UNIT - 2: AMALGAMATION, CONVERSION AND SALE OF PARTNERSHIP FIRMS

LEARNING OUTCOMES

After studying this unit, you will be able to–

- Understand the procedure for amalgamation of partnership firms.
- Learn the accounting treatment when a partnership firm is converted in the form of a company.
- Distribute the shares received as purchase consideration among the partners.

UNIT OVERVIEW

Amalgamation of partnership firms includes

- Closing the old books of Amalgamating firms
- Opening the new books of Amalgamated firm

2.1 AMALGAMATION OF PARTNERSHIP FIRMS

When two or more partnership firms are amalgamated, the books of the old firm are closed and books of the new firm are opened.

The accounting procedures for the same are:

2.1.1 Closing the books of old firm

(a) Each firm should prepare a **Revaluation Account** relating to its own assets and liabilities and transfer the balance to the partners' capital accounts in the profit-sharing ratio.

(b) Entries for **raising goodwill** should be passed.

(c) **Assets and liabilities not taken over** by the new firm should be transferred to the capital accounts of partners in the ratio of their capitals.

(d) The **new firm** should be debited with the difference between the value of assets and liabilities taken over by it; the assets should be credited and liabilities debited.

(e) **Partners' capital accounts** should be transferred to the new firm's account;

2.1.2 Opening the books of the new firm

Debit assets taken out at the agreed values

Credit the liabilities taken over, and

Credit individual partner's capital accounts with the closing balances in the erstwhile firm.

When one firm is merged with another existing firm, entries will be in the pattern of winding up in the books of the firm which has ceased to exist. The other firm will record the transaction as that of a business purchase.

Illustration 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, 20X1, 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 Creditors	*60,000*	*58,000*	*Due from T & Co.*	*50,000*	–
Reserves	*25,000*	*50,000*	*Due from X & Co.*	–	*30,000*
Capitals			*Other Debtors*	*80,000*	*1,00,000*
B	*1,20,000*	–	*Stock*	*60,000*	*70,000*
S	*80,000*	*1,00,000*	*Furniture*	*10,000*	*3,000*
T	–	*50,000*	*Vehicles*	–	*80,000*
			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:

(a) *Goodwill of S & Co. was worth ₹ 60,000 and that of T & Co. ₹ 50,000. Goodwill account was not to be opened in the books of the new firm; the adjustments being recorded through capital accounts of the partners.*

(b) *Building, machinery, and vehicles were taken over at ₹ 50,000, ₹ 90,000 and ₹ 1,00,000 respectively.*

(c) *Provision for doubtful debts has to be carried forward at ₹ 4,000 in respect of debtors of S & Co. and ₹ 5,000 in respect of debtors of T & Co.*

You are required to:

(i) Compute the adjustments necessary for goodwill.

(ii) 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.

Solution

(i) Adjustment for raising & writing off of goodwill:

	Raised in old profit-sharing ratio				Written off in new ratio		Difference	
	S & Co. 3:1	T & Co. 2:1	Total ₹		3:2:1		₹	
B	45,000	-	45,000	Cr.	55,000	Dr.	10,000	Dr.
S	15,000	33,333	48,333	Cr.	36,666	Dr.	11,667	Cr.
T	–	16,667	16,667	Cr.	18,334	Dr.	1,667	Dr.
	60,000	50,000	1,10,000		1,10,000			

(ii) Books of BST & Co.

Journal Entries

20X1	Particulars		Dr. ₹	Cr. ₹
Oct. 31	Cash Account	Dr.	10,000	
	Bank Account	Dr.	15,000	
	T & Co.	Dr.	50,000	
	Sundry Debtors	Dr.	80,000	
	Stock Account	Dr.	60,000	
	Furniture Account	Dr.	10,000	
	Machinery Account	Dr.	90,000	
	Building Account	Dr.	50,000	
	To Provision for Doubtful debts			4,000
	To X & Co.			40,000
	To Sundry Creditors			60,000
	To B's Capital Account			1,65,750

	To S's capital Account (Sundry assets and liabilities of M/s S & Co. taken over at the values stated as per agreement dated.)		95,250
	Cash Account Dr. Bank Account Dr. X & Co. Account Dr. Sundry Debtors A/c Dr. Stock Account Dr. Furniture Account Dr. Vehicles Account Dr. To Provision for Doubtful Debts To S & Co. To Sundry Creditors To S's Capital Account To T's Capital Account (Sundry assets and liabilities of M/s T & Co. taken over at the values stated as per agreement dated.)	5,000 20,000 30,000 1,00,000 70,000 3,000 1,00,000	 5,000 50,000 58,000 1,43,333 71,667
	B's Capital Account Dr. T's Capital Account Dr. To S's Capital Account (Adjustment in capital accounts consequent on raising goodwill of S & Co. for ₹ 60,000, T & Co. for ₹ 50,000 and writing off the same in the new ratio between B, S, T as per agreement)	10,000 1,667	 11,667
	S & Co. To T Co. (Mutual indebtedness of S & Co. and T & Co., canceled on taking over of the two firms)	50,000	 50,000
	B's Current Account Dr. To B's Capital Account (Amount credited to B's Capital to bring capital in the profit-sharing ratio)	54,250	 54,250

	S's Capital Account Dr.	1,10,250	
	To S's Current Account		1,10,250
	(Excess amount in S's Capital Account transferred to S's current account to reduce the balance in capital accounts in accordance with the profit-sharing ratio)		

Working Notes:

(i) Balance of Capital Accounts on transfer of business to M/s BST & Co.

(a)	S & Co.		B's Capital	S's Capital
		₹	₹	₹
	As per Balance Sheet		1,20,000	80,000
	Credit for Reserve		18,750	6,250
	Profit on Revaluation	40,000		
	Less: Provision for doubtful debts	(4,000)	27,000	9,000
			1,65,750	95,250

(b)	T & Co.		S's Capital	T's Capital
		₹	₹	₹
	As per Balance Sheet		1,00,000	50,000
	Credit for Reserve		33,333	16,667
	Profit on Revaluation	20,000		
	Less: Provision for doubtful debts	(5,000)	10,000	5,000
			1,43,333	71,667

(ii) Capital in the new firm

Particulars	B ₹		S ₹		T ₹
Balance as taken over	1,65,750		95,250		
	-		1,43,333		71,667
	1,65,750		2,38,583		71,667

Adjustment for Goodwill	–10,000		+11,667		–1,667
	1,55,750		2,50,250		70,000
Total capital, ₹ 4,20,000* in the new					
ratio of 3:2:1, taking T's Capital as the basis	2,10,000		1,40,000		70,000
Transfer to Current Account	54,250	(Dr.)	1,10,250	(Cr.)	—

*T's Capital is ₹ 70,000 and it is 1/6 of total. The total, therefore, is ₹ 4,20,000.

Illustration 2

On 31st March 20X2, Sri Raman acquires on payment of ₹ 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, 20X2 and 31st March, 20X2 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 ₹ 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, 20X2 and Balance Sheet at that date.

