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PARTNERSHIP FINAL ACCOUNTS I

Unit Structure:

1.0 OBJECTIVE OF THE UNIT

After studying the unit the student will be able to :

- Define the meaning of Partnership Deed.
- Transfer the Trial Balance.
- Describe the Accounting Procedure and the treatment to various adjustments in Final Accounts.
- Calculate the Interest on Capital and Interest on Drawings.
- Solve the practical problems.

1.1 INTRODUCTION

A Partnership is defined by section 4 of the Indian Partnership Act 1932, as "The relation between persons who have agreed to share profits of business carried on by all or by any of them acting for all: Persons who have entered into Partnership are individually called as Partners and collectively called as a firm.

1.1.1 There are three important characteristics of Partnership

1) There should be AGREEMENT between two or more persons.

2) This agreement must be to SHARE the profits of the business.

3) The business must be carried on by all the partners or by any one of the partner acting for all of them.

1.2 PARTNERSHIP DEED

We have seen above that Partnership is created by an AGREEMENT. It is not necessary to have a written agreement. However written agreement is desirable because it can avoid dispute in future. The Deed of Partnership is a document in writing which contains the important terms that the partners have agreed among themselves. The partnership deed should be properly drafted and stamped as required by Stamp Act.

1.2.1 Partnership deed specific:-

In case of specific Provision in the Partnership deed (which may be oral or written), the appropriation (or distribution) of Profit is done accordingly.

1.2.2 Partnership deed is silent (or absence of Partnership deed):-

In this case, following provisions of section 13 of the Indian Partnership Act, 1932 would be applicable:-

1) Interest on capital - Not Allowed.
2) Interest on capital - Such interest is payable only if allowed by

   the partnership deed. Out of profits.
3) Interest on drawings - Not Allowed.
4) Salary to Partners - Not Allowed.
5) Commission to Partners - Not Allowed.
6) Interest on Partners loan - 6% p.a. allowed.
7) Profit/ or Loss SharingRratio - Equal for all Partners (Even if Partner's capital may be unequal).

1.3 PARTNERSHIP FINAL ACCOUNTS

Each partner should know the financial performance of the business for the year. Each partner has unlimited liability and therefore, he should also know the state of affairs (i.e. Assets and Liabilities) on a particular date. The accounts of a partnership business are prepared on the basis of double entry as well as accrual basis. The accounts consider outstanding expenses, prepaid expenses, outstanding Income, etc. to determine profit (or loss) during the accounting year.

The final accounts of partnership firm includes:-

1) Trading Account to disclose the Gross Profit (or Gross Loss) during the accounting year.

2) Profit and Loss Account to disclose Net Profit (or Net Loss) during the accounting year.

3) Profit and Loss Appropriation Account to disclose the distribution of Net Profit (or Net Loss) among partners after considering interest on partners capital, interest on drawing, salary to partners etc. If there is no appropriation, then the net profit from the Profit and Loss Account is transferred to Capital.

4) Balance Sheet to disclose the Assets and Liabilities at the end of the accounting year.

5) Manufacturing Account may be prepared (in addition to Trading Account) to disclose Cost of Goods produced and other elements of cost taking figure in Manufacturing Account shows cost of production, which should be transferred to Trading Account.

6) Partners Capital Accounts are prepared separately and then the closing balance is transferred to the Balance Sheet. When Partners Capital A/c, If Partner's Capital A/c are fixed, it is transferred to Current Account.

1.4 PROFIT AND LOSS APPROPRIATION A/C

This is a special Account prepared in case of only PARTNERSHIP firm. It shows how the Net profit/Net Loss has been distributed (Appropriated) amongst Partners.

Note: In case of Partnership firm any remuneration paid or payable to partners in the form of salary, rent. Interest on capital, commission etc. is treated as distribution of profit and not as business expense. Therefore the above expenses if paid or payable to partners shall not be debited to Profit and Loss Account but shall be debited to Profit and Loss Appropriation A/c.

Thus this A/c will be debited by:

1) Net Loss (transferred from credit side of Profit & Loss Account)

2) Salaries, Rent, Interest on Capital, Commission etc. to Partners

This A/c will be credited by

1) Net Profit (transferred from the Debit side of Profit & Loss A/c)

2) Interest on Drawing charged to Partners.

The difference in this account will show the Final Net Profit/Loss which can distributed amongst the partners in their profit sharing ratio.

If the Credit side is heavier-profit to be distributed

If the Debit side is heavier –Loss transferred to Partners Account

1.4.1 INTEREST ON CAPITAL OR SALARY ETC

Interest or Salary is payable only out of the Profit (i.e. on appropriation of Profit). Therefore,

1) In case of loss, no interest or Salary is allowed.

2) In case if Profit is less than Interest, etc then such interest etc. is limited to the extent of profit.

However, the partner may decide to waive such intimation (by specific provision in the partnership deed) that interest, etc. is allowed even (if there is a loss) then the amount of loss is increased and such increased (entire) loss is shared by the partner in the profit (and loss) sharing ratio.

1.4.2 INTEREST ON DRAWINGS

The partner may be charged Interest on the Drawing. So as to make distribution of profit more equitable, Interest on Drawing is charged on the different amounts withdrawn on the different dates during the accounting year. The interest on drawings is calculated by the Product Method or the Average Due Date Method. Usually, when a partner draws a fixed amount monthly, then the interest on drawings is calculated as follows:-

Withdrawals	Interest on total Drawings
a) Beginning of each month (e.g. 1st January ,1st February … 1st December	For 6.5 month
b) Middle of each month (not given) (e.g. 15th January, 14th February,…. 15th December)	For 6 month
c) End of each month (e.g. 31st January, 28th February, 31st December)	For 5.5 month

1.5 GUARANTEE OF PROFITS TO/ OR BY A PARTNER

According to the partnership deed, one or few partners are guaranteed a minimum amount of profit, therefore, such partner would receive guaranteed (minimum) profit or profit as per profit sharing ratio which ever is higher.

The different types of guarantee arrangements are as follows:-

1) A Partner is given an undertaking that his share in profits (including salary, interest on capital etc) will not be below a certain amount. Such guarantee may be given by one partner or by all other remaining partners. Usually, in such a case in future, when the concerned Partner's share of

profit exceeds the minimum limits then the excess profit (above minimum limit) is refunded (to the extent profits overdrawn in the past)

2) A partner guarantees that the profit of the firm would above a certain figure in such case the profit is lower, then the guarantor partner's account is debited and profit and loss Appropriation A/c is credited.

3) A partner guarantees that, if particular partner's share of profit exceeds a certain amount, then he would suffer to the extent of difference (i.e. to the extent of profit above certain amount the guarantor partner would receive less profits).

1.6 JOINT LIFE POLICY

The object of taking life policy on the lives of the partner is to insure against the chances or disturbance in the business due to death of any one of the partners. The amount payable to the legal representative of the deceased partner is paid out of the policy amount received from the Insurance Company; otherwise, the assets may have to be sold, which may result in the disturbance to or closure of the business. The firm can take one Joint Policy on the life of all partners, or otherwise, it may take separate policies on the life of each partner.

Accounting treatment may be one of the following three ways:-

1.6.1 Premium paid is treated as expense of the firm and debited to Profit and Loss A/c when amount is received it is credited to Partners Capital in their profit sharing ratio

1.6.2 When premium paid is treated as assets: - In this case premium paid is debited to Joint Life Policy A/c. Joint Life Policy A/c is kept at surrender value, on date of balance-sheet. The balance in Policy A/c in excess of surrender value is treated as loss and transferred to P & L A/c. When amount received on surrender of policy or maturity of policy, is credited to Joint Life Policy A/c. Balance in Joint Life Policy being profit credited to Partners Capital A/c in their profit sharing ratio.

1.6.3 When premium paid treated as asset and Joint life policy reserve is maintained. In this case premium paid is debited to Joint Life Policy A/c at the end of the year Joint Life Policy Reserve is created to the extent of premium paid by debiting to Profit and Loss A/c and crediting to Joint life policy reserve a/c. Both Joint Life Policy and Joint Life Policy Reserve A/c are brought down to surrender value by debiting Joint Life Policy Reserve A/c crediting Joint Life Policy A/c. At the end of the year Joint Life Policy is shown on Assets side of the Balance Sheet. Joint Life Policy Reserve a/c is shown on the Liability side of the Balance Sheet.

On the maturity of the policy or when policy is surrendered following entries are passed.

When Joint Life Policy premium paid

a) Joint Life Policy A/c ……Dr.

To Bank A/c

b) For transferring to Profit & Loss A/c (equal to premium paid)

Profit & Loss A/c ……Dr.

To Joint Life Policy Reserve A/c

c) For bring balance in Joint life policy to surrender value

Joint Life Policy Reserve A/c ….. Dr.

To Joint Life Policy A/c

Above entries are repeated every year, if joint life policy surrendered or matured.

On maturity of policy/surrender following entries are passed.

a) Bank A/c …..Dr.

To Joint Life Policy A/c

b) For excess amount received

Joint Life Policy A/c…….Dr

To Joint Life Policy Reserve A/c

c) For transferring Joint life policy Reserves to Partners Capital A/c

in their profit sharing ratio.

Joint Life Policy Reserve A/c…..Dr

To All Partners Capital A/c

1.7 CHECK YOUR PROGRESS:

1. Define

1. Partnership Deed
2. Profit and Loss Appropriation Account
3. Joint Life Policy

2. Fill in the Blanks

- Any salary paid or payable to a Partner is treated as ____________________
- If Any Commission is paid or payable to a Partner shall be debited to --------------------
- When the Joint Life Policy Premium paid is treated as Expenses of the firm it is to be debited to ------------------------
- Variable expenses related to sales are to be divided in the ------------- ----------------------Ratio.

3. State whether True or False

- In case of Partnership Firm any Interest paid on Capital of a Partner is treated as Expenses of the firm.
- In case of Loss, no Interest or Salary is allowed.
- No Interest is to be payable to a New Partner before Admission.

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PARTNERSHIP FINAL ACCOUNTS II

Unit Structure :

2.0 OBJECTIVES

After studying the unit the students will be able to:

- Understand the adjustments and journal entries and effets of the adjustments to Final Accounts.
- Revaluate assets and liabilities on admission and retirement of the partner.
- Understand the adjustments related to Goodwill and Reserves.

2.1 ADJUSTMENT TO FINAL ACCOUNTS

Sr. No.	Adjustment	Journal Entries	Effect in Trading or P&L A/c or P&L Adj. A/c	Effect in Balance Sheet
1.	Outstanding or Unpaid expenses e.g. Salary Outstanding.	Salary/s a/c - Dr. To Outstanding Salary A/c	Add to the expenses, e.g. salary	Show on the Liability side as Outstanding Salary.
2.	Outstanding Income or Income not received or Income Receivable or	Interest Receivable A/c - Dr. To Interest A/c	Add to the Income on credit side, e.g. from Interest	Show on the Assets Side as Outstanding Interest.

	Income Earned but not received e.g. Interest due but not received.			
3	Prepaid Expenses or Expenditure paid in advance or Unexpired Insurance e.g. Prepaid Insurance.	Prepaid Insurance A/c – Dr. To Insurance A/c	Deduct from that expenditure on debit side e.g. from Insurance.	Show on the Assets Side as Prepaid Insurance.
4	Bad Debts written off.	Bad Debts A/c - Dr. To Sundry Debtors A/c.	Show on the debit side as addition to the bad debts given in trial balance.	Deduct from the Debtors on Assets Side.
5	Income Received in Advance, e.g. Interest for three months Received in Advance.	Interest (Income) A/c - Dr. To Interest Received in Advance.	Deduct from the Income on credit side e.g. from Interest Received.	Show on the Liability Side as Interest Received in Advance.
6	Depreciation on Fixed Assets. (e.g. depreciation on machinery.)	Depreciation A/c - Dr. To Machinery A/c.	Show on the debit side as depreciation on machinery.	Deduct from that assets on the assets side e.g. from machinery.
7	Reserve for Discount on Creditors.	Reserve for Dis. On Cr. A/c-Dr. To Discount Received A/c.	Show on the Credit Side.	Deduct from Creditors on Liability Side.
8	Provision for Discount on Debtors. (Calculated at given % on the balance of Debtors after deducting Bad Debts and	Discount Allowed A/c - Dr. To Provision for discount on Debtors A/c	Show separately on the Debit side.	Deduct from the Debtors.

	R.D.D. given in the adjustments.)			
9	Bills Receivable **Discounted** is Dishonoured.	Debtors A/c - Dr. To Bank A/c.	Debit Side of P & L A/c	Deduct from the Bank A/c and Add to the Debtors on the Assets Side
10	Writing off deferred Revenue Expenditure e.g. Write Off Preliminary Expenses.	P & L A/c - Dr. To Preliminary Expenses A/c	NO IMPACT	Deduct from that Account on the Assets Side e.g. from Preliminary Expenses A/c.
11	Bill Receivable dishonored is remained to be adjusted.	Debtors A/c - Dr. To Bills Receivable A/c.	NO IMPACT	Deduct from B/R & Add to Debtors on the assets side.
12	Sundry Debtors include a Debtor for Dishonor Bill and half the amount is irrecoverable.	Bad Debts A/c - Dr. To Debtors A/c	Show on the Debit Side as Bad Debts.	Deduct from the Debtors on the Asset Side.
13	Goods withdrawn by the Partner.	Drawings A/c - Dr. To Trading A/c	Show on the credit side of Trading A/c.	Deduct from the Capital A/c of the Partner on the Liability Side.
14	Goods Purchased remained to be recorded though included in stock.	Purchases A/c - Dr. To Creditors A/c	Add to Purchases on Debit side of the Trading A/c.	Add to the Creditors on the Liability Side.
15	Goods sold are included in the closing stock as it was not delivered.	NO ENTRY	Deduct from the Closing Stock on the credit side of Trading A/c	Deduct from the Closing Stock on the Assets Side.

16	Sale includes goods sent on sale or return basis.	At Selling Price: Sales A/c – Dr. To Debtors A/c At Cost Price: Stock with Customers A/c- Dr. To Trading A/c	(a) Deduct from sale on credit side of Trading A/c at selling price to the extent it is not approved by customers. (b) Add to the Closing Stock at cost on credit side of Trading A/c.	(a) Deduct from Debtors on Assets Side at sales price to the extent it is not approved by customers. (b) Add to the Closing Stock at cost on Assets Side.
17	Goods distributed as free samples.	Advertisement A/c – Dr. To Trading A/c	(a) Show on the credit side of Trading A/c. (b) And on the debit side of P&L A/c. as Advertisement.	NO IMPACT
18	Wages paid for installation of Machinery debited to Wages A/c.	Machinery A/c Dr. To Wages A/c **(Rectification Entry)**	Deduct from the Wages on the debit side of Trading a/c.	Add to the Machinery on the Assets Side.
19	Loss of goods by fire and Insurance Company Admitted Claim.	Insurance Claim A/c – Dr. Loss by Fire A/c – Dr. To Trading A/c.	(a) Show on credit side of Trading A/c the total loss. (b) Show on debit side of P&L A/c the actual loss i.e. Amt. of goods lost by fire Less Amt. Of claim Admitted by the Insurance Co.	Show on the Assets Side the amount of claim Admitted by the Insurance Company.

20	Legal charges paid for Acquisition of property debited to Legal Expenses A/c	Property A/c – Dr. To Legal Charges A/c	Deduct from the legal expenses on debit side of P&L A/c	Add to the Property acquired on Assets Side.
21	Interest on Partner's capital.	Interest on Capital A/c – Dr. To Partners Capital A/c	Show on the debit side of P&L Appropriation A/c.	Add to Capital/Current A/c on the Liability Side.
22	Salary to Partner.	P&L Appropriation A/c – Dr. To Partners Capital A/c	Show on the debit side of P&L Appropriation A/c.	Add to the Capital/Current A/c of the Partner.
23	Interest on Partner's Drawing	Partners Cap. A/c – Dr. To P & L Appropriation A/c	Show on the credit side of P&L Appropriation A/c	Deduct from the Capital.
24	Closing Stock.	(a) Stock of Raw Material A/c – Dr. Work In Progress A/c – Dr. To Manufacturing A/c (b) Stock of Finished Goods A/c – Dr. To Trading A/c	(a) Stock of Raw Material on the credit side of Manufacturing A/c (b) Stock of Work In Progress as above. (c) Stock of Finished Goods on credit side of the Trading A/c.	(a) On Assets Side. (b) On Assets Side. (c) On Assets Side.
25	Commission to Manager as % Net Profit.	Managers Commission A/c – Dr. To Outstanding Comm. A/c	Show on the debit side of P&L A/c.	Show on the Liability Side as Outstanding Commission

26	Goods received as free sample, and included in Closing Stock.	Trading A/c – Dr. To P & L A/c	(a) Show on the debit side of Trading A/c. (b) Show on the credit side of P & L A/c.	NO IMPACT

2.2 REVALUATION ASSETS AND LIABILITIES ON ADMISSION OR RETIREMENT OF PARTNER

- **Increase in value of Assets.**

  Fixed Assets A/c Dr.

  To Revaluation A/c

- **Decrease in value of fixed Assets**

  Revaluation A/c Dr.

  To Fixed Assets A/c

- **Increase in liabilities (unrecorded)**

  Revaluation A/c Dr.

  To Sundry Liabilities A/c

- **Decrease in Liabilities**

  Sundry Liabilities A/c Dr.

  To Revaluation A/c

1. **Transferring Revaluation Profit to Old Partners in old ratio**.

   Revaluation A/c Dr.

   To Old Partners Capital A/c

2. **Transferring Loss on Revaluation to Old Partners Capital A/c in old ratio**

   Old Partners' Capital A/c Dr.

   To Revaluation A/c

Note:

i) Revaluation A/c is also known as profit & Loss Adjustment A/c.

ii) Revaluation of Assets etc. may not be included in syllabus.

However not specially excluded also.

2.3 ADJUSTMENT RELATING TO RESERVES / GOODWILL:

2.3.1 Reserves appearing in Balance Sheet. These reserve belongs to old partner therefore should be transferred to Old Partners Capital A/c.

General Reserve A/c Dr.

To Old Partners Capital A/c

Adjustment relating Goodwill.

Full value of Goodwill is raised and Appears in Balance Sheet.

Goodwill A/c Dr.

To old Partners Capital A/c [in Old Ratio]

2.3.2 Goodwill was raised and written off

(not appearing in Balance Sheet)

Incoming Partners Capital A/c Dr.

To Old Partners Capital A/c

(Credited in Sacrificing Ratio)

(Sacrificing Ratio = Old Ratio – New Ratio)

2.3.3 After admission of New Partner

Goodwill written off

All Partners Capital A/c ….. Dr. [In new P.S.R.]

To Goodwill A/c

2.3.4 Incoming partner bring his share of Goodwill in cash.

a) Cash A/c – Dr.

To Goodwill A/c

b) Goodwill A/c – Dr.

To Old Partners Capital A/c

[in sacrificing ratio]

2.3.5 Goodwill amount paid in Cash by new partner privately

No entry in book of Accounts.

2.4 HIDDEN ADJUSTMENTS:

Sometimes, details given in Trial Balance indicate amount of expenses or income are to be adjusted.

Sr. No.	**Trial Balance on 31.12.13**			Adjustment
	Particulars	Debit	Credit	a) Bank int. for 6 months
(a)	10% Bank Loan [1st July 2012] Bank Interest	 5,000	2,00,000	10% on 2,00,000 = 2,00,000 x10% x 6/12 = ₹ 10,000 Outstanding Interest = ₹ 5,000
(b)	Salaries (11 months)	22,000		b) Per Month's Salary = 22,000/11 = □ 2,000 Provide Outstanding ₹ 2,000
(c)	12% Govt. Securities [Face Value – ₹ 1,00,000] Interest on Govt. Sec.	97,000	 6,000	c) Amount of interest = 1,00,000 X 12% = ₹ 12,000 Accrued Interest = 12,000 – 6,000 = ₹ 6,000 to be accounted. Interest on Investment is always calculated or Face Value.
(d)	Furniture (Opening Balance) Sale of Furniture (WDV - ₹ 25,000)	60,000	 18,000	Furniture sold at loss of. ₹ 7,000 (25,000 – 18,000) i) Deduct ₹ 25,000 from Furniture ii) Loss on sale of Furniture ₹ 7000 Debit to P&L A/c

2.6 PROFORMA OF FINAL ACCOUNTS:

2.6.1

Dr. Trading A/c for the year ended…. Cr.

Particulars	**Rs.**	**Particulars**	**Rs.**
To Opening tock	**X**	By Sales: Cash X	
To Purchases X		Credit X	
Less Purchase Return X	**X**	Less: Sales Return (X)	**X**
To Carriage	**X**	By Goods Lost by	
To Wages	**X**	Fire etc : (at cost)	**X**
To Direct Expenses	**X**	By Closing Stock	**X**
To Gross Profit C/d	**X**		
	XX		**XX**

2.6.2

Dr. Profit & Loss A/c for the ended ……. Cr.

Particulars	Basis	Before Admission	After Admission	Particulars	Basis	Before Admission	After Admission
To salaries	T	X	X	By Gross Profit	S	X	X
To Insurance	T	X	X	By Interest	T	X	X
To Administrative Exp.	T	X	X	By Rent	T	X	X
To Depreciation	T	X	X	By Discount	S	X	X
To Commission	S	X	X	By Net Loss C/d		X	X
To Bad Debts	S	X	X				
To Discount	S	X	X				
To Advertisement	S	X	X				
To Travelling Exp.	S	X	X				
To N.P. C/d.		X	X				

2.6.3

Dr. Profit & Loss Appropriation A/c the ended ……. Cr.

Particulars		Before Admission	After Admission	Particulars	Before Admission	After Admission
To Partner Salaries				By G.P.B/fd	X	X
Old Partner	T	X	X	By Interest on		
New Partner	--	--	X	Drawings	--	--
To Interest on				New Partner -	--	X
Capital Old	T	X	X	Old Partner T	X	X
New	--	--	X			
To Net Profit						
Before Admi. Old Ratio	x	X				
After Admi. New Ratio	x		X			
		XX	XX		XX	XX

2.6.4

BALANCE SHEET AS ON

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Partners Capital A/c			**Fixed Assets**		
X	X		Goodwill		X
Y	X		Other Fixed Assets	X	
Z	X	X	- Depreciation	X	X
Partners Current			Investment		X
Accounts X	X		Stock		X
Z	X	X	S. Debtors	X	
			- New Bad debts	(X)	
Bank Loans		X		X	
Sundry Creditors		X	- New R.D.D.	(x)	X
Bills Payable		X			
Outstanding Expenses		X	Bills Receivable		X
Income Received in Advance		X	Cash & Bank Balance		x
			Y's Current A/c		X
		XX			XX

2.7 ACCOUNTING PROCEDURE

- When New Partner is admitted on 1st day of the year or on Last day of the year, usual final A/c should be prepared i.e. division in Profit & Loss A/c, Profit & Loss Appropriation A/c is not required.
- Similarly in case of Retirement/Death of a partner on 1st day or last day of the year, there is no need of preparing Profit & Loss A/c and Profit& Loss Appropriation A/c in columnar form before retirement and after retirement of partner.
- In both of above cases, it is usual Partnership Final A/c.
- In case of Admission on Retirement or Death of Partner in between the year - Either prepare Final Accounts on that date to find out Profit or Loss upto change in partnership i.e. Close the books of Accounts on that date.
- However it may not be possible to close books of accounts on the date of Admission or Retirement or Death of the Partner. Partners continue same books of accounts up to the end of the year. In such case Profit & Loss A/c as well as Profit and Loss Appropriation A/c are prepared in columnar form i.e. Before Change in Partnership and After Change in Partnership then following accounting procedure is followed.

1) Prepare Trading A/c to ascertain Gross Profit.
2) Ascertain Time Ratio i.e. number of months before admission and after admission of partner.
3) Similarly ascertain Sales Ratio.

   These ratios are required to divide various Income and Expenses as follow:

   i Income/Discount Earned/Gross Profit credit to P & L A/c in Sales Ratio.

   ii Interest Earned divide in Time Ratio.

   iii Various Fixed Expenses divide in Time Ratio e.g. Salaries, Insurance, Rent, Interest paid, Depreciation etc.

   iv Various Variable Expenses related with Sales divide in Sales Ratio e.g. Carriage Outwards, Bad Debts written off, Advertisement, Commission, and Depreciation on Delivery Van etc.

4) If details about expenses/income are given for dividing expenses/income should be considered on e.g. Plant was purchased after admission, then Depreciation on New Plant should be debited to II column only (i.e. After Admission] and deducted from Plant in Balance Sheet.

5) Ascertain Net Profit/Loss separately, (say Before Change and After Change) and transfer it to Profit and Loss Appropriation A/c.

6) Interests on Capital if any ascertain before Admission/After Admission of Partner. Debit it to appropriate column and credit to Partners Capital A/c [**no interest is payable to new partner before admission**] same way any Salaries to Partner, etc. account in respective column.

7) Net Profit before admission transfer to Old Partner in old ratio, a Net Profit after admission of partner transfer to All partner in New Ratio.

8) Transferee balance in Partner Capital Accounts to Balance Sheet.

9) However in case of Retirement of partner same procedure should be followed for division of expenses or income. Then Net Profit before retirement should be ascertained and transferred to Old Partners Capital Accounts. If Balance in Retiring Partners Capital A/c transferred to Loan A/c, Retiring Partners Loan A/c may carry interest. Calculate the Interest and debit it to P & L A/c in II column (i.e. After Retirement). Net Profit after retirement should be transferred to Continuing Partners Capital A/c in new profit sharing ratio. Same procedure should be followed in case of death of partner. However balance in Capital A/c of Diseased Partner should be transferred to Executors Loan A/c and shown in the Balance Sheet on Liability Side.

2.8 CHECK YOUR PROGRESS:

A. Fill in the Blanks

- Wages paid for installation of Machinery must be debited to ____.
- Reserves appearing in the Balance Sheet belongs to the _______.
- If the Incoming Partner is bringing his share of Goodwill in Cash the Journal Entries will be _________.
- Variable expenses related to sales are to be divided in the _____ ratio.
- Net Profit/Loss before admission should transferred to the _______ partners in their Old Profit Sharing Ratio.

B. State whether True or False

1. Outstanding Insurance is to be shown on the Assets Side of the Balance Sheet.
2. When New Partner is admitted on the 1st day of year, division in Profit and Loss A/c, Profit and Loss Appropriation A/c is required.
3. No Interest is payable to a New Partner before Admission.
4. Net Profit after admission of partner is transferred to all partners in Old Profit Sharing Ratio.

5. If any Interest is allowed on Retiring Partners Loan A/c such amount of Interest is to be debited it to P & L A/c in After Retirement column.

C. Show both the effects of following adjustments and give the Journal Entry.

1. In the Trial Balance Legal Expenses are Rs. 10,000.Legal Charges Rs. 5,000 paid are included in the Legal Expenses.
2. In the Trial Balance there are Purchases of Rs. 2,00,000 which included purchase of Furniture of Rs. 20,000.
3. Goods costing Rs. 10,000 are lost by fire and Insurance Company admitted a claim of Rs. 8,000.
4. Trade Expenses accrued but not entered in the books amounted Rs. 2,500.
5. Bills Receivable includes a dishonored bill.

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PARTNERSHIP FINAL ACCOUNTS III

Unit Structure :

3.0 OBJECTIVES

After studying the unit students will be able to solve the practical problems related to Partnership Final Accounts.

3.1 ILLUSTRATIONS

Illustration no. 1 [Admission of Partner]

Trial balance as on 31st December, 2013

Particulars	Rs. Dr.	Rs. Cr.
Gross Profit		3,00,000
Creditors		75,000
Bills Payable		35,000
Outstanding Expenses		12,000
Interest Received		12,000
A's Capital		1,00,000
B's Capital		2,00,000
C's Capital (admitted 1st May, 2013		2,00,000
Salaries	24,000	
Advertisement	60,000	
Stock	1,25,000	
Debtors	1,75,000	
Rent	36,000	
Bad Debts	18,000	
Cash & Bank Bal.	96,000	
Fixed Assets	4,00,000	
	934000	9,34,000

A & B sharing ratio of 2:1 Admitted C on 1st May, 2013 and agreed to share P & L in a ratio of 2:1:1. Sales before C admission were 1,00,000 out of total for the year Rs. 5,00,000.

Depreciate Fixed Assets @ 10% p.a.

Provide interest on capital 6% p.a. You are required to prepare Final A/c of the firm.

