLEM AS REWORK)

Note: ____

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PROBLEM NO 4: 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. 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.

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/c's 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. ***(A)***

(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)

(SOLVE PROBLEM NO. 5 OF ASSIGNMENT PROBLEM AS REWORK)

MODEL 3: SALE OF PARTNERSHIP FIRM

PROBLEM NO 5: (PRINTED SOLUTION AVAILABLE) 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. ***(B) (NEW SM) (ANS.: TOTAL OF BALANCE SHEET: RS. 1,10,000, NET PROFIT: RS. 65,000)***

Note: ____

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<u>PROBLEM NO 6:</u> (PRINTED SOLUTION AVAILABLE) 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 <u>1,30,000</u>	2,70,000	Leasehold Premises	34,000
		Profit & Loss A/c	26,000
		Drawings Accounts:	
		A 10,000	
		B <u>6,000</u>	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 30.06.2012. 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 30.06.2012; (b) The Realisation Account; (c) Partners' Capital Accounts showing the final settlement between them.

(A) (NEW SM, SIMILAR: RTP N18 (O), MTP1 M18 (N), M17 - 16M) (ANS.: TOTAL OF BALANCE SHEET IS 3,09,800, TOTAL OF REALISATION A/C IS 4,09,800) (SOLVE PROBLEM NO. 6 OF ASSIGNMENT PROBLEM AS REWORK)

Note: ____

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PROBLEM NO 7: 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 Rs.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 01.01.2011 to 30.06.2012. Show also the account of the executors of A. *(A) (NEW SM, M15)*

(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)

(SOLVE PROBLEM NO. 7 OF ASSIGNMENT PROBLEM AS REWORK)

Note: ____

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PROBLEM NO 8: Yash, Tanish and Ruchika were partners sharing Profit & Loss in ratio of 3:2:1. Balance Sheet of the firm is as follows:

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Fixed Capital:		Fixed Assets	45,000
- Yash	50,000	Investments	15,000

- Tanish	20,000	Current Assets:	
- Ruchika	10,000	- Stock	10,000
Current Accounts:		- Debtors	27,500
- Yash	6,000	- Cash & Bank	12,500
- Ruchika	4,000	Current Account:	
Unsecured Loans	15,000	- Tanish	10,000
Current Liabilities	15,000		
	1,20,000		**1,20,000**

On 1st April, 20X1 all the partners agreed to form a new company YTR Pvt. Ltd., which will take over the firm as going concern including goodwill, but excluding cash and bank balances. The following matters were also agreed upon:

a) Goodwill should be valued at 3 years' purchase of super profits.

b) Actual profit for the purpose of goodwill valuation will be Rs 20,000.

c) The normal rate of return will be 17.50% per annum of Fixed Capital.

d) All other Assets and Liabilities will be taken over at book value.

e) The purchase consideration will be paid partly in share of Rs.1 each and partly in cash. Yash and Tanish to acquire interest in new company in the ratio of 3:2 at face value. Ruchika agreed to retire after taking her share in cash.

f) Realisation expenses amounted to Rs.5,000.

Prepare Realisation Account, Cash and Bank Account, YTR Private Limited Account and Capital Accounts of the partners. ***(A) (NEW SM, N15 - 16M) (ANS.: PROFIT ON REALISATION: RS. 13,000)***

(SOLVE PROBLEM NO. 8 OF ASSIGNMENT PROBLEM AS REWORK)

Note: ____

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PRINTED SOLUTIONS FOR SOME SELECTIVE PROBLEMS

PROBLEM NUMBERS TO WHICH SOLUTIONS ARE PROVIDED: 1, 5, 6.