Balance Sheet as at December, 20X1

Liabilities		₹	***Assets***	₹
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 20X2 the trial balance is:

Particulars	***₹***	***₹***
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 ₹ 50,000		

Solution

Business Purchase Account

Particulars	***₹***	***Particulars***	***₹***
20X2		*20X2*	
Dec. 31		*Dec. 31*	
To Balance b/d	80,000	By Bank Loan	18,000
To Investments	5,000	By Gupta's Capital A/c	30,000
To Insurance Policy	2,000	By Singh's Capital A/c	20,000
		By Goodwill	6,000

		By Profit & Loss A/c (Balancing figure, profit upto 31st March, 20X2)	13,000
	87,000		87,000

Profit & Loss Account of Raman for the year ended 31st December, 20X2

Particulars	₹	***Particulars***	₹
To Opening Stock	40,000	By Sales	4,00,000
To Purchases	3,20,000	By Closing Stock	50,000
To Expenses	12,000		
To Business Purchase			
(Profit upto 31st March)	13,000		
To Net Profit			
Raman's Capital A/c	65,000		
	4,50,000		4,50,000

Balance Sheet of Raman as on 31st December, 20X2

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

Working Notes:

(1) **Goodwill**

Particulars	₹
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 (Balancing figure)	6,000
Purchase Consideration	80,000

(2) **Increase in net assets upto 31st March 20X2**

Particulars	***as on 1st January***	***as on 31st March***
	₹	₹
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

Illustration 3

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, 20X1 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 31.3.20X1

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:

(i) *Goodwill of X & Co., was valued at ₹ 75,000. Goodwill of Y & Co. was valued at ₹ 40,000. Goodwill account not to be opened in the books of the new firm but adjusted through the Capital accounts of the partners.*

(ii) *Building, Machinery, and Vehicles are to be taken over at ₹ 2,00,000, ₹ 1,00,000 and ₹ 74,000 respectively.*

(iii) *Provision for doubtful debts at ₹ 5,000 in respect of X & Co. and ₹ 4,000 in respect of Y & Co. are to be provided.*

You are required to:

(i) *Show, how the Goodwill value is adjusted amongst the partners.*

(ii) *Prepare the Balance Sheet of XY & Co. as at 31.3.20X1 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.*

Solution

(i) Adjustment for raising and writing off of goodwill

	Raised in old profit-sharing ratio		Total	Written off in new ratio	Difference
	X & Co.	Y & Co.			
	3:2	5:3		4:5:1	
	₹	₹	₹	₹	₹
A	45,000	---	45,000 Cr.	46,000 Dr.	1,000 Dr.
B	30,000	25,000	55,000 Cr.	57,500 Dr.	2,500 Dr.
C	---	15,000	15,000 Cr.	11,500 Dr.	3,500 Cr.
	75,000	40,000	1,15,000	1,15,000	Nil

(ii) Balance Sheet of X Y & Co. (New firm) as on 31.3.20X1

Liabilities	₹	***Assets***	₹
Capital Accounts:		Vehicle	74,000
A	1,72,000	Machinery	1,00,000
B	2,15,000	Building	2,00,000
C	43,000	Stock	70,000

Current Accounts:		Debtors	1,31,000
A	22,000	Cash & Bank	70,000
C	18,000		
Creditors	1,75,000		
	6,45,000		6,45,000

Working Notes:

1. Balance of Capital Accounts at the time of amalgamation of firms

Particulars	***A's Capital ₹***	***B's Capital ₹***
X & Co. Profit and loss sharing ratio 3:2		
Balance as per Balance Sheet	1,50,000	1,00,000
Add: Reserves	30,000	20,000
Revaluation profit (Building)	30,000	20,000
Less: Revaluation loss (Machinery)	(12,000)	(8,000)
Provision for doubtful debt	(3,000)	(2,000)
	1,95,000	1,30,000
Particulars	***B's Capital ₹***	***C's Capital ₹***
Y & Co. Profit and loss sharing ratio 5:3		
Balance as per Balance sheet	75,000	50,000
Add: Reserves	25,000	15,000
Less: Revaluation (vehicle)	(10,000)	(6,000)
Provision for doubtful debts	(2,500)	(1,500)
	87,500	57,500

2. Balance of Capital Accounts in the balance sheet of the new firm as on 31.3.20X1

Particulars		***A*** ₹	***B*** ₹	***C*** ₹
Balance b/d:	X & Co.	1,95,000	1,30,000	--
	Y & Co.	--	87,500	57,500
		1,95,000	2,17,500	57,500
Adjustment for goodwill		(1,000)	(2,500)	3,500
		1,94,000	2,15,000	61,000

Total capital ₹ 4,30,000 (B's capital* i.e. ₹ 2,15,000 x 2) to be contributed in 4:5:1 ratio.	1,72,000	2,15,000	43,000
Transfer to Current Account	22,000	---	18,000

2.2 CONVERSION OF PARTNERSHIP FIRM INTO A COMPANY

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. For the further development of the business, usually, some fresh capital/loan is required. The amount of loan is placed to the credit of the party contributing the same on such terms and conditions as may have been agreed upon.

When the partnership firm is converted into a company, then the financial statements of the new company will be prepared according to Schedule III to the Companies Act, 2013. The general instructions for preparation of Balance sheet and the Statement of Profit and Loss of the company are given in Schedule III to the Companies Act, 2013.

Illustration 4

The following is the Balance Sheet of Messers A and B as on 31st March 20X5:

Liabilities		**₹**	***Assets***	**₹**
A's Capital	*40,000*		*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*	
Liabilities		*20,000*	*6% Debentures in X Ltd.*	*20,000*
			Cash	*10,000*
		1,30,000		*1,30,000*

* B's Capital ₹ 21,500 being one-half of the total capital of the firm.

It was agreed that Mr. C is to be admitted for a fifth share in the future profits from 1st April 20X5. He is required to contribute cash towards goodwill and ₹ 10,000 towards capital.

The following further information is furnished:

(i) The partners A and B shared the profits in the ratio 3:2.

(ii) Mr. A was receiving a salary of ₹ 500 p.m. from the very inception of the firm in 20X1 in addition to share of profit.

(iii) 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.

(iv) (a) 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 the profits are as under:

Year Ended		₹
Profit		20,000
Loss		10,000
Profit		20,000
Profit		25,000
Profit		30,000

The above profits and losses are after charging the salary of Mr. A. The profit of the year ended 31st March 20X1 included an extraneous profit of ₹ 30,000 and the loss of the year ended 31st March 20X2 was on account of loss by strike to the extent of ₹ 20,000.

(b) It was agreed that the value of the goodwill of the firm should appear in the books of the firm.

(v) The trading profit for the year ended 31st March, 20X6 was ₹ 40,000 before depreciation.

(vi) The partners had drawn each ₹ 1,000 p.m. as drawings.

(vii) The value of the other assets and liabilities as on 31st March, 20X6 were as under:

	₹
Building (before depreciation)	60,000
Stock	40,000

Debtors	*Nil*
Investment	*20,000*
Liabilities	*Nil*

(viii) Provide depreciation at 5% on buildings on the closing balance and interest at 6% on A's loan.

(ix) They applied for conversion of the firm into a Private Limited Company i.e. ABC Pvt. Ltd. Certificate received on 1-4-20X6. 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 31-3-20X6. If necessary, partners have to subscribe to fresh capital or withdraw.

Prepare the Statement of Profit and Loss for the year ended 31st March, 20X6 and the Balance Sheet of the company.

Solution

Messers A, B, and C
Statement of Profit & Loss for the year ended 31st March, 20X6

Particulars	₹	*Particulars*	₹
To Dep. Building (60,000x5%)	3,000	By Trading Profit	40,000
To Interest on A's loan (10,000 x 6%)	600	By Interest on Debentures	1,200
To Net Profit to:			
A's Capital A/c	22,560		
B's Capital A/c	7,520		
C's Capital A/c	7,520		
	41,200		41,200

Balance Sheet of the ABC Pvt Ltd. as at 1-4-20X6

	Particulars	***Notes No.***	₹
I	**Equity and Liabilities**		
	Shareholders' funds		1,59,120
	Non-current liabilities		
	Long term borrowings	1	10,600
	Total		1,69,720

	Assets		
	Non-current assets		
	Property, Plant and Equipment	2	57,000
	Intangible assets	3	39,600
	Non-current investments		20,000
	Current assets		
	Inventories		40,000
	Cash and cash equivalents		13,120
	Total		1,69,720

Notes to Accounts

		₹
1.	Long term borrowings	
	Loan from A	10,600
2.	Property, Plant and Equipment (net)	
	Land and Building (60,000 – 3,000)	57,000
3.	Intangible asset	
	Goodwill	39,600

Working Notes:

1. Calculation of goodwill:

Year ended 31st March

Particulars	***20X1*** ₹	***20X2*** ₹	***20X3*** ₹	***20X4*** ₹	***20X5*** ₹
Book Profits	20,000	(10,000)	20,000	25,000	30,000
Adjustment for extraneous profit 20X1 and abnormal loss 20X2	(30,000)	20,000	—	—	—
	(10,000)	10,000	20,000	25,000	30,000
Add Back: Remuneration of A	6,000	6,000	6,000	6,000	6,000
	(4,000)	16,000	26,000	31,000	36,000
Less: Debenture Interest being non-operating income*	(1,200)	(1,200)	(1,200)	(1,200)	(1,200)
	(5,200)	14,800	24,800	29,800	34,800