Solution:

Profit and Loss A/c

Dr. For the year ended 31st December, 2013 Cr.

Particulars	4 mths. Rs.	8 mths. Rs.	Particulars	4 mths. Rs.	8mths. Rs.
To Salaries	8,000	16,000	By Gross Profit	60,000	2,40,000
To Advertisement	12,000	48,000	By Interest Received	4,000	8,000
To Rent	12,000				
To Bad Debts	3,600	14,400			
To Dep. On Fixed Assets	13,333	26,667			
To Net Profit (Bal. C/d)	15,067	1,18,933			
	64,000	**2,48,000**		**64,000**	**2,48,000**

Profit and Loss Appropriation A/c.

For the year ended 31st December, 2013

Dr. Cr.

Particulars	4 mths.	8 mths.	Particulars	4 mths.	8 mths.
To Interest on Capital			By Net profit b/d	15,067	1,18,933
A	2,000	4,000			
B	4,000	8,000			
C	--	8,000			
To Net Profit transferred A & B In 2:1 ratio.	9,067				
To New profit transferred to A,B & C in 2:1:1 ratio.		98,933			
	15,067	**1,18,933**		**15,067**	**1,18,933**

Balance sheet as on 31st December, 2013

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital A	1,61,511		Closing Stock		1,25,000
B	2,39,756				1,75,000
C	2,32,733	6,34,000	Debtors	4,00,000	
		75,000	Fixed Assets		
Creditors		35,000	Less Dep.	40,000	3,60,000
		12,000			
Bills Payable					96,000
Outstanding Expenses			Cash and Bank Bal.		
		7,56,000			**7,56,000**

Working Note:

Partners Capital A/c

Dr. **Cr.**

Particulars	A	B	C	Particulars	A	B	C
				By Bal. B/d	1,00,000	2,00,000	2,00,000
				By Interest on			
To Bal.C/d	1,61,511	2,39,756	2,32,733	Capital	6,000	12,000	8,000
				By Net Profit (4 moths)	6,044	3,023	--
				By Net Profit (8 moths)	49,467	24,733	24,733
	1,61,511	**2,39,756**	**2,32,733**		**1,61,511**	**2,39,756**	**2,32,733**

Illustration-2 [Admission of Partner in between the year]

Trial Balance as on 31st December, 2013

Particulars	Dr. Rs.	Cr. Rs.
Gross Profit		3,60,000
Salaries	36,000	
Rent	12,000	
Printing and Stationery	9,000	
Bad Debts	18,000	
Discount		24,000
Sales Commission	30,000	
Sundry Debtors	2,10,000	
Sundry Creditors		40,000
Bills Receivable and Bills Payable	1,20,000	35,000
Land and Building	2,00,000	
Plant and Machinery	1,50,000	
A's Capital		1,00,000
B's Capital		1,50,000
C's Capital [1st July, 2013]		2,00,000
Advertisement	24,000	
Bank Fixed Deposits	1,00,000	
	9,09,000	9,09,000

Adjustments:-

1) A and B sharing profit & losses in the ratio of 2:1 admitted C on 1st July, 2013 and agreed to share in the ratio of 2:1:2.

2) As per partnership deed (old and New) partners were entitled to interest on capital @ 6% p.a. A's remuneration Rs. 12,000 p.a. and C Rs. 20,000 p.a. w.e.f. 1st July 2013

3) Depreciate land and bldg by 5%. Plant and machinery by 20% p.a.

4) Plant includes, plant worth Rs. 50,000 purchased on 1st July, 2013

5) Fixed Deposits carry interest at 12% p.a. from 1st Oct 2013

6) Sales up 30th June, 2013 amounted to Rs. 2,00,000 out of total sales for the year 5,00,000.

You are required to prepare P and L A/c, P and L Appropriation A/c for the year ended 31st December, 2013 and Balance Sheet as on 31st December, 2013.

Solution:

Profit and Loss A/c

Dr. For the year ended 31st December, 2013 Cr.

Particulars	1 Jan to 30 June	1 July to 31 Dec.	Particulars	1 Jan to 30 June	1 July 31 Dec.
To Salaries	18,000	18,000	By Gross Profit (2:3 ratio)	1,44,000	2,16,000
To Rent	6,000	6,000	By Discount	9,600	14,400
To Printing & Stationery	4,500	4,500	By Interest on F.D. (from 1st Oct 2001)	—	3,000
To Bad Debts	7,200	10,800			
To Sales Commission	12,000	18,000			
To Advertisement	9,600	14,400			
To Depreciation On:					
Land & Bldg	5,000	5,000			
Plant & Machinery	10,000	15,000			
To Net Profit c/d	81,300	1,41,700			
	1,53,600	**2,33,400**		**1,53,600**	**2,33,400**

Profit & Loss Appropriation A/c

Dr. For the year ended 31st December, 2013 Cr.

Particulars	1 Jan to 30 June	1 July to 31 Dec.	Particulars	1 Jan to 30 June	1 July 31 Dec.
To Interest on Capital			By Net Profit b/d	81,300	1,41,700
A	3,000	3,000			
B	4,500	4,500			
C	--	6,000			
To Partners Salary					
A	6,000	6,000			
C	--	10,000			
To net profit transferred to Cap.					
Upto 30th June A & B in 2:1	67,800	--			
From 1st July A, B, C, in 2:1:2	--	1,12,200			
	81,300	**1,41,700**		**81300**	**1,41,700**

Balance Sheet

As on 31st December, 2013

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Partners Capital A/c			Land & Building	2,00,000	
A	2,08,080		Less: Depreciation	10,000	1,90,000
B	2,04,040		Plant and Machinery	1,50,000	
C	2,60,880	6,73,000	Less: Depreciation	25,000	1,25,000
			Sundry Debtors		2,10,000
Sundry Creditors		40,000	Bills Receivable		1,20,000
Bills Payable		35,000	Bank Fixed Deposits	1,00,000	
			Add: Interest Accrued	3,000	1,03,000
		7,48,000			**7,48,000**

Partners Capital A/c.

Dr. **For the year ended 31st December, 2013** **Cr.**

	A	B	C	Particulars	A	B	C
To Bal. carried to Balance Sheet				By Bal. B/d	1,00,000	1,50,000	
				By Cash & bank	--	--	2,00,000
	2,08,080	2,04,040	2,60,880	By Interest on			
				Capital	6,000	9,000	6,000
				By Salaries	12,000	--	10,000
				By Net Profit			
				upto 30th June			
				2008	45,200	22,600	
				from 1st July	44,880	22,440	44,080
	2,08,080	**2,04,040**	**2,60,880**		**2,08,080**	**2,04,040**	**2,60,880**

Illustration 3 [Admission of Partner]

Rana and Balu were partners sharing profits and Losses in the ratio of 3:2 with effect from 1-10-2013 kaka joins as a third partner. The new profit sharing ratio was 2:2:1

The following is their trial balance as on 31-3-2014

Particulars	Debit Rs.	Credit Rs.
Drawing & Capital - Rana	15,000	3,00,000
- Balu	10,000	2,00,000
- Kaka	5,000	1,50,000
Opening Stock (1-4-2013)	30,000	--
Purchases & Sales	9,00,000	14,00,000
Wages	1,40,000	--
Furniture	2,00,000	--
General Exp.	60,000	--
Selling Exp.	14,000	--
Debtors & Creditors	6,26,000	2,50,000
Cash & Bank Balance	3,50,000	--
Amount brought by kaka (for his share of Goodwill)	--	50,000
	23,50,000	23,50,000

Other Information:

(a) Stock on 31-3-2014 was ₹ 1,80,000

(b) Purchases from 1-4-2013 to 30-9-2013 were ₹ 4,00,000.

(c) Sales from 1-4-2013 to 30-9-2013 were ₹ 6,00,000

(d) Wages from 1-4-2013 to 30.09.2013 were ₹ 60,000.

(e) Stock on 30-9-2013 was ₹ 80,000.

(f) Furniture worth ₹ 1,00,000 was Purchased on 1-1-2014.

Write off depreciation on Furniture at 20% p.a.

(g) Interest on Partner's Capital is to be provided at 12% p.a.

(h) No interest is to be charged on Partner's Drawings.

You are required to prepare:-

(i) P & L A/c and P & L Appropriation A/c with columns for (01-4-2013 to 30-9-2013) and (01.10.2013 to 31.03.2014).

(ii) Balance sheet as on 31-03-2014

[M.U. Apr., 03] and

Solution:

(In the book of Rana, Balu & Kaka)

Trading and P & L Appropriation A/c.

For the year ended 31-3-2014

Dr. **Cr.**

Particulars	1-4-13 to 30-9-13	1-10-13 to 31-3-14	Particulars	1-4-13 to 30-9-13	1-10-13 to 31-3-14
To Opening Stock	30,000	80,000	By Sales	6,00,000	8,00,000
To Purchases	4,00,000	5,00,000	By Closing stock	80,000	1,80,000
To Wages	60,000	80,000			
To Gross profit	1,90,000	3,20,000			
	6,80,000	**9,80,000**		**6,80,000**	**9,80,000**
To General Exp. (2)	30,000	30,000			
To Selling Exp. (2)	6,000	8,000	By Gross Profit b/d	1,90,000	3,20,000
To Depre. Furniture (3)	10,000	15,000			
To Net Profit c/d	1,44,000	2,67,000			
	1,90,000	**3,20,000**		**1,90,000**	**3,20,000**
To Interest on Cap.12%			By Net Profit b/d	1,44,000	2,67,000
Rana	18,000	18,000			
Balu	12,000	12,000			
Kaka	--	9,000			
To Partners Capital A/cs					
Rana (3/5) (2/5) =1,59,600	68,400	91,200			
Balu (2/5) (2/5) = 1,36,800	45,600	91,200			
Kaka (-) (1/5) = 45,600	--	45,600			
	1,44,000	**2,67,000**		**1,44,000**	**2,67,000**

Dr. Partners Capital A/c Cr.

Particulars	Rana Rs.	Balu Rs.	Kaka Rs.	Particulars	Rana	Balu	Kaka
To Drawings	15,000	10,000	5,000	By Balance b/d	3,00,000	2,00,000	--
To Balance C/d (Bal. fig)	5,30,600	3,50,800	1,99,600	By Bank (1)	--	--	1,50,000
				By Interest (1) (d)	36,000	24,000	9,000
				By Goodwill	50,000	--	--
				By P & L Appr.	1,59,600	1,36,800	45,600
	5,45,600	**3,60,800**	**2,04,600**		**5,45,600**	**3,60,800**	**2,04,600**

Balance Sheet as on 31-3-2014

Liabilities	Rs.	Assets	Rs.
Partners Capital		Furniture 2,00,000	
Rana 5,30,600		Less: Dep. 25,000	1,75,000
Balu 3,50,800		Debtors	6,26,000
Kaka 1,99,600	10,81,000	Stock	1,80,000
Creditors	2,50,000	Cash & Bank	3,50,000
	13,31,000		**13,31,000**

Note :- (1) Sacrifice Ratio (Old Partners)

Profit-Share Ratio	Rana	Balu	Kaka
(a) Old	3 :	2	
i.e.	$\left(\frac{3}{5}\right)$	$\left(\frac{2}{5}\right)$	
(b) New	2 :	2 :	1
i.e.	$\left(\frac{2}{5}\right)$	$\left(\frac{2}{5}\right)$	$\left(\frac{1}{5}\right)$
(c) Sacrifice = (a) – (b)	$\left(\frac{1}{5}\right)$		$\frac{1}{5}$

(d) Therefore, Kaka has to pay Rana on account of Goodwill no entry is Passed, since Interest on Capital is calculated on Rs. 1, 50,000 kaka for 6 months

(2) Allocation of Expenses — Basis

Allocation of Expenses	Basis
(a) General Expenses	TIME
(b) Selling Expenses	SALES

(3) Depreciation on Furniture

		Depreciation @ 20% p.a.		
Furniture A/c	Rs	Upto 1-10-13	After 1-10-13	Total
Opening Bal. (1-04-13) (Bal. fig)	1,00,000	10,000*	10,000*	20,000*
Addition 1-1-09	1,00,000	--	5,000**	5,000**
Closing Bal. (31-3-14)	2,00,000	10,000*	15,000	25,000

Illustration : 4

[Admission of Partner]

The following is the Trial Balance of a firm as on 31st December, 2013.

Debit	Rs.	Credit	Rs.
Purchases	1,56,000	Capital A/c:	
Return Inward	2,400	Sonu	30,000
Stock	24,000	Kalu	30,000
Drawings:		Motu	30,000
Sonu	12,000	Sales	2,94,000
Kalu	12,000	Return Outward	2,000
Motu	12,000	R.D.D.	8,800
Salary	27,000	Bank Loan	20,000
Off. Exp.	16,500	Creditors	76,500
Bad Debts	2,100	Bills payable	8,700
Carriage Inwards	4,500		
Carriage Outwards	6,750		
Debtors	1,00,000		
Bills Receivables	3,250		
Bank Balance	8,000		
Cash Balance	2,500		
Investment	25,000		
Premises	50,000		
machinery	36,000		
	5,00,000		5,00,000

On 1st July 2013 Sonu retired and the following adjustments were agreed upon:

a) Goodwill of Rs. 90,000/- was brought into the books of accounts.

b) Furniture worth Rs. 20,000/- was purchased on 31-3-2013 but the invoice was not recorded in the books.

c) Balance in sonu account after making all adjustments was to be transferred to his Loan account carrying interest @ 16%.

d) Closing stock was valued at Rs. 42,000/-.

e) Depreciate Machinery by 10%, Premises by 5% and Furniture by 5% p.a.

f) Provide interest on capital at 10% p.a. Prepare Trading and Profit and Loss Account for the year ended 31-12-2013 and a Balance sheet as on that date.

[Modified M.U. Apr.,05]

Solution : (In the Books of Sonu, Kalu, & Motu)

Trading, P & L and P & L Appropriation. A/c

Dr. for the year ended 31st Dec. 2013 Cr.

Particulars	Rs.	Particulars	Rs.
To Opening Stock	24,000	By Sales 2,94,000	
To Purchases 1,56,000		Less: Returns (2,400)	2,91,600
Less: Returns (2,000)	1,54,000	By Closing Stock	42,000
To Carriage Inward	4,500		
To GP c/d	1,51,100		
	3,33,600		**3,33,600**
To Salary	27,000	By Gross Profit	1,51,100
To Office Expenses	16,500		
To Bad Debts	2,100		
To Carriage Outward	6,750		
To Deprecation			
Machinery 3,600			
Premises 2,500			
Furniture 750	6,850		
To Net Profit	91,900		
	1,51,100		**1,51,100**

	HY1 Rs.	HY2 Rs.		HY1 Rs.	HY2 Rs.
To Interest on Capital			By Net Profit		
Sonu 1,500=	1,500	--	(91,900 X ½)	45,950	45,950
Kalu 3,000=	1,500	1,500			
Motu 3,000=	1,500	1,500			
To Interest A's Loan-		5066			
(63,317 x 16% x 6 mths)					
To Net Profit					
Transfer to Capital A/cs.					
A 13,817=	13,818				
B 32,758=	13,816	18,942			
C 32,758=	13,816	18,942			
	45,950	**45,950**		**45,950**	**45,950**

i) Half year, HY1 = 1st Jan. 2013 to 30 June 2013.

HY2 = 1st July 13 to 31st December, 2013.

ii) It is assumed that monthly sales were uniform throughout the year.

Balance Sheet As on 31st Dec., 2013

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Bank Loan		20,000	Cash		2,500
Creditors	76,500		Bank		8,000
Add: Purchase of	20,000	96,500	Debtors	1,00,000	
Furniture			Less: R.D.D	8,800	91,200
		8,700	B/R		3,250
Bill payable	63,318		Closing stock		42,000
	5,066	68,384	Investment		25,000
Sonu's Loan A/c			Premises	50,000	
Add: O/s Interest	83,758		**Less:**		
	83,758	1,67,516	Depreciation	(2,500)	47,500
Capitals:			Machinery	36,000	
Kalu			**Less:**		
			Depreciation	(3,600)	32,400
Motu			Furniture	20,000	
			Less:		
			Depreciation	(750)	19,250
			Goodwill		90,000
		3,61,100			**3,61,100**

Capitals A/c

Dr. **Cr.**

Particulars	Sonu	Balu	Kaka	Particulars	Sonu	Balu	Kaka
To Drawing	12,000	12,000	12,000	By Balance b/d	30,000	30,000	30,000
To Loan A/c	63,318	83,758	83,758				
				By Goodwill	30,000	30,000	30,000
				By Int. on capital	1,500	3,000	3,000
				By P/L A/c	13,818	32,758	32,758
	75,318	**95,758**	**95,758**		**75,318**	**95,758**	**95,758**

Illustration – 5 [Admission of a partner]

A and B were partners in business sharing profit and losses, A two-third and B one-third. Interest on Fixed Capital was credited @ 5% p.a. No. interest was charged on drawings. Accounts were made upto 31st March of each year.

On January 1, 2014 C was admitted as partner and from that date all P and L were to be shared, A six-tenth B three-tenth, C one-tenth. Before ascertaining the partners shares of P and L C was to be credited with a salary at the rate of Rs. 6000 p.a. Provisions regarding interest on capital and drawings remained unaltered.

It was agreed that C's total share of profits including his salary and interest on capital, should be guaranteed by A at minimum rate of Rs. 15000 p.a. Any apportionment of profit for a particular period should be made as to gross profit on the basis of sales and as to expenses, with the expectation of general expenses on the basis of time.

The Trial Balance extracted from the books on 31st March 14 was as follows-

Particulars	Dr.	Cr.
Capital Account: A		48,000
B		24,000
C (cash paid in Jan 1st, 2014)		8,000
Current Account: A	30,000	
B	15,000	
C	3,000	
Delivery Van at cost	10,000	
Pro. For Dep. thereon at 31st March, 2014		4,000
Furniture and Fittings at cost	24,000	
Pro. For Dep. thereon at 31st March, 2014		3,000
Sales (Nine months, to Dec 31st) Rs. 2,40,000/-		3,36,000
Purchases	2,22,000	
Stock March 31st 2013	48,000	
General Exp. (9 months To Dec. 2013 Rs. 4,550)	10,400	
Salaries	24,000	
Heating and Lighting	2,200	
Rent and Rates	9,600	
Creditors		15,000
Debtors	20,000	
Balance at Bank	19,800	
	4,38,000	4,38,000

On 31st March, 2014 the stock was valued at Rs. 47000, rates paid in advance amounted to Rs. 600; Rs. 800 is to be provided for electricity consumed to that date.

Included in the sundry debtors was an amount of Rs. 6000 for goods invoiced on sale or return on 1st February 2014 which were still unsold on 31st March 2014. The cost of these goods which were not included in the stock was Rs. 3000.

Depreciation is to be provided @ 20% p.a., on the cost of the delivery van at 2 ½ % p.a., on the cost of furniture and fittings.

You are required to prepare:-

(a) Trading and P and L A/c for the year ended 31st March 2014 and

(b) Balance Sheet as on that date: Ignore Taxation.

Solution:-

M/s A, B and C

Trading and P and L Account for the year ended

31st March 2014

Dr. **Cr.**

Particulars	Rs. Amt.	Particulars	Rs. Amt.	Rs. Amt.
To Opening Stock	48,000	By Sales		3,30,000
To Purchases	2,22,000	By Stock in	47,000	
To Gross Profit c/d	1,10,000	hand:	3,000	50,000
	3,80,000	With Customer		**3,80,000**

	Upto Dec. 31st 2013 Rs.	1st Jan 14 31st Mar. 14 Rs.		Upto Dec. 31st 2013 Rs.	1st Jan. 14 31st Mar. 14 Rs.
To Salaries	18,000	6,000	By Gross Profit (240:90)	80,000	30,000
To General Exps.	4,550	5,850			
To Heating and Lighting	2,250	750			
To Rent and Rates					
To Depreciation on:-	6,750	2,250			
Delivery Van					
Furniture & fixtures	1,500	500			
To Net Profit c/d	450	150			
	46,500	14,500			
	80,000	**30,000**		**80,000**	**30,000**
To Interest on Capital:-			By Net profit b/d	46,500	14,500
A	1,800	600			
B	900	300			
C		100			
To Salary to artners C		1,500			
To Profit:-					
A 2/3 | 6/10					
B 1/3 | 3/10	29,200	7,200			
C - | 1/10	14,600	3,600			
		1,200			
	46,500	**14,500**		**46,500**	**14,500**

Note : Rs. 6000 goods with customer on approval basis have been deducted both sales and debtors.

Balance Sheet as at 31st March, 2014

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital Account:-			Fixed Assets:		
A	48,000		Delivery Van cost		
B	24,000		Less: Depreciation	10,000	
C	8,000	80,000			4,000
				6,000	
Current Account:-			Furniture and Fixtures cost		
A	7,850				
B	4,400		Less: Depreciation		
C	750	13,000	Current Assets:		20,400
			Stock in hand with customer	24,000	
			Debtor	3,600	50,000
			Cash at Bank		
			Prepaid Rates		14,000
Creditors		15,000			19,800
Expenses Unpaid		800			600
		108800			**108800**

Partners Current Account

Dr. **Cr.**

Particulars	A	B	C	Particulars	A	B	C
To Drawings	30,000	15,000	3,000	By Interest	2,400	1,200	100
To Partner c (to Make up Rs. 3750 for Mths)	950			By Salary			1,500
				By Net Profit Upto 31-12-2014	29,200	14,600	--
To Balance C/d				By Net Profit After Jan 1st	7,200	3,600	1,200
				By C/A's A/c			
	7,850	4,400	750				950
	38,800	**19,400**	**3,750**		**38,800**	**19,400**	**3,750**

Illustration – 6 [final A/c of professional firm]

Dr. Gandhi and Dr Gujar were partners (sharing P and L in 3:2 ratio). On 1-10-2013 they admitted Dr. Jani as a partner. Dr. Jani brings Rs. 40000 as Goodwill for his 1/5th share.

The trial balance on 31-12-2013 was as follows:-

Particulars	Dr.	Cr.
Drawings and Capital		
Dr. Gandhi	15,000	60,000
Dr. Gujar	10,000	40,000
Jani (Goodwill brought on 1-10-2013)		40,000
Client's deposits received		10,000
Equipments and furniture	1,80,000	
Office and administration expenses	72,000	
Rent	21,000	
Salaries	40,000	
Cash and Bank	1,02,000	
Fees earned		3,00,000
Provisions against out standings fees) 1-1-2013)		50,000
Outstanding Fees (on 31-12-2013)	60,000	
	5,00,000	5,00,000

Adjustments:-

1) Provide 10% depreciation on Equipment and Furniture.
2) The business has handled 50% more work in each of the months of the last quarter compared with the previous months.
3) Outstanding Fees 31-12-2013 includes Rs. 45000 for fees to be collected for the period in the last quarter of 2013. All outstanding fees should be provided.
4) Rent has been increased by Rs. 500 p.m. from 1-7-2013
5) A clerk was appointed at Rs. 1000 p.m. from 1-9-2013

Prepare Final accounts for the year ended 31st December 2013

Solution:-

In the books of Dr. Gandhi, Dr. Gujar and Dr. Jani

Profit and Loss A/c.

For the year ended 31st December 2013

Dr. **Cr.**

Particulars	Upto 30-9	After 1-10	Particulars	Upto 30-9	After 1-10
To Office and Administration	54,000	18,000	By Fees earned (notes 3)	2,00000	1,00,000
To Rent (Note 1)	15,000	6,000	By Provision for outstanding fees (1.1.2013 Rs. 500000 Less : (31-12-2012 Rs. 15000 (15000=60000-45000)	35,000	
To salaries (Note 2)	28,000	12,000			
To Depreciation on equipments And furniture	13,500	4,500			
To Provision for outstanding fees		45,000			
To Partners Capital A/c (profit) (bal. Fig.)					
Dr. Gandhi (3/5 & 12/25)	74,700	6,960			
Dr. Gujar (2/5 & 8/25)	49,800	4,640			
Dr. Jani 5/25		2,900			
	2,35,000	**1,00,000**		**2,35,000**	**1,00,000**

Balance Sheet as at 31st December, 2013

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital Account:-			Equipment & Furniture	1,80,000	
Dr. Gandhi	1,50,660		Less: Depreciation	(18,000)	1,62,000
Dr. Gujar	1,00,440				
Dr. Jani	2,900	2,54,000	Cash & Bank		1,02,000
Client Deposit Received		10,000	Outstanding Fees	60,000	
			Less: Provision	(60,000)	--
		2,64,000			**2,64,000**

Working Note:

Partners Capital A/c

Dr. **Cr.**

Particulars	Gandhi	Gujar	Jani	Particulars	Gandhi	Gujar	Jani
To Drawings	15000	10000		By Bal. B/d	60000	40000	40000
To Goodwill			40000	By Goodwill	24000	16000	
To Balance c/d (bal. Fig.)	150660	100400	2900	By Profit	81600	54440	2990
	165660	**110440**	**42900**		**165660**	**110440**	**42990**

(1) Rent 21,000

Less: Increased (500 x 6 mths 3,000

Rent (without increase 18,000

======

Therefore, Rent= 18000/12 Rs. 1500 per Mth.

(a) Rent (from 1-1-2013 to 1-9-2008)

1-1-2008 to 30-6-2013 (1500 x 6 mths.) 9,000

1-7-2013 to 30-9-2013 (2000 * 3 mths.) 6,000

Total 15,000

=======

(b) Rent (from 1-10-2013 to 31-12-2013

(2000* 3 mths.) 6,000

======

(2) Salaries

Salaries	40,000
Less: Clerk appointed (1000 x 4 mths.)	4,000
Salaries (without appointment)	36,000
	=====

Therefore, Salaries = Rs. 36000/12=Rs. 3000 per mth.

(a) Salaries (from 1-1-2013 to 30-9-2013)

1-1-2013 to 31-8-2013 (3000 x 8 mths.)	24,000
1-9-2013 to 30-9-2013 (4000 x 1 mths.)	4,000

Total	28,000
	======

(b) Salaries (from 1-10-2013 to 31-12-2013) -----------

1-10-2013 to 31-12-2013 (4000 x 3 mths.) 12,000

=======

(3) Fees Earned

Lets assume, average monthly work in first three quarters be 2x per month. Therefore, average monthly work in last Quarter = 3x per months.

Work (01-01-2013 to 30-9-2013) = 2x for 9 mths. = 18x

Work (01-10-2013 to 31-12-2013) = 3x for 3 mths. = 9x

Therefore, Work upto 30-9-2013 and after 01-10-2013 is in 2:1.

(4) Goodwill Adjustment

As the new profit sharing ratio is not specified, the sacrifice by old partners (Gandhi and Gujar) is in old profit sharing ratio (i.e. 3:2). The entry passed is

Jani's capital A/c……………Dr.	40,000	
To Gandhi capital A/c		24,000
To Gujar Capital A/c		16,000

(5) New profit sharing ratio

(a) Partner Gandhi = 3/5 of (1-1/5) = 12/25

(b) Partner Gujar = 2/5 of (1-1/5) = 8/25

(c) Partner Jani = 1/5 = 5/25

Therefore, Gandhi : Gujar: Jani: 12:8:5

Illustration – 7 [Admission of A partner in between the year]

M/s Kunal & Co. having Deepak and Ram (sharing profits and losses in 2:1) decided to admit Amit, as partner from 1-1-2014. The new profit-sharing of the partner was Deepak: six-tenth; Ram : three-tenth; and Amit: One-tenth.

According to the partnership deed, interest @ 10% p.a., is payable on fixed capital: No interest was charged on drawings. The capital should be prepared on 31st March each year Deepak and Ram admitted Amit on following terms and conditions:-

(1) Amit should get salary of Rs. 9000 p.a.

(2) Amit's share of profits (including salary and interest on capital should be guaranteed by Deepak at a minimum of Rs. 16000 p.a., from the date of admission.

(3) Apportionment of expenses should be made on the basis average sales, except from miscellaneous expenses and administrative expenses.

(4) Goodwill of the firm was valued at Rs. 100000 and it should be raised in the books.