PROBLEM NO:1

Balance Sheet of M/s PQR & Co. as at 31st March, 2009

Liabilities		Rs.	Assets		Rs.
Capitals:			Building (Rs. 1,00,000 + Rs. 60,000)		1,60,000
P	5,52,000		Plant & machinery (Rs. 2,50,000+Rs. 2,00,000)		4,50,000
Q	3,68,000		Office equipment (Rs. 20,000+Rs. 6,000)		26,000
R	1,84,000	11,04,000	Stock-in-trade (Rs. 1,44,000+Rs. 1,68,000)		3,12,000
Sundry creditors (1,20,000 + 1,16,000)		2,36,000	Sundry debtors (Rs. 1,60,000 + Rs. 2,00,000) **Less:** Provision for doubtful Debts (Rs. 12,000 + Rs.26,000)	3,60,000 (38,000)	3,22,000
Bank overdraft		80,000	Bank balance (Rs.30,000+ Rs. 90,000)		1,20,000
			Cash in hand		30,000
		14,20,000			**14,20,000**

In the books of P & Co.

Dr. **Partners' Capital Accounts** **Cr.**

Particulars	P Rs.	Q Rs.	Particulars	P Rs.	Q Rs.
To Capital A/c's - M/s PQR & Co.	4,89,000	2,43,000	By Bal. b/d	2,40,000	1,60,000
			By Reserve (3:1)	37,500	12,500
			By Profit on Realisation A/c (W.N.4)	2,11,500	70,500
	4,89,000	**2,43,000**		**4,89,000**	**2,43,000**

In the books of R & Co.

Dr. **Partners' Capital Accounts** **Cr.**

Particulars	P Rs.	Q Rs.	Particulars	P Rs.	Q Rs.
To Capital A/c's – M/s PQR & Co.	3,68,000	1,84,000	By Bal. b/d	2,00,000	1,00,000
			By Reserve (2:1)	1,00,000	50,000
			By Profit on Realisation (W.N.5)	68,000	34,000
	3,68,000	**1,84,000**		**3,68,000**	**1,84,000**

Working Notes:

1. Computation of purchase considerations:

Particulars	P & Co. Rs.	R & Co. Rs.
Assets:		
Goodwill	1,20,000	60,000
Building	1,00,000	60,000
Plant & machinery	2,50,000	2,00,000
Office equipment	20,000	6,000
Stock-in-trade	1,44,000	1,68,000
Sundry debtors	1,60,000	2,00,000
Bank balance	30,000	90,000
Cash in hand	20,000	10,000
Due from R & Co.	1,00,000	-
Total (A)	**9,44,000**	**7,94,000**
Liabilities:		
Creditors	1,20,000	1,16,000
Provision for doubtful debts	12,000	26,000
Due to P & Co.	-	1,00,000
Bank overdraft	80,000	-
Total (B)	**2,12,000**	**2,42,000**
Purchase consideration (A-B)	**7,32,000**	**5,52,000**

2. Computation of proportionate capital

Particulars	Rs.
M/s PQR & Co. (Purchase Consideration) (Rs. 7,32,000+ Rs. 5,52,000)	12,84,000
Less: Goodwill adjustment	(1,80,000)
Total capital of new firm (Distributed in ratio 3:2:1)	11,04,000
P's proportionate capital	5,52,000
Q's proportionate capital	3,68,000
R's proportionate capital	1,84,000

3. **Computation of Capital Adjustments**

Particulars	P	Q	R	Total
Balance transferred from P & Co.	4,89,000	2,43,000		7,32,000
Balance transferred from R & Co.		3,68,000	1,84,000	5,52,000
	4,89,000	6,11,000	1,84,000	12,84,000
Less: Goodwill written off in the ratio of 3:2:1	(90,000)	(60,000)	(30,000)	(1,80,000)
Existing capital	3,99,000	5,51,000	1,54,000	11,04,000
Proportionate capital	5,52,000	3,68,000	1,84,000	11,04,000
Amount to be brought in (paid off)	1,53,000	(1,83,000)	30,000	

4. **In the books of P & Co.**

Dr. Realisation Account Cr.