Total Profit from 20X2 to 20X5					1,04,200
Less: Loss for 20X1					(5,200)
					99,000
Average Profit					19,800
Goodwill equal to 2 years' purchase					39,600
Contribution from C, equal to 1/5					7,920

2. Partners' Capital Accounts as on 31 March 20X6

Particulars	***A***	***B***	***C***	***Particulars***	***A***	***B***	***C***
	₹	₹	₹		₹	₹	₹
To Drawings	12,000	12,000	12,000	By Balance b/d	40,000	50,000	—
To Balance c/d	80,320	65,360	13,440	By General Reserve	6,000	4,000	—
				By Goodwill	23,760	15,840	—
				By Bank	—	—	17,920
				By Profit & Loss A/c	22,560	7,520	7,520
	92,320	77,360	25,440		92,320	77,360	25,440

3. Balance Sheet as on 31st March, 20X6

Liabilities	₹	₹	***Assets***	₹	₹
A's Capital		80,320	Goodwill		39,600*
B's Capital		65,360	Land & Building	60,000	
C's Capital		13,440	*Less:* Dep.	(3,000)	57,000
A's Loan	10,000		Investments		20,000
Add: Int. due	600	10,600	Stock-in-trade		40,000
			Cash (Working Note 5)		13,120**
		1,69,720			1,69,720

4. Conversion into Company

Particulars		₹
Capital:	A	80,320

	B	65,360
	C	13,440
Share Capital		1,59,120
Distribution of share:	A (3/5)	95,472
	B (1/5)	31,824
	C (1/5)	31,824

A should subscribe shares of ₹ 15,152 (₹ 95,472 – ₹ 80,320) and C should subscribe shares of ₹ 18,384 (₹ 31,824 – ₹ 13,440). B should withdraw ₹ 33,536 (₹ 65,360 – ₹ 31,824) subscribing to shares worth ₹ 31,824.

** It is shown in the books of the firm only to determine the closing capital of partners inclusive of goodwill before conversion.*

5. Closing cash balance can be derived as shown below:

Particulars	₹	₹
Trading profit (assume realized)		40,000
Add: Debenture Interest		1,200
Add: Decrease in Debtors Balance		20,000
		61,200
Less: Increase in stock	10,000	
Less: Decrease in Liabilities	20,000	(30,000)
Cash Profit		31,200
Add: Opening cash balance		10,000
Add: Cash brought in by C		17,920
		59,120
Less: Drawings	36,000	
Less: Additions to Building	10,000	(46,000)
		13,120

Illustration 5

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, 20X2) to be known as Hari Ltd.

Immediately prior to this conversion, the balance sheet of partnership as on 31st December 20X1 was as follows:

Balance Sheet
As on 31st December 20X1

Liabilities	₹	₹	***Assets***	₹
Capital accounts			*Fixed assets*	
Hari	*70,000*		*(at written down value)*	
Lal	*30,000*		*Land & Buildings*	*50,000*
Jay	*20,000*	*1,20,000*	*Plant & Machinery*	*30,000*
Current accounts			*Motor vehicles*	*20,000*
Hari	*7,000*		*Current Assets:*	
Lal	*5,000*		*Inventories*	*60,000*
Jay	*3,000*	*15,000*	*Debtors*	*25,000*
Current liabilities			*Axis Bank account*	*5,000*
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:

Particulars	***Valuation for take-over***
	₹
Land and Building	*96,000*
Plant and Machinery	*28,000*
Motor vehicles	*15,000*
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 ₹ 2,000. All other liabilities were paid from the Dena Bank account.

The purchase consideration is discharged by an issue at par of ₹ 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 ₹ 1 each (fully paid to make up the balance due to each partner).

You are required to

(i) prepare (a) Realization Account (b) Partners' Capital Accounts (c) Bank account of Axis Bank and Dena Bank in the books of Hari Brothers;

(ii) 'Business purchase account' and 'Hari Brothers' account in Hari Ltd.'s books.

Solution

(i) (a) In the books of Hari Brothers

Realization Account

Particulars	**₹**	**₹**	***Particulars***	**₹**
To Land and buildings		50,000	By Creditors	25,000
To Plant and machinery		30,000	By Lal's capital A/c	2,000
To Motor vehicles		20,000	By Dena Bank A/c	25,000
To Inventories		60,000	By Hari Ltd. (W.N.ii)	1,83,000
To Debtors		25,000		
To Partners' capital accounts				
Hari (2/5)	20,000			
Lal (2/5)	20,000			
Jay (1/5)	10,000	50,000		
		2,35,000		2,35,000

(b) Partners' Capital Accounts

Particulars	Hari	Lal	Jay	Particulars	Hari	Lal	Jay
	₹	₹	₹		₹	₹	₹
To Realization A/c (motor vehicle takeover)		2,000		By Balance b/d	70,000	30,000	20,000
To 10% Debentures*	35,000	15,000	10,000	By Current A/c	7,000	5,000	3,000
To Equity shares	62,000	38,000	23,000	By Realization A/c Profit	20,000	20,000	10,000
	97,000	55,000	33,000		97,000	55,000	33,000

* Debentures have been issued in the proportion of capital account balances i.e. in ratio of 7:3:2.

(c) Bank Account

Particulars	Axis Bank	Dena Bank	Particulars	Axis Bank	Dena Bank
	₹	₹		₹	₹
To Balance b/d	5,000	-	By Balance b/d	-	20,000
To Axis Bank	-	5,000	By Loan (Gopi Ltd.)	-	7,000
To Realization A/c	-	25,000	By Loan-Hari	-	3,000
			By Dena Bank	5,000	
	5,000	30,000		5,000	30,000

(ii) **In the books of Hari Ltd.**

Business Purchase Account

Particulars	₹	*Particulars*	₹
To Creditors	25,000	By Land and buildings	96,000
To Dena Bank (overdraft)	25,000	By Plant and Machinery	28,000
To Hari Brothers	1,83,000	By Motor Vehicles	15,000
		By Inventories	60,000
		By Debtors	24,000
		By Goodwill	10,000
	2,33,000		2,33,000

Hari Brothers Account

	Particulars	₹	Particulars	₹
To	10% Debentures A/c	60,000	By Business purchase	1,83,000
To	Equity share capital A/c	1,23,000		
		1,83,000		1,83,000

2.3 PARTNERSHIP-SALE TO A COMPANY

The accounting treatment, when a partnership firm is sold to a company, can be explained with the help of the following Illustration.

Illustration 6

A and B were carrying on business sharing profits and losses equally. The firm's Balance Sheet as at 31.12.20X1 was:

Liabilities		₹	*Assets*		₹
Sundry Creditors		*60,000*	*Stock*		*60,000*
Bank overdraft		*35,000*	*Machinery*		*1,50,000*
Capital A/cs:			*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 30.6.20X2. 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 ₹ 10,000 and bank overdraft by ₹ 15,000.

On 30.6.20X2, stock was valued at ₹ 75,000 and Debtors at ₹ 60,000; the Joint Life Policy had been surrendered for ₹ 9,000 before 30.6.20X2 and other items remained the same as at 31.12.20X1.

On 30.6.20X2, the firm sold the business to a Limited Company. The value of goodwill was fixed at ₹ 1,00,000 and the rest of the assets were valued on the basis of the Balance Sheet as at 30.6.20X2. The company paid the purchase consideration in Equity Shares of ₹ 10 each.

You are required to prepare: (a) Balance Sheet of the firm as on 30.6.20X2; (b) The Realization Account; (c) Partners' Capital Accounts showing the final settlement between them.