The Trial balance on 31st March, 2014 was as follows:-

Particulars	Dr. Rs.	Cr. Rs.
Current and Capital Accounts:		
Deepak	60000	96000
Ram	30000	48000
Amit (Capital Brought on 14-2-2014)	6000	16000
Cost and Provision for Depreciation		
On Office furniture	20000	8000
On Delivery Vans	48000	18000
Purchases and Sales	400000	610000
Debtors and Creditors	60000	20000
Stock on 1-4-2013	90000	
Miscellaneous expenses (upto 31st December Rs. 11900)	20000	
Rent, Rates and Taxes	44000	
Carriage outward	17000	
Cash & Bank	11000	
Goodwill	10000	
	816000	816000

In addition following information is to be considered:-

1) Stock on 31-3-2014 Rs. 34000.
2) Rent, Rates and Taxes outstanding on 31-3-2014 Rs. 4000.
3) Carriage outward paid in advance on 31-3-2014 Rs. 2000.
4) Sales and Debtors includes goods sent on “sales or return” basis on 01-03-14 of Rs. 25000 (Cost Rs. 15000) On 31-3-14.
   (i) 50% of goods accepted by customers.
   (ii) 10% of goods no intimation from customer but period of approval expired on 25th March 2014.
   (iii) Balance goods, period of approval not expired.
5) Average monthly sales for the months of January, March, May to July, September to December were half, compared to average monthly sales of the remaining months.
6) On 31-3-2014 partners decided that partners fixed capital should be in 8 (Deepak); 4 (Ram); 1 (Amit). For this purpose, Amit’s capital should be considered as base. The shortfall in case on Ram, should be adjusted through introduction of cash by Ram. However shortfall of Deepak should be transferred to his current a/c. The necessary cash was brought by Ram on 31-3-2014 for which no entry was passed.
7) Provide 10% depreciation on Office furniture and on delivery vans.

Prepare Trading and Profit and Loss Account for the year ended 31st March, 2014 and the Balance Sheet on that date.

Solution :

In the books of Kumar and Co. Trading Account

for the year ended 31st March, 2014

Dr. **Cr.**

Particulars	AMT.	Particulars	Amt.	
To Opening Stock	90000	By Sales	610000	
To Purchases	400000	Less: Sales or Return	10000	600000
To Gross Profit (bal. Fig.)	150000	By Closing Stock	34000	
		Add: Sales or Return	6000	40000
		at cost		
	640000			**640000**

Profit and Loss A/c

Dr. For the year ended 31st March 2014 Cr.

Particulars	Upto 31-12 Rs.	After 1-1 Rs.	Particulars	Upto 31-12 Rs.	After 1-1 Rs.
To Misc. Exp	11,900	8,100	By Gross Profit b/d (sales)	1,10,000	40,000
To Rent, Rates & Taxes (44000 + 4000)	36,000	12,000			
To Carriage Outward (170000-2000) (sales)	11,000	4,000			
To Dep. On Furniture (time)	900	300			
To Dep. On Delivery Van (sales)	2,200	800			
To Net Profit (bal. Fig.)	48,000	14,800			
Total Rs.	**1,10,000**	**40,000**		**1,10,000**	**40,000**
To Salary (9000*3/12)	--	2,250	By Net Profit b/d	48,000	14,800
To Interest on Capital:					
@ 10% on 96000	7,200	2,400			
@ 10% on 48000	3,600	1,200			
@ 10% on 16000 for 1.5 mths. (from 14-2-2014)	--	200			
To Partners Capital A/c (profit)					
Deepak(2/3 and note 4)	24,800	4,575			
Ram 1/3 and 3/10)	12,400	2,625			
Amit (-) and note 4	--	1,550			
Total Rs.	**48,000**	**14,800**		**48,000**	**14,800**

Partners Current Accounts

Particulars	Deepak	Ram	Amit	Particulars	Deepak	Ram	Amit
To Bal. B/d	60000	30000	6000	By Goodwill (2:1) [note 6]	60000	30000	
To Deepak's Capital Account (note 5).	32000	--	--	By Salary			2250
To Bal. C/d	6975	19825		By Interest on Capital	9600	4800	200
				By Profit	29375	15025	1550
				By Bal. C/d			2000
Total Rs.	**98975**	**49825**	**6000**	Total Rs.	**98975**	**49825**	**6000**

Balance Sheet

As on 31st March 2014

Liabilities	AMT.	AMT.	Assets	AMT.	AMT.
Partners Capital A/c			Office Furniture	20000	
Deepak	128000		Less: Pro. For Dep. (note 3)	9200	10800
Ram	64000		Delivery Vans	48000	
Amit	16000	208000	Less: Pro. For Dep. (note 3)	21000	27000
Partners Current A/c			Debtors	60000	
Deepak	6975		Less: Sales of Return	10000	50000
Ram	19825	26800	Cash and Bank	11000	
Creditors		20000	Add: Brought by Ram	16000	27000
Outstanding Rent, Rates and Taxes		4000	Goodwill	10000	
			Add: Raised	90000	100000
			Stock	34000	
			Add: sales or Return	6000	40000
			Carriage-outward paid in adv.		2000
			Partners Current A/c Amit		2000
		258800			**258800**

Working Note:-

1) Sale or Return Goods:

(a) 50% of the goods accepted by the customer and 10% of the goods for which no intimation is received but period of approval has expired should be considered as a sale. These goods are already include in sales and debtors & therefore no adjustment entry is required for 60% of the goods.

(b) Balance 40% (i.e. 100%-50%-10%) goods, for which period of approval is not expired cannot be considered as sale. Therefore

(i) Cancel sales (i.e. less from sales and less from debtors) = 40% for Rs. 25000=Rs. 10000

(ii) Include in closing stock = 40% of 15000 (cost) = Rs. 6000 (i.e., at cost and market value, whichever is less).

2) Sales ratio:

Let us assume sales for remaining months=2x each.

Sales for specified months = x each.

Sales from 1-4-2008 to 31-12-2008 (9 months)

Apr	May	Jun	July	Aug	Sep	Oct	Nov	Dec	Total
2x	+x	+x	+2x	+x	+x	+x	+x	+x	=11x

Sales from 1-1-2009 to 31-3-2009 (3 months)

Jan	Feb	Mar	Total
X	+2x	+x	=4x

Therefore, Sales 9 months : months :11:4.

(3) Depreciation :

Method of depreciation is not specified and therefore dep. is provided on reducing balance method.

Particulars	Off.Fumit.	Delivery van
Cost	20,000	48,000
Less: Pro For Dep. (1-4-2013)	8,000	18,000
W.D.V.	**12,000**	**30,000**
Less: Depreciation @ 10%	1,200	3,000
W.D.V. on 31-3-2014	**10,800**	**27,000**

(4) Gurantee of Profit (by Deepak to Amit)

Gurantee (for 3 months i.e, 01-01-2013 to 31-03-2013)

Total amount receivable by Amit

Salary (9000 x 3/12)	2250
Add: Interest on capital (on Rs. 16000 @ 10% from	
14.2.2009	200
Add: Profit [1/10 of (14800-6050)]	875
	3325
Add: Shortfall to be borne by Deepak (Bal.Fig)	675
Total amount receivable by Amit	**4000**

Therefore, Total profit Amit=875+675=Rs. 1550.

Profit of Deepak:

Profits [6/10 of (14800-6050)]	5250
Less: Shortfall of Amit	675
Total profit of Deepak	**4575**

(5) Fixed capital adjustments:

Fixed capital of Amit	16000
Therefore, Fixed capital of Deepak (16000x8/1)	128000
Therefore, Fixed capital of Ram (16000x4/1)	64000

(a) Shortfall of Deepak

Shortfall of Rs. 32000 (i.e, 128000-96000) should be debited to Deepak's current account.

(b) Shortfall of Ram

Shortfall of Rs. 16000(i.e., 64000-48000) should be brought in cash by Ram.

Therefore, cash balance increased by Rs. 16000

(6) The Journal Entry to raise Goodwill is

Goodwill A/c ------- Dr.	90000	
To Deepak's Current A/c (⅔)		60000
To Rams Current A/c (⅓)		30000

Illustration : 8

Following is the Trial Balance of a firm as on 31st Dec. 2013

Debit	Rs.	Credit	Rs.
Drawing : X	15,000	Capita's X	24,000
Y	7,500	Y	12,000
Z	1,500	Z (including Goodwill)	5,000
Furniture	10,500	Sales	1,80,000
Purchases	1,10,000	Creditors	13,500
Stock	25,000		
General Expenses	5,200		
Salary	12,000		
Rent & Rates	5,900		
Debtors	31,000		
Bank	10,900		
	2,34,500		2,34,500

Adjustments:

1) X and Y were partners sharing profits and losses equally.

2) Mr. Z was admitted to the partnership on 1st July, 2013.

3) On 31st December, 2013 stock was valued at Rs. 23,500.

4) Rent & Taxes paid in advance Rs. 900.

5) General Exp. Were outstanding Rs. 750.

6) Depreciate Furniture @ 10% p.a.

7) Share of Goodwill of new partner was valued at Rs. 1,000 on 1st July, 2013 and is yet to be adjusted

8) Interest on capital to be charged at the rate of 10% p.a.

You are required to prepare Trading, Profit and Loss Account for the year ended on 31st December, 2013 and Balance sheet as of that date.

[Modified, M.U. Oct., 08]

Solution :

(In the Books of X, Y, Z)

Trading and Profit and Loss A/c.

For the year ended 31st Dec., 2013

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Opening Stock	25,000	By Sales	1,80,000
To Purchases	1,10,000	By Closing Stock	23,500
To Gross Profit c/d	68,500		
	2,03,500		**2,03,500**
To General Expenses 5,200		By Gross Profit	68,500
Add: Outstanding 750	5,950		
To Salary	12,000		
To Rent & Taxes 5,900			
Less: Prepaid 900	5,000		
To Depreciate Furniture			
@ 10% p.a	1,050		
To Net Profit (full year)	44,500		
	68,500		**68,500**

Dr. P & L Appropriation A/c (Year 2013) Cr.

	Jan-June Rs.	July-Dec Rs.		Jan-June Rs.	July-Dec Rs.
To Interest on Capital A/cs.			By P & L (50% of 44,500 each) [N.P. B/d]	22,250	22,250
A (full year)	1,200	1,200			
B (full year)	600	600			
C (6 months)		200			
To Balance Profit	10,225	6,750			
A	10,225	6,750			
B	--	6,750			
C	20,450	20,250			
(b)					
	22,250	22,250			
(a)+(b)	=	19,375		22,250	22,250
Interest + Profit	=	18,175			
A (11,425 + 7,950)	=	6,950			
B (10,825 + 7,350)					
C (Nil + 6,950)					
		44,500			**44,500**

Partners Capital A/c

Dr. **Cr.**

Particulars	A RS.	B Rs.	C Rs.	Particulars	A Rs.	B Rs.	C Rs.
To Drawing	15,000	7,500	1,500	By Balance b/d	24,000	12,000	5,000
To Goodwill	--	--	1,000	By Goodwill	500	500	--
To Balance C/d	28,875	23,175	9,450	By P & L Appro.	19,375	18,175	6,950
	43,875	**30,675**	**11,950**		**43,875**	**30,675**	**11,950**

Balance Sheet of A, B, & C

As at 31st Dec., 2013

Liabilities	Rs.	Assets	Rs.
Capitals:		Furniture 10,500	
A 28,875		Less: Deprn. (1,050)	9,450
B 23,175		Prepaid Rent	900
C 9,450	61,500	Debtors	31,000
Outstanding Exp.	750	Bank	10,900
Sundry Creditors	13,500	Closing Stock	23,500
	75,750		**75,750**

Note :

In the absence of any information / Instruction, it is assumed that

(a) Profit Sharing Ratio before and after Admission of C as a partner is equal

(b) Interest on Drawings is to be ignored.

(c) Sales and other expenses were uniform throughout year.

ILLUSTRATIONS: 9 [Admission of partner, when stock on date of admission given]

A, B were sharing in the ratio of 3:2 admitted C as on 1st Oct. 2013 for 1/6 share

Trial Balance as on 31st March 2014 was as under.

Particulars	Dr. Rs.	Cr. Rs.
Capital A/c		
A		2,00,000
B		1,50,000
C (1.10.2013)		2,00,000
Stock (01.04.13)	40,000	
Purchases (upto 30.09.13 Rs. 1,00,000]	250,000	
Sales (upto 30.09.13 Rs. 250000)		595000
Salaries	20,000	
Rent	30,000	
Insurance (for the year 30.06.14)	12,000	
Bills Receivable	2,00,000	
Sundry Debtors / Sundry Creditors	1,10,000	40,000
Plant and machinery	4,00,000	
Wages [upto 30.13.08 Rs. 20,000]	50,000	
Commission [2% on sales]	6000	
Land & Building	1,50,000	
Cash on bank	28000	
General Reserve (1.04.13)	--	1,50,000
Bank overdraft	--	
Office Expenses	54000	15,000
	13,50,000	13,50,000

You are given following information

1) Stock as on 30th Sept. 13 Rs. 60,000 and as on 31.03.14 Rs. 125000

2) Depreciate Land &Building @5% p.a. and Plant & Machinery @20% p.a.

3) Plant includes, Plant costing Rs. 2, 00,000 purchased on 1st Jan. 2014.

4) Salaries to Partner A-Rs.24, 000 p.a. & C Rs. 1,000 p.m.

5) Rent was increased by Rs. 2,000 p.m. from 01.10.13.

6) C's Capital includes Rs. 40,000 brought in as his share in Goodwill.

7) Fixed Capital of Partners should be Rs. 6,00,000 in their Profit/Loss sharing ration.

Prepare final Accounts of the firm.

Solutions:

In the books of M/s A, B, C, & Co.

Trading A/c Profit & Loss A/c for the year ended 31st March 2014

Dr. **Cr.**

Particular	1.4.13 to 30.9.13 (6 m) I	1.10.13 to 31.3.14 II (6 m)	Particulars	1.4.13 to 30.9.13 I	1.10.08 to 31.3.14 II (6 m)
To Opening stock	40000	60000	By Sales	250000	345000
To Purchases	1,00,000	150000	By closing stock	60000	125000
To Wages	20000	30000			
To Gross profit	150000	230000			
	310000	**470000**		**310000**	**470000**
To Salaries	10000	10000	By Gross Profit B/d	150000	230000
To Rent	12000	18000			
To Insurance	3000	6000			
To Commission	5000	6900			
To Office Expenses	27000	27000			
To Depreciation					
Land &Bldg.	3750	3750			
plant & Machinery	20000	30000			
To Net Profit b/d	69250	128350			
	150000	**230000**		**150000**	**230000**

Profit & Loss Appropriation A/c for the year ended 31st March 14

Dr.. **Cr.**

Particulars	I	II	Particular	I	II
To Partners			By N.P. B/fd.	69,250	128350
Salaries A	12000	12000			
C	--	6000			
To N.P. transfer to A & B in 3:2 ratio	57250	-			
To N.P. transfer to A,B,C in 3:2:1 ratio	-	110350			
	69250	**128350**		**69250**	**128350**

Partner's Capital A/c

Dr.. **Cr.**

Particulars	A	B	C	Particulars	A	B	C
To Goodwill	--	--	40000	By Bal. B/d	200000	150000	200000
To Partners Current A/c (Bal. fig.)	127525	85683	84392	By Gen. Res.	90000	60000	--
				By Salaries	24000	--	6000
To Bal C/fd	300000	200000	100000	By Goodwill	24000	16000	--
				By N. Profit Upto 30/6/08			
				A, B in 3:2 from 1 Oct. to A, B, C in 3:2:1	34350	22960	--
					55175	36783	18392
	427525	**285683**	**224392**		**427525**	**285683**	**224392**

Working Notes:

1) New P.S. Ratio: C was admitted for 1/6 share

Bal. 1- $^1/_6$ = $\frac{6-1}{6}$ = $^5/_6$ to old partners

Partners in old ratio

A = $^3/_5$ x $^5/_6$ b= $^2/_5$ x $^5/_6$ C = $^5/_5$ x $^1/_6$

= 15 = 10 = 5

A: B: C = 3: 2: 1

Balance Sheet as on 31st March 2014

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Partners Capital			Land & Building	150000	
A	300000		Dep.	(7520)	142500
B	200000		Plant & Machinery	400000	
C	100000	600000	Less: Dep.	50000	350000
Partners C/A			Sundry Debtors		110000
A	127525		Bills Receivable		200000
B	85683		Closing stock		125000
C	84392	297600	Prepaid Insurance		3000
Sundry creditors		40000	Cash		28000
Bank O.D.		15000			
Commission Payable		5900			
		958500			**958500**

2) Rent Rs. 30,000 I II

Increase Rs. 2,000 p.m. from 01.01.13

2,000 x 3 -- 6000

Bal. Rent (30,000-6,000)

= 24000 in Time Ratio 6m, 6m, 12000 12000

12000 **18000**

3) Insurance Rs. 12,000 p.a. from 1st July 13 to 30th June 14. i.e. Rs.1000 p.m.

I 01 July 13 to 30 Sept. 13 i.e 3 months = 1,000 x 3		= 3,000
II 10 Oct. 13 to 31st Mar. 14 i.e. 6 months = 1,000 x 6		= 6,000
		9,000
Prepaid from 1st April to 30th June 14		3000

4) Commission on sales @ 2%

		Rs.
I Commission = 2,50,000 x 2%	=	5,000
II Commission= 3,45,000 x 2%	=	6,900
		11,900
Less paid (given in Trial Balance)		6,000
Outstanding com. Payable		5,900

5) Dep. On plant machinery @ 20% p.a.

	I	II
i) On new plant purchased on 1.10.13		
2,00,000 x 20% x 3/12		10,000
ii) Bal Plant [400000 – 200000]		
200000 x 20% = 40000 in		
Time Ratio	20,000	20,000
Total Depreciation	20,000	30,000

6) Closing Stock on 30/06/13 Rs. 60,000 becomes Opening Stock on 01.07.13.

Illustration : 10 [retirement of partner in between the year]

X, Y & Z sharing in the ratio of 5:3:2 X retired on 1st Oct. 2013 B & C continue business sharing equally.

Following Balances are as on 31st Dec. 2013

Particulars	Dr. Rs.	Cr. Rs.
Opening Stock	40000	
Sales		600000
Discount		9000
Purchases	260000	
Wages	20000	
Salaries	24000	
Rent	10000	
Bad Debts	15000	
Insurance	4000	
Sundry Expenses	10000	
Capiral's AIC's:		
X's		200000
Y's		150000
Z's		100000
Land & Building	200000	
Plant & Machinery	150000	
Building Under construction	326000	
	1059000	1059000

Adjustments:

1) Outstanding Salary Rs. 4000 & outstanding Rent Rs. 2000 to be provided.

2) Sales upto X's retirement amounted Rs. 400000.

3) As per Partnership deed:

   a]Provide interest on capital @ 6% p.a

   b]Partners salary x's Rs. 20000 p.a. & z's Rs. 500 per mth.

   c]X was entitled for commission of 1% on net sales.

4) Closing Stock on 31st Dec. 13 valued at Rs. 50000.

5) Depreciate Land & Building by 5% & Plant & Machinery 10%

   p.a.

6) Balance due to Z on his retirement to be transferred to his loan a/c carrying interest at 12% p.a.

   Ascertain balance payable to Mr. A on 31 Dec. 2013.

Prepare Trading, P & L A/c for the year ended 31st Dec. 2013 & Balance Sheet as on 31st Dec. 2013.

Trading a/c

For the year ended 31st Dec. 2013

Dr. **Cr.**

Particulars	AMT.	AMT.	Particulars	AMT.	AMT.
To Opening Stock		40000	By Sales		600000
To Purchases		260000			
To Wages		20000			
To Gross Profit c/d		330000	By Closing Stock		50000
		650000			**650000**

Profit & Loss A/C.

For the year ended 31st Dec. 2013.

Dr. **Cr.**

Particulars	9 mth.	3 mth.	Particulars	9 mth.	3 mth.
To Salaries (24000+ O/S-4000)	21000	7000	By Gross Profit o/d (in sales ratio 2 1)	220000	110000
To Rent (10000+ O/S 2000)	9000	3000	By Discount	6000	3000
To Bad Debts	10000	5000			
To Insurance	3000	1000			
To Sundry Expenses	7500	2500			
To Depreciation on:					
Building	7500	2500			
Plant & Machinery	11250	3750			
To Interest on Loan (@ 12% p.a. on Rs.284500) 3 mth.	--	8535			
To Net Profit c/d	156750	79715			
	2,26,000	**1,13,000**		**2,26,000**	**1,13,000**

Profit & Loss Appropriation A/c.

for the year ended 31st December, 2013

Dr. **Cr.**

Particulars	9 mth.	3 mth.	Particulars	9 mth.	3 mth.
To Interest on Capital			By Net Profit bid	156750	79715
X	9000	--			
Y	6750	2250			
Z	4500	1500			
To Partners Salary:					
X	15000	--			
Z	4500	1500			
To A's Commission		--			
To Net Profit Transferred to A,B,C in 5:3:2 ratio	4000				
B & C equally	113000	74465			
	156750	**79715**		**156750**	**79715**

Balance Sheet

As on 31st Dec. 2013

Liabilities	AMT	AMT.	Assets	AMT.	AMT.
Partners capital A/c:			Land & Bldg.	200000	
Y	230132		Less: Depreciation	10000	190000
Z	171833	401965	Bldg. Under construction		326000
Z's loan :					
Bal. transferred from capital			Plant & Machinery	150000	
Add. O/s Interest for 3 months	284500	293035			
			Less: Depreciation	15000	135000
O/s Rent		2000			
O/s Salary	8535	4000	Closing Stock		50000
		701000			**701000**

Partners Capital A/c

Dr. **Cr.**

Particulars	X	Y	Z	Particulars	X	Y	Z
To X Loan a/c (Bal Transferred)	284500	--		By Bal. B/d	200000	150000	100000
				By Interest on Capital	9000	9000	6000
				By Salaries	15000		6000
				By Commission	4000		
To Bal. B/d	--	230132	171833	By Net Profit (Upto Sep)	56500	33900	22600
				By Net Profit (1 Oct to 31 Dec.)	--	37232	37233
	284500	**230132**	**171833**		**284500**	**230132**	**171833**

Working Notes:-

1] Time ratio ABC partners 1st Jan. 2013 to 31st Sep. 2013 = 9 months.

B & C partners 1st Oct. to 31st Dec. 2013 = 3 months.

Therefore time ratio = 3:1.

2] Sales ratio from 1st Jan. 2013 to 30th Sep. 2013 Rs. 400000.

Sales from 1st Oct. 2013 to 31st Dec. 2013 Rs. 200000

Therefore Sales ratio = 2:1.

3] Salaries, rent, insurance, depreciation, sundry exp., are allocated on time basis as these are related with time.

4] Gross Profit, discount received, bad debts allocated on sales basis as these are related with turnover.

Illustration: 11 [Death of a Partner]

The Partnership agreement of T & Z provides that

(a) Profit & losses shall be shared equally.

(b) Interest at 5% p.a., shall be allowed on capital but no interest is to be charged on drawings.

(c) On the death of one of the partner:

[1] The survivor shall pay out the interest of the deceased partner & purchase his share.

[2] The value of the Goodwill shall be the profits of the proceeding three years.

[3] The assets are to be taken on the date of death at their value. T died on 1st April 2014.

The stock on 31.3.13 was valued at Rs. 28740.

The following trial balance was extracted from the books as on 31st March 2014.

Particulars	Dr. Rs.	Cr. Rs.
T's Capital		40000
Z's Capital		20000
T's Drawings	4500	
Z's Drawings	3500	
Salaries	7550	
Rent & Rates	2630	
Purchases	114700	
Stock (1.04.13)	27490	
Traveler's Commission & Expenses	5800	
Wages	16360	
Sales		163840
Sales Return	490	
Sundry Debtors	26400	
Cash at Bank	5520	
Furniture & Fixtures	2000	
Sundry Creditors.		18000
General Expenses	3750	
Discount		350
Plant & Machinery	21500	
	2,42,190	2,42,190

The profits of the preceding three completed years to 30th Sep. were Rs. 15000. Rs. 20000 and Rs. 13000 respectively.

Prepare Trading & P & L A/c & Balance Sheet as at 31st March 2014 & a statement showing the amount payable to the Executors of T

Solution

M/s T & Z

Trading and P & L Account for the year ended 31st March 2014.

Dr. Cr.

Particulars	AMT	AMT.	Particulars	AMT.	AMT.
To Opening Stock		27490	By Sales	163840	
To Purchases		114700	Less: Sales Return	490	163350
To Wages		16360			
To Gross Profit c/d		33540	By Closing Stock		28740
		192090			**192090**
					33540
		7550	By Gross Profit b/d		350
To Salaries		2630	By Discount		
To Rent & Rates		3750			
To General Expenses		5800			
To Traveler's Commission & Expenses	1000				
	500				
To Interest on Capital for 6 months					
T					
Z		1500			
To Net Profit transferred to	6330				
Capital A/c	6330				
T					
Z		12660			
		33890			**33890**

Note: As Profit & Loss A/c is prepaid on date of death of partner T, Therefore there is no need of preparing Profit & Loss A/c in two columns i.e. Before Death and After Death of Partner

M/s T & Z

Balance Sheet as at 31st March, 2014

Liabilities	AMT.	AMT.	Assets	AMT.	AMT.
Capital: T	40,000		Plant & Machinery		21,500
Add: Interest	1,000		Furniture & Fixtures		2,000
Profit	6,330		Stock		28,740
	47,330		Debtors		26,400
Less: Drawings	4,500	42,830	Bank		5,520
Capital : Z	20,000				
Add: Interest	500				
Profit	6,330				
	26,830	23,330			
Less : Drawings	3,500				
Sundry Creditors		18,000			
		84,160			**84,160**

Amount payable to Executor's of T — Rs.

	Rs.
Balance to his Capital A/c	42,830
His share in Goodwill	24,000
	66,830

Note:-

Value of Goodwill — 3 year's profit

Total Value of Goodwill — Rs. (15000+20000+13000)

Rs. 48,000

T's share of Goodwill ($^1/_2$ x 48,000) Rs. 24,000

Because Z has to purchase the share of T The journal entry will be:

Z's Capital A/c------------------------Dr. 24,000

To T's Capital A/c 24,000

Illustration: - 12 [Death of a Partner in between the year].

K, R & T were sharing in the ratio of 3:2:5 T died on 1st July 2013. Business was continued & K & R were sharing equally same books of a/c were continued and following.

Trial balance was extracted as on 31st March, 2014.

Particulars	Dr. Rs.	Cr. Rs.
Gross Profit		360000
Salaries	18000	
Rent	15000	
Insurance	9000	
Plant & Machinery	260000	
Land & Building	300000	
12% Investment	100000	
Interest on Investment		6000
K's Capital		200000
R's Capital		270000
T's Capital		350000
Sundry Debtors/Creditors	200000	150000
Bills Receivable/Payable.	75000	60000
Cash	15000	
Stock	404000	
	1396000	1396000

Additional Information:

1] Provide outstanding salary Rs. 2,000

2] Rent was paid Rs. 1,000 per month for the premises acquired on 1st Oct. 2013.

3] Depreciate Land & Building @ 5% & Plant & Machinery 10% p.a.

4] Plant includes Plant costing Rs. 1, 00,000 acquired on 1st Jan. 2014.

5] As per partnership deed:

a] Retiring partners or in case of death of partners balance should be transferred to loan, Carrying Interest 18% p.a.

b] Goodwill valued Rs. 120000.

c] Provide interest on capital @ of 6% p.a.

6] Sales were Rs. 300000 upto 1st July out of total sales for the year Rs. 1500000, Prepare P & L A/c, P & L Appropriation A/c for the year ended 31st March 2014 & Balance Sheet as on that date.

Solution:-

Profit and Loss A/c

for the year ended 31st March 2014

Dr. Cr.

Particulars	3 mth.	9 mth.	Particulars	3 mth.	9 mth.
To Salaries (8000+ o/s 2000)	5000	15,000	By-Gross Profit b/d	72000	288000
To Rent		6000	(in sales ratio 1:4)		
To insurance	2250	6750	By income from Investment	3000	9000
To Depreciation	3750	11250			
Land & Building	4000	14500			
Plant	--	59279			
To Int. on T's executors loan A/c	60000	184221			
To Net Profit C/d					
	75000	**2,97,000**		**75000**	**297000**

Profit & Loss Appropriation A/C.

for the year ended 31st March 2014

Dr. **Cr.**

Particulars	3 mth.	9 mth.	Particulars	3 mth.	9 mth.
To Interest on Capital			By Net Profit b/d	60000	184221
K's	3000	9000			
R's	4050	12150			
T's	5250	--			
To Net Profit Transferred to Capital					
A,B,C in 3:2:5	47700				
A & B equally 1:1		163071			
	60000	**184221**		**60000**	**184221**

Balance Sheet

As on 31st March 2014

Liabilities	AMT.	AMT.	Assets	AMT.	AMT.
Partners Capital Bal.			Goodwill		120000
K's	343845		Land & Building	300000	
R's	401276	745121	Less: Depreciation	15000	285000
Outstanding Salaries		2000	Plant & Machinery	260000	
Creditors		150000	Less: Depreciation	18500	241500
Bills Payable		60000	Prepaid rent		9000
T's executor	439100		12% Investment		100000
Add: Interest at 18% p.a. for 9 mths.	59279	498379	Interest Accrued On Investment		6000
			Sundry Debtors		200000
			Bills Receivable		75000
			Cash		15000
			stock		404000
		1455500			**1455500**

Partners Capital A/C.