Particulars	Rs.	Particulars	Rs.
To Building	50,000	By Creditors	1,20,000
To Plant & machinery	1,50,000	By Bank overdraft	80,000
To Office equipment	20,000	By M/s PQR & Co. (Purchase consideration) (W.N.1)	7,32,000
To Stock-in-trade	1,20,000		
To Sundry debtors	1,60,000		
To Bank balance	30,000		
To Cash in hand	20,000		
To Due from R & Co.	1,00,000		
To Partners' capital A/cs: P 2,11,500 Q 70,500	2,82,000		
	9,32,000		**9,32,000**

5. **In the books of R & Co.**

Dr. Realization Account Cr.

Particulars	Rs.	Particulars	Rs.
To Building	60,000	By Creditors	1,16,000
To Plant & machinery	1,60,000	By Due to P & Co.	1,00,000
To Office equipment	6,000	By M/s PQR & Co. (purchase consideration) (W.N.1)	5,52,000
To Stock-in-trade	1,40,000		
To Sundry debtors	2,00,000		
To Bank balance	90,000		
To Cash in hand	10,000		
To Partners' capital A/c's Q 68,000 R 34,000	1,02,000		
	7,68,000		**7,68,000**

Note: The adjustments in the Capital Accounts of P, Q and R (both for Goodwill and the amounts paid to Q by P and R) can be shown in their Capital Accounts in the Books of P & Co and R & Co respectively. In such a case the Capital Account of the partners carried to PQR & Co will be the same amounts as shown in the Balance Sheet of PQR & Co.

PROBLEM NO: 5

Business Purchase Account

	Particulars	Amount Rs.		Particulars	Amount Rs.
31.12.2012	To Balance b/d	80,000	31.12.2012	By Bank Loan	18,000
	To Investments A/c	5,000		By Gupta Capital A/c	30,000
	To Insurance policy	2,000		By Singh's capital A/c	20,000
				By Goodwill A/c	6,000
				By P&L A/c (Bal. fig profit up to 31st March 2012)	13,000
		87,000			**87,000**

Dr. Profit & Loss A/c of Raman for the year ended 31st December 2012 Cr.

Particulars	Amount Rs.	Particulars	Amount Rs.
To opening stock A/c	40,000	By Sales A/c	4,00,000
To purchases A/c	3,20,000	By Closing stock A/c	50,000
To Expenses A/c	12,000		
To Business purchases (profit upto 31st march)	13,000		
To Net Profit (t/r to Raman's capital A/c)	65,000		
	4,50,000		**4,50,000**

Balance Sheet of Raman as on 31st December 2012

Liabilities	Rs	Rs.	Assets	Rs.
Raman's capital A/c	30,000		Goodwill A/c	6,000
Add: Profit	65,000	95,000	Furniture A/c	3,000
Sundry creditors A/c		15,000	Stock in trade A/c	50,000
			Sundry Debtors A/c	48,000
			Cash at Bank A/c	3,000
		1,10,000		**1,10,000**

WORKING NOTES:

1. Goodwill

Particulars	Amount Rs.
Value of Assets taken over	
Stock	46,000
Debtors	35,000
Furniture	3,000
	84,000
Less:	
Creditors	10,000
Net Assets	74,000
Goodwill (Bal. fig)	6,000
Purchase consideration	**80,000**

2. Increase in net assets upto 31st march 2012

	As on 1st January (Rs.)	As on 31st March (Rs.)
Debtors	30,000	35,000
Stock	40,000	46,000
Furniture	3,000	3,000
	73,000	84,000
Less : Creditors	(12,000)	(10,000)
	61,000	74,000