Solution

(a) Balance Sheet as on 30.6.20X2

Liabilities	₹	₹	***Assets***	₹	₹
Capital Accounts:			Machinery	1,50,000	
A's balance as on 1.1.20X2	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 1.1.20X2	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) Realization Account

Particulars	₹	Particulars	₹
To Machinery A/c	1,42,500	By Sundry Creditors A/c	50,000
To Leasehold Premises A/c	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 A/c	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) Partners' Capital Accounts

Date	Particulars	A	B	Date	Particulars	A	B
		₹	₹			₹	₹
1.1.X2	To Profit & Loss A/c	13,000	13,000	1.1.X2	By Balance b/d	1,40,000	1,30,000
	To Drawings A/c	10,000	6,000				
29.6.X2	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 Realization 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:	₹	₹
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 – ₹ (1,40,000 – 13,000 – 10,000)	1,17,000	
B – ₹ (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) ₹ 2,39,800 + Goodwill ₹ 1,00,000 = ₹ 3,39,800.

Illustration 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 31.12.20X0 and on that date, the partners' balances were as under:

Capital Account: A – ₹ 60,000*; B-* ₹ 40,000*; C-* ₹ 20,000

Current Account: A – ₹ 29,000*; B –* ₹ 20,000*; C –* ₹ 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 ₹ 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 ₹ 60,000 *and the assets, excluding the Joint Endowment Policy (mentioned below), were valued at ₹ 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 ₹ 20,000 matured on 1.1.20X1, realizing ₹ 26,000; payments of ₹ 20,000 each were made to A's Executors on 1.1.20X1, 30.6.20X1 and 31.12.20X1. B and C continued trading on the same terms as previously and the net profit for the year to 31.12.20X1 (before charging the interest due to A's estate) amounted to ₹ 32,000. During that period, the partners' drawings were: B- ₹ 15,000; and C- ₹ 8,000.

On 1.1.20X2, the partnership was dissolved and an offer to purchase the business as a going concern for ₹ 1,40,000 *was accepted on that day. A cheque for that sum was received on 30.6.20X2.*

The balance due to A's estate, including interest, was paid on 30.6.20X2 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 1.1.20X1 to 30.6.20X2. Show also the account of the executors of A.

Solution

Partners' Current Accounts

Particulars	A	B	C	Particulars	A	B	C
1.1.20X1	₹	₹	₹	1.1.20X1	₹	₹	₹
To Balance b/d	---	----	5,000	By Balance b/d	29,000	20,000	--
To A's Current A/c – goodwill (W.N.1)	-	20,000	10,000	By B's Current A/c – goodwill	20,000	--	--
To A's Current A/c – Revaluation Profit (W.N.2)	-	12,000	6,000	By C's Current A/c – goodwill	10,000	-	-
To A's Capital A/c – transfer	80,000	-	-	By B's Current A/c – Revaluation profit	12,000	-	-
				By C's Current A/c – Revaluation profit	6,000		
				By Joint Life Policy A/c (₹ 26,000 – ₹ 20,000)	3,000	2,000	1,000
				By Balance c/d		10,000	20,000
	80,000	32,000	21,000		80,000	32,000	21,000
1.1.20X1				31.12.20X1			
To Balance b/d		10,000	20,000	By Profit & Loss Appropriation A/c		17,617	8,808
31.12.20X1				By Balance c/d		7,383	19,192
To Drawings A/c		15,000	8,000				
		25,000	28,000			25,000	28,000
1.1.20X2				30.6.20X2			
To Balance b/d		7,383	19,192	By Realization A/c -profit		12,573	6,287
To B's Capital A/c – transfer		5,190	---	By C's Capital A/c – transfer		---	12,905
		12,573	19,192			12,573	19,192

Partners' Capital Accounts

Particulars	A	B	C	Particulars	A	B	C
1.1.20X1	₹	₹	₹	1.1.20X1	₹	₹	₹
To A's Executors A/c	1,40,000	----	---	By Balance b/d	60,000	40,000	20,000
To Balance c/d	---	40,000	20,000	By A's Current A/c	80,000	--	--
	1,40,000	40,000	20,000		1,40,000	40,000	20,000
31.12.20X1				1.1.20X1			
To Balance c/d		40,000	20,000	By Balance b/d		40,000	20,000
		40,000	20,000			40,000	20,000
30.6.20X2				1.1.20X2			
To C's Current A/c – transfer		---	12,905	By Balance b/d		40,000	20,000
To Bank A/c		45,190	7,095	30.6.20X2			
				By B's Current A/c – transfer		5,190	---
		45,190	20,000			45,190	20,000

A's Executors Account

Date	Particulars	₹	Date	Particulars	₹
1.1.20X1	To Bank A/c	20,000	1.1.20X1	To A's Capital A/c	1,40,000
1.1.20X1	To Balance c/d	1,20,000			
		1,40,000			1,40,000
30.6.20X1	To Bank A/c	20,000	1.1.20X1	By Balance b/d	1,20,000
30.6.20X1	To Balance c/d	1,03,000	30.6.20X1	By Interest A/c	3,000
		1,23,000			1,23,000
31.12.20X1	To Bank A/c	20,000	1.7.20X1	By Balance b/d	1,03,000
31.12.20X1	To Balance c/d	85,575	31.12.20X1	By Interest A/c	2,575
		1,05,575			1,05,575
30.6.20X2	To Bank A/c	87,715	1.1.20X2	By Balance b/d	85,575
			30.6.20X2	By Interest A/c	2,140
		87,715			87,715

Working Notes:

(1) Adjustment in regard to Goodwill

Partners		A	B	C
Share of goodwill before death	(₹)	30,000	20,000	10,000

Share of goodwill after death	(₹)	-	40,000	20,000
Gain (+)/Sacrifice (-)	(₹)	(30,000)	20,000	10,000
		Cr.	Dr.	Dr.

(2) Adjustment in regard to revaluation of assets

Partners		A	B	C
Share of profit on revaluation credited to all the partners	(₹)	18,000	12,000	6,000
Debited to the continuing partners	(₹)	-	24,000	12,000
	(₹)	(18,000)	12,000	6,000
		Cr.	Dr.	Dr.

(3) Ascertainment of Profit for the year ended 31.12.20X1

	₹	₹
Profit before charging interest on balance due to A's executors		32,000
Less: Interest payable to A's executors:		
from 1.1.20X1 to 30.6.20X1	3,000	
From 1.7.20X1 to 31.12.20X1	2,575	(5,575)
Balance of profit to be shared by B and C		26,425

(4) Balance Sheet as at 31.12.20X1

Liabilities	₹	***Assets***	₹
Capital Account – B	40,000	Sundry Assets (balancing figure)	1,19,000
Capital Account – C	20,000	Partners' Current A/cs –B	7,383
A's Executors A/c	85,575	Partners' Current A/cs- C	19,192
	1,45,575		1,45,575

(5) Realization Account

	Particulars	₹		*Particulars*	₹
To	Sundry Assets A/c	1,19,000	By	Bank A/c (purchase consideration)	1,40,000
To	Interest A/c – A's Executors	2,140			
To	Partners' Capital A/cs – B	12,573			
To	Partners' Capital A/cs – C	6,287			
		1,40,000			1,40,000

2.3.1 Apportionment of shares amongst the partners

Sometime an examination problem may require the students to suggest equitable basis for division of shares between the vendors when they are partners, so as to preserve the rights as previously existed between them, that is, to maintain the same profit-sharing ratio and to preserve the priority in regard to repayment of capital.

Suppose A, B and C share profits and losses in the ratio 3: 2: 1 after allowing interest on capital @ 9% p.a. Their capitals on 31st December, 20X1 were: A ₹ 50,000, B ₹ 30,000 and C ₹ 20,000. On 1st January, 20X2 the business was converted into a limited company and was valued at ₹ 1,30,000. A scheme of capitalization, whereby the mutual interest of partners may remain intact as far as possible is suggested below:

The total capital being ₹ 1,00,000 and the value placed on the business being ₹ 1,30,000 there is goodwill of ₹ 30,000 to be shared by the partners in the ratio of 3:2:1 or A ₹ 15,000, B ₹ 10,000 and C ₹ 5,000.

The capital will now be: A ₹ 65,000, B ₹ 40,000, and C ₹ 25,000.