Dr. **Cr.**

Particulars	K	R	T	Particulars	K	R	T
To T's executor loan A/c (bal. Transferred)	--	--	439100	By Bal B/d	200000	270000	350000
To Bal. C/d	343845	401276		By Goodwill	36000	24000	60000
				By Interest on Capital	12000	16200	5250
				By Net Profit (upto 30 June)	14310	9540	23850
				By Net Profit (upto 31 March)	81535	81536	--
	343845	**401276**	**439100**		**343845**	**401276**	**439100**

Note:- In case of death/Retirement of partner.

I) P & L A/c, P & L app. A/c should be closed upto date of death of Partner, N.P. should be transferred to old partner in their old ratio.

II) Balance in Retiring / deceased partner should be transferred to Loan A/c. Interest on loan A/c required to calculate & debit to Profit & Loss A/c. Then duly net profit should calculated and transfer to continuing partner's capital A/c. in their new Ratio.

Illustration 13 :

Jinal and Sameer were in partnership in a wholesale business sharing profits in the proportion of 3:2. As from 1st April 2013 they admitted Jatin into partnership giving him one-sixth of the profits. Jatin brought in Rs. 80,000 in cash of which Rs. 30,000 were considered as being in payment for his share of goodwill and remainder as his capital.

The following Trial Balance was extracted from the books

as on 31st March, 2014

	Debit Rs.	Credit Rs.
Sales		2,15,725
Purchases	1,25,730	
Discount Received		2,150
Discount Allowed	3,125	
Reserve for doubtful debts		1,200
Sundry debtors	40,200	
Sundry creditors		32,540
Stock (1st April 2013)	42,820	
Carriage inward	3,250	
Sundry expenses	7,840	
Motor vehicles	50,000	
Land and Building	80,000	
Cash in hand	5,040	
Telephone expenses	3,240	
Postage and Stationary	2,690	
Rent, rates and insurance	3,200	
Bad debts	400	
Investments	60,000	
Capital accounts Jinal		65,000
Sameer		35,000
Cash paid by Jatin on 1st April 2013		80,000
Jinal	5,000	
Sameer	4,000	
Jatin	2,000	
Bank overdraft		6,920
Total	4,38,535	4,38,535

You are required to prepare the firm's trading and Profit and Loss Account for the year ending 31st March, 2014 and Balance Sheet as on that date having regard to the following information :

1. Stock on 31st March 2014 was Rs. 42,250.
2. Sundry debtors include item of Rs. 1,200 due from a customer on account of sales, who has become insolvent.
3. Depreciate Land & Building and Motor vehicles at 5% p.a. and 20% p.a. respectively.
4. Reserve for doubtful debts is to be maintained at 5% on the sundry debtors.
5. Goods of to the value of Rs. 800 have been destroyed by fire and the insurance company has admitted the claim for Rs. 600 only.

Books of Jinal, Samir and Jatin

Trading A/c for the year ended 31 - 03 - 2014

	Rs.	Rs.		Rs.	Rs.
To opening Stock		42,820	By Sales		2,15,725
To Purchases		1,25,730	By Goods destroyed by fire		800
To Carriage inwards		3,250			
To Gross Profit		86,975	By closing Stock		42,250
		2,58,775			2,58,775

Profit and Loss Account

	Rs.	Rs.		Rs.	Rs.
To discount Allowed		3,125	By Gross Profit		86,975
To old Bad Debts	400		By Discount Received		2,150
Add : New B.D.	1,200				
Add : New RDD	1,950				
Less : Old RDD	(1,200)	2,350			
To Sundry Expenses		7,840			
To Telephone Expanses		3,240			
To Postage & Stationery		2,690			
To Rent, rates & Insurance		3,200			
To Depreciation					
Land & Building	4,000				
Motor Vehicle	10,000	14,000			
To loss by fire		200			
To Net Profit					
Jinal	26,240				
Sameer	17,493				
Jatin	8,747	52,480			
		89,125			89,125

Capital Account

	Jinal	Sameer	Jatin		Jinal	Sameer	Jatin
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To Goodwill			30,000	By Balance b/d	65,000	35,000	80,000
To Drawings	5,000	4,000	2,000	By Goodwill	18,000	12,000	
To Balance c/d	1,04,240	60,493	56,747	By Net Profit	26,240	17,493	8,747
	1,09,240	64,493	88,747		1,09,240	64,493	88,747

Balance Sheet as on 31 - 03 - 2014

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital			Land & Building	80,000	
Jinal	1,04,240		Less Depreciation 5%	(4,000)	76,000
Sameer	60,493		Motor Vehicles	50,000	
Jatin	56,747	2,21,480	Less Depreciation 20%	(10,000)	40,000
			Investments		60,000
			Closing Stock		42,250
			Debtors	40,200	
Trade Creditors		32,540	Bad Debts	1,200	
				39,000	
Bank Overdraft		6,920	Less : RDD	1,950	37,050
			Cash Balance		5,040
			Insurance Claim		600
		2,60,940			2,60,940

Illustration 14 :

Bhavana, Ravina and Kangana carried on a retail business in partnership, sharing profits and losses in the ratio 2:1:2.

The following Trial Balance was extracted from the books as on 31st March, 2014

Particulars	Debit Rs.	Credit Rs.
Capital A/c Bhavana		90,000
Ravina		52,000
Kangana		66,000
Plant & Machinery	1,50,000	
Investments in govt. securities	50,000	
Sales Returns	5,000	
Sales		5,65,000
Furniture & Fittings	47,000	
Motor Vehicles	60,000	

Land & Building	1,00,000	
Purchases	2,80,000	
Stock as on (1st April 2013)	46,000	
Salaries and Wages	62,000	
Office and Trade Expenses	40,200	
Rent, Rates and Insurance	15,500	
Professional charges	3,500	
Debtors / Creditors	51,600	87,000
Provision for Doubtful Debts		500
Balance at Bank	43,700	
Drawings : Bhavana	12,000	
Ravina	6,000	
Kangana	19,000	
Bills receivables / Bills payable	18,300	36,200
Printing & Stationery	6,900	
Loan from bank		1,20,000
	10,16,700	10,16,700

You are given the following additional information :

1. Stock on 31st March 2014 was valued at Rs. 66,500.
2. A debtor of Rs. 1,600 is to be written off and provision against the remaining debtors should be made at 5%.
3. Provide for the following outstanding expenses as on 31st March, 2014 : Printing & Stationary Rs. 2,400 Salaries and Wages Rs. 8,000.
4. Insurance prepaid as on 31st March, 2014 Rs. 2,500.
5. Depreciate Land & Building by 5%, Furniture and Fittings by 10%, Plant & Machinery & Motor Vehicles by 20%.

You are required to prepare :

1. The Trading and Profit and Loss A/c. for the year ended 31st March, 2014.
2. The Balance Sheet as on that date.

In the Books of Bhavana, Ravina & Kangana

Trading A/c for the year ended 31st March, 2014

	Rs.	Rs.		Rs.	Rs.
To opening Stock		46,000	By Sales	5,65,000	
To Purchases		2,80,000	Less : Returns	5,000	5,60,000
To Gross Profit		3,00,500	By closing Stock		66,500
		6,26,500			6,26,500

Profit and Loss Account for the year ended 31st March, 2014

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Old Bad Debts			By Gross Profit b/d		3,00,500
+ New bad debts	1,600				
+ New RDD	2,500				
- New RDD	(500)	3,600			
To Salaries	62,000				
Add : o/s	8,000	70,000			
To Rent, Rates, Insurance	15,500				
Less : Prepaid	(2,500)	13,000			
To Office & Trade Expenses		40,200			
To Professional Charges		3,500			
To Printing & Stationary	6,900				
Add : o/s	2,400	9,300			
To Dep					
Building	5,000				
Plant	30,000				
Motor Vehicles	12,000				
Furniture	4,700	51,700			
To Net Profit					
Bhavana	43,680				
Ravina	21,840				
Kangana	43,680	1,09,200			
		3,00,500			3,00,500

Partners Capital Account

Particulars	Bhavana	Ravina	Kangana	Particulars	Bhavana	Ravina	Kangana
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To Drawings	12,000	6,000	19,000	By Balance b/d	90,000	52,000	66,000
To Balance c/d	1,21,680	67,840	90,680	By Net Profit	43,680	21,840	43,680
	1,33,680	73,840	1,09,680		1,33,680	73,840	1,09,680

Balance Sheet as on 31st March, 2014

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital A/c's			Land & Building	1,00,000	
Bhavana	1,21,680		Less : Dep	5,000	95,000
Ravina	67,840		Plant & Machinery	1,50,000	
Kangana	90,680	2,80,200	Less : Dep	30,000	1,20,000
			Furniture	47,000	
Bank loan		1,20,000	Less : Dep	4,700	42,300
Creditors		87,000	Motor Vehicles	60,000	
Bills payable		36,200	Less : Dep	12,000	48,000
O/s Expenses			Investments		50,000
Printing & Stationery	2,400		Debtors	51,600	
Salaries & Wages	8,000	10,400	Less : New BD	1,600	
				50,000	
			Less : New RDD	2,500	47,500
			Balance at bank		43,700
			Bills Receivable		18,300
			Stock		66,500
			Prepaid insurance		2,500
		5,33,800			5,33,800

Illustration 15 :

Karan and Aditya were in a partnership in a retail business sharing profits in the proportion of 3:2. As from 1st April 2013 they admitted Ashish into partnership giving him one - fifth of the profits. Ashish brought in Rs. 32,000 in cash of which Rs. 6,000 were considered as being in payment for his share of goodwill and remainder as his capital.

The following Trial Balance was extracted from the books

as on 31st March, 2014

	Debit Rs.	Credit Rs.
Purchases	27,160	
Sales		41,265
Sales Returns	525	
Purchases Returns		410
Reserve for doubtful debts		1,520
Sundry Debtors	44,020	
Sundry Creditors		12,553
Bills Receivable	12,007	
Bills Payable		1,195
Stock (1st April 2013)	3,972	
Carriage inward	1,718	
Office Salaries	980	
Furniture	2,050	
Postage, stationery and insurance	1,393	
Rent, rates and taxes	420	
Bad debts	40	
Prepaid insurance	24	
Outstanding wages		120
Rent accrued but not paid		90
Capital accounts (1st April 2013)		
Karan		21,500
Aditya		21,000
Cash paid by Ashish on 1st April 2013		32,000
Current accounts :		
Karan	5,500	
Aditya	5,200	
Ashish	6,200	
Cash in hand	20,444	
Total	1,31,653	1,31,653

You are required to prepare the firm's Trading and Profit and Loss Account for the year ending 31st March, 2014 and Balance Sheet as on that date having regard to the following information :

1. Stock at the end was Rs. 20,000.
2. Sundry debtors include item of Rs. 500 for goods supplied to Karan and item of Rs. 100 due from customer on account of sales, who was become insolvent.
3. Depreciation on furniture is to be changed at 10% per annum.
4. Reserve for doubtful debts is to be maintained at 5% on the sundry debtors.
5. Goods to the value of Rs. 500 have been destroyed by fire and the insurance company has admitted the claim for Rs. 200 only.
6. Bills receivable include a dishonored bill of Rs. 500.

In the Books of Karan and Aditya

Trading A/c for the year ended 31st March, 2014

Purchase	Rs.	Rs.	Particulars	Rs.	Rs.
To opening Stock		3,972	By Sales	41,265	
To Purchases	27,160		Less : Returns	525	40,740
Less Returns	410	26,750			
To Carriage Inwards		1,718	By Goods lost by fire		500
To Gross Profit		28,800	By closing Stock		20,000
		61,240			61,240

Profit and Loss Account for the year ended 31st March, 2014

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Old Bad Debts	64		By Gross Profit b/d		28,800
+ New bad debts	100				
+ New RDD	2,196				
- New RDD	1,520	840			
To Salaries		980			
To Postage, stationary Insurance		1,393			
To Rent		420			
To dep on Furniture		205			
To loss by Fire		300			
To Net Profit					
Karan	11,838				
Aditya	7,892				
Ashish	4,932	24,662			
		28,800			28,800

Partners Current Account

Particulars	Karan	Aditya	Ashish	Particulars	Karan	Aditya	Ashish
To Balance b/d	5,500	5,200	12,200	By Goodwill	3,600	2,400	
To Goods taken	500			By Net Profit	11,838	7,892	4,932
To Balance c/d	9,438	5,092		By Balance c/d			7,268
	15,438	10,292	12,200		15,438	10,292	12,200

Balance Sheet as on 31st March, 2014

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital A/c's			Furniture	2,050	
Karan	21,500		Less : Dep	205	1,845
Aditya	21,000		Insurance claim		200
Ashish	32,000	74,500	Sundry Debtors	44,020	
			Less : Karan	500	
Current Accounts			Less : New bad debts	100	
Karan	9,438		Add : B R Dishounr	500	
Aditya	5,092	14,530	Less new RDD	2,196	41,724
			Bills Receivable	12,007	
Sundry Creditors		12,553	Less : Dishonored	500	11,507
Bills Payable		1,195	Cash		20,444
O/s Wages		120	Closing Stock		20,000
O/s Rent		90	Current A/c of Aashish		7,268
		1,02,988			1,02,988

Working Notes :			
1. New Profit Sharing Ratio	**Karan**	**Aditya**	**Ashish**
Old Ratio	3/5	2/5	
New Partner			1/5
Remaining in old	3/5 × 4/5	2/5 × 4/5	
New Ratio	12/25	8/25	5/25

EXERCISES

Theory Questions

1. Define partnership. what are the main features of partnership?
2. Write short note on Profit & Loss Appropriation A/c of a firm.
3. Explain the adjustments in accounts when a new partner is admitted.
4. Explain division of expenses based on Time Ratio
5. Distinguish between Fixed Capitals and fluctuating Capitals.
6. Write short notes
   a) Fixed capital accounts of the partners.
   b) Interest on Drawings by the partners.
   c) Salary or commission payable to partners.
   d) Calculation of new profit sharing ratio on admission of partner.
7. What are rules applicable in the absence of partnership Deed.
   a) Interest on Drawings
   b) Profit sharing ratio.
   c) Interest on partners loan
   d) Salary to partner
   e) Interest on capital
8. **OBJECTIVE:**

A) <u>Choose the appropriate word</u>.

i) Partnership is a legal relationship between persons according the --------

a) Contract Act
b) Companies Act
c) The Indian partnership Act, 1932
d) Income Tax Act 1961.

ii) The profit sharing ratio among the partner may be -------------from the ratio to share losses.

a) Equal
b) Same
c) In the Capital ratio
d) Different

iii) The maximum number of persons permitted to form a partnership for Banking business are ------------ partners.

a) 7 b) 15 c) 10 d) 20

iv) The partnership can not be formed to share ----------------- only.

a) profit b) losses c) profit & loss d) Non of the above.

v) The persons who have agreed to carry on the partnership business are individually known as ---------------

a) firm b) partners c) Directors d) Creditors

vi) It is a ----------------- relationship between persons created through the partnership Act, 1932.

a) Natural b) Legal c) oral d) Faithfull.

vii) The partnership agreement can be ------------- or written.

a) Oral b) Written as well as oral c) Registered

d) un registered.

viii) In the partnership business the partner's are collectively called as ------------------

a) Company b) Association c) Firm d) Partners

ix) To admit a new partner with consent to -------------- partners.

a) Existing b) Majority c) Newly admitted d) One partner

x) In absence of agreement, partners share profit on loss in --------

a) capital ratio b) Equally c) Current Account ratio

d) Time devoted for business.

xi) --------- number of partners allowed in case of Retail business a) maximum 10 b) maximum 20 c) minimum 50 d) minimum 10

xii) The minor partner cannot be personally liable to share -------- of the firm

a) commission b) profits c) losses d) none of above

xiii) In absence of agreement Interest on Loan, at ---------- % p.a. is payable by the firm

a) 12% p.a. b) Nil c) 6% d) As per Bank rate.

xiv) Partners can contribute capital either in Cash/Bank or------------

a) only cash b) in kind c) cash plus in kind d) by cheque

[Ans. I-c, ii-d, iii-c, iv-b, v-b, vi-b, vii-a, viii-c, ix-a, x-b, xi-c, xii-c, xiii-c, xiv- b]

B) Fill in the Blanks.

I. The persons who have agreed to carry on partnership business are -----------known as partners and ----------- called as a ------------

II. The partnership can not be formed to do -------------- business.

III. The partners may share profit and Loss of the firm -------- ratio.

IV. It is not necessary that partners should contribute ---------- in profit sharing ratio.

V. A ----------- partner is not personally liable to share the losses of the firm.

VI. In the absence of a partnership agreement interest on --------should not be paid to partners.

VII. It is not necessary that partners should contribute -------------- in profit sharing ratio.

VIII. Maximum numbers of partners in insurance business-------- persons.

IX. A particular partner may not share ---------- of firm at all.

X. In the ----------- of a partnership Deed, each partner have free access of all partnership records, Books and Accounts.

[Ans. I) Individual ii) illegal iii) different iv) capital v) minor vi) capital vii) capital viii) Ten ix) losses x) absence].

C) Substitute the following in a single WORD/Term.

I. Written Agreement of partners.

II. Credit balance in Trading A/c

III. A partner not taking part of in partnership business.

IV. A statement showing financial status of a business.

V. Debit balance in profit & Loss A/c

VI. Part of sundry Debtors irrecoverable.

VII. Expenses accrued but not paid

VIII. Expenses paid in advance.

IX. Any remuneration paid or payable to partner's, then it is necessary to prepare a special A/c.

X. A partner draws a fixed amount at the end of each month, interest is calculated for months.

XI. Policy on the lives of the Partner is to insure against changes of disturbance in the business due to death of any partner

XII. A method in which Partner's Current Accounts are opened

XIII. A partner who only lends his name to the firm.

XIV. In the absence of partnership Deed, which provisions /rates are applicable.

[Ans. I-Partnership Deed, ii) Gross profit iii) Dormant partner, iv) Balance sheet, v) net loss, vi) Bad debts vii) outstanding expenses. Viii) prepaid expenses ix) profit & loss appropriation x) 5.5 month xi) joint life policy xii) fixed capital xiii) nominal partner xiv) the Indian partnership Act 1932.

D) <u>Match the following items in column A and column B.</u>

I)

Column A	Column B
i) Opening stock	a) Trading A/c credit side
ii) Carriage paid on plant purchased	b) carriage outwards.
iii) carriage paid on goods sold	c) 1932
iv) partnership Act	d) 1956
	e) Trading A/c debit side
	f) plant & machinery

[Ans. I-e, ii-f, iii-b, iv- 1932]

II)

Column A	Column B
i) Partnership	a) Liability side
ii) Active Partner	b) Trading A/c
iii) Outstanding Expenses	c) Unlimited Liability
iv) Salaries & Wages	d) Working partner
v) Goodwill	e) Profit & Loss A/c
	f) Intangible assets

[Ans. I-c, ii- d, iii-a, iv- e, v-f]

III)

Column A	Column B
i) Return Inwards ii) Fixed Assets iii) Reserve for Bad Debts iv) Fluctuating Capital method	a) Land & Building b) No need of current A/cs. c) Sales Return d) Sundry debtors e) Liability side.

[Ans. I-c, ii-a, iii-d, iv-b]

IV)

Column A	Column B
i) Closing stock ii) Trading A/c iii) Partnership Agreement silent iv) Partners Salaries v) Dormant Partner	a) Gross Profit b) Profit / Losses shares equally c) Assets d) Profit & loss Appropriation A/c e) Nominal Partner f) Sleeping Partner

[Ans. I-e, ii-a, iii-b, iv-d, v-f]

V)

Column A	Column B
i) Retirement of Partner ii) Goodwill iii) Partnership Agreement iv) Interest on Capital v) Doubtful of bad debts	a) Executor's Loan A/c b) Profit & Loss Appropriation A/c c) Sales Ledger Balances. d) Retiring partners loan A/c e) Intangible Assets. f) Partnership Deed. g) Tangible Assets.

[Ans. I-d, ii-e, iii-f, iv-b, v-c]

9. PROBLEMS

Final Accounts

EX.1

Shraddha and Sneha carried on business sharing profits and losses in the proportion of 1:9. The partnership agreement provided:

a) Interest be allowed at 15% p.a on capital.

b) Shraddha is entitled to get salary Rs.5000 per quarter of a year.

c) Ignore interest on drawings and current account.

Trial Balance as on 31st Dec, 2013

Particulars	Dr.	Particulars	Cr.
Salaries to employees	72,000	Gross Profit for the year	2,17,000
Partner's Salary	15,000	Carriage Inward Payable	3,000
Rent	12,000	Bills Payable	20,000
Furniture	74,000	Sundry Creditors	35,000
Motor Car	1,11,000	Interest free loan from Reema	145,000
(Balance on 1.1.13 Rs.1,20,000)			
Depreciation at 10% p.a. upto 30.9.13	15,000	Shraddha's Fixed Capital Account	20,000
		Sneha's Fixed Capital account	
Insurance	10,000		1,80,000
Bad Debts	3,000		
Bills Receivable	30,000		
Sundry Debtors	25,000		
Stock on 31st December 13	2,10,000		
Bank Balance	6,500		
Cash on Hand	3,500		
Shraddha's Current Account	7,200		
Sneha's Current Account			
Interest on Capital	7,800		
	18,000	Total	
Total			
	6,20,000		6,20,000

Other Information:-

A. Partner's current accounts were as under-

Particulars	Shraddha	Sneha
Opening Balance	--	--
Add: Interest credited for 9 months at 12% p.a.	1800	16,200
Add: Salary for 9 months	15,000	--
	16,800	16,200
Less: Withdrawals	(24,000)	(24,000)
Balance as per Trial Balance	7,200	7,800

B. Fixed Assets are depreciated at the rate of 10% p.a. Provide balance of depreciation for the year.

C. Through oversight interest on Fixed Capital was provided at the rate of 12% instead of 15% p.a. as per partnership agreement.

You are required to prepare:-

a) Profit and loss account and Profit and Loss Appropriation Account for the year ended 31st December, 2013.

b) Balance Sheet as on 31st December, 2013.

Ex.2

A and B are partners sharing profits and losses in the ratio 3:2. On 1st October, 2013 they admitted C as a partner on the following terms:-

a) The new profit ratio to be A-60%; B-30%; C-10%

b) Goodwill of the firm is to be valued at Rs. 27,000/- on 30th September 2013. No account for goodwill should be opened in the books of the firms, adjustments, if any, for the same should be carried out in the capital accounts of the partners.

c) C's share to be guaranteed by A at the minimum rate of Rs. 36,000 p.a.

d) Apportion gross profit on the basis of sales, Expenses on the basis of time.

e) No interest is to be credited or charged on partners capital or current account. The trial balance of the firm as on 31st March, 2014 was as follows before adjusting goodwill.

Particulars	Dr. Rs.	Particulars	Cr. Rs.
Purchases	1,77,660	Creditors	15,000
Salaries	63,000	Capital Accounts:	
Debtors	51,180	A	30,000
Drawings		B	30,000
A	15,000	C	6,000
B	7,500	Sales (upto 30-9-13 Rs. 1,20,000)	3,06,000
C	7,200	Loan from Edulji (at 12% p.a. taken on 31-1-14)	
Balance with Bank	33,360		39,000
Electricity Deposit	450		
Selling Expenses	5,400		
Office Expenses	900		
Delivery Van			
(Purchased on 30-6-13)	33,750		
Furniture at cost			
(Purchased on 1-4-13)	9,000		
Rent & Rates	18,000		
Electricity office	3,600		
Total Rs.	4,26,000		4,26,000

You are required to prepare a Balance Sheet as on 31st March, 2014 and Trading and Profit and Loss Account for the year ended on that date after considering the following

i) Stock on 31-3-14 was Rs. 60,000.

ii) Accrued expenses but not yet paid: Rent Rs. 5500/-, Selling expenses Rs. 1750/-, Office expenses Rs. 1500/-

iii) Sales & Debtors include goods sent on sale or approval basis Rs. 12000 but not yet approved as on 31.3.14 These goods were invoiced at a profit of 100% on cost price.

iv) Depreciation is to be provided: Delivery van @ 20% p.a., Furniture @ 10% p.a.

Ex. No.3

Prepare Trading, Profit and Loss Account for the year ended 31st March, 2014 and the Balance Sheet as on that date from the following information available from the books of HR & Co.

a) Trial Balance as on 31st March 2014

Debit	Rs.	Credit	Rs.
Premises	2,00,000	Capital A/c 'H'	1,20,000
Machinery & Equipment	1,50,000	'R'	1,00,000
Bank Balance	35,000	Current A/c 'H'	20,000
Bills Receivable	40,000	Sales	11,12,000
Current A/c 'R'	15,000	Commission	35,000
Sales Returns	25,000	Bills Payable	45,000
Purchases	6,90,000	Sundry Creditors	2,85,000
Sundry debtors	3,40,000	'C's A/c	75,000
Stock in Trade	80,000		
Salaries	40,000		
Distribution Expenses	64,000		
Sundry Expenses.	76,000		
10% Bonds	37,000		
Total Rs.	17,92,000		17,92,000

b) Additional Information:

1. Stock in trade on 31st March, 2014 was Rs. 75,000
2. Outstanding salaries as on 31st March 2014 was Rs. 4,.300 and prepaid insurance included in office expenses was Rs. 2,000.
3. Depreciate premises @ 5% and Machinery & Equipment @ 10%
4. Sales include Rs. 20,000 being goods sent on sale or return basis, the cost of which was Rs. 15,000. Approval was received for 50% of the goods sent. Sales also include Rs. 10,000 being sale proceeds of equipment of the book value of Rs. 8,000 realized on 1-4-2013.
5. Sundry Debtors include Rs. 20,000 on account of dishonoure of a Bill Receivable accepted by a customer. Only 50% of the amount is likely to be recovered. On the balance debtors 5% provision for doubtful debts is to be created.
6. H and R shared Profits and Losses in the ratio 2:1.
7. C was admitted as a partner on 1-10-2014 and deposited Rs. 75,000 with the firm as his capital. 'C's is entitled to share 25%, of the Profit/Losses of the firm. The net profit between the pre admission and post-admission period is to be on time basis.

Ex. 4

Ashok and Ketan are equal partners. Their trial balance as on 31st Mar., 2014 is as follows:

Particulars	Dr.Rs.	Cr. Rs.
Ashok Capital		2,16,000
Ketan's Capital		66,000
Opening Stock	43,800	
Office Rent (Rs.2000 per month)	23,100	
Purchase and Sales	1,19,400	2,16,000
Provident Fund and Provident Fund Investments	24,000	25,000
Debtors and Creditors	84,000	48,000
Discount	1,800	1,200
Furniture	6,000	
Drawings : Ashok 15,000		
Ketan 15,000	30,000	
Returns Outward		3,000
Dead Stock	1,500	
Demurrage	600	
Freight and Duty	3,000	
Advertisements	10,000	
Bad Debts Reserve		6,000
Salaries and Wages	25,200	
Cash and Bank	12,000	58,800
Sunil's Loan (1-10-2013)		30,000
Plant and Machinery	83,250	
Land and Buildings	2,10,000	
Depreciation on Plant & Machinery	6,750	
Contribution to Provident Fund	1,800	
Insurance Premium (incl. Rs. 3,600 paid for the year ended 30-9-2014)	9,000	
Bills Payable		25,200
	6,95,200	6,95,200

you are required to prepare final accounts for the year ended 31st March, 2014 after taking into account the following adjustments:

(1) The closing stock was valued at Rs. 110,000

(2) Provide Depreciation on furniture at 10% p.a.

(3) Of the Sundry Debtors Rs. 1,800 are bad and should be written off. Also maintain a reserve for doubtful debts at 5% on debtors.

(4) Goods of the value Rs. 6,000 had been received on 25th March, 2014 but the purchase invoice was omitted to be recorded in the purchase book.