Profit equal to net increase	13,000	-
	74,000	**74,000**

PROBLEM NO: 6

a) **Balance Sheet as on 30.6.2012**

Liabilities		Rs.	Assets		Rs.
Capital Accounts:			Machinery	1,50,000	
A's balance as on 1.1.2012	1,17,000		**Less:** Depreciation@ 10% p.a.	(7,500)	1,42,500
Add: Profit for 6 months	11,800		Leasehold premises	34,000	
	1,28,800		**Less:** Written-off @ 5%	(1,700)	32,300
Less: Drawings for 6 months	(5,900)	1,22,900	Stock		75,000
B's balance as on 1.1.2012	1,11,000		Sundry Debtors		60,000
Add: Profit for 6 months	11,800				
	1,22,800				
Less: Drawings for 6 months	(5,900)	1,16,900			
Sundry Creditors		50,000			
Bank overdraft		20,000			
		3,09,800			**3,09,800**

b) Dr. **Realisation Account** **Cr.**

Particulars	Rs.	Particulars	Rs.
To Machinery A/c	1,42,500	By Sundry Creditors A/c	50,000
To leasehold premises	32,300	By Bank Overdraft A/c	20,000
To stock A/c	75,000	By Limited Company A/c (W.N.2)	3,39,800
To Sundry debtors	60,000		
To A's Capital A/c	50,000		
To B's Capital A/c	50,000		
	4,09,800		**4,09,800**

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

Date	Particulars	A(Rs.)	B(Rs.)	Date	Particulars	A(Rs.)	B(Rs.)
1.1.12	To Profit & Loss A/c	13,000	13,000	1.1.12	By Balance b/d	1,40,000	1,30,000
	To Drawings A/c	10,000	6,000				
29.6.12	To Balance c/d	1,17,000	1,11,000				
		1,40,000	1,30,000			1,40,000	1,30,000
30.6.X2	To Drawings A/c	5,900	5,900	30.6.X2	By Balance b/d	1,17,000	1,11,000
	To Shares in Limited Company A/c	1,72,900	1,66,900	30.6.X2	By Profit & Loss Appropriation A/c	11,800	11,800
					By Realisation A/c	50,000	50,000
		1,78,800	**1,72,800**			**1,78,800**	**1,72,800**

Working Notes:

1. Ascertainment of profit for the 6 months ended 30th June, 20X2

Closing Assets:	Rs	Rs
Stock		75,000
Sundry Debtors		60,000
Machinery less depreciation		1,42,500
Leasehold premises less written off		32,300
		3,09,800

Less: Closing liabilities:		
Sundry Creditors	50,000	
Bank overdraft	20,000	(70,000)
Closing Net Assets		2,39,800
Less: Opening combined capital:		
A – Rs.(1,40,000 – 13,000 – 10,000)	1,17,000	
B – Rs. (1,30,000 – 13,000 – 6,000)	1,11,000	(2,28,000)
Profit before adjustment of drawings		11,800
Add: Combined drawings during the 6 months (equal to profit)		11,800
Profit for 6 months		23,600

2. Ascertainment of purchase consideration:
   Closing net assets (as above) Rs. 2,39,800 + Goodwill Rs. 1,00,000 = Rs. 3,39,800.

ASSIGNMENT PROBLEMS

MODEL 1: AMALGAMATION OF FIRMS

PROBLEM NO 1: 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.

(A) (NEW SM, N 13, RTP M18 (O))

MODEL 2: CONVERSION OF PARTNERSHIP FIRM IN TO A COMPANY

PROBLEM NO 2: Sunil and Sachin carrying on business in partnership sharing profit and losses equally, wished to dissolve the firm and sell the business to Sargam Ltd. on 31-3-2018, when the firm's position was as follows:

Liabilities	Rs.	Assets	Rs.
Sunil's Capital	7,50,000	Land and Building	5,00,000
Sachin's Capital	5,00,000	Furniture	2,00,000
Sundry Creditors	3,00,000	Stock	5,00,000
		Debtors	3,30,000
		Cash	20,000
	15,50,000		15,50,000

The arrangement with Sargam Ltd. was as follows:

i) Land and Building was purchased at 25% more than the book value.

ii) Furniture and stock were purchased at book values less 20%.

iii) The goodwill of the firm was valued at Rs.2,00,000.

iv) The firm's debtors, cash and creditors were not to be taken over, but Sargam Ltd. Agreed to collect the book debts of the firm and discharge the creditors of the firm as an agent, for which services, the company was to be paid 7.5% on all collections from the firm's debtors and 4.5% on cash paid to firm's creditors.

v) The purchase price was to be discharged by the company in fully paid equity shares of Rs.15 each at a premium of Rs.5 per share.

vi) The partners distributed the company's shares between themselves in their final claim Ratio

The company collected all the amounts from debtors. The creditors were paid off less by Rs.10,000, allowed by them as discount. The company paid the balance due to the vendors in cash.