Taking B's capital as the basis, A's capital should be ₹ 60,000, i.e. 40,000 × 3/2 and C's capital should be ₹ 20,000. Both A and C have ₹ 5,000 excess. Since interest on capital is meant to compensate those whose capital is in excess of proportionate limits and since in the case of partners it is an appropriation of profit, it will be proper to give 9% preference shares to A & C for ₹ 5,000 each and the remaining amount of ₹ 1,20,000 can be in the form of equity shares to be divided among A, B and C in the ratio of 3: 2: 1. They will then share the company's profit in the ratio of 3: 2: 1 after allowing preference dividend.

Illustration 8

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.

The firm and the company provide the following ledger balances as on 31.3.20X1:

	Prabhu & Co.	***Bhagwan Ltd.***
Debit balances:	*₹*	*₹*
Plant & machinery	*2,50,000*	*8,00,000*
Furniture & fixture	*25,000*	*1,12,500*
Stock in trade	*1,00,000*	*4,25,000*

Sundry debtors	*1,00,000*	*4,12,500*
Cash at bank	*5,000*	*2,00,000*
Cash in hand	*20,000*	*50,000*
Credit balances:		
Equity share Capital-		
Equity shares of ₹ 10 each		*10,00,000*
Partners' capitals:		
Prabhu	*1,00,000*	
Bhola	*1,50,000*	
Shiv	*50,000*	
General reserve	*50,000*	*3,50,000*
Sundry creditors	*1,50,000*	*6,50,000*

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 ₹ 10 each at a premium of ₹ 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 ₹ 50,000 payable to Bhagwan Ltd. An unrecorded liability of ₹ 12,500 of Prabhu & Co. must also be taken over by Bhagwan Ltd.

Prepare:

(i) Realization 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.

Solution

(i) In the books of Prabhu & Co.

Realization Account

	Particulars	₹		*Particulars*	₹
To	Plant & Machinery	2,50,000	By	Sundry Creditors	1,50,000
To	Furniture & Fixture	25,000	By	Bhagwan Ltd. (Refer W.N.)	3,00,000

To	Stock in trade	1,00,000	By	Partners' Capital Accounts (loss):	
To	Sundry Debtors	1,00,000		Prabhu's Capital A/c	10,000
				Bhola's Capital A/c	10,000
				Shiv's Capital A/c	5,000
		4,75,000			4,75,000

Partners' Capital Accounts

Particulars	***Prabhu***	***Bhola***	***Shiv***	***Particulars***	***Prabhu***	***Bhola***	***Shiv***
	₹	₹	₹		₹	₹	₹
To Realization A/c	10,000	10,000	5,000	By Balance b/d	1,00,000	1,50,000	50,000
To Shares in Bhagwan Ltd. (W.N.1)	1,20,000	1,20,000	60,000	By General Reserve	20,000	20,000	10,000
To Cash	-	40,000	-	By Cash	10,000	-	5,000
	1,30,000	1,70,000	65,000		1,30,000	1,70,000	65,000

Cash and Bank Account

	Particulars	₹	₹		*Particulars*	₹	₹
To	Balance b/d	20,000	5,000	By	Cash A/c (Contra)*		5,000
To	Bank A/c (Contra)*	5,000		By	Bhola	40,000	
To	Prabhu	10,000					
To	Shiv	5,000					
		40,000	5,000			40,000	5,000

(ii) In the Books of Bhagwan Ltd.

Journal Entries

	Particulars		***Dr. (₹)***	***Cr. (₹)***
1.	Business Purchase Account	Dr.	3,00,000	
	To Liquidators of Prabhu & Co.			3,00,000
	(Being business of Prabhu & Co. purchased and payment due)			
2.	Plant and Machinery A/c	Dr.	2,50,000	

* It is assumed that cash at bank has been withdrawn to pay to Partner Bhola.

	Furniture and Fixture A/c	Dr.	25,000	
	Stock in Trade A/c	Dr.	1,00,000	
	Sundry Debtors A/c	Dr.	1,00,000	
	To Sundry Creditors			1,50,000
	To Unsecured Liability			12,500
	To Business Purchase Account			3,00,000
	To Capital Reserve (B.F.)			12,500
	(Being takeover of all assets and liabilities)			
3.	Liquidators of Prabhu & Co.	Dr.	3,00,000	
	To Equity Share Capital Account			2,50,000
	To Securities Premium Account			50,000
	(Being purchase consideration discharged in the form of shares of ₹ 10 each issued at a premium of ₹ 2 each)			
4.	Sundry Creditors Account	Dr.	50,000	
	To Sundry Debtors Account			50,000
	(Being mutual owing eliminated)			

Working Note:

Computation of purchase consideration:

25,000 Equity shares of ₹ 12 each = ₹ 3,00,000

Equity shares to be given to partners:

Prabhu	=	10,000 Shares @ ₹ 12 = ₹ 1,20,000
Bhola	=	10,000 shares @ ₹ 12 = ₹ 1,20,000
Shiv	=	5,000 shares @ ₹ 12 = ₹ 60,000

Illustration 9

P and Q were carrying on business sharing profits and losses equally. The firm's Balance Sheet as on 31.12.20X1 was:

Liabilities			***₹***	***Assets***	***₹***
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 30.06.20X2. 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 ₹ 20,000 and bank overdraft by ₹ 5,000.

The joint-life policy was surrendered for ₹ 6,000 before 30th June 20X2. Stock was valued at ₹ 84,000 and debtors at ₹ 68,000 on 30th June 20X2. The other items remained the same as at 31.12.20X1.

On 30.06.20X2, the firm sold its business to PQ Ltd. The value of goodwill was estimated at ₹ 1,30,000 and the remaining assets were valued on the basis of the balance sheet as on 30.06.20X2.

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

You are required to prepare:

(a) Balance sheet of the firm as at 30.06.20X2,

(b) Realization account,

(c) Partners' Capital Accounts showing the final settlement between them.

Solution

(a) Balance sheet of the firm as on 30.06.20X2

Liabilities	₹	***Assets***	₹
Capital Accounts:		Plant:	
P's Capital	1,33,800	Opening Balance 1,60,000	
Q's Capital	1,15,800	*Less*: Depreciation @ 10% 8,000	1,52,000

Creditors	60,000	Building:		
Bank Overdraft	40,000	Opening Balance	48,000	
		Less: Written-off @ 5%	2,400	45,600
		Debtors		68,000
		Stock		84,000
Total	3,49,600	Total		3,49,600

(b) Realization Account

Particulars	**₹**	***Particulars***	**₹**
To Sundry Assets:		By Creditors	60,000
Plant	1,52,000	By Bank Overdraft	40,000
Building	45,600		
Stock	84,000	By PQ Limited A/c	3,79,600
Debtors	68,000	(working note 2)	
To Profit:			
P's Capital A/c	65,000		
Q's Capital A/c	65,000		
	4,79,600		4,79,600

(c) Partner's Capital Accounts

Date	***Particulars***	***P (₹)***	***Q (₹)***	***Date***	***Particulars***	***P (₹)***	***Q (₹)***
01.01.X2	To Profit & Loss A/c	15,000	15,000	01.01.X2	By Balance b/d	1,50,000	1,30,000
01.01.X2	To Drawing A/c	9,000	7,000	30.06.X2	By Profit (W. N. 1)	15,600	15,600
30.06.X2	To Drawing A/c (W. N.1)	7,800	7,800				
30.06.X2	To Balance c/d	1,33,800	1,15,800				
		1,65,600	1,45,600			1,65,600	1,45,600
				30.06.X2	By Balance b/d	1,33,800	1,15,800
30.06.X2	To Shares in PQ Limited	1,98,800	180,800	30.06.X2	By Realization A/c (Profit)	65,000	65,000
		1,98,800	1,80,800			1,98,800	1,80,800

Working Notes

(1) Ascertainment of profit for the period of 6 Months ended 30.06.20X2

Particulars		***Amount (₹)***
Closing Assets:		
Stock		84,000
Debtors		68,000
Plant Less Depreciation		1,52,000
Building Less Written off		45,600
Total		3,49,600
Less: Closing Liabilities:		
Creditors	60,000	
Bank Overdraft	40,000	1,00,000
Closing Net Assets		2,49,600
Less: Opening adjusted Capitals		
P (₹1,50,000 – ₹15,000 – ₹9,000)	1,26,000	
Q (₹1,30,000 – ₹15,000 – ₹7,000)	1,08,000	2,34,000
Profit Net of drawings		15,600
Actual Profit for Six Months before drawings (half of profit) = 15,600 x 2		31,200
Combined Drawing during six months (half of the profit)		15,600

(2) Ascertainment of purchase consideration

Particulars	***₹***
Closing Net Assets (As above)	2,49,600
Add: Goodwill	1,30,000
Total Purchase Consideration	3,79,600

SUMMARY

- Amalgamation of partnership firms includes
  - Closing the old books of Amalgamating firms
  - Opening the new books of Amalgamated firm
- When one firm is merged with another existing firm, entries will be in the pattern of winding up in the books of the firm which has ceased to exist. The other firm will record the transaction as that of a business purchase.
- Creditors play an important role in the conversion of a partnership firm into a company.