(5) Goods valued at Rs. 4,300, withdrawn for personal use by Ketan, were recorded as credit sales in the sales book as Rs. 6000.

Ex.5

Ram and Bharat were in partnership in a business sharing profits in proportion of 2:3. As from 1st January 2014 they admitted Kran in to partnership giving him one-fifth of the profits. Kran brought in Rs. 30,000 in cash of which Rs. 10000 were considered as being in payment for his share of goodwill and remainder as his capital.

The following Trail Balance was extracted from the books as on 31st March 2014.

Particulars	Dr. Rs.	Cr. Rs.
Purchases and sales	1,71,625	3,62,650
Returns	5,250	4,125
Customer and Creditors	90,200	25,525
Bills Receivable & Bills Payables	20,070	11,950
Carriage Inward	15,000	--
Carriage Outward	2,175	--
Stock (01.04.13)	39,725	--
Outstanding Carriage Inward	--	1,200
Bad debts	400	--
Salaries	9,795	--
Furniture	5,000	--
Shop Fittings	15,500	--
Postage and Insurance	3,240	--
Trade Expenses	2,690	--
Rent, Rates and Taxes	4,200	--
Loan to Vishnu (from 01-01-2014) @ 15% p.a.	56,000	--
Prepaid Insurance	240	--
Rent [from 1.10.13 to 31.03.14]	--	6100
Cash in hand	4,440	--
Current A/c		
Ram	5,000	--
Bharat	4,000	--
Kran	2,000	--
Capital A/c		
Ram	--	15,000
Bharat	--	10,000
Cash paid by Kran		30,000
Computer	40,000	
Loan I.C.I.C.I. Bank @ 12% p.a.	--	30,000
	4,96,550	4,96,550

You are required to prepare the firm's Trading and Profit and Loss Account for the year ending 31st March, 2014 and Balance Sheet as on that date having regard to the following information.

1) Stock at the end was Rs. 35000.

2) Depreciation on Computer and Furniture is to be charged 10% p.a.

3) One-fifth of the Shop fittings to be written off.

4) Goods worth Rs. 2800 have been destroyed fire and the Insurance Co. has admitted the claim for Rs. 1,600 only.

5) Bills receivable include a dishonoured bill for Rs. 4,000/-

6) Debtors include Rs. 3,000 for goods costing Rs. 2,000, supplied to Bharat and item of Rs. 3,000 due from Customer on account of sales, who has become insolvent.

7) Net Sales upto 31.12.2013 were Rs. 2, 83,520.

Hint :

[Net sale = 362650 – Sales Return 5250 – Goods taken by

Bharat Rs. 3,000.

= Rs. 3, 54,400

∴ Sales Ratio = 2, 83,520: 70,880

= 4:1]

Example 12 :

Siddhanth and Sankalp were in a partnership in a retail business sharing profits in the proportion of 3:1. as from 1st April 2013 they admitted Ved into partnership giving him one-fifth of the profits. Ved brought in Rs. 50,000 in cash of which Rs. 20,000 were considered as being in payment for his share of goodwill and remainder as his capital.

The following Trial Balance was extracted from the books as on 31st March, 2014

	Debit Rs.	Credit Rs.
Purchase and Sales	1,01,620	2,02,650
Discount allowed and received	5,250	4,120
Reserve for doubtful debts		5,200
Sundry debtors and creditors	40,200	17,630
Bills receivable and bills payable	20,070	11,950
Stock (1st April 2013)	39,720	
Carriage inward	17,180	
Sundry Expenses	9,800	
Motor vehicles	5,000	
Land and Building	15,500	
Telephone expenses	3,240	
Postage and stationary	2,690	
Rent, rates and insurance	4,440	
Bad debts	400	
Investments	76,000	
Capital accounts		
Sankalp		35,000
Siddhanth		30,000
Cash paid by Ved on 1st April 2013		50,000
Drawings		
Sankalp	5,000	
Siddhanth	4,000	
Ved	2,000	
Cash in hand	4,440	
Total	3,56,550	3,56,550

You are required to prepare the firm's trading and Profit and Loss Account for the year ending 31st March, 2014 and Balance Sheet as on that date having regard to the following information :

1. Stock at the end was Rs. 20,000.
2. Sundry debtors include item of Rs. 300 for goods supplied to Ved and item of Rs. 1,000 due from customer on account of sales, who has become insolvent.
3. Depreciation on Motor vehicles is to be changed at 20% p.a. and Land and Building at 5% p.a.
4. Reserve for doubtful debts is to be maintained at 5% on the sundry debtors.
5. Goods to the value of Rs. 1,000 have been destroyed by fire and the insurance company has admitted the claim for Rs. 600 only.
6. Bills receivable include a dishonored bill of Rs. 1,100.
7. Land and Building to be depreciated by 5%.

Example 13 :

Hardik and Yatish carried on a retail business in partnership under the name Yatrik Associates sharing profits and losses in the ratio 5:3.

Trial Balance of Yatrik Associates as on 31st March, 2014

Particulars	Debit Rs.	Credit Rs.
R.D.D.		1,980
Loan taken		3,20,000
Sales		9,50,000
Opening Stock	87,585	
Purchase	2,99,745	
Wages	27,465	
Goodwill	1,20,000	
Sundry Expenses	16,340	
Discount allowed	3,275	
Hardik Drawings	4,200	
Yatish Drawings	10,170	
Debtors	87,765	
Bills Receivable	23,395	
Hardiks Capital		60,000
Yatish Capital		1,30,000
Creditors		76,775

Bills Payable		32,225
Outstanding Expenses		3,475
Plant and Machinery	4,55,375	
Land and Building	2,57,735	
Furniture	44,730	
Carriage Inwards	16,235	
Carriage Outwards	18,325	
Office rent	27,525	
Salaries	65,565	
Repairs	2,355	
Bad debts	3,225	
Free Sample	18,375	
Prepaid Expenses	2,310	
Cash in hand	9,120	
Salesman Commission	23,200	
Discount Received		6,345
Commission Received		13,215
Bank Balance		30,000
	16,24,015	16,24,015

You are required to prepare the firm's trading and Profit and Loss Account for the year ending 31st March, 2014 and Balance Sheet as on that date having regard to the following information :

1. Stock on 31st March 2014 was Rs. 1,42,250.
2. Sundry debtors include item of Rs. 2,765 due from a customer on account of sales, who has become insolvent.
3. Depreciate Land & Building and Plant and Machinery and Furniture at 5% p.a., 10% p.a. and 20% p.a. respectively.
4. Reserve for doubtful debts is to be maintained at 5% on the sundry debtors.
5. Goods to the value of Rs. 1,845 have been destroyed by fire and the insurance company has admitted the claim for Rs. 1,000 only.

Example 14 :

Teena, Meena and Beena carried on a retail business in partnership, sharing profits and losses in the ratio 5:3:2.

The Trial Balance of the firm as at 31st December 2013 was as follows

Particulars	Debit Rs.	Credit Rs.
Capital A/c's Teena		80,000
Meena		50,000
Beena		30,000
Current A/c's Teena		16,000
Meena		12,000
Beena		8,000
Sales		4,65,000
Trade Creditors		37,000
Furniture & fittings	22,000	
Freehold Premises (Purchased during the year)	60,000	
Leasehold Premises	45,000	
Addition and Alterations to leasehold premises	25,000	
Purchase	2,80,000	
Stock as on (1st January 2013)	42,000	
Salaries and Wages	64,000	
Office and Trade Expenses	45,200	
Rent, Rates and Insurance	10,500	
Professional charges	3,500	
Debtors	20,600	
Provision for Doubtful Debts		500
Balance at Bank	43,700	
Drawings : Teena	17,000	
Meena	11,000	
Beena	9,000	
Bills payable		15,200
Bills receivables	18,300	
Printing & Stationary	6,900	
Loan from bank		10,000
	7,23,700	7,23,700

You are given the following additional information:

1. Stock on 31st December, 2013 was valued at Rs. 46,000
2. A debtor of Rs. 600 is to be written off and provision against the remaining debtors should be made at 5%.
3. Provide for the following outstanding expenses as on 31st December 2013 :
   a) Office and Trade Expenses Rs. 2,400 Salaries and Wages Rs. 6,000.

   b)Rates prepaid as on 31st December 2013 Rs. 2,500.
4. Depreciate furniture and fittings by 10%.
5. Professional charges include Rs. 2,500 fees paid in respect of the acquisition of the leasehold premises, which are to the capitalized.

You are required to prepare:

1. The Trading and Profit and Loss A/c. for the year ended 31st December, 2013.
2. The Balance Sheet as on that date.
3. Partners Current Accounts.

❖❖❖❖

4

PIECEMEAL DISTRIBUTION

Unit Structure:

4.0 OBJECTIVE

After studying the unit the student will be able to:

- Classify the liabilities of the business.
- Describe the methods of allocation of cash among the partners.
- Solve the practical problems.

4.1 INTRODUCTION

In the previous chapter we have studied Dissolution of Partnership Firm. On dissolution of the firm business of the firm is closed, all the assets of the firm are sold and all the liabilities of the firm are paid off. The surplus remaining thereafter is paid to the partners against their loan account and their capital account balances. Here we assume that all these transactions take place on the same day. But in practice it takes time to dispose off all the assets. The payment of liabilities has to be done as and when the cash is available. It has to be in a specific order. This recovery of assets in installments and payment of liabilities in installments is called as **PIECEMEAL DISTRIBUTION OF CASH.**

4.2 CLASSIFICATION OF LIABILITIES

1. External Liabilities
2. Internal Liabilities
3. Partner's Capital Accounts

4.2.1 External Liabilities

These are amounts payable to outside parties. These are further classified into

a. Preferential Liabilities:

These include amounts payable in priority to all liabilities. These are Government dues like Income Tax, Sales Tax, Excise Duties etc. Employees' Dues like outstanding wages, outstanding salaries, provident fund dues, etc.

Dissolution expenses: These are the expenses incurred for the purpose of successful carrying out of dissolution like payment for preparation of dissolution deed, advertisement and brokerage for disposal of assets.

b. Other Liabilities :

These are further classified into:

Secured liabilities: These are liabilities / loans secured against some or all the assets of the firm. If it is secured by a charge on a specific asset then amount realized by sell of that particular asset shall be utilized for payment of these liabilities. For example bank overdraft secured against stock, mortgage loan against land and buildings. If these liabilities are not secured against a specific asset but on all the assets in general then amount realized shall be first utilized to pay off these liabilities.

Unsecured Liabilities: These are liabilities incurred during the normal course of business for which no security is given. For example sundry creditors, bills payable, loan from spouse of partner, etc. these liabilities are paid when all above liabilities are paid in full. If the amount available with the firm is not sufficient to pay all these liabilities, then the amount is paid in the ratio of their out standings.

4.2.2 Internal liabilities

Partner's loans: If a partner has given any loan to the firm then it will be paid after all the above liabilities have been paid in full but before anything is paid to partners against their capital accounts. If two or more partners have given loans to the firm and cash available is insufficient to pay these loans in full then the amount will be paid in the ratio of outstanding balance of the loan.

4.2.3 Partners Capital Account

After all the above liabilities are paid the cash available is paid to partners against their capital account by adopting any one of the following two methods.

Excess Capital Method (Highest Relative Capital Method/Quotient Method) Maximum Loss Method (Not in the syllabus)

4.2.3.1 Excess Capital Methods / Proportionate Capital Method-

This method is applied where the partners have not contributed their capitals in the profit sharing ratio. Some partner have contributed more capitals than other partners. Hence it is required to pay such partners before other partners are paid. The method of calculating surplus capitals is as follows –

Step No.	Particulars
I	Computation of Adjusted Capital:
	Take capital account balances as per Balance Sheet
	Add: General Reserve/Reserve funds/Profit and Loss
	A/c Credit Balance in Profit Sharing Ratio
	Less: Profit and Loss A/c Debit Balance
II	Write Profit Sharing Ratio
III	Find Capital Contribution per unit of profit i.e. Step I / Step II
IV	Find out the partners with lowest capital contribution per unit of profit. Taking his capital as base find out Proportionate Capital of all the partners.
V	Find out the Excess Capital – Step I - Step IV (Adjusted Capital – Proportionate Capital)
	If there're more than two partners then do the same process again
VI	Write Profit Sharing Ratio
VII	Find capital contribution per unit of profit – Step V / Step VI
VIII	Find out the partners with lowest capital contribution per unit of profit. Taking this capital as base find out proportionate capital of all the partners.
IX	Find out the Excess Capital – Step V -- Step VIII

4.3 ORDER OF PAYMENT OF CASH TO PARTNERS:

After cash is paid for all internal and external liabilities cash should be paid to partners against their capital accounts as follows : (Step No. IX, Step No. VIII, Step No. IV)

a) Pay to the partner who is having ultimate excess. (Step No. IX)

b) Pay out the excess amount of other partners in their Profit Sharing Ratio. (Step No. VIII)

c) After the payment of excess capital, the capitals of the partners will be in their profit sharing ratio. (Step No. IV) All the available cash should be paid in Profit sharing ratio.

d) If any partner is taken over any asset then it should be assumed that he brings necessary cash in the firm. It should be added in the cash available and then total available cash should be distributed among the partners as above.

e) The balance left unpaid represents loss on realization. Payment more than the dues represents profit on realization.

4.4 IMPORTANT POINTS

a) If any reserve is to be created for dissolution / realization expenses, it should be created by setting aside cash after payment of Government and Employees' dues. If finally actual expenses are less than the reserve, the excess should be distributed among the partners.

b) If there is any contingent liability (like bill discounted with the bank not yet matured) cash should be set aside after payment of all external liabilities, but before making any payments to the partners. If the liability arises it should be paid from the cash reserved. If the liability does not arise, the cash kept in reserve will be distributed among the partners when it becomes certain that the liability is not to be paid.

c) If nothing is mentioned about security of a liability the same should be treated as unsecured.

d) In case of a secured liability, payment should be made for such liability only if the asset charged for that liability is realized. However if any other asset is realized then the secured liability should be treated at par with other unsecured liabilities and payment should be made proportionately.

4.5 CHECK YOUR PROGRESS

1. Define the following terms:

- Preferential liabilities
- Adjusted Capital

- Piecemeal Distribution of Cash
- Internal Liabilities

2. Fill in the blanks:

- In Piecemeal Distribution amounts realized from assets are distributed in the order ___________.
- Excess capital Method is applied where the partners have not contributed there capitals in the ____________.
- Preferential Liabilities include Government dues like ________.
- If two or more partners have given loans to the firm and the cash is in sufficient for full payment then the loans will be paid in the________ ratio.

3. Calculate the Adjusted Capital from the following:

X,Y and Z are sharing profits and losses in the ratio 3:2:1.The Capital Account is showing credit balances of Rs. 60,000, 20,000 and 30,000 respectively ,General Reserve is Rs. 60,000 and P&L A/c Debit Balance Rs. 12,000.

4.6 ILLUSTRATIONS ON PIECEMEAL DISTRIBUTION

Illustration 1:

P, Q, R are partners sharing profits and losses in the ratio of 4:2:1. they decided to dissolve the partnership as on 31^{st} March 2014 when their Balance Sheet was as follows:

Balance Sheet

Liabilities	Rs.	Assets	Rs.
Creditors	23,200	Cash in hand	680
General Reserve	37,800	Investment	60,000
Bank Overdraft	65,000	Stock	2,56,600
Capital : P	1,60,000	Debtors	90,800
Q	3,20,000	Machinery	65,200
R	2,60,000	Furniture	9,800
		Building	3,82,920
	8,66,000		8,66,000

All creditors have to be paid off Rs.4800/- have to be provided for realization expenses. Thereafter all cash received should be distributed among the partners. The amounts were realized in installments as follows

	Rs.
1st	60,000
2nd	32,320
3rd	4,60,000
4th	1,83,680

The actual realization expenses were Rs.2400/-. Prepare a statement showing distribution of cash as per Excess Capital Method.

Solution :

(In the books of P, Q & R a Partnership Firm)

Statement of Excess Capital

	P Rs.	Q Rs.	R Rs.	Total Rs.	Order
Capital	1,60,000	3,20,000	2,60,000		
Add : General Reserve	21,600	10,800	5,400	2,65,500	
A. Adjusted Capital (TotalRs.777800)	1,81,600	3,30,800	2,65,400		
B. Profit Sharing Ratio	4	2	1		
C. (A/B) = Capital Per Unit	45,400	1,65,400	2,65,400		
D. Proportionate Capital (P's capital as Base)	(1,81,600)	(90,800)	(45,400)	3,17,800	III
E. Excess Capital (A-D)	NIL	2,40,000	2,20,000		
F. Excess Capital per Profit Unit		1,20,000	2,20,000		
G. Proportionate Excess Capital		2,40,000	1,20,000	3,60,000	II
H. Final Excess Capital		NIL	1,00,000	1,00,000	I
(E-G)					
			Total	7,77,800	

Payment order:

(1) Pay 1st Rs.100000/- to R.

(2) Then Rs.240000 and Rs.120000 to Q and R respectively.

(3) Then to P, Q and R in their profit sharing ratio 4:2:1.

Statement showing Piecemeal Distribution of Cash

Particulars	Cash Rs.	Bank O/D	Creditors Rs.	P Rs.	Q Rs.	R Rs.
Balance 1st Realisation Realisation Exp. Prov. Paid O/D & Creditors Proportionately	680 60,000 (4,800) 55,880 (55,880)	65,000 (41,180)	23,200 (14,700)	1,81,600	2,30,800	2,65,400
Balance due IInd Realisation Paid O/D & Creditors	---- 32,320 (32,320)	23,820 (23,820)	8,500 (8,500)	1,81,600	23,080	26,540
Balance due **IIIrd Realization-** Paid to C Final Excess	- 4,60,000 (1,00,000)	-	-	1,81,600	2,30,800 (1,00,000)	2,65,400
Balance (-) Paid to B and C (2:1)	3,60,000 (3,60,000)	-	-	-	2,30,800 (2,40,000)	1,65,400 (1,20,000)
Balance **IVth Realization** Add : Realization Exp. Prov not required Paid to all (4:2:1)	- 1,83,680 2,400 1,86,080 1,86,080			1,81,600 (1,06,330)	90,800 (53,166)	45,400 (27,964)
Balance (Loss on Realisation) =131720	-			75,270	37,634	18,816

Illustration 2:-

ABC dissolved their firm on 31^{st} Dec 2013 when their Balance Sheet as follows :-

Liabilities	Rs.	Assets	Rs.
Capital A 60000 B 48000 C 40000	148000	Sundry Assets	264000
Partner's Loan: A 20000 B 16000	36000		
Sundry Creditors	80000		
	264000		264000

Partners shared Profit and Loss in the ratio 2:1:1

Assets were realized as follows.

1^{st} = 50,000, 2^{nd} = 98,000, 3^{rd} = 80,000

Show Piecemeal Distribution of Cash.

Working Note – Statement showing Excess Capital

Step No.	Particulars	Formula	A	B	C
I	Balance b/d		60000	48000	40000
II	Profit Sharing Ratio	-	2	1	1
III	Unit Value (Capital contribution / Profit)	I ÷ II	30000	48000	40000
IV	Proportionate Capital	□ X II	60000	30000	30000
V	Excess Cap	I - IV	-	18000	10000
VI	Profit Sharing Ratio			1	1
VII	Unit Value	V ÷ VI	-	18000	$\boxed{10,000}$
VIII	Proportionate Capital	□ X VI		10000	10000
IX	Excess Capital	V -VIII	-	8000	-

	A	B	C
I (9) II (8) III (4)	- - 60000	8000 10000 30000	- 10000 30000
	60000	48000	40000

Solution:

Statement showing Piecemeal Distribution of Cash

Date	Particulars	Cash	Total Claims	Sundry Cr.	Partners Loan		Partners Capital		
					A	B	A	B	C
01/01/09 1st	Balance b/d Cash Realised Less : Paid to Creditors	- 50000 (50000)	264000 (50000)	80000 (50000)	20000 -	16000 -	60000 -	48000 -	40000 -
2nd	Balance Cash Realised Less : Paid to Creditors	- 98000 (30000)	214000 (30000)	30000 (30000)	20000 -	16000 -	60000 -	48000 -	40000 -
	Balance Less: Paid to Partners Loan	68000 (36000)	184000 36000	- -	20000 20000	16000 16000	60000 -	48000 -	40000 -

Illustration 3:-

ABC were in partnership sharing profits and losses equally. They agreed to dissolve their partnership on 30th June 2013. When their balance sheet was as under.

Liabilities	Rs.	Assets	Rs.
Creditors	38000	Bank	3600
Capital		Debtors	69000
A 60000		Stock	75400
B 45000		Plant & Machinery	25000
C 30000	135000		
	173000		173000

The realizations were as follows :-

	Debtors	Plant	Stock	Expenses
July	30000	10000	37000	3000
Aug	20000	8500	23000	2000
Sept	10000	-	1000	-

On 30th Sept remaining debtors amounting to Rs.9000/- were taken over by B at 50% of book value.

Prepare statement showing Piecemeal Distribution of Cash.

Statement showing Piecemeal Distribution of Cash

Date	Particulars	Cash	Total claim	Creditors	Capital		
					A	B	C
01/07/13	Balance b/d	3600	173000	38000	60000	45000	30000
	Less : Paid to Creditors	(3600)	(3600)	(3600)	-	-	-
	Balance	-	169400	344000	60000	45000	30000
	Cash	74000	-	-	-	-	-
	Less : Paid to Creditors	(34400)	(34400)	(34400)	-	-	-
	Balance	39600	135500	-	60000	45000	30000
	Less: Paid to A	(15000)	(15000)	-	(15000)	-	-
	Balance	24600	120000	-	45000	45000	30000
	Less : Paid to B & C	(24600)	(24600)	-	(12300)	(12300)	-
Aug	Balance	-	95400	-	32700	32700	30000
	Cash realized	49500	-	-	-	-	-
	Less : Paid to A & B	(5400)	(5400)	-	(2700)	(2700)	-
Sep	Balance	44100	90000	-	30000	30000	30000
	Less : Paid to all partners	(44100)	(44100)	-	(14700)	(14700)	(14700)
	Balance	-	45900	-	15300	15300	15000
	Cash Realized	11000	-	-	-	-	-
	Add :- Debtors taken over by B	4500	-	-	-	-	-
	Balance	15500	-	-	-	-	-
	Less :- Paid to all in PSR	15500	(15500)	-	(5166)	(5167)	(5167)
	Loss on Realisation	-	30400	-	10134	10133	10133

Working Note – Statement showing Excess Capital

Step No.	Particulars	Formula	A	B	C
I	Balance b/d		60000	45000	30000
II	Profit Sharing Ratio		1	1	1
III	Unit Value	I ÷ II	60000	45000	$\boxed{30,000}$
IV	Proportionate Capital	$\square$ X II	30000	30000	30000
V	Excess Cap	I - IV	30000	15000	-
VI	Profit Sharing Ratio		1	1	-
VII	Unit Value	V ÷ VI	30000	$\boxed{15000}$	-
VIII	Proportionate Capital	$\square$ X VI	15000	15000	-
IX	Excess Capital	V-VIII	15000	-	-

Payment Chart

	A	B	C
I Steps : 9	15000	-	-
II Steps : 8	15000	15000	-
III Steps : 4	30000	30000	30000
Total	60000	45000	30000

Illustration 4:-

A, B, C were in business sharing profits and losses 3:4:5 they decided to dissolve their firm 1st July 2013. Following is the Balance Sheet as on 1st July 2013.

Liabilities		Rs.	Assets	Rs.
Capital			Sundry Assets	36000
A	12000			
B	8000			
C	4000	24000		
Sundry Creditors		10000		
A's Loan		2000		
		36000		36000

The amt realized were as follows.

15/7	5000
31/7	10000
15/8	5000
31/8	2000
6/9	6000
30/9	5000

Show a detail statement of piecemeal distribution of cash.

Statement showing Piecemeal Distribution of Cash

Date	Particulars	Cash	Total	Creditors	A's Loan	A	B	C
1/7 15/7	Balance b/d Cash Realised Less : Paid to Creditors	- 5000 (5000)	36000 (5000)	10000 (5000)	2000 - -	12000 - -	8000 - -	4000 - -
31/7	Balance Cash Realised Less : Paid to Creditors	- (10000) (5000)	31000 - (5000)	5000 - (5000)	2000 - -	12000 - -	8000 - -	4000 - -
	Balance Less: Paid to A's Loan	5000 (2000)	26000 (2000)	- -	2000 (2000)	12000 -	8000 -	4000 -
	Balance Less : Paid to A	3000 (3000)	24000 (3000)	- -	- -	12000 (3000)	8000 -	4000 -
15/8	Balance Cash realized Less : Paid to A	- 5000 (3000)	21000 - (3000)	- - -	- - -	9000 - (3000)	8000 - -	4000 - -
	Balance Less : Paid to A & B in 3:4	2000 (2000)	18000 (2000)	- -	- -	6000 (857)	8000 (1143)	4000 -
31/8	Balance Cash Realized Less : Paid to A & B	- 2000 (2000)	16000 (2000)			5143 (857)	6857 (1143)	4000 -
6/9	Balance Cash Realized Less : Paid to A & B	- 6000 (4400)	14000 (4400)			4286 (1886)	5714 (2514)	4000 -
	Balance Less : Paid to all in PSR	1600 (1600)	9600 (1600)			2400 (400)	3200 (533)	4000 (667)
30/9	Balance Cash Realized Less : Paid to all in PSR	- 5000 (5000)	8000 (5000)			2000 (1250)	2667 (1667)	3333 (2083)
	Balance – Loss on Realisation	-	3000			750	1000	1250

Working Notes

1. Step Excess Capital

Step No.	Particulars	Formula	A	B	C
I	Opening bal		12000	8000	4000
II	Profit Sharing Ratio		3	4	5
III	Unit Value	I ÷ II	4000	2000	$\boxed{800}$
IV	Proportionate Capital	□X II	2400	3200	4000
V	Excess Cap	I - IV	9600	4800	-
VI	Profit Sharing Ratio		3	4	-
VII	Unit Value	V ÷ VI	3200	$\boxed{1200}$	-
VIII	Proportionate Capital	□ X VI	3600	4800	-
IX	Excess Capital	V-VIII	6000	-	-

Payment Chart

	A	B	C
Steps : 9	6000	-	-
8	3600	4800	-
4	2400	3200	4000
Total	12000	8000	4000

Illustration 5:-

A, B & C are partners, profit sharing ratio 1:1:2. Balance sheet as on 31st March 2014.

Liabilities		Rs.	Assets	Rs.
Capital			Buildings	19750
A	12000		Plant & Machinery	11750
B	9000		Stock	6250
C	6000	27000		
A's Loan		3750		
B's Loan		2500		
Creditors		3000		
Govt tax		1500		
		37750		37750

It was mutually agreed that the realization of the asset should be distributed at the end of each month. Month by realization of assets and expenses were as follows –

Month	Asset	Expenses
30th April	7360	360
31st May	9100	850
30th June	7800	300
31st July	4780	280

All the assets were fully realized by 31st July 2014.