Prepare the Realisation account, the Capital Accounts of the partners and the cash account in the books of partnership firm. ***(M18 (O) - 16M, SIMILAR: M18 (N) - 15M)***

(REALISATION A/C PROFIT 1,57,200.TOTAL OF CAPITAL A/C'S OF PARTNERS SUNIL 8,28,600,SACHIN 5,78,600 TOTAL OF CASH ACCOUNT 22,200)

PROBLEM NO 3: Aman, Baal and Chand share profits and losses of a business as to 3:2:1 respectively. Their balance sheet as at 31st March, 2017 was as follows

Liabilities	Rs	Assets		Rs
Capital Accounts:		Goodwill		10,000
Aman	70,000	Land		20,000
Baal	80,000	Buildings		1,10,000
Chand	10,000	Machinery		50,000
General Reserve	18,000	Motor Car		28,000
Investment Fluctuation Fund	4,000	Furniture		12,000
Chand's Loan	33,000	Investments		18,000
Mrs. Aman's loan	15,000	Loose tools		7,000
Creditors	96,000	Stock		18,000
Bills Payable	14,000	Bills receivable		20,000
Bank overdraft	60,000	Debtors	40,000	
		Less: Provision	(2,000)	38,000
		Cash		1,000
		Chand's current A/c		56,000
		Profit and Loss A/c		12,000
	4,00,000			4,00,000

The partners decide to convert their firm into a Joint Stock Company. For this purpose ABC Ltd. was formed with an authorized capital of Rs.10,00,000 divided into Rs.100 equity Shares. The business of the firm was sold to the company as at the date of balance sheet given above on the following terms:

i) Motor car, furniture, investments, loose tools, debtors and cash are not to be taken over by the company.

ii) Liabilities for bills payable and bank overdraft are to be taken over by the company.

iii) The purchase price is settled at Rs.1,95,500 payable as to Rs.75,500 in cash and the balance in company's fully paid shares of Rs.100 each.

iv) The remaining assets and liabilities of the firm are directly disposed of by the firm as per details given below:

Investments are taken over by Aman for Rs.13,000; debtors realize in all Rs.20,000; Motor Car, furniture and loose tools fetch Rs.24,000, Rs.4,000, and Rs.1,000 respectively. Aman agrees to pay his wife's loan. The creditors were paid Rs.94,000 in final settlement of their claims. The realization expenses amount to Rs.500.

v) The equity share received from the vendor company is to be divided among the partners in profit-sharing ratio.

You are required to prepare the **necessary ledger accounts** in the books of the partnership firm.

(RTP M18 (N&O), RTP N16, MTP1 N18 (O)) (REALISATION A/C PROFIT 2,000.TOTAL OF ABC LTD A/C 1,95,500; TOTAL OF PARTNERS CAPITAL A/C'S AMAN 97,000; BAAL: 88,000; CHAND: 78,000; TOTAL OF CHAND'S CURRENT A/C: 56,000.TOTAL OF SHARES IN ABC LTD A/C 1,20,000 TOTAL OF CASH ACCOUNT 1,56,500)

PROBLEM NO 4: XYZ & Co. is a partnership firm consisting of Mr. X, Mr. Y and Mr. Z who share profits and losses in the ratio of 2:2:1 and ABC Ltd. is a company doing similar business. Following is the Balance sheet of the firm and that of the company as at 31.03.2017:

Liabilities	XYZ & Co.	ABC Ltd.	Assets	XYZ & Co.	ABC Ltd.
Equity share Capital:			Plant & machinery	5,00,000	16,00,000
Equity shares of Rs.10 each		20,00,000	Furniture & fixture	50,000	2,25,000
Partners' capital:			Stock in trade	2,00,000	8,50,000
X	2,00,000		Sundry debtors	2,00,000	8,50,000
Y	3,00,000		Cash at bank	10,000	4,00,000
Z	1,00,000		Cash in hand	40,000	1,00,000
General reserve	1,00,000	7,00,000			
Trade payables	3,00,000	13,00,000			
	10,00,000	**40,00,000**		**10,00,000**	**40,00,000**

It was decided that the firm XYZ & 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 ABC Ltd. by issuing 50,000 shares of Rs 10 each at a premium of Rs. 2 per share.

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

The Trade payables of XYZ & Co. includes Rs. 1,00,000 payable to ABC Ltd. An unrecorded liability of Rs 25,000 of XYZ & Co. must also be taken over by ABC Ltd.

Prepare:

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

ii) Pass journal entries in the books of ABC Ltd. for acquisition of XYZ & Co. and draw the Balance sheet after takeover.

(A) (RTP N17, MTP N17, SIMILAR: M18 (O)) (ANS.: (A) LOSS ON REALISATION - 50,000; BALANCE SHEET TOTAL – RS.48,50,000)

PROBLEM NO 5: The following is the Balance sheet of M/s Red and Black as on 31st March, 2018:

Liabilities		Rs	Assets	Rs
Red's capital	80,000		Building	1,00,000
Black's capital	1,00,000	1,80,000	Closing stock	60,000
Red's loan		20,000	Sundry debtors	40,000
General reserve		20,000	Investment	40,000

Sundry creditors		40,000	(6% debntures in Cool Ltd)	
			Cash	20,000
		2,60,000		2,60,000

It was agreed that Mr. White is to be admitted for a fifth share in the future profits from 1st April, 2018. He is required to contribute cash towards goodwill and Rs 20,000 towards capiutal.

a) The following further information is furnished:

i) The partners Red and Black shared the profits in thr ratio of 3:2.

ii) Mr.Red was receiving a salary of Rs 1000 p.m.from the very inception of the firm in addition to the share of profit.

iii) The future profit ratio between Red, Black and White will be 3:1:1. Mr. Red will not get any salary after the admission of Mr. White.

iv) The goodwill of the firm should be determined on the basis of 2 years purchase of the average profits from business of the last 5 years. The particulars of profits/losses are as under:

Year ended	Rs	Profit/loss
31.3.2014	40,000	Profit
31.3.2015	20,000	Loss
31.3.2016	40,000	Profit
31.3.2017	50,000	Profit
31.3.2018	60,000	Profit

The above profits and losses are after charging the salary of Mr. Red. The profit of the year ended 31st March, 2014 included an extraneous profit of Rs 60,000 and the loss for the year ended 31st March, 2015 was on account of loss by strike to the extent of Rs.40,000

v) It was agreed that the value of the goodwill should not appear in the books of the firm.

b) Trading profit for the year ended 31st March,2019 was Rs 80,000(before charging depreciation

c) Each partner had drawn Rs 2,000 per month as drawing during the year 2018-19.

d) On 31st March 2019 the following balances appeared in the books:

Building (before depreciation)	Rs 1,20,000
Closing stock	Rs 80,000
Sundry debtors	NIL
Sundry creditors	NIL
Investments	Rs 40,000

e) Interest was @ 6% per annum on Red's loan was not paid during the year

f) Interest on debentures was received during the year.

g) Depreciation is to be provided @ 5% on closing balance of building

h) Partners applied for conversion of the firm into a private limited company i.e., RBW private limited certificate received on 1.4.2019.

They decided to convert capital accounts of the partners into share capital, in the ratio of 3:1:1 (on the basis of total capital as on 31.3.2019). if necessary, partners have to subscribe to fresh capital or withdraw.

You are required to prepare:

1. Profit&loss account for the year ended31.3.2019 in the books of M/s Red and Black

2. Balance sheet as on 1.04.2019 in the books of RBW private limited

MODEL 3: SALE OF PARTNERSHIP FIRM TO A COMPANY

PROBLEM NO 6: 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 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.