TEST YOUR KNOWLEDGE

MCQs

1. Amalgamation of partnership firms includes

   (a) Closing the old books of Amalgamating firms.

   (b) Opening the new books of Amalgamated firm.

   (c) Both (a) and (b).

2. When one firm is merged with another existing firm, entries will be made for

   (a) Winding up in the books of firm which will cease to exist.

   (b) Business purchase in the books of another firm.

   (c) Both (a) and (b).

3. In case of amalgamation of firms, profit/ loss on the sale of the firm is ascertained by

   (a) Realization account.

   (b) Revaluation account.

   (c) New firm's account.

4. Liabilities not taken over by the new firm (at the time of amalgamation) will be transferred to

   (a) Capital accounts.

(b) Revaluation account.

(c) New firm's account.

5. While closing the books of the old firm, a.ssets and liabilities not taken over by the new firm should be transferred to

(a) Revaluation account.

(b) Partners' capital accounts.

(c) Realization account.

Theoretical Questions

1. Describe the accounting procedure involved in amalgamation of two or more partnership firms.

Practical Questions

Question 1

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, 20X1, 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:

(a) Building of P & Co. was valued at ₹ 1,00,000.

(b) Plant and machinery of P & Co. was valued at ₹ 2,50,000 and that of R & Co. at ₹ 2,00,000.

(c) All stock in trade is to be appreciated by 20%.

(d) Goodwill valued of P & Co. at ₹ 1,20,000 and R & Co. at ₹ 60,000, but the same will not appear in the books of PQR & Co.

(e) Partners of new firm will bring the necessary cash to pay other partners to adjust their capitals according to the profit-sharing ratio.

(f) Provisions for doubtful debts has to be carried forward at ₹ 12,000 in respect of debtors of P & Co. and ₹ 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.

Question 2

'S' and 'T' were carrying on business as equal partners. Their Balance Sheet as on 31st March, 20X1 stood as follows:

Liabilities		₹	***Assets***	₹
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, 20X1. 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 ₹ 50,000, Bills payable by ₹ 11,500 and Bank overdraft by ₹ 75,000. The Joint Life policy was surrendered for ₹ 47,500 on 30th September, 20X1. Stock was valued at ₹ 3,17,000 and debtors at ₹ 3,25,000 on 30th September, 20X1. The other items remained the same as on 31st March, 20X1.

On 30th September, 20X1 the firm sold its business to ST Ltd. The value of goodwill was estimated at ₹ 5,40,000 and the remaining assets were valued on the basis of the Balance Sheet as on 30th September, 20X1. The ST Ltd. paid the purchase consideration in equity shares of ₹ 10 each. You are required to prepare a Realization Account and Capital accounts of the partners.

Question 3

X, Y, and Z were in partnership sharing profits and losses 3:2:1. There was no provision in the agreement for interest on capital or drawings.

X died on 31.3.20X1 and on that date, the partners' balance were as under:

Capital Account: X - ₹ 60,000, Y - ₹ 40,000, Z - ₹ 20,000.

Current Account: X - ₹ 40,000 (Cr.), Y - ₹ 30,000 (Cr.), Z - ₹ 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 ₹ 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 ₹ 90,000 and the assets, excluding the Joint Endowment Policy (mentioned below), were valued at ₹ 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 ₹ 40,000 matured on 1.4.20X1, realizing ₹ 52,000; payments of ₹ 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 -- ₹ 52,000. During that period, the partners' drawings were Y - ₹ 15,000; and Z -₹ 8,000.

On 1.4.20X2, the partnership was dissolved and an offer to purchase the business as a going concern for ₹ 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.

Question 4

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, 20X1 their Balance Sheet stood as follows:

Liabilities	₹	***Assets***	₹
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 ₹ 42,00,000 payable in the form of fully paid equity shares of ₹ 10 each. It recorded in its books, land, and buildings at ₹ 16,40,000, machinery at ₹ 9,90,000, and created a provision for bad debts @ 5% on debtors. The expenses of the take-over came to ₹ 23,000 which were paid and borne by the company.

The expenses of getting the company incorporated were ₹ 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.

Question 5

Sagar & Sons 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 UTS Ltd. is a company doing similar business.

The firm (Sagar & Sons) and the company (UTS Ltd.) provide you the following Ledger Balances as on 31.3.20X1:

	Sagar & Sons (₹)	UTS Ltd. (₹)
Debit balances:		
Plant & Machinery	5,00,000	16,00,000
Furniture & Fixtures	50,000	2,25,000
Inventories	2,00,000	8,50,000
Trade receivables	2,00,000	8,25,000
Cash at bank	10,000	4,00,000
Cash hand in	40,000	1,00,000
Credit balances:		
Equity share capital: Equity shares of ₹ 10 each		20,00,000
Partners' capitals:		
X	2,00,000	
Y	3,00,000	
Z	1,00,000	
General reserve	1,00,000	7,00,000
Trade payables	3,00,000	13,00,000

On the Balance Sheet date, it was decided that the firm M/s Sagar & Sons 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 UTS Ltd. by issuing 50,000 shares of ₹ 10 each at a premium of ₹ 2 per share.

Partners of Sagar & Sons agreed to divide the shares issued by UTS Ltd. in the profit-sharing ratio and bring necessary cash for settlement of their capital.

The trade payables of Sagar & Sons includes ₹ 1,00,000 payable to UTS Ltd. An unrecorded liability of ₹ 25,000 of Sagar & Sons must also be taken over by UTS Ltd.

Prepare:

(1) Realisation account, Partners' capital accounts, and Cash in hand/Bank account in the books of Sagar & Sons.

(2) Pass journal entries in the books of UTS Ltd. for acquisition of Sagar & Sons and draw the Balance Sheet of UTS Ltd. after the takeover.

ANSWERS/ SOLUTIONS

Answers to MCQs

1. (c) **2.** (c) **3.** (a) **4.** (a) **5.** (b)

Answers to Theoretical Questions

1. **Amalgamation includes:**

Closing the books of old firm

(a) Each firm should prepare a **Revaluation Account** relating to its own assets and liabilities and transfer the balance to the partners' capital accounts in the profit-sharing ratio.

(b) Entries for **raising goodwill** should be passed.

(c) **Assets and liabilities not taken over** by the new firm should be transferred to the capital accounts of partners in the ratio of their capitals.

(d) The **new firm** should be debited with the difference between the value of assets and liabilities taken over by it; the assets should be credited and liabilities debited.

(e) **Partners' capital accounts** should be transferred to the new firm's account.

Opening the books of the new firm

Debit assets taken out at the agreed values

Credit the liabilities taken over **at the agreed values**, and

Credit individual partner's capital accounts with the closing balances in the erstwhile firm.

Answers to Practical Questions

Answer 1

Balance Sheet of M/s PQR & Co. as at 31st March, 20X1

Liabilities		₹	*Assets*		₹
Capitals:			Building (₹ 1,00,000 + ₹ 60,000)		1,60,000

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

In the books of P & Co.