Working Note – Statement showing Excess Capital

Step No.	**Particulars**	**Formula**	**A**	**B**	**C**
I	Opening bal		12000	9000	6000
II	Profit Sharing Ratio		1	1	2
III	Unit Value	I ÷ II	12000	9000	3000
IV	Proportionate Capital	□X II	3000	3000	6000
V	Excess Cap	I -IV	9000	6000	-
VI	Profit Sharing Ratio		1	1	
VII	Unit Value	V ÷ VI	9000	6000	-
VIII	Proportionate Capital	□ X VI	6000	6000	-
IX	Excess Capital	V-VIII	3000	-	-

Payment Chart

	A	B	C
Steps : 9	3000	-	-
8	6000	6000	-
4	3000	3000	6000
Total	12000	9000	6000

Statement showing Piecemeal Distribution of Cash

Date	Particulars	Cash Available	Total Claim	Govt	Creditors	A's Loan	B's Loan	Capitals		
								A	B	C
1/4 30/6	Balance b/d Cash Realised Less : Exp	- 7360 360	37750	1500	3000	3750	2500	12000	9000	6000
	Cash Less : Paid to Govt	7000 (1500)	(1500)	(1500)	-	-	-	-	-	-
	Balance Creditors Less: Paid to G	5500 (3000)	36250 (3000)	-	3000 (3000)	3750 -	2500 -	12000 -	9000 -	6000 -
	Balance Less : Paid to A & B loan	2500 (2500)	33250 (2500)	-	-	3750 (1500)	2500 (1000)	12000 -	9000 -	6000 -
31/5	Balance Cash A/c (9100-300) Less : Paid to A & B loan	- 8750 (3750)	30270 (3750)	- - -	- - -	2250 (2250)	1500 (1500)	12000 - -	9000 - -	6000 - -
	Balance Less : Paid to A's Capital	5000 (3000)	27000 (3000)	- -	- -	- -	- -	12000 (3000)	9000 -	6000 -
	Balance Less : Paid to A & B Capital	2000 (2000)	24000 (2000)	- -	- -	- -	- -	9000 (1000)	9000 (1000)	6000 -
30/6	Balance Cash A/c (7800-300) Less : Paid to A & B	- 7500 (7500)	22000 - (7500)	- -	- -	- - -	- - -	8000 - (3750)	8000 - (3750)	6000 - -
31/7	Balance Cash Less : Paid to A & B	- 4500 (2500)	14500 - (2500)	-	-			4250 (1250)	4250 (1250)	-
	Balance Less : Paid to all in PSR	2000 (2000)	12000 (2000)					3000 (500)	3000 (500)	6000 (1000)
	Loss on Realisation	-	10000					2500	2500	5000
	Balance Less : Paid to B	32000 (8000)	148000 (8000)	- -	- -	- -	60000 -	48000 (8000)	40000 -	
	Balance Less : Paid to B & C	24000 (20000)	140000 (20000)	- -	- -	- -	60000 -	40000 (10000)	40000 (10000)	
	Balance Less : Paid to A, B & C	4000 (4000)	120000 (4000)	- -	- -	- -	60000 (2000)	30000 (1000)	30000 (1000)	
	Balance Cash Realized Less : Paid to all in Profit Sharing Ratio	- 80000 (80000)	116000 (80000)				58000 40000	29000 20000	29000 20000	
	Loss on realization	-	36000				18000	9000	9000	

Illustration 6:-

Ajay, Vijay & Vishal were in partnership in profit sharing ration5:3:2. Balance sheet as on 31st March 2014.

Liabilities	Rs.	Assets	Rs.
Capital		Cash	500
Ajay 40000		Debtors	44000
Vijay NIL	40000	Stock	49500
Ajay's Loan	14000	Vishal Capital	10000
Sunil's Loan	16000		
Bank Loan	4000		
Creditors	30000		
	104000		104000

Realizations were –

15/04/2014	19500
31/05/2014	10000
31/07/2014	20000
31/08/2014	6000
30/09/2014	8000

Vishal brought necessary cash at the time of last realization. Show Piecemeal Distribution of Cash.

Statement showing Piecemeal Distribution of Cash

Date	Particulars	Cash	Total Claims	Creditors	Bank Loan	Sunil	Ajay	Ajay	Vijay	Vishal
1/4	Balance b/d	500	94000	30000	4000	16000	14000	40000	-	(10000)
15/4	Cash Realised	19500								
	Cash	20000					-	-	-	-
	Less : Paid to Creditors, Bank Loan, Sunil	(20000)	(20000)	(12000)	(1600)	(6400)	-	-	-	-
	Balance	-	74000	18000	2400	9600	14000	4000	-	(10000)
31/5	Cash Realized	10000								
	Less: Paid to Creditors, Bank Loan, Sunil	(10000)	(10000)	(6000)	(800)	(3200)	-	-	-	-
	Balance	-	64000	12000	1600	6400	14000	4000	-	(10000)
31/6	Cash Realized	30000								
	Less: Paid to Creditors, Bank Loan, Sunil	(20000)	(20000)	(12000)	(1600)	(6400)	-	-	-	-
	Balance	10000	44000	-	-	-	14000	40000	-	(10000)
	Less : Paid to Ajay Loan	(10000)	(10000)	-	-	-	(10000)	-	-	-
	Balance	-	34000	-	-	-	4000	40000	-	(10000)
	Cash Realised	20000	(4000)	-	-	-				
31/7	Less : Paid to Ajay Loan	(4000)		-	-	-	(4000)	-	-	-
	Balance	16000	30000	-	-	-	-	40000	-	(10000)
	Less : Paid to Ajay Cap	(16000)	(16000)	-	-	-	-	(16000)	-	-
	Balance	-	14000	-	-	-	-	24000	-	(10000)
31/8	Cash Realised	6000		-	-	-	-			
	Less : Paid to Ajay	(6000)	(6000)	-	-			(6000)	-	-
	Balance	-	8000	-	-	-	-	18000	-	(10000)
30/9	Cash Realised	8000		-	-	-	-	-	-	
	Add : Cash Received from Vishal	10000	10000	-	-	-	-	-	-	10000
	Balance	18000	18000	-	-	-	-	18000	-	-
	Less : Paid to Ajay	(18000)	(18000)	-	-	-	-	(18000)	-	-
		-	-	-	-	-	-	-	-	-

Note - Since only Ajay has Credit Balance in Capital Statement of excess Capital can not be prorated.

Illustration 7:-

Following is the Balance Sheet of A, B & C who share P&L in the ratio 4:3:1 on 31st March 2013 on which date they dissolve their partnership. Balance Sheet as on 31st March 2013.

Liabilities		Rs.	Assets	Rs.
Sundry Creditors		26250	Bldg	50000
Bank O/D		8750	Machinery	55000
Capital A/c			Stock	20000
A	70000		Debtors	60000
B	30000			
C	50000	150000		
		185000		185000

1. Bank O/D is secured against stock.
2. The assets realized following amounts which were immediately distributed.

   May 31 – Debtors Rs.20000/-

   July 31 – Stock Rs.15000/-

   Sep 30 – Debtors Rs.25000/-

   Oct 31 – Machinery Rs.40000/-

   Dec 31 – Bldg Rs.65000/-

   No further sums could be realized. Show Piecemeal Distribution.

Working Note – Statement showing Excess Capital

Step No.	**Particulars**	**Formula**	**A**	**B**	**C**
I	Opening bal		70000	30000	50000
II	Profit Sharing Ratio		4	3	1
III	Unit Value	I ÷ II	17500	10,000	50000
IV	Proportionate Capital	□ X II	40000	30000	10000
V	Excess Cap	I - IV	30000	-	40000
VI	Profit Sharing Ratio		4	-	1
VII	Unit Value	V ÷ VI	7,500	-	40000
VIII	Proportionate Capital	□ X VI	30000	-	7500
IX	Excess Capital	V-VIII	-	-	32500

	A	B	C
Steps : 9	-	-	32500
8	30000	-	7500
4	40000	30000	10000
Total	70000	30000	50000

Statement showing Piecemeal Distribution of Cash

Date	Particulars	Cash	Total	Creditors	Bank O/D	A	B	C
1/04/13	Balance b/d	-	185000	26250	8750	70000	30000	50000
31 July	Cash Realised	20000						
	Less : Paid to Creditors & Bank O/D	(20000)	(20000)	(15000)	(5000)	-	-	-
	Balance	-	165000	11250	3750	70000	30000	50000
31 July	Cash Realised	15000						
	Less : Paid to Bank O/D	(3750)	(3750)	-	(3750)	-	-	-
	Balance	11250	161250	11250	NIL	70000	30000	50000
	Less: Paid to Creditors	(11250)	(11250)	(11250)	-	-	-	-
	Balance	-	150000	-	-	70000	30000	50000
30 Sep	Cash Realized	25000		-	-			
	Less: Paid to Creditors	(25000)	(25000)	-	-	-	-	(25000)
	Balance	-	125000	-	-	70000	30000	25000
31 Oct	Cash Realised	40000		-	-	-	-	
	Less : Paid to Creditors	(7500)	(7500)					(7500)
	Balance	32500	117500	-	-	70000	30000	17500
	Less : Paid to A & C	(32500)	(32500)	-	-	(26000)	-	(6500)
				-	-			
	Balance	-	85000	-	-	44000	30000	11000
31 Dec	Cash Realised	65000		-	-			
	Less : Paid to A & C	(5000)	(5000)			(4000)	-	(1000)
	Balance	60000	80000	-	-	40000	30000	10000
	Less : Paid to all in PSR	(60000)		-	-	(30000)	(22500)	(7500)
			(60000)	-	-			
	Loss	-	20000	-	-	10000	7500	2500
				-	-			

Illustration 8:-

A, B & C are partners sharing profits and losses equally. Their Balance Sheet as on date of dissolution was follows.

Liabilities	Rs.	Assets	Rs.
Sundry Creditors	11000	Cash	140
General Reserves	18000	Investment	30000
Due to Bank	33000	Stationary	128300
Capital A/c		Sundry debtors	45400
A 80000		Bank	32600
B 160000		Furniture	4120
C 130000	370000	Land & Building	191440
	432000		432000

All the sundry creditors have to be paid away. A sum of Rs.2400/- has to be provided for expenses of realization and subject to this all cash received should be immediately distributed among partners the amount realized were :-

1	32260
2	36000
3	212000
4	92600

Expenses of realization Rs.3000/-.

Prepare statement showing Piecemeal Distribution of Cash.

Working Note – Statement showing Excess Capital

Step No.	Particulars	Formula	A	B	C
I	Balance b/d		86000	166000	136000
II	Profit Sharing Ratio		1	1	1
III	Unit Value	I ÷ II	86000	166000	136000
IV	Proportionate Capital	□ X II	86000	86000	86000
V	Excess Cap	I - IV	-	80000	50000
VI	Profit Sharing Ratio		-	1	1
VII	Unit Value	V ÷ VI	-	80000	50000
VIII	Proportionate Capital	□ X VI	-	50000	50000
IX	Excess Capital	V-VIII	-	30000	-

Payment Chart

	A	B	C
Steps : 9	-	30000	-
8	-	50000	50000
4	86000	86000	86000
Total	86000	166000	136000

Statement showing Piecemeal Distribution of Cash

Date	Particulars	Cash	Total	Creditors	Bank O/D	A	B	C
1	Balance b/d Add : Cash Less : Distribution Exp Less : Paid to Creditors & Bank (1:3)	140 32260 (2400) (30000)	432000 (30000)	11000 (7500)	33000 (22500)	86000 -	166000 -	136000 -
2	Balance Cash Realised Less : Paid to Creditors & Bank O/D	- 36000 (14000)	402000 (14000)	3500 (3500)	10500 (10500)	86000	166000	136000
	Balance Less: Paid to Bank	22000 (22000)	388000 (22000)	NIL -	NIL -	86000 -	166000 (22000)	136000 -
3	Balance Cash Realised Less: Paid to Bank	- 212000 (8000)	366000 (8000)	- - -	- - -	86000 -	144000 (8000)	136000 -
	Balance Less: Paid to Bank & Creditors	204000 (100000)	358000 (100000)	- -	- -	86000 -	136000 (50000)	136000 (50000)
	Balance Less : Paid to all	104000 (104000)	258000 (104000)	- -	- -	86000 (34666)	86000 (34667)	86000 (34667)
4	Balance Cash Realised Less : Exp	- 92600 (600)	154000	- -	- -	51334	51333	51333
	Balance Less : Paid to all	92000 (92000)	154000 (92000)	- -	- -	51334 (30667)	51333 (30667)	51333 (30666)
	Loss on realization	-	62000	-	-	20666	20666	20667

Illustration 9:-

P, Q & R were in Partnership sharing Profits & Losses in the ratio of 4:5:1. Their Balance Sheet as on 31st December 2013 is as under:-

Liabilities	Rs.	Assets	Rs.
Capital A/c		Cash in hand	15000
P	75000	Other Assets	280000
Q	60000		
R	15000		
Sundry Creditors	50000		
Loans			
P	30000		
Q	15000		
Reserves	50000		
	295000		295000

The Partnership is dissolved and the assets were realized as under:-

1st Realisation: Rs.50000/-

2nd Realisation: Rs.100000/-

3rd Realisation: Rs.85000/-

On the date of the dissolution there was a contingent liability of Rs.5000/- against the firm which was settled at Rs.3500/- at the time of 2nd realization. Realisation expenses were estimated at Rs.10000/- but those actually amounted to Rs.7500/-. R took over stock worth Rs.2500/- at the time of 3rd realization. The firm was forced to pay Rs.3000 to sales tax authorities as fine out of the 3rd realization for which no provision was made prepare a statement showing distribution under Excess Capital Method.

Working Note – Statement showing Excess Capital

Particulars	**P**	**Q**	**R**
Capitals (as given)	75,000	60,000	15,000
Add Reserves	20,000	25,000	5,000
Actual Capitals	95,000	85,000	20,000
PSR	4	5	1
Capitals per unit of PSR	23,750	17,000	20,000
Capitals in PSR	68,000	85,000	17,000
Excess Capital	27,000	NIL	3,000
PSR	4		1
Excess Capital p.u. of PSR	6,750		3,000
Excess Capital in PSR	12,000		3,000
Extra Excess Capital	15,000		NIL

First pay Extra Excess Capital to P Rs. 15,000

Next pay Excess Capital to P and R Rs. 15,000 in the ratio 4:1

Next pay P, Q and R in PSR 4:5:1

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Statement showing Piecemeal Distribution of Cash

Date	Particulars	Cash Rs.	Creditors	Loan P Rs.	Loan Q Rs.	Capital P Rs.	Capital Q Rs.	Capital R Rs.
1	Opening Balances	15,000	50,000	30,000	15,000	95,000	85,000	20,000
	Add : First Realisation	50,000						
		65,000						
	Less: Cash Kept aside for contingent Liab. Rs. 5,000 estimated realization exp. Rs. 10,000	15,000						
		50,000						
	Less: Paid to creditors	50,000	50,000					
		NIL	NIL					
	Second Realisation	1,00,000						
	Add: Surplus available from amount							
	Kept aside for contingent liab.							
	(5000-3500)	1,500						
		10,1500						
	Less: Paid to P & Q loan	45,000		30,000	15,000			
		56,500		NIL	NIL			
	Less: Extra Excess Cap. Paid to P	15,000				15,000		
		41,500				80,000		
	Less: Excess Cap. To P & Q in the							
	Ratio 4:1	15,000				12,000		3,000
		26,500				68,000		17,000
	Less: Paid to P,Q & R in PSR 4:5:1	26,500				10,600	13,250	2,650
		NIL				57,400	71,750	14,350
	Third Realisation	85,000						
	Add: Surplus available from amount							

	kept aside for estimated realization							
	Expenses (10,000 -7,500)	2,500						
		87,500						
	Less: Sales Tax fine paid	3,000						
		84,500						
	Less: Stock taken Over by R							2,500
								11,850
	Less: Padi to P & Q for stock taken							
	over by R	22,500				10,000	12,500	-
		62,000				47,400	59,250	11,850
	Less: paid to P, Q & R in PSR 4:5:1	62,000				24,800	31,000	6,200
	Loss on Realisation	-				**22,600**	**28,250**	**5,650**

Note:

1) Keep aside cash for estimated realization expenses and contingent liability at the beginning.

2) Excess amount of RS. 1500 kept aside for contingent liability has been added to the 2nd realization.

3) Excess amount of Rs. 2500 kept a side for realization expenses has been added to the third realization.

4) Sales tax fine of Rs. 3000 has to be paid first from the third realization being preferential creditor.

5) Stock taken over by R Rs. 2500 has been deducted from his capital balance Rs. 10,000 has been paid to P & Rs. 12,500 to Q for stock taken over by R.

PSR	**P**	**Q**	**R**
Cash paid	4	5	1
			250

(Proportionately in PSR)

Illustration 10:-

The partners X,Y & Z have called upon you to assist them in winding up the affairs of their partnership on 30th June 2013. Their Balance Sheet as on that date is given below:

Liabilities	Rs.	Assets	Rs.
Sundry Creditors	34,000	Cash at Bank	12,000
Capital Accounts		Sundry Debtors	44,000
X	1,34,000	Stock in trade	28,000
Y	90,000	Plant & Equipment	1,98,000
Z	63,000	Loan – X	24,000
		Loan – Y	15,000
	3,21,000		3,21,000

1. The partners share profit and losses in the ratio of 5:3:2
2. Cash is distributed to the partners at the end of each month
3. A summary of liquidation transactions are as follows:

July 2013

Rs. 33,000 – Collected from Debtors balance is uncollectible

Rs. 20,000 – Received from sale of entire Stock.

Rs. 2,000 – Liquidation expenses paid

Rs. 16,000 – Cash retained in the business at the end of month

August 2013

Rs. 3000 – Liquidation expenses paid as part payment of his capital, Z accepted a piece of equipment for Rs. 20,000 (book value Rs. 8,000)

Rs. 5,000 – Cash retained in the business at the end of the month

September – 2013

Rs. 1,50,000 – received on sale of remaining plant & equipment

Rs. 2,000 – liquidation expenses paid. No cash retained in the business.

Prepare a statement showing distribution of cash by applying proportionate capital method.

Solution: – Statement of Excess Capital

	X Rs.	Y Rs.	Z Rs.
Balance	1,34,000	90,000	63,000
Less: Loans	24,000	15,000	-
	1,10,000	**75,000**	**63,000**
Profit sharing Ratio	5	3	2
Taking X's capital as the	(22,000)	(25,000)	(31,500)
Basis (1=22,000)	1,10,000	66,000	44,000
		9,000	19,000
Profit sharing Ration		3	2
Unit value		(3000)	(9500)
Taking Y's Capital as the		9,000	6,000
basis (1= 3000)			
		-	13,000

Calculation of proportionate Capital after take over of equipment

	X Rs.	Y Rs.	Z Rs.
Balance on 1.9.2013	1,10,000	67,000	30,000
Profit Sharing Ratio	5	3	2
Unit value	(22,000)	(22,334)	(15,000)
Taking Z's capital as the basis 1 = 15,000	75,000	45,000	30,000
	35,000	**22,000**	-

Note: If the share of partner in that realisation less than the value of asset the asset is given to the partner concerned but it disturbs the earlier calculation of surplus capital. Hence Surplus capital of partners is decided again.

Statement showing Distribution of Cash

Date	Particulars	Cash Rs.	Total Rs.	Creditors Rs.	X Rs.	Y Rs.	Z Rs.
	Balances			34,000	1,34,000	90,000	63,000
	Less : Loans taken				24,000	15,000	
			2,82,000	34,000	1,10,000	75,000	63,000
	June 2013						
	Cash Balance	12,000					
	Paid to Creditors	12,000	12,000	12,000			
			2,70,000	22,000			
	July 2013						
	1^{st} Realisation	53,000					
	Less: Expenses	2,000					
		51,000					
	Less: Cash Retained	16,000					
		35,000					
	Paid to creditors	22,000	22,000	22,000			
		13,000	2,48,000	-			
	Paid to Z	13,000	13,000				13,000
	Balance due	-	2,35,000	-	1,10,000	75,000	50,000
	Aug 2013						
	Second Realisation						
	July Balance retained	16,000					
	Less: Expenses	3,000					
		13,000					
	Less: Cash retained	5,000					
		8,000					
	Paid to Y	8,000	8,000		-	8,000	
	Equipment	-	20,000			-	20,000

	given to Z						
		-	2,07,000		1,10,000	67,000	30,000
	Sep 2013						
	Final Realisation						
	August Balance retained	5,000					
	Sale of plant	1,50,000					
		1,55,000					
	Less: Expenses	2,000					
		1,53,000					
	Less: Paid to X & Y	57,000	57,000		35,000	22,000	
		96,000	1,50,000		75,000	45,000	30,000
	Paid to X, Y & Z						
	In 5 : 3: 2	96,000	96,000		48,000	28800	19200
			54,000		**27,000**	**16,200**	**10,800**

Illustration No. 11

Partnership of L, M & N was dissolved on 31st October 2013 on which date their Balance Sheet stood as under:

Liabilities	Rs.	Assets	Rs.
Capital A/cs:		Goodwill	80,000
L 1,20,000		Buildings	52,500
M 1,30,000		Furniture	10,000
N 90,000	3,40,000	Stocks	1,52,000
Reserve	60,000	Debtors	1,35,500
Creditors	40,000	Cash	10,000
	4,40,000		**4,40,000**

The partners were sharing profits & loss in the ratio of 3:2:1 respectively. They decided to distribute the cash as and when it was received L agreed to work as receiver on a remuneration of Rs. 5,000 and to bear all expenses of realization when it was completed be found that he had spent Rs. 1050 towards the expenses. Following details of realization were available:

December 2013	Rs. 45,000
January 2014	Rs. 1,20,000
February 2014	Rs. 1,14,000

There was some stock of the book value of Rs. 9,000 lying unsold and it was taken over by N at an agreed value of Rs. 5,000.

You are required to prepare the following (using excess capital method)

1. Statement of Surplus Capital

2. Statement showing monthly distribution of cash available.

Solution:

Statement showing surplus capital:

Step No.	Particulars	Formula	L Rs.	M Rs.	N Rs.
	Capital Balances		1,20,000	1,30,000	90,000
	Add: Reserve		30,000	20,000	10,000
I	Adjusted Capitals		1,50,000	1,50,000	1,00,000
II	Profit sharing Ratio		3	2	1
III	Unit values		50,000	75,000	1,00,000
IV	Proportionate Capital (Base L)		1,50,000	1,00,000	50,000
V	Surplus Capital		-	50,000	50,000
VI	Profit sharing ratio			2	1
VII	Unit values			25,000	50,000
VIII	Proportionate Capital (Base M)			50,000	25,000
IX	Absolute surplus			-	25,000

Payment chart (IX, VIII, IV)

I	-	-	25,000
II	-	50,000	25,000
III	1,50,000	1,00,000	50,000
	1,50,000	**1,50,000**	**1,00,000**

Statement showing Piecemeal Distribution of Cash

Date	Particulars	Cash	Total Claims	Creditors	Capital Accounts (Adjusted)		
					L	M	N
1/11/13	Balance due		4,40,000	40,000	1,50,000	1,50,000	1,00,000
	Cash Balance	10,000					
	Less: Remuneration to L	(5,000)					
		5,000					
	Less: Paid to creditors	(5,000)	(5,000)	(5,000)			
		-	4,35,000	35,000			
Dec 13	Realisation in Dec 2013	45,000					
	Less: Paid to creditors	(35,000)	(35,000)	(35,000)			
		10,000	4,00,000	-			
	Less: Paid to M	(10,000)	(10,000)				(10,000)
		-	3,90,000		1,50,000	1,50,000	90,000
Jan 14	Realisation in Jan 2014	1,20,000					
	Less: Paid to M & N to clear						
	Surplus capital	90,000	(90,000)			(50,000)	(40,000)
		30,000	3,00,000		1,50,000	1,00,000	50,000
	Less: Paid to all partners in PSR	30,000	(30,000)		(15,000)	(10,000)	(5,000)
		-	2,70,000		1,35,000	90,000	45,000
Feb 14	Cash Realised	11,400					
	Less: Paid to all in PSR	11,400	1,14,000		57,000	38,000	19,000
		-	1,56,000		78,000	52,000	26,000
Feb 14	Cash	6,000					
	Less: Paid to All in PSR	(6,000)	(6,000)		3,000	2,000	1,000
	Loss on Realisation				**75,000**	**50,000**	**25,000**

Illustration 12 :

Avani, Binal and Cindy are partners sharing profits and losses in the ratio of 4:2:1. They decided to dissolve the partnership as on 31st March 2013 when their Balance Sheet was as follows :

Balance Sheet as on 31st March, 2013

Liabilities	Rs.	Assets	Rs.
Creditors	16,820	Cash in hand	500
General Reserve	9,780	Investment	16,000
Capital : Avani	16,000	Machinery	38,740
Binal	32,000	Debtors	6,520
Cindy	26,000	Building	980
		Furniture	37,860
	1,00,600		1,00,600

All creditors have to be paid off. Rs. 300 has to be provided for realization expenses.

Thereafter all cash received should be distributed among the partners.

The amounts were realized in installments as follows :

	Rs.
1st	20,000
2nd	3,500
3rd	46,000
4th	24,000

The actual realization expenses were Rs. 500. Prepare a statement showing piecemeal distribution of cash as per Excess Capital Method.

Solution:

Statement of Excess Capital:

Sr.	Particulars	Avani	Banal	Cindy
	Balance B/f	16,000	32,000	26,000
	Add : General Reserve	5,600	2,800	1,400
	Total	21,600	34,800	27,400
	Profit Sharing Ratio	4	2	1
	Unit Value	5,400	17,400	27,400
	Proportionate capital taking A as base	21,600	10,800	5,400
	Excess Capital	--	24,000	22,000
	Profit Sharing Ratio		2	1
	Unit Value		12,000	22,000
	Proportionate capital taking B as base		24,000	12,000
	Ultimate Surplus			10,000

Sr. No.	Particulars	Cash Available	Total claims	Creditors	Avani	Binal	Cindy
	Balance B/f	500	1,00,600	16,800	21,600	34,800	27,400
	Less : reserve for Expenses	300					
	Balance	200					
	Less : paid to Creditors	200	200	200			
	Balance	0	1,00,400	16,600	21,600	34,800	27,400
	Add 1st Realisation	20,000					
	Less : paid to Creditors	16,600	16,600	16,600			
	Balance	3,400	83,800	0	21,600	34,800	27,400
	Less : Paid to Cindy	3,400	3,400				3,400
	Balance	0	80,400		21,600	34,800	24,000
	2nd realization	3,500					
	Less : Paid to Cindy	3,500	3,500				3,500
	Balance	0	76,900		21,600	34,800	20,500
	3rd realization	46,000					
	Less : paid to Cindy	3,100	3,100				3,100
	Balance	42,900	73,800		21,600	34,800	17,400
	Less paid to Binal & Cindy	36,000	36,000			24,000	12,000
	Balance	6,900	37,800		21,600	10,800	5,400
	Less paid to all in PSR	6,900	6,900		3,943	1,971	986
	Balance	0	30,900		17,657	8,829	4,414
	4th Realisation	24,000					
	Less : realization expenses	200					
	Balance	23,800					
	Less : paid to all in PSR	23,800	23,800		13,600	6,800	3,400
	Loss on Realisation		7,100		4,057	2,029	1,014

Illustration 13:

Jam, Bread and Butter are partners sharing profits and losses in the ratio of 2 : 2 : 1. They decided to dissolve the partnership as on 31st March 2013 when their Balance Sheet was as follows :

Balance Sheet as on 31st December, 2013

Liabilities	Rs.	Assets	Rs.
Creditors	15,000	Cash in hand	9,000
Income tax Payable	4,000	Investment	7,500
Bank loan (secured on stock)	30,000	Machinery	17,800
Jams loan	11,000	Debtors	66,400
Capital Jam	40,000	Building	60,000
Bread	40,000	Furniture	9,300
Butter	30,000		
	1,70,000		1,70,000

Bank took over Stock and could realize Rs. 25,000 only. Rs. 3,000 were paid for repairing furniture to get better price.

Thereafter all cash received was distributed among all other liabilities and the partners.

The amounts realized and expenses incurred were in installments as follows.