(A) (NEW 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 NO 7: X, Y and Z were in partnership sharing profits and losses 3:2:1. There was no provision in the agreement for interest on capitals or drawings.

X died on 31.03.20X1 and on that date, the partners' balance was as under:

Capital Account: X – Rs.60,000; Y - Rs.40,000; Z - Rs.20,000

Current Account: X – Rs.40,000 (Cr.), Y – Rs.30,000 (Cr.), Z – Rs.10,000 (Dr.).

By the partnership agreement, the sum due to X's estate was required to be paid within a period of 3 years, and minimum installment of Rs.30,000 each were to be paid, the first such installment falling due immediately after death and the subsequent installments at half-yearly intervals. Interest @ 6% p.a. was to be credited half-yearly.

In ascertaining his share, goodwill (not recorded in the books) was to be valued at Rs.90,000 and the assets, excluding the Joint Endowment Policy (mentioned below), were valued at Rs.60,000 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.40,000 matured on 1.4.20X1, realizing Rs.52,000; payments of Rs.30,000 each were made to X's Executors on 1.4.20X1, 30.9.20X1 and 31.3.20X2. Y and Z continued trading on the same terms as previously and the net profit for the year ending 31.3.20X2 (before charging the interest due to X's estate) amounted to Rs.52,000. During that period, the partner's drawings were: Y- Rs.15,000; and Z- Rs.8,000.

On 1.4.20X2, the partnership was dissolved and an offer to purchase the business as a going concern for Rs.1,80,000 was accepted on that day. A cheque for that sum was received on 30.6.20X2. The balance due to X's estate, including interest, was paid on 30.6.20X2 and on that day, Y and Z received the sums due to them.

You are required to write-up the Partners' Capital and Current Accounts from 1.4.20X1 to 30.6.20X2. Show also the account of the executors of X.

(A) (NEW SM, M15) (ANS.: BALANCE OF CURRENT A/C TRANSFERRED TO CAPITAL A/C OF Y -29,810, Z - (10,595) AND BALANCE OF PARTNER'S CAPITAL A/C – Y - 40,000; Z - 20,000; AMOUNT PAID TO X'S EXECUTORS ON 30.06.20X2 -1,00,785)

PROBLEM NO 8: 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.

(A) (NEW SM) (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)

ADDITIONAL PROBLEMS FOR SELF PRACTICE

PROBLEM NO 1: Arun and Varun, sharing profits and losses equally, directed to convert their business into a limited company on 31st December, 2016 when their balance sheet stood as follows:

Liabilities	Rs.	Rs.	Assets	Rs.
Sundry creditors		96,000	Sundry debtors	1,20,000
Loan creditors		80,000	Bills receivable	20,000
Bank overdraft		32,000	Stock in trade	72,000
Reserve fund		12,000	Patents	16,000
Capital accounts:			Plant and machinery	32,000
Arun	80,000		Land and building	1,20,000
Varun	80,000	1,60,000		
		3,80,000		**3,80,000**

a) The goodwill of the firm was to be valued at two years' purchase of the profits of the previous three years.

b) The loan creditors were agreed to accept 7½% redeemable preference shares in settlement of their claim.

c) Land and buildings and plant and machinery were to be valued at Rs.2,00,000 and Rs.48,000 respectively.

d) The vendors were to be allotted equity shares of the value of Rs.2,10,000.

e) The past working results of the firm showed that they had made profits of Rs.60,000 in 2014, Rs.72,000 in 2015 and Rs.84,000 in 2016 after setting aside Rs.4,000 to reserve fund each year.

You are required to show realisation account and partners' capital accounts in the books of the firm assuming that all the transactions are duly completed. ***(A) (RTP M17, SIMILAR: RTP N17)***

(TOTAL REALISATION A/C PROFIT: 2,48,000, PURCHASE CONSIDERATION: 4,20,000)

THE END