Partners' Capital Accounts

Particulars	***P*** ₹	***Q*** ₹	***Particulars***	***P*** ₹	***Q*** ₹
To Capital A/cs M/s PQR & Co.	4,89,000	2,43,000	By Balance b/d	2,40,000	1,60,000
			By Reserve (3:1)	37,500	12,500
			By Profit on Realization 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.

Partners' Capital Accounts

Particulars	***Q*** ₹	***R*** ₹	***Particulars***	***Q*** ₹	***R*** ₹
To Capital A/cs M/s PQR & Co.	3,68,000	1,84,000	By Balance b/d	2,00,000	1,00,000
			By Reserve (2:1)	1,00,000	50,000

* ₹ 20,000+₹ 10,000+₹ 1,53,000+₹ 30,000 –₹ 1,83,000 = ₹ 30,000.

			By Profit on Realization (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.*** ₹	***R & Co.*** ₹
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	-
(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	-
(B)	2,12,000	2,42,000
Purchase consideration (A-B)	7,32,000	5,52,000

2. Computation of proportionate capital

Particulars	₹
M/s PQR & Co. (Purchase Consideration) (₹ 7,32,000+ ₹ 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.

Realization Account

Particulars		₹	*Particulars*	₹
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.

Realization Account

Particulars	₹	*Particulars*	₹
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.	5,52,000
To	Stock-in-trade	1,40,000		(purchase consideration)	
To	Sundry debtors	2,00,000		(W.N.1)	
To	Bank balance	90,000			
To	Cash in hand	10,000			
To	Partners' capital A/cs				
	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.

Answer 2

Realization Account

Particulars			₹	Particulars		₹
To	Sundry assets:			By	Creditors	2,77,500
	Stock		3,17,000	By	Bills payables	51,000
	Debtors		3,25,000	By	Bank overdraft	75,000
	Plant		1,63,875	By	Shares in ST Ltd. (W.N.3)	18,80,000
	Building		8,64,500			
	Furniture		73,125			
To	Profit:					
	S	2,70,000				
	T	2,70,000	5,40,000			
			22,83,500			22,83,500

Partners' Capital Accounts

Date	***Particulars***	***S*** ₹	***T*** ₹	***Date***	***Particulars***	***S*** ₹	***T*** ₹
20X1				20X1			
April 1	To Cash – Drawings (W.N. 2)	20,000	20,000	April 1	By Balance b/d	6,40,000	6,60,000
Sept. 30	To Shares in ST Ltd.	9,30,000	9,50,000	Sept. 30	By Profit (W.N.2)	40,000	40,000
					By Realization A/c (Profit)	2,70,000	2,70,000
		9,50,000	9,70,000			9,50,000	9,70,000

Working Notes:

(1) Ascertainment of total capital:

Balance Sheet as on 30th September, 20X1

Liabilities	₹	***Assets***		₹
Sundry creditors	2,77,500	Building	9,10,000	
Bills payable	51,000	*Less:* Depreciation	(45,500)	8,64,500
Bank overdraft	75,000	Plant	1,72,500	
Total capital (bal. fig.)	13,40,000	*Less:* Depreciation	(8,625)	1,63,875
		Furniture	75,000	
		Less: Depreciation	(1,875)	73,125
		Stock		3,17,000
		Debtors		3,25,000
	17,43,500			17,43,500

(2) Profit earned during six months to 30 September, 20X1

Particulars		₹
Total capital (of S and T) on 30th September, 20X1 (W.N.1)		13,40,000
Capital on 1st April, 20X1		
S	6,40,000	
T	6,60,000	13,00,000
Net increase (after drawings)		40,000

Since drawings are half of profits, therefore, actual profit earned is ₹ 40,000 x 2 = ₹ 80,000 (shared equally by partners S and T). Half of the profits has been withdrawn by both the partners equally i.e. drawings ₹ 40,000 (₹ 80,000 x ½) withdrawn by S and T in 1:1 (i.e. ₹ 20,000 each).

(3) Purchase consideration:

Particulars	₹
Total assets (W.N.1)	17,43,500
Add: Goodwill	5,40,000
	22,83,500
Less: Liabilities (2,77,500 + 51,000 + 75,000)	(4,03,500)
Purchase consideration	18,80,000

Note: The above solution is given on the basis that reduction in bank overdraft is after surrender of Joint life policy.

Answer 3

Partners' Current Accounts

Particulars	***X*** ₹	***Y*** ₹	***Z*** ₹	***Particulars***	***X*** ₹	***Y*** ₹	***Z*** ₹
31.3.20X1				*31.3.20X1*			
To Balance b/d	---	----	10,000	By Balance b/d	40,000	30,000	--
To X's Current A/c – goodwill (W.N.1)	-	30,000	15,000	By Y's Current A/c – goodwill (W.N.1)	30,000	--	--
To X's Current A/c – Revaluation Profit (W.N.2)	-	20,000	10,000	By Z's Current A/c – goodwill (W.N.1)	15,000	-	-
To X's Capital A/c – transfer	1,21,000	-	-	By Y's Current A/c – Revaluation profit (W.N.2)	20,000	-	-
				By Z's Current A/c – Revaluation profit (W.N.2)	10,000		
				By Joint assurance policy	6,000	4,000	2,000
				By Balance c/d		16,000	33,000
	1,21,000	50,000	35,000		1,21,000	50,000	35,000

1.4.X1			31.3.X2			
To Balance b/d	16,000	33,000	By Profit & Loss Appropriation A/c	29,136	14,568
31.3.X2					
To Drawings A/c	15,000	8,000	By Balance c/d	1,864	26,432
	31,000	41,000		31,000	41,000
1.4.X2			1.4.X2		
To Balance b/d	1,864	26,432	By Realization A/c -profit	31,674	15,837
To Y's Capital A/c – transfer	29,810	---	By Z's Capital A/c – transfer	---	10,595
	31,674	26,432		31,674	26,432

Partners' Capital Accounts

Particulars	***X*** ₹	***Y*** ₹	***Z*** ₹	***Particulars***	***X*** ₹	***Y*** ₹	***Z*** ₹
31.3.X1				31.3.X1			
To X's Executors A/c	1,81,000	----	---	By Balance b/d	60,000	40,000	20,000
To Balance c/d	---	40,000	20,000	By X's Current A/c	1,21,000	--	--
	1,81,000	40,000	20,000		1,81,000	40,000	20,000
31.3.X2				1.4.X1			
To Balance c/d		40,000	20,000	By Balance b/d		40,000	20,000
		40,000	20,000			40,000	20,000
1.4.X2				1.4.X2			
To Z's Current A/c – transfer		---	10,595	By Balance b/d		40,000	20,000
30.6.X2				1.4.X2			
To Bank A/c		69,810	9,405	By Y's Current A/c – transfer		29,810	---
		69,810	20,000			69,810	20,000

X's Executor's Account

Date	***Particulars***	₹	***Date***	***Particulars***	₹
1.4.20X1	To Bank A/c	30,000	31.3.20X1	By X's Capital A/c	1,81,000
31.3.20X1	To Balance c/d	1,51,000			
		1,81,000			1,81,000
30.9.20X1	To Bank A/c	30,000	1.4.20X1	By Balance b/d	1,51,000

30.9.20X1	To Balance c/d	1,25,530	30.9.20X1	By Interest A/c	4,530
		1,55,530			1,55,530
31.3.20X2	To Bank A/c	30,000	1.10.20X1	By Balance b/d	1,25,530
	To Balance c/d	99,296	31.3.20X2	By Interest A/c	3,766
		1,29,296			1,29,296
30.6.20X2	To Bank A/c	1,00,785	1.4.20X2	By Balance b/d	99,296
			30.6.20X2	By Interest A/c	1,489
		1,00,785			1,00,785

Working Notes:

(1) Adjustment in regard to Goodwill

Partners		***X***	***Y***	***Z***
Share of goodwill before death	(₹)	45,000	30,000	15,000
Share of goodwill after death	(₹)	-	60,000	30,000
Gain (+)/Sacrifice (-)	(₹)	(45,000)	30,000	15,000
		Cr.	Dr.	Dr.