Month	Cash realized Rs.	Expenses Rs.
January 2014	13,400	1,400
February 2014	17,200	2,200
March 2014	11,500	1,500
April 2014	32,750	2,750
May 2014	36,640	1,640

Solution:

Statement of Excess Capital:

Sr.	Particulars	Jam	Bread	Butter
	Balance B/f	40,000	40,000	30,000
	Profit Sharing Ratio	2	1	1
	Unit Value	20,000	40,000	30,000
	Proportionate capital taking Jam as base	40,000	20,000	20,000
	Excess Capital		20,000	10,000
	Profit Sharing Ratio		1	1
	Unit Value		20,000	10,000
	Proportionate capital taking Butter as base		10,000	10,000
	Ultimate Surplus		10,000	

Statement Showing Piecemeal distribution of Cash

Sr. No.	Particulars	Cash Available	Total claims	I.T. payable	*Bank loan	Creditors	Jams loan	Jam	Bread	Butter
	Balance B/f	9,000	1,45,000	4,000	5,000	15,000	11,000	40,000	40,000	30,000
	Less : Furniture Expenses	3,000								
	Balance	6,000		4,000	5,000	15,000	11,000	40,000	40,000	30,000
	Less : paid to I.T.	4,000	4,000	4,000						
	Balance	2,000	1,41,000	--	5,000	15,000	11,000	40,000	40,000	30,000
	Less : paid to bank & creditors	2,000	2,000		500	1,500				
	Balance	--	1,39,000	--	4,500	13,500	11,000	40,000	40,000	30,000
Jan	Add 1st Realisation	12,000								
	Less : Paid to Bank & Creditors	12,000	12,000		3,000	9,000				
	Balance	--	1,27,000	--	1,500	4,500	11,000	40,000	40,000	30,000
Feb	2nd realization	15,000								
	Less : Paid to Bank & Creditors	6,000	6,000	--	1,500	4,500				
	Balance	9,000	1,21,000	--	--	--	11,000	40,000	40,000	30,000
	Less : paid to Jam loan	9,000	9,000				9,000			
	Balance	--	1,12,000	--	--	--	2,000	40,000	40,000	30,000

Mar	3rd realization	10,000								
	Less : paid to Jam loan	2,000	2,000				2,000			
	Balance	8,000	1,10,000	--	--	--	--	40,000	40,000	30,000
	Less paid to bread	8,000	8,000						8,000	
	Balance	--	1,02,000	--	--	--	--	40,000	32,000	30,000
Apr	4th Realisation	30,000								
	Less : paid to bread	2,000	2,000						2,000	
	Balance	28,000	1,00,000	--	--	--	--	40,000	30,000	30,000
	Less : paid to bread & butter	20,000	20,000						10,000	10,000
	Balance	8,000	80,000	--	--	--	--	40,000	20,000	20,000
	Less : paid to all in per	8,000	8,000					4,000	2,000	2,000
	Balance	--	72,000	--	--	--	--	36,000	18,000	18,000
May	5th Realization	35,000								
	Paid to all in PSR	35,000	35,000					17,500	8,750	8,750
	Loss on Realisation	--	37,000					18,500	9,250	9,250

*after payment of Rs. 25,000 recovered from Stock

Illustration 14 :

Sonam, Nidhi and Pooja are partners sharing profits and losses in the ratio of 4:2:1. They decided to dissolve the partnership as on 31st March 2013 when their Balance Sheet was as follows :

Balance Sheet as on 31st March, 2013

Liabilities	Rs.	Assets	Rs.
Capital : Sonam	1,00,000	Land & Building	50,000
Nidhi	60,000	Machinery	1,50,000
Pooja	20,000	Debtors	45,000
10% Bank Loan (unsecured)	40,000	Stock	34,500
Bills Payable	30,000	Cash and Bank	500
Creditors	30,000		
	2,80,000		2,80,000

Rs. 800 has to be provided for realization expenses.

Thereafter all cash received should be distributed among the partners.

The amounts were realized in installments as follows :

	Rs.
1st	60,300
2nd	50,000
3rd	79,000
4th	27,700

The actual realization expenses were Rs. 500. Prepare a statement showing piecemeal distribution of cash as per Excess Capital Method.

Solution:

Statement of Excess Capital:

Sr.	Particulars	Sonam	Nidhi	Pooja
	Balance B/f	1,00,000	60,000	20,000
	Profit Sharing Ratio	4	2	1
	Unit Value	25,000	30,000	20,000
	Proportionate capital taking Pooja as base	80,000	40,000	20,000
	Excess Capital	20,000	20,000	--
	Profit Sharing Ratio	4	2	
	Unit Value	5,000	10,000	
	Proportionate capital taking Sonam as base	20,000	10,000	
	Ultimate Surplus		10,000	

Particulars	Cash Available	Total claims	BK Loan	B.P.	Creditors	Sonam	Nidhi	Pooja
Balance B/f	500	2,80,000	40,000	30,000	30,000	1,00,000	60,000	20,000
Add : Cash real	60,300							
Less : reserve for Expenses	800							
Balance	60,000							
Less : paid to Creditors	60,000	60,000	24,000	18,000	18,000			
Balance	--	2,20,000	16,000	12,000	12,000	1,00,000	60,000	20,000
Add 2nd Realisation	50,000							

Less : paid to Credit, loan, bs	40,000	40,000	16,000	12,000	12,000			
Balance	10,000	1,80,000	--	--	--	1,00,000	60,000	20,000
Less : Paid to Nidhi	10,000	10,000					10,000	
Balance	--	1,70,000				1,00,000	50,000	20,000
3rd realization	79,000							
Less : Paid to Sonam, Nidhi	30,000	30,000				20,000	10,000	
Balance	49,000	1,40,000				80,000	40,000	20,000
Balance	--	91,000				52,000	26,000	13,000
4th Realisation	27,700							
Add : Excess Re	300							
	28,000							
Less : paid to all in PSR	28,000	28,000				16,000	8,000	4,000
Loss on Realisation	--	63,000				36,000	18,000	9,000

4.7 EXERCISE

Q.1) A, B, and C carrying on business is partnership decided to dissolve it on and from 30th Sept. 2013. The following was their Balance sheet on that date:

Liabilities	Rs.	Assets	Rs.
Capital Accounts:		Sundry Assets	8,000
A 2,800		Cash & Bank	1,000
B 200		Advertisement Suspense A/c	900
C 1,000	4,000		
Profit & Loss	3,900		
Loan from A	2,000		
	9,900		**9,900**

As per the arrangements with the bank, the partners were allowed to withdraw an amount of Rs.500 only at present and the balance amount of Rs.500 could be withdrawn only after 1st December,2009

It was decided that after keeping aside an amount of Rs. 2,000 for estimated realization expenses the available cash should be distributed between the partners immediately.

The following were the realisation.

	Fixed Assets Rs.	Current Assets Rs.
31st October, 2013	1,000	1,900
25th November, 2013	2,600	2,000
20th December, 2013 (Final)	1,000	900

Actual realisation expenses amounted to Rs. 1,100 only. Prepare the statement showing the distribution of cash between the partners. under excess capital method.

Q. 2 On 31st December, 2013 the Balance Sheet of the partners X, Y and Z (sharing Profit and Losses in the ratio of 2:4:6 (respectively) is as follows:

Liabilities		Rs.	Assets	Rs.
Capital Accounts:			Sundry Assets	16,000
A	3,600		Cash	2,000
B	2,400		Advertisement Suspense A/c	1,800
C	2,000	8,000		
Profit & Loss		7,800		
Loan from A		4,000		
		19,800		**19,800**

On Jan 1, 2014 the partners decide to dissolve the firm and distribute the proceeds as and when realised.

Prepare a statement showing the distribution according to excess capital Method. The realisations are as below:

	Gross Realisation Rs.	Realisation Expenses Rs.
March 1, 2014	4,450	150
April 15, 2014	6,850	250
April 30, 2014	2,250	250

Q. 3 Lamb, Deer and Peacock were in partnership, their respective shares being 1:2:2. The following was their Balance Sheet on 31st December, 2013. On which date they decided to dissolve the firm.

Liabilities	Rs.	Assets	Rs.
Creditors	30,000	Cash	18,000
Income-Tax payable	8,000	Stock	80,000
Loan from bank (Secured by pledge of stock	60,000	Debtors	1,20,000
Deer's Loan	22,000	Furniture	72,000
Partner's Capital:		Motor car	50,000
Lamb 80,000			
Deer 80,000			
Peacock 60,000	2,20,000		
	3,40,000		**3,40,000**

1. The bank could realize only Rs. 50,000 on disposal of stock

2. A sum of Rs. 6,000 was spent for furniture on getting a better price.

3. Other assets were realised as follows

In January, 2014	Rs. 24,000
In February, 2014	Rs. 30,000
In March, 2014	Rs. 20,000
In April, 2014	Rs. 60,000
In May, 2014	Rs. 70,000

The partners distributed the cash at and when available. Show the distribution of cash on the basis of 'Highest relative capital'.

Q. 4 Gunen, Dinen, and Biren who were partners sharing profit and losses in the ratio of 3:2:1 decided to dissolve their firm as on 1st January, 2014 on the basis of the following balance sheet:

Liabilities		Rs.	Assets	Rs.
Creditors		50,000	Cash at Bank	10,000
Capital A/cs			Debtors	1,10,000
Gunen	40,000		Stock	30,000
Dinen	35,000			
Biren	25,000	1,00,000		
		1,50,000		**1,50,000**

It was agreed that Dinen will be in charge of realisation at commission of 5% on Realisations and after meeting expenses and his commission the net amount would be distributed piecemeal as and when realised. The following schedule of realisation is available.

Month (2014)	Realisation Rs.	Expenses Rs.
January	30,000	1,000
February	20,250	1,100
March	35,100	900
April	25,000	1,250
May (Final)	30,250	750
	1,40,600	**5,000**

Prepare a statement to show how the amount will be distributed amongst the partners.

Q.5 Partnership of Urmila, Manisha, and Karishma was dissolved on 31st October, 2013 on which date their Balance Sheet stood as under:

Liabilities	Rs.	Assets	Rs.
Capital A/cs		Goodwill	80,000
Urmila 1,20,000		Building	53,000
Manisha 1,30,000		Furniture	10,000
Karishma 90,000	3,40,000	Stock	1,52,000
Reserve	60,000	Debtors	1,35,000
Creditors	40,000	Cash	10,000
	4,40,000		**4,40,000**

The partnership were sharing profits and losses in the ratio of 3:2:1 respectively. They decide to distribute the cash as and when it was received. Urmila agreed to work as receiver on a remuneration of Rs. 20,000/- and to bear all expenses of realisation. When it was completed, he found that he had spent Rs. 4,200/- towards the expenses. Following details of realisation were available:

December 2013	Rs. 32,000
January 2014	Rs. 2,42,000
February 2014	Rs. 1,40,000

There was some stock of the book value of R. 36,000 lying unsold and it was taken over by Karishma an agreed value of Rs. 20,000.

You are required to prepare the following (Using Excess Capital Method)

(a) Statement of surplus capital

(b) Statement showing monthly distribution of cash available.

❖❖❖❖

5

AMALMAGATION OF FIRMS

Unit Structure :

5.0 OBJECTIVES

After studying the unit the students will be able to:

- Define the term Amalgamation.
- Calculate the amount of Purchase Consideration
- Understand the accounting procedure for amalgamation.
- After studying the unit the students will be able to solve the practical problems on amalgamation.

5.1 INTRODUCTION

Business firms grow and expand through business combinations. Such combinations also help firms to secure operating efficiencies, avoid competition among them and economies of scale.

Amalgamation means merger or combination of two or more existing firms. Two or more existing business entities merged themselves into one entity, is known as amalgamation. After amalgamation of firms, amalgamating firms [existing/old firms] get dissolved, lose their existences and new firm is formed which is called as amalgamated firm.

5.2 MEANING AND OBJECTIVES OF AMALGAMATION

Meaning

Amalgamation means to merge or to combine two or more business units carrying on same type of business and form a new business unit. Amalgamation of partnership firms means merger of two or more partnership firms with one another and form a new partnership firm. When two or more existing partnership firms, carrying on same type of business, come together end their separate entity and form a new firm it is called as amalgamation of partnership firms.

Objectives of Amalgamation

1. To enlarge the size of the firm.
2. To reduce overhead or expenses.
3. To avoid cut throat competition among the firms carrying on similar / complementary business
4. To achieve both external and internal economies of large scale i.e. purchasing bulk quantities, saving in transportation expenses etc.
5. To increase productivity and profitably of the firm.
6. To expand the business

Consequences

Primarily the following consequences take place upon amalgamation.

1. Dissolution of existing amalgamating firms.
2. Formation of a new firm [called amalgamated firm] to take over business of existing / old firms.

5.3 TREATMENT IN THE BOOKS OF ACCOUNTS

5.3.1 General Instructions

There are given the following points in the practical problem:

1. Balance sheet of two existing firms / sole Proprietary concerns on date of amalgamation, which enables to close books of old firms, transferee capitals balances to new firm.
2. Terms and conditions of amalgamations i.e. revaluation of various asset and liabilities of both the firms, valuation of Goodwill, disposal of assets or liabilities not taken over by new firm, certain more transaction before or after amalgamation.

The students are required to:

1. Ascertain purchase consideration.
2. Close books of old firms.
3. Accounting entries in books of new firm.
    a. For recording Purchase Consideration.
    b. Goodwill treatment.
    c. Capital adjustment upon amalgamation.
    d. Elimination of inter firm Owings, (if any)
4. Preparation of Balance Sheet of the New Firm.

5.3.2 Purchase Consideration:

Purchase consideration is the agreed amount to be paid by the purchasing firm to old firm. It can be calculated as follows:

A) Net asset method - Under this method, purchase consideration is equal to net asset taken over by the New firm at agreed values. Net asset means all assets taken over at agreed values / other wise at book values less liabilities taken over by the purchasing firm.

The purchase consideration is calculated as under:

	Particulars	₹	₹
	A. Agreed values of assets taken over		
	Goodwill	X	
	Land & Building	X	
	Stock	X	
	Sundry Debtors	X	
	Cash & Bank	X	XX
Less:	B. Agreed values of liabilities assumed		
	Sundry Creditors	X	
	Bill Payable	X	
	Bank Loan	X	
	Outstanding Expenses	X	[XX]
	Purchase consideration [A-B]		XXX

You are required to take care about the following terms:

i) Business is taken over, implies all assets & Liabilities are taken over at agreed value unless mentioned that particular asset or liability is not taken.

ii) Cash / Bank balance should be included in Purchase Consideration, only to the extent taken over by the new firm & that much balance should be transferred to Realisation a/c.

iii) If it is mentioned that only trade liabilities are taken over, then creditors and bills payable are taken over by the by new firm, not any other liabilities.

B) Lump sum method- under this method amount of purchase consideration is given in lump sum. There is no need to calculate purchase consideration as it is directly given in the sum i.e. in the problem.

However, difference in Purchase consideration and net assets taken over, may be Goodwill or Capital Reserve.

Goodwill = Purchase consideration less Net Assets taken over

Capital Reserve = Net Assets less Purchase consideration.

5.3.3 ACCOUNTING PROCEDURES FOR CLOSING BOOKS OF OLD FIRM (AMALGAMATING FIRM):

Accounting entries in the books of existing firm / sole proprietor:

Open following ledger accounts:

1. Realisation account.
2. Partner's Capital Account (columnar)
3. New firm account.
4. Cash / Bank account.

Journal Entries in the books of old firm [Amalgamating firm]

STEP I

A] for transferring Balance Sheet items at book value:

1. **For transferring sundry assets**:

Realization a/c Dr.

To Sundry Assets [individually]

Notes : All the assets should be transferred at book values.

- Cash/Bank bal. should be transferred to the extent it is taken over.
- Debtors should be transferred at gross amount; R.D.D should be credited to Realization a/c.
- Provision for depreciation should be credited to Realization a/c.
- Fictitious assets and accumulated losses should not be transferred to Realisation a/c.
- All the assets should be transferred whether taken over or not by the new firm.

2. **For transferring accumulated losses:**

Partner Capital a/c Dr.

To Profit & Losses a/c

[In old profit sharing Ratio]

3. **For transferring Liabilities:**

Sundry Liabilities a/c Dr.

To Realization a/c

4. **For transferring Reserves :**

Reserves a/c Dr.

To Partners' Capital a/c [old ratio]

STEP II

1. **For recording Purchase consideration:**

New Firm a/c Dr.

To Realization a/c

2. **For Assets taken over by partner:**

Partners Capital a/c Dr.

To Realisation a/c

3. **For sale of Asset:**

Cash/Bank a/c Dr.

To Realisation a/c

4. **For liabilities taken over by partner:**

Realisation a/c Dr.

To. Partner Capital a/c

5. **For payment of liabilities not taken over:**

Realisation a/c Dr.

To Cash / Bank a/c

6. For realization expenses:

Realisation a/c Dr.

To Cash a/c, or,

To Partners Capital a/c [if, paid by the partner]

7. For asset taken over by creditor in settlement of liabilities:

No entry, as both accountants are already transferred to Realisation a/c. & their accounts are already closed.

8. For transferring profit on Realisation:

Realization a/c Dr.

To Partners Capital a/c [old p.s.r.]

9. For transferring loss on Realisation:

Partners Capital a/c [old p.s.r.] Dr.

To Realisation a/c

10. For transferring Partners Capital Bal:

Partners Capital A/c [individually] Dr.

To New Firm a/c

11. For final settlement:

Partners Capital a/c Dr.

To Cash a/c

After passing above entries new firms a/c is automatically closed and books of old. firm [amalgamating firm[are closed.

5.3.4 ACCOUNTING ENTRIES IN THE BOOKS OF THE NEW FIRM [AMALGAMATED FIRM]:

- **For recording various Assets & liabilities taken over,**

A. If net acquired assets is equal to purchase consideration.

[If it is calculated by the Net Asset method]

Sundry Assets a/c Dr.

To Liabilities a/c

To A Capital a/c

To B Capital a/c

To R.D.D.A/C [if any]

B. If net acquired assets is more than purchase consideration:

Sundry Assets a/c Dr.

To Liabilities a/c

To A Capital a/c

To B Capital a/c.

To R.D.D.A/C [if any]

To Capital Reserve a/c

C. If net acquired assets is less than the amount of purchase consideration: [P.C]

Sundry Assets a/c Dr.

Goodwill a/c Dr.*

To Liabilities a/c

To A Capital a/c

To B Capital a/c

To R.D.D. A/C [if any]

Note:

- In case p.c. is taken by lump sum method, GOODWILL OR CAPITAL RESERVE may be bal. fig.
- Partner's capital accounts shall be credited by the amounts transferred from old firm.

❖ Similar entry should be passed for recording various Assets & liabilities taken over from other firm.

- **Goodwill treatment**

For writing off Goodwill in new profit sharing ratio.

All Partners Capital A/c Dr.

(In New Profit Sharing Ratio)

To Goodwill a/c

(Total Goodwill)

- **For elimination inter firm debts**:

Before amalgamation one firm might have sold goods to another firm, which may have remained unpaid, e.g. A sold goods worth ₹ 25,000 on credit to B..IF A & B are amalgamated as AB & CO., sundry Debtors of A includes B ₹ 25,000 & sundry creditors of B includes A ₹ 25,000, after merger, AB & co. have to cancel / reduce / eliminate S. Debtors as well as S. Creditors by ₹ 25,000.

Sundry Creditors a/c/Loan a /c[taken] Dr.

To Sundry Debtors a/c/Loan a/c [given]

Capital Balance transferred from old firm may not be in their new P.S.R., Total Capital of the new firm may fixed & to be maintained for individual capital contribution of the partners working should be as under:

- **For Capital adjustment in new P.S.R.**

Partner	**A**	**B**	**C**	**D**
Capital bal. transferred from old firm	x	X	x	x
Less: Goodwill written off	[x]	[x]	[x]	[x]
Balance left	x	X	x	x
Fixed Capital in new P.S.R ………………	[x]	[x]	[x]	[x]
Surplus or [shortage] in capital to be adjusted	x	X	x	[x]

Entry:for transferring excess capital:	Partner's capital a/c	Dr
	To Partner's Current a/c / Cash a/c, or To Partner's Loan a/c	
Entry for adjusting shortage in capital:	Partner's Current a/c / Cash a/c / Partners Loan a/c	Dr.
	To Partner's Capital a/c	

- **Preparation of Balance Sheet of the New Firm:**

Add up all individual assets of both firms taken over by the new firm at agreed value, show on the Asset side of the Balance Sheet, R.D.D should be deducted from S. Debtors on assets side of the Balance Sheet.

Add up all individual liabilities of both firms taken over by the new firm at assumed value, show on the liability side of the Balance Sheet.

All the above figures should be taken from purchase consideration, after considering additional entries passed in the books of new firm.

5.4 SOLVED PROBLEMS

Illustrations : 1

A and B carrying on independent business and their position on 31.03.2013 is reflected in the Balance Sheet given below:

Liabilities	A ₹	B ₹	Assets	A ₹	B ₹
Sundry Creditors	2,20,000	94,000	Stock-in-trade	3,40,000	1,96,000
Outstanding Expenses	1,500	4,000	Sundry Debtors	1,78,000	74,000
Bills Payable	25,000	---	Cash	2,000	400
Capital	3,06,000	1,91,000	Bank	26,000	15.000
			Furniture	5,500	3.600
			Investments	1,000	---
	5,52,500	2,89,000		5,52,500	2,89,000

Both of them to form a partnership firm from 1.04.2013 in the style of AB & CO. on the following terms:

a] The capital of the partnership firm would be ₹ 4,80,000 and to be contributed by them in the ratio of 2:1.

b] The assets of individual business to be revalued as under:

Assets of A : Stock to be written - down by 15% doubtful debtors estimated ₹ 16,526 furniture to be revaluated at ₹4,000, market value of investments at ₹2,000.

Assets of B : Stock to be written - up by 10%, provision for doubtful debt required at ₹ 7,100, rest the assets are the be taken over at book-value.

c] The firm takes over only trade liabilities.

You are required to pass necessary Journal Entries in the books of A and B. also prepare the opening Balance Sheet of the firm as on 1.04.2013.

Solution:

In the books of A

Date	Particulars		L.F.	₹ Dr.	₹ Cr.
1.04.13	Realisation a/c	Dr.		5,51,000	
	To Stock a/c				3,40,000
	To Sundry Debtors a/c				1,78,000
	To Cash a/c				500
	To Bank a/c				26,000
	To Furniture a/c				5,500
	To investment a/c				1,000
	[being transfer of assets at book value]				
	Creditors	Dr.		2,20,000	
	Outstanding Expenses a/c	Dr.		1,500	
	Bills Payable a/c	Dr.		25,000	
	Realisation a/c				2,46,500
	[being transfer of liabilities at book value]				
	Realisation a/c	Dr.		1,500	
	To Cash				1,500
	[being outstanding expenses paid]				
	AB & Co. a/c	Dr.		2,37,974	
	To Realisation a/c				2,37,974
	[being Purchase consideration due]				
	A's capital a/c	Dr.		68,026	
	To Realisation a/c				68,026
	[being realization loss transferred to Capital a/c]				
	A's capital a/c	Dr.		2,37,974	
	To AB & Co. a/c				2,37,974
	[being balance in capital a/c transferred to close the books on account]				

In the books of B

Date	Particulars		L.F.	Amount	Amount
1.04.13	Realisation a/c	Dr.		2,85,000	
	To Stock a/c				1,96,000
	To Sundry Debtors a/c				74,000
	To Cash a/c				400
	To Bank a/c				11,000
	To Furniture a/c				3,600
	[being transfer of assets at book value]				
	Realisation a/c	Dr.		4,000	
	To Bank a/c				
	[being outstanding expenses paid]				4,000
	Creditors	Dr.		94,000	
	Outstanding Expenses a/c	Dr.		4,000	
	To Realisation a/c				98,000
	[being transfer of liabilities at book value]				
	AB & Co. a/c	Dr.		2,03,500	
	To Realisation a/c				2,03,500
	[being Purchase consideration due]				
	B's capital a/c	Dr.		12,500	12,500
	To Realisation a/c				
	[being realization loss transferred to Capital a/c]				
	A's capital a/c	Dr.		2,03,500	
	To AB & Co. a/c				2,03,500
	[being balance in capital a/c transferred to close the books of account]				

Balance Sheet of AB & Co. as on April, 1st 2013.

Liabilities	₹	₹	Assets	₹	₹
Partners Capital			Furniture		7,600
A	3,20,000		Investment		2,000
B	1,60,000	4,80,000	Stock		5,04,600
Sundry Creditors		3,14,000	Sundry Debtors	2,52,000	
Bills Payable		25,000	RDD	(23,626)	2,28,374
			Bank		37,000
			Cash	90	
			brought in by A	82,026	
				82,926	
			Less: Paid to B	(43,500)	39,426
		8,19,000			8,19,000

Calculation of purchase consideration :

Particulars	A ₹	B ₹	Total ₹
A) Assets taken over.			
Furniture	4,000	3,600	7,600
Investments	2,000	-	2,000
Stock	2,89,000	2,15,600	5,04,600
Sundry debtors	1,78,000	74,000	2,52,000
Bank	26,000	11,000	37,000
Cash	500	400	900
A	4,99,500	3,04,600	8,04,100
B Less: Liabilities assumed			
Sundry Creditors	2,20,000	94,000	3,14,000
Bills Payable	25,000	-	25,000
R.D.D	16,526	7,100	23,626
B	2,61,526	1,01,100	3,62,626
Net Assets taken over by the AB & Co Purchase consideration (A-B)	2,37,974	2,03,500	4,41,474

	A	B
Fixed Capital as per agreement ₹	3,20,000	1,60,000
Less : Capital balance transferred ₹	(2,37,974)	(2,03,500)
Cash to be introduced + / withdrawn [-]	82,026	(43,500)

Illustration 2

Two partnership firm, carrying on business under the style of Anand & Co. [partners N & C] and Ashok & Co. [partners K & P] respectively, decided to amalgamate into 2 A & Co. with effect from 01st April 2014. the respective Balance Sheet of the both the firms as on 31st March 2014 are a below:

Liabilities	**Anand & Co ₹**	**Ashok & Co ₹**	**Assets**	**Anand & Co ₹**	**Ashok & Co ₹**
Capital : C	1,90,000		Goodwill		50,000
K		1,00,000	Land & Building	1,00,000	-
P		20,000	Stock	2,00,000	50,000
Bank Loan	1,50,000		Sundry Debtors	1,00,000	1,00,000
Creditors	1,00,000	95,000	Cash in hand	-	15,000
			Capital N	40,000	
Total ₹	4,40,000	2,15,000	Total ₹	4,40,000	2,15,000

Profit sharing ratio are N & C = 1 :2, K & P = 1 : 1. Agreed terms are :

A) Land & Building to be devalued by 20%.

B) All stocks are to be appreciated by 50%.

C) Anand & Co owes ₹50,000 to AK & Co. as on 31st March 2014. This is settled at ₹ 20,000.

D) Goodwill to ignored for the purpose of amalgamation.

E) The fixed capitals in the new firm 2A & co. are to be N ₹ 20,000, C ₹ 30,000, K ₹10,000 & P ₹ 40,000.

F) C take over the Bank loan of Anand & Co., & gifted to N the amount of money to be brought in by N to make up his capital contribution.

G) K is paid off in cash from AK & Co. P bring in sufficient cash to make up his required capital contribution. Pass necessary Journal entries to close the books of both firms.

Give Balance Sheet of 2A & Co, as on 01st April, 2014.

Solution:

In the book of Anand & Co.

Date	Particulars		L.F.	Dr. ₹	Cr. ₹
31.03.14	Realisation a/c			4,00,000	
	To land & Building a/c				1,00,000
	To stock a/c				2,00,000
	To Sundry Debtors a/c				1,00,000
	[being various assets transferred at book value]				
	Sundry Creditors a/c			1,00,000	
	Bank Loan a/c			1,50,000	
	To Realisation a/c				2,50,000
	[being various liabilities transferred at book value]				
	2A & co. a/c			4,10,000	
	To Realisation a/c				4,10,000
	[being purchase consideration due]				
	Realisation a/c	Dr.		1,50,000	
	To C's Capital a/c				1,50,000
	[being Bank loan taken over by C]				
	Realisation a/c	Dr.		1,10,000	
	To N's capital a/c				36,667
	To C's Capital a/c				73,333
	[profit on realization transferred to partner's capital]				
	C's capital a/c.	Dr.		23,333	
	To N's capital a/c				23,333
	[being Deficit in N's capital gifted by C]				
	N's capital a/c	Dr.		20,000	
	C's capital a/c			3,90,000	
	To 2A & co.				4,10,000
	[balanced in capital accounts of the partners transferred to 2A & Co.]				

In the Books of Ashok & Co.

Date	Particulars	L.F.	Dr.	Cr.
31.03.14	Realisation a/c		2,00,000	
	To Goodwill a/c			50,000
	To stock a/c			50,000
	To Sundry Debtors a/c			1,00,000
	[being various assets transferred at book value]			
	Sundry Creditors a/c		95,000	
	To Realisation a/c			95,000
	[being creditors transferred at book value]			
	2A & co. a/c		50,000	
	To Realisation a/c			50,000
	[being purchase consideration due]			
	K's capital a/c		27,500	
	P's capital a/c		27,500	
	To Realisation a/c			55,000
	[being loss on realization transferred to partners equally]			
	Bank a/c		47,500	
	To P's capital a/c			47,500
	[being necessary amount brought in by P to make up his required capital contribution]			
	K's capital a/c.		62,500	
	To Bank a/c			62,500
	[Being excess capital refunded]			
	K's capital a/c		10,000	
	P's capital a/c		40,000	
	To 2A & co.			50,000
	[balance in capital accounts of the partners transferred to 2A & Co.]			