(2) Adjustment in regard to revaluation of assets

Partners		***X***	***Y***	***Z***
Share of profit on revaluation credited to all the partners	(₹)	30,000	20,000	10,000
Debited to the continuing partners	(₹)	-	40,000	20,000
	(₹)	(30,000)	20,000	10,000
		Cr.	Dr.	Dr.

(3) Ascertainment of Profit for the year ended 31.3.X2

Particulars	***₹***	***₹***
Profit before charging interest on balance due to X's executors		52,000
Less: Interest payable to X's executors:		
From 1.4.X1 to 30.9.X1	4, 530	
From 1.10.X1 to 31.3.X2	3,766	(8,296)
Balance of profit to be shared by Y and Z in 2:1		43,704

(4) Ascertainment of Sundry Assets as on 31.3.X2

Liabilities	₹	***Assets***	₹
Capital Account – Y	40,000	Sundry Assets (balancing figure)	1,31,000
Capital Account – Z	20,000		
X's Executors A/c	99,296	Partner's Current A/c –Y	1,864
		Partner's Current A/cs Z	26,432
	1,59,296		1,59,296

(5) Realization Account

Particulars	₹	***Particulars***	₹
To Sundry Assets A/c	1,31,000	By Bank A/c (purchase consideration)	1,80,000
To Interest A/c – X's Executors	1,489		
To Partner's Capital A/c – Y	31,674		
To Partner's Capital A/c –Z	15,837		
	1,80,000		1,80,000

(6) Bank Account

Particulars	₹	***Particulars***	₹
To Purchase consideration	1,80,000	By X's Executors A/c	1,00,785
		By Y	69,810
		By Z	9,405
	1,80,000		1,80,000

Answer 4

In the books of 3R Enterprises
Realization Account

Particulars	₹	***Particulars***	₹
To Land and Buildings	14,00,000	By Creditors	6,00,000
To Machinery	11,00,000	By 3R Enterprises (Pvt.) Ltd. A/c	42,00,000
To Furniture	6,10,000		
To Stock	8,40,000		
To Debtors	6,00,000		
To Cash at Bank	1,90,000		

To Ramesh's capital	30,000		
To Roshan's capital	20,000		
To Rohan's capital	10,000		
	48,00,000		48,00,000

Partners' Capital Accounts

Particulars	***Ramesh*** ₹	***Roshan*** ₹	***Rohan*** ₹	***Particulars***	***Ramesh*** ₹	***Roshan*** ₹	***Rohan*** ₹
To Shares in 3R Enterprises (Pvt.) Ltd. A/c	21,00,000	14,00,000	7,00,000	By Balance b/d	16,80,000	11,60,000	6,70,000
				By General Reserve	3,15,000	2,10,000	1,05,000
To Bank A/c (Settlement)	-	-	85,000	By Realization A/c (Profit)	30,000	20,000	10,000
				By Bank A/c (Settlement)	75,000	10,000	-
	21,00,000	14,00,000	7,85,000		21,00,000	14,00,000	7,85,000

In the Books of 3R Enterprises (Private) Ltd.
Journal Entries

	Particulars		₹	₹
1.	Business Purchase A/c	Dr.	42,00,000	
	To M/s 3R Enterprises			42,00,000
	(Consideration payable for business purchased)			
2.	Land and Buildings A/c	Dr.	16,40,000	
	Machinery A/c	Dr.	9,90,000	
	Furniture A/c	Dr.	6,10,000	
	Stock A/c	Dr.	8,40,000	
	Debtors A/c	Dr.	6,00,000	
	Bank A/c	Dr.	1,90,000	
	To Creditors A/c			6,00,000
	To Provision for doubtful debts A/c			30,000
	To Business Purchase A/c			42,00,000
	To Capital Reserve A/c (balancing figure)			40,000
	(Assets and liabilities taken over for ₹ 42,00,000; balance credited to capital reserve)			

3.	Capital reserve A/c (Expenses of takeover) Dr. To Bank A/c (Expenses for take over debited to capital reserve)		23,000	23,000
4.	M/s 3R Enterprises A/c Dr. To Equity share capital A/c (Allotment of fully paid equity shares to discharge consideration for business)		42,00,000	42,00,000
5.	Preliminary expenses A/c* Dr. To Bank A/c (Expenses incurred to get the company incorporated)		57,000	57,000

Answer 5

(i) In the books of Sagar & Sons

Realization Account

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

Partners' Capital Accounts

Particulars	X ₹	Y ₹	Z ₹	Particulars	X ₹	Y ₹	Z ₹
To Realisation A/c	20,000	20,000	10,000	By Balance b/d	2,00,000	3,00,000	1,00,000

- * As per Accounting Standards, preliminary expense is charged to Profit and Loss account in the year it is incurred.

To Shares in UTS Ltd.	2,40,000	2,40,000	1,20,000	By General Reserve	40,000	40,000	20,000
To Cash	-	80,000	-	By Cash	20,000	-	10,000
	2,60,000	3,40,000	1,30,000		2,60,000	3,40,000	1,30,000

Cash and Bank Account

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

(ii) Journal Entries in the Books of UTS Ltd.

			Dr. (₹)	Cr. (₹)
1.	Business Purchase Account	Dr.	6,00,000	
	To Liquidators of Sagar & Sons			6,00,000
	(Being business of Sagar & Sons purchased and payment due)			
2.	Plant and Machinery A/c	Dr.	5,00,000	
	Furniture and Fixture A/c	Dr.	50,000	
	Inventories A/c	Dr.	2,00,000	
	Trade Receivables A/c	Dr.	2,00,000	
	To Trade Payables			3,00,000
	To Unrecorded Liability			25,000
	To Business Purchase Account			6,00,000
	To Capital Reserve (B.F.)			25,000
	(Being take over of all assets and liabilities)			

**It is assumed that cash at bank has been withdrawn to pay to Partner Y.*

3.	Liquidators of Sagar & Sons	Dr.	6,00,000	
	To Equity Share Capital Account			5,00,000
	To Securities Premium Account			1,00,000
	(Being purchase consideration discharged in the form of shares of ₹ 10 each issued at a premium of ₹ 2 each)			
4.	Trade Payables Account	Dr.	1,00,000	
	To Trade Receivables Account			1,00,000
	(Being mutual owing eliminated)			

Working Note:

Computation of purchase consideration:

50,000 Equity shares of ₹ 12 each = ₹ 6,00,000

Equity shares to be given to partners :

X	=	20,000 Shares @ ₹ 12 = ₹ 2,40,000
Y	=	20,000 shares @ ₹ 12 = ₹ 2,40,000
Z	=	10,000 shares @ ₹ 12 = ₹ 1,20,000

Balance Sheet of UTS Ltd. (After takeover of Sagar & Sons)

As at 31st March, 20X1

		Particulars	Notes	₹
		Equity and Liabilities		
1		Shareholders' funds		
	A	Share capital	1	25,00,000
	B	Reserves and Surplus	2	8,25,000
2		Non-current liabilities		
3		Current liabilities		
	A	Trade Payables		15,00,000
		Others (Unrecorded liability)		25,000
		Total		48,50,000
		Assets		
1		Non-current assets		
	A	Property, Plant and Equipment	3	23,75,000

2		Current assets		
	A	Inventories		10,50,000
	B	Trade receivables		9,25,000
	C	Cash and cash equivalent	4	5,00,000
		Total		48,50,000

Notes to accounts

	Particulars	₹
1	Share Capital	
	Equity share capital	
	2,50,000 Equity Shares of ₹ 10 each fully paid (50,000 shares were issued in consideration other than for cash)	25,00,000
2	Reserves and Surplus	
	Securities Premium	1,00,000
	General Reserve	7,00,000
	Capital Reserve	25,000
		8,25,000
3	Property, Plant and Equipment	
	Plant & Machinery	21,00,000
	Furniture & Fixtures	2,75,000
		23,75,000
4.	Cash & Cash Equivalent	4,00,000
	Cash at Bank	1,00,000
	Cash in Hand	5,00,000