Calculation of Purchase Consideration

Assets Taken Over	Anand & Co. ₹	AK & Co. ₹	Total ₹,
Land & Building	80,000	---	80,000
Stock	3,00,000	75,000	3,75,000
Sundry Debtors	1,00,000	70,000	1,70,000
(A)	4,80,000	1,45,000	6,25,000
Liabilities taken over			
Sundry Creditors **(B)**	70,000	95,000	1,65,000
Purchase Consideration **[A-B]**	4,10,000	50,000	4,60,000

Balance Sheet of 2A & Co. 1 April 2014

Liabilities	₹	Assets	₹
Partner's Capital :		Land & Building	80,000
N 20,000		Stock	3,75,000
C 30,000		Sundry Debtors	
K 10,000		[1,70,000-20,000]	1,50,000
P 40,000	1,00,000		
Sundry Creditors 1,65,000			
Less : Inter-co.			
Owing 20,000	1,45,000		
C's Loan	3,60,000		
Total `	6,05,000	Total ₹	6,05,000

After adjustment of reduction in inter company owing by ₹30,000.

C's capital balance transferred 3,90,000 however bal. required was 30,000. Hence excess capital transferred to c's loan a/c [3,90,000 30,000].

Sundry creditors A/c Dr. 20,000

To Sundry Debtors A/c 20,000

Inter firm owing eliminated in the books to firm Z A & Co., as both firms are magead into one.

Illustrations : 3

A and B and C and D are Partner's in A & Co and C & Co. respectively. A & B are sharing in the ratio 3,2 and C & D are sharing in equal proportion. Their balance sheets as on 31st December 2014 were as under.

Balance Sheet of A & Co as on 31st December, 2014.

Liabilities	₹	Assets	₹
Capital Accounts		Machinery	60,000
A	75,000	Furniture	5,000
B	50,000	Stock	50,000
Reserves	40,000	Debtors	75,000
Loan from UTI	20,000	Bank	7,000
Bank			
Creditors	15,000	Cash	3,000
Total ₹	2,00,000	Total ₹	2,00,000

Balance Sheet of C.D & Co. on 31st December 2014

Liabilities	₹	Assets	₹
Capital Accounts		Goodwill	25,000
C	60,000	Furniture	5,000
D	55,000	Stock	70,000
Reserves	25,000	Debtors	45,000
Loan from IDBI	10,000	Bank	3,000
		Cash	2,000
Total ₹	1,50,000	Total ₹	1,50,000

They decided to amalgamate and form a new firm ABCD & Co. on 1st January 2015.

Terms of amalgamation :

1) The new firm shall take over all the assets and liabilities of both the firms.

2) Provision for doubtful debts shall be made at 5% on debtors.

3) Goodwill is to be valued at 2 years purchase of the last 4 years average profits.

4. The profits of the firms are.

Year	A & Co. ₹	C & Co. ₹
2011	30,000	20,000
2012	45,000	30,000
2013	35,000	40,000
2014	54,000	30,000

5. Machinery of A & Co. is undervalued by ₹ 15,000. This value is now to be adjusted property.

   You are required to give :

1) Ledger Accounts in the books of both the firms.

2) Balance Sheet of ABCD & Co.

Solution :

In the books of A & Co.

Realisation A/c

Dr. **Cr.**

Particulars	₹	₹	Particulars	₹	₹
To Machinery		60,000	By Creditors		15,000
To Furniture		5,000	By UTI Loan		20,000
To Stock		50,000	By ABCD & Co		2,58,250
To Debtors		75,000			
To Bank		7,000			
To Cash		3,000			
To Profit on					
Realisation					
Transferred to					
A	55,950				
B	37,300	93,250			
Total `		2,93,250	Total `		2,93,250

Partner's Capital A/c

Dr. **Cr.**

Particulars	A	B	Particulars	A	B
To ABCD & Co.	1,54,950	1,03,300	By Balance b/d	75,000	50,000
			By Reserve	24,000	16,000
			By Realisation Profit	55,950	37,300
	1,54,950	1,03,300		1,54,950	1,03,300

ABCD & Co. A/c

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Realisation A/c	2,58,250	By Partner's Capital A/c A	1,54,950
		B	1,03,300
	2,58,250		2,58,250

In the Books of C & Co.

Realisation A/c.

Dr. **Cr.**

Particulars	₹	₹	Particulars	₹	₹
To Goodwill		25,000	By IDBI Loan		10,000
To Furniture		5,000	By ABCD & Co.		1,72,750
To Stock		70,000			
To Debtors		45,000			
To Bank		3,000			
To Cash		2,000			
To Profit on Realisation transferred to					
C	16,375				
D	16,375	32,750			
Total ₹		1,82,750	Total ₹		1,82,750

Partner's Capital A/c.

Dr. **Cr.**

Particulars	₹	₹	Particulars	₹	₹
To ABCD & Co.	88,875	83,875	By Balance b/d	60,000	55,000
			By Reserves	12,500	12,500
			By Realisation	16,375	16,375
	88,875	83,875		88,875	83,875

ABCD & Co. A/c.

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Realisation A/c	1,72,750	By Partner's Capital	88,875
		C	
		D	83,875
	1,72,750		1,72,750

Balance Sheet of ABCD & Co. as on 1st Jan. 2015

Particulars	₹	₹	Assets	₹	₹
Capital A/c's			Goodwill		1,42,000
A	1,54,950		Furniture		10,000
B	1,03,300		Machinery		75,000
C	88,875		Stock		1,20,000
d	83,875	4,31,000	Debtors	75,000	
Creditors		15,000		45,000	
Uti Bank Loan		20,000		1,20,000	
IDBI Loan		10,000	Less : RDD	6,000	1,14,000
			Bank		10,000
			Cash		5,000
Total ₹		4,76,000	Total ₹		4,76,000

Working Notes :

a) Goodwill Valuation Average Profit Method.

Year	A & Co	C & Co
2010	30,000	20,000
2011	45,000	30,000
2012	35,000	40,000
2013	54,000	30,000
	1,64,000	1,20,000

∴ Average Profit = 1.64,000 / 4   1,20,000 / 4

= 41,000   = 30,000

Goodwill = 2 year purchase of Average profit

= 41,000 x 2   = 30,000 x 2

= 82,000   = 60,000

Working Note Number : 2

Purchase Consideration :

Particulars	**A & Co. ₹**	**C & Co. ₹**	**Total ₹,**
Assets taken over at agreed values			
Goodwill	82,000	60,000	1,42,000
Machinery	75,000	-	75,000
Furniture	5,000	5,000	10,000
Stock	50,000	70,000	1,20,000
Debtors	75,000	45,000	1,20,000
Bank	7,000	3,000	10,000
Cash	3,000	2,000	5,000
A	2,97,000	1,85,000	4,82,000
Less : Liabilities taken over at agreed values			
UTI Bank Loan	20,000	-	20,000
IDBI Bank Loan	-	10,000	10,000
Creditors	15,000	-	15,000
RDD 5%	3,750	2,250	6,000
B	38,750	12,250	51,000
Purchase Consideration(A-B) ₹	2,58,250	1,72,750	4,31,000

Total columns is useful for preparing Balance Sheet of the new firm.

Illustration : 4.

Two independent firms of Partner's ship carrying on business under the name and style of XY and sons and AB Associates agreed to amalgamate their business in to one firm from 31st December, 2013 XY & Sons had two Partner's X and Y whereas AB & Associates has two Partner's A and B The partner's shared the profits and losses in ratio of their capitals. Their balance sheets as on 31st December, 2013 were as under.

XY & Sons

Liabilities	**₹**	**Assets**	**₹**
Capital A/c's		Furniture	5,600
X	56,000	Building	56,000
Y	28,000	Stock	28,560
Creditors	20,000	Debtors	21,000
Bills Payable	8,000	Bank	7,840
Mortgage Loan	7,000		
Total ₹	1,19,000	Total ₹	1,19,000

AB & Associates

Liabilities	**₹**	**Assets**	**₹**
Capital A/c's		Furniture	7,000
A	33,600	Stock	25,620
B	22,400	Debtors	28,000
Creditors	28,000	Investments	21,000
Bills Payable	7,000	Bank	9,380
Total ₹	91,000	Total ₹	91,000

Terms of amalgamations were as under:-

a) The new firm shall carry on business under the name and style AXBY & Associates

b) Mortgage Loan of XY and Sons and investments of AB & Associates shall not be taken over by the new firm.

c) Goodwill of XY & Sons was valued at ₹ 10,200/- and that of AB & Associates at ₹ 12,000/-.

d) Building of XY and sons was taken as undervalued by ₹ 14,000/-.

e) Stock of XY and Sons to be depreciated by ₹ 5,600/- and that of AB and Associates to be appreciated of ₹ 2,800/-.

f) 5% may be provided as Bad Debts Reserve of both the firms.

g) The capital of the new firm shall be ₹ 1,12,000/- which will be contributed by each partner in the profit sharing ratio i.e. x-3, Y-2, A-3, B-2 to be adjusted through current accounts.

You are required to close the books of both the firms by means of journal entries and also give necessary journal entries in the books of new firm. Also prepare the balance sheet of the new firm after the amalgamation.

Solution

Journal entries in the books of XY & Sons.

Sr.	Particulars		Dr. ₹	Cr. ₹
1.	Relisation A/c.	Dr.	1,11,560	
	To Furniture			5,600
	To Building			56,000
	To Stock			28,560
	To Debtors			
	(Being Sundry Assets transferred at Book Value)			21.000
2.	Creditors A/c.	Dr.	20,000	
	Bills Payable A/c.	Dr.	8,000	
	To Realisation A/c			28,000
	(Being sundry liabilities transferred at Book Value)			
3.	Mortgage Loan A/c.	Dr.	7,000	
	To Bank A/c.			7,000
	(Being Mortgage Loan repaid)			
4.	Realisation A/c.	Dr.	840	
	To Bank A/c			840
	(Being remaining bank balance transferred to Realisation)			

5.	New Firm A/c.	Dr.	1,01,550	
	To Realisation A/c.			1,01,550
	(Being sale of business recorded)			
6.	Realisation A/c.	Dr.	17,550	
	To X's Capital A/c			11,700
	To Y's Capital A/c			5,850
	(Being profit on Realisation transferred to Partner's capital in profit sharing ratio.)			
7.	X's Capital A/c.	Dr.	67,700	
	Y's Capital A/c.	Dr.	33,850	
	To New Firm A/c			1,01,550
	(Being Capital Accounts of both the Partner's transferred to new firm account)			

Dr. **Realisation A/c.** **Cr.**

Particulars	**₹**	**Particulars**	**₹**
To Furniture	5,600	By Creditors	20,000
To Building	56,000	By Bills Payable	8,000
To Stock	28,560	By AX By A/c	1,01,550
To Debtors	21,000		
To Bank	840		
To Profit Transferred to porter's capital			
X : 11,700			
Y : 5,850	17,550		
Total ₹	1,29,550	**Total ₹**	1,29,550

Dr. **AXBY A/c.** **Cr.**

Particulars	₹	Particulars	₹
To Realisation	1,01,550	By X Capital	67,700
		By Y Capital	33,850
	1,01,550		1,01,550

Dr. **Partner's Capital A.c.** **Cr.**

Particulars	X	Y	Particulars	X	Y
To AXB y.s A/c	67,700	33,850	By Balance B/d	56,000	28,000
			By Realisation A/c	11,700	5,850
	67,700	33,850		67,700	33,850

Journal Entries in the books of AB & Associates.

Sr.	Particulars		Dr. ₹	Cr. ₹
1.	Realisation A/c.	Dr.	91,000	
	To Furniture			7,000
	To Stock			25,620
	To Debtors			28,000
	To Investment			21,000
	To Bank			9,380
	(Being Sundry assets transferred to Realisation)			
2.	Creditors A/c.	Dr.	28,000	
	Bills Payable A/c.	Dr.	7,000	
	To Realisation A/c			35,000
	(Being sundry liabilities transferred to Realisation)			

3.	New Firm A/c.	Dr.	48,400	
	To Realisation A/c			48,400
	(Being sale of business recorded)			
4.	A's Capital A/c	Dr.	12,600	
	B's Capital A/c	Dr.	8,400	
	To Realisation A/c			21,000
	(Being investments distributed amongst Partner's			
5.	Realisation A/c	Dr.	13,400	
	To A's Capital			8,040
	To B's Capital			5,360
	(Being profit on Realisation transferred to Partner's capital.)			
6.	A's Capital A/c	Dr.	29,040	
	B's Capital A/c	Dr.	19,360	
	To New Firm A/c			48,400
	(Being A & B's Capital transferred to new firm)			

Dr. **Realisation A/c** **Cr.**

Particulars	₹	Particulars	₹
To Furniture	7,000	By Creditors	28,000
To Stock	25,620	By Bills Payable	7,000
To Debtors	28,000	By New Firm	48,400
To Investments	21,000	By Partner's Capital	21,000
To Bank	9,380		
To Profit transferred			
To Capital A/c			
A 8,040			
B 5,360	13,400		
Total ₹	1,04,400	Total ₹	1,04,400

Dr. **Partner's Capital A/c** **Cr.**

Particulars	A	B	Particulars	A	B
To Realisation	12,600	8,400	By Balance b/d	33,600	22,400
To New Firm	29,040	19,360	By Realisation	8,040	5,360
	41,640	27,760		41,640	27,760

Dr. **A X B Y is A/c** **Cr.**

Particulars	₹	Particulars	₹
To Realisation	48,400	By Partner's Capital	
		A	29,040
		B	19,360
Total ₹	48,400	Total ₹	48,400

In the books of AXBY (New Firm)

Journal Entries :

Sr.	Particulars		Debit. `	Credit. `
1.	Furniture A/c	Dr.	5,600	
	Building A/c	Dr.	70,000	
	Stock A/c.	Dr.	22,960	
	Debtors A/c	Dr.	21,000	
	Bank A/c.	Dr.	840	
	Goodwill A/c	Dr.	10,200	
	To Creditors A/c			20,000
	To Bills Payable A/c			8,000
	To RDD A/c			1,050
	To X's Capital A/c			67,700
	To Y's Capital A/c			33,850
	(Being assets and liabilities of XY & Sons taken over)			
2.	Furniture A/c.	Dr.	7,000	
	Stock A/c.	Dr.	28,420	
	Debtors A/c.	Dr.	28,000	
	Bank A/c.	Dr.	9,380	
	Goodwill A/c.	Dr.	12,000	

	To Creditors A/c			28,000
	To Bills Payable A/c			7,000
	To RDD A/c			1,400
	To A's capital A/c			29,040
	To B's capital A/c			19,360
	(Being assets and liabilities of AB & Associates taken over)			
3.	X Capital A/c.	Dr.	6,660	
	Y Capital A/c.	Dr.	4,440	
	A Capital A/c.	Dr.	6,660	
	B Capital A/c.	Dr.	4,440	
	To Goodwill A/c.			22,200
	(Being Goodwill written of in new P.S.R.)			
4.	X Capital A/c.	Dr.	27,440	
	Y Capital A/c.	Dr.	7,010	
	To X Current A/c			27,440
	To Y Current A/c			7,010
	(Being excess in capital account of X & Y transferred to current account)			
5.	A's Current A/c.	Dr.	11,220	
	B's Current A/c.	Dr.	7,480	
	To A's Capital A/c			11,220
	To B's Capital A/c			7,480
	(Being deficit of capital account adjusted through current account.)			

Partner's Capital A/c

Particulars	X	Y	A	B	Particulars	X	Y	A	B
To Goodwill	6,660	4,440	6,660	4,440	By Old Firm	67,700	33,850	29,040	19,360
To Current A/c	27,440	7,010	-	-	By Current A/c	-	-	11,220	7,480
To Balance C/d	33,600	22,400	33,600	22,400					
Total	67,700	33,850	40,260	26,840		67,700	33,850	40,260	26,840

Balance Sheet of AXBY & Co as on 1st January, 2014

Liabilities	₹	Assets	₹
Capital A/c's		Furniture	12,600
X 33,600		Building	70,000
Y 22,400		Stock	51,380
A 33,600		Debtors 49,000	
B 22,400	1,12,000	Less:Rdd (2,450)	46,550
Creditors	48,000	Bank	10,220
Bills Payable	15,000	Current A/c's	
Current A/c			
X 27,440		A 11,220	
Y 7,010	34,450	B 7,480	18,700
Total ₹	2,09,450	Total ₹	2,09,450

Working Notes

Purchase Consideration:

Particulars	XY & Sons	AB & Associates
Assets taken over at agreed values		
Furniture	5,600	7,000
Building	70,000	-
Stock	22,960	28,420
Debtors	21,000	28,000
Bank	840	9,380
Goodwill	10,200	12,000
Total A	1,30,600	84,800
Less: Liabilities taken over at agreed values		
Creditors	20,000	28,000
Bills Payable	8,000	7,000
RDD	1,050	1,400
B	29,050	36,400
Purchase Consideration: (A - B)	1,01,550	48,400

Illustration : 5

R & Y were partners in O & Co. decided to amalgamate with I & Co, where D & K, partner : New firm called as AK & Co.

As on 31st December 2013 the balance sheets of the firms were as follows.

O & Co.

Liabilities	₹	Assets	₹
Capital A/c's		Freehold Property	74,000
R	1,53,000	Furniture & Fixtures	18,000
Y	1,10,000	Motor Vehicles	30,000
Creditors	52,000	Stocks	83,000
		Investments	8,000
		Debtors	68,000
		Bank Balance	34,000
Total	3,15,000	Total	3,15,000

I & Co.

Liabilities	₹	Assets	₹
Capital A/c's		Property	1,00,000
D	1,13,000	Furniture & Fixture	14,000
K	74,000	Vehicles	18,000
Creditors	60,000	Stock	66,000
Bank Overdraft	9,000	Debtors	58,000
Total	2,56,000	Total	2,56,000

The terms and conditions of amalgamation were as follows.

A. Provision for doubtful debts @ 5% to be made in respect of debtors and a provision for discount receivable @ 2.5 % to be made in respect of creditors.

B. A. K. & Co. to take over the old Partner ship assets @ following values.

	O & Co. ₹	Id Co. ₹
Stock	84,500	63,900
Motor Vehicles	28,000	13,000
Furniture & fixtures	16,000	-
Property	1,00,000	-
Goodwill	63,000	45,000

C. The property and fixtures of I & Co. not to be taken over by AK & Co. (these assets were sold for ₹ 1,35,000 cash on 1st January, 2013)

D. Y to take over her firm's investments at a valuation of ₹ 7,600.

E. The capital of AK & Co. to be ₹ 5,40,000 and to be contributed by the Partner's in profit sharing rations 6:5 : 4:3 any adjustment to be made in cash.

F. R. Y were sharing in 4:3, D K were sharing in 3:2 ratio.

You are required to give ledger accounts closing the books of old Partner ship firms and also prepare the balance sheet of AK & Co.

Solution:

In the books of O & Co.

Dr. Realisation A/c Cr.

To Property		74,000	By Creditors	52,000
To Fixtures		18,000	By New Co	3,05,400
To Vehicles		30,000	By Capital	7,600
To Stock		83,000		
To Investments		8,000		
To Debtors		68,000		
To Profit transferred to				
R Capital A/c	48,000			
Y Capital A/c	36,000	84,000		
		3,65,000		3,65,000

Dr. Partner's Capital A/c Cr.

Particulars	R	Y	Particulars	R	Y
To Realisation A/c		7,600	By balance B/d	1,53,000	1,10,000
To Cash A/c	19,430	14,570	By Realisation A/c	48,000	36,000
To A.K. & Co	1,81,570	1,23,830			
	2,01,000	1,46,000		2,01,000	1,46,000

Dr. A.K & Co. A/c Cr.

To Realisation A/c	3,05,400	By Partner's Capital	
		R	1,81,570
		Y	1,23,830
	3,05,400		3,05,400

In the books of I & Co.

Dr. Realisation A/c Cr.

To Property A/c	1,00,000	By Creditors A/c	60,000
To Fixtures A/c	14,000	By AK & Co.	1,18,500
To Vehicles	18,000	By Cash	1,35,000
To Stocks	66,000		
To Debtors	58,000		
To Profit transferred to			
D 34,500			
K 23,000	57,500		
	3,13,500		3,13,500

Dr. Partner's Capital A/c Cr.

Particulars	D	K	Particulars	D	K
To Cash	75,600	50,400	By balance B/d	1,13,000	74,000
To AK & Co.	71,900	46,600	By Realisation	34,500	23,000
	1,47,500	97,000		1,47,500	97,000

Dr. AK & Co. Cr.

To Realisation A/c	1,18,500	By Partner's Capital	
		D	71,900
		K	46,600
	1,18,500		1,18,500

Dr. Cash A/c Cr.

To Realisation A/c	1,35,000	By Balance B/d	9,000
		By D Capital A/c	75,600
		By K Capital A/c	50,400
	1,35,000		1,35,000

In the books of AK & Co.

Dr. Cash A/c Cr.

To Y Capital A/c	26,170	By R Capital A/c	1,570
To D Capital A/c	48,100	By Balance C/d	1,16,100
To K Capital A/c	43,400		
	1,17,670		1,17,670

Dr. Partner' Capital A/c Cr.

Particulars	R	Y	D	K	Particulars	R	Y	D	K
To Cash	1,570	-	-	-	By Old Firm	1,81,570	1,23,830	71,900	46,600
To Balance C/d	1,80,000	1,50,000	1,20,000	90,000	By Cash		26,170	48,100	43,400
Total	1,81,570	1,50,000	1,20,000	90,000		1,81,570	1,50,000	1,20,000	90,000

Balance Sheet of AK & Co.

As On 1st January 2014

Liabilities	₹	₹	Assets	₹	₹
Capital A/c's			Stock		1,48,400
R	1,80,000		Vehicles		41,000
Y	1,50,000		Fixtures		16,000
D	1,20,000		Property		1,00,000
K	90,000	5,40,000	Goodwill		1,08,000
Creditors	1,12,000		Debtors	1,26,000	
Less:Prov	2,800	1,09,200	Less:R.D.D	(6,300)	1,19,700
			Cash		1,16,100
Total ₹		6,49,200	Total ₹		6,49,200

Working Notes

1. Purchase Consideration

Particulars	O & Co.	I & Co	Total
Assets taken over at agreed values Stock	84,500	63,900	1,48,400
Vehicles	28,000	13,000	41,000
Fixtures	16,000	-	16,000
Property	1,00,000	-	1,00,000
Goodwill	63,000	45,000	1,08,000
Debtors	68,000	58,000	1,26,000
Prov. For discount on creditors	1,300	1,500	2,800
	3,60,800	1,81,400	5,42,200
Less: Liabilities taken over at agreed values			
Creditors	52,000	60,000	1,12,000
Reserve for Doubtful Debts	3,400	2,900	6,300
Purchase Consideration	3,05,400	1,18,500	4,23,400

Illustration : 6

Amin & Naman were in business on their own account as business. They decided to amalgamate as on 31st December 2013, the new business to be known as Navamin and associates. Them balance sheets as on that date were as follows:

Amin & Co.

Liabilities	₹	Assets	₹
Amin's Capital	22,000	Freehold Premises	37,000
Sundry Creditors	10,000	Plant	4,000
Bank overdraft	11,000	Stock	1,000
		Debtors	1,000
Total	43,000	Total	43,000

Naman & Co.

Liabilities	₹	Assets	₹
Naman's Capital	12,000	Leasehold Premises	15,000
		Debtors	4,000
		Bank	2,500
Trade Creditors	15,000	Plant	5,000
		Stock	500
Total	27,000	Total	27,000

The terms and conditions of a amalgamation were as follows:

A) Profits and losses to be shared in the ratio 2:3.

B) Goodwill to be valued at one year's purchase of average profits of previous three years profits.

C) Goodwill to be written off immediately.

D) Freehold property of Amin is not taken over by the firm, which is sold by him for ₹32,000 on 1.01.2014 and the proceedsere deposited in the firm's bank account.

E) Certain assets to be revalued as follows.

	Amin & Co ₹	Naman & Co ₹
Leasehold premises	-	20,000
Debtors	-	3,000
Plant	5,000	-

The profits & losses of the two businesses for the past three years were as following.

Year	Amin & Co	Naman & Co
2011	Loss (2,000)	10,000
2012	21,000	15,000
2013	14,600	17,000

You are required to prepare:

1. Ledger accounts to close the books of both Amin & Co and Naman & Co.
2. Balance Sheet of the new firin as on 31st December 2013.

Solution

In The Books of Amin & Co.

Dr. **Realisation Account** **Cr.**

Particulars	₹	Particulars	₹
To Freehold premises	37,000	By Creditors	10,000
To Plant	4,000	By Bank overdraft	11,000
To Stock	1,000	By Navamin of Ass.	29,200
To Debtors	1,000	By Bank (Sale of freehold premises)	32,000
To bank	32,000		
To Profit transferred	7,200		
To Amins cap. a/c			
	82,200		82,200

Dr. Amin's Capital A/c. Cr.

To New Firm A/c.	29,200	By Balance b/d	22,000
		By Realisation A/c	7,200
	29,200		29,200

Dr. Bank A/c. Cr.

To Realisation	32,000	By Realisation	32,000
	32,000		32,000

Dr. Navamin & Associates Cr.

To Realisation	29,200	By Amin's Capital A/c	29,200
	29,200		29,200

In the Books of Naman & Co.

Dr. Realisation A/c Cr.

To Leasehold premises	15,000	By Creditors	15,000
To Plant	5,000	By Navamin & Associates A/c	30,000
To Stock	500		
To Debtors	4,000		
To Bank	2,500		
To Profit transferred to Naman's Capital A/c	18,000		
	45,000		45,000

Dr. Naman's Capital A/c Cr.

To New firm A/c	30,000	By Balance B/d	12,000
		By Realisation A/c	18,000
	30,000		30,000

Dr. Navamin & Associates A/c Cr.

To Realisation A/c	30,000	By Naman's Capital A/c	30,000
	30,000		30,000

Balance Sheet of Navamin & Associates A/c as on 01st January 2014

Liabilities	₹	Assets	₹
Capital A/c's		Leasehold Premises	20,000
Amin 29,200		Plant	10,000
Less Goodwill (10,080)		Stock	1,500
	19,120	Debtors	4,000
Naman 30,000		Bank	34,500
Less Goodwill (15,120)			
	14,880		
Creditors	25,000		
Bank overdraft	11,000		
Total ₹	70,000	Total ₹	70,000

Working notes:

I. Goodwill valuation

YEAR	AMIN & CO. ₹	NAMAN & CO ₹
2011	(2,000)	10,000
2012	21,000	15,000
2013	14,600	17,000
Total Profit	33,600	42,000
Average Profit =	33,600 / 3 = 11,200	42,000 / 3 = 14,000

II. Purchase consideration

Assets taken over at agreed values	AMIN & CO. ₹	NAMAN & CO ₹	Total
Goodwill	11,200	14,000	25,200
Leashold premises	-	20,000	20,000
Plant	5,000	5,000	10,000
Stock	1,000	500	1,500
Debtors	1,000	3,000	4,000
Bank	32,000	2,500	34,500
A	50,200	45,000	95,200
Liabilities Taken over at agreed values			
Creditors	10,000	15,000	25,000
Bank overdraft	11,000	-	11,000
B	21,000	15,000	36,000
Purchase Consideration (A - B)	29,200	30,000	59,200

Illustration : 7

Mr. Bill and Mr. Will are partners in BW & Co. In a similar type of business Mr. Mill & Mr. Gill are partners in MG & Co. It was agreed that on 1st April, 2013 the old firms be amalgamated into one new firm BMW Group.

The respective Balance Sheets of the Old firms as on 31st March, 2013 were as follows:

Liabilities	BW & CO. ₹	MG & CO. ₹	Assets	BW & CO. ₹	MG & CO. ₹
Capitals			Land and Building	29,600	40,000
- Bill	61,200	-	Furniture	7,200	5,600
- Will	44,000	-	Vehicles	12,000	7,200
- Mill	-	45,200	Stock	33,200	26,400
- Gill	-	29,600	Investments	3,200	-
Creditors	20,800	24,000	Debtors	27,200	23,200
Bank Overdraft	-	3,600	Bank	13,600	-
	1,26,000	1,02,400		1,26,000	1,02,400

Profit Sharing Ratio :

	Bill	**Will**	**Mill**	**Gill**
Old Firms	4	3	3	2
New Firm	6	5	4	3

Terms and Conditions of amalgamation:

1) Provision for doubtful debts @ 5% to be made on Debtors.

2) Rebate on the liabilities of creditors to be provided @ 2%.

3) New Firm to take over the assets of old firms as under:

Assets		**BW & CO. ₹**	**MG & CO. ₹**
Stock	... ...	33,800	25,560
Vehicles	... ...	11,200	5,200
Furniture	... ...	6,400	-
Land & Building	... ...	40,000	-
Goodwill	... ...	25,200	18,000

4) Furniture and Land & Building not taken over by New Firm were sold for ₹ 54,000 on 1st April, 2013 by MG & Co.

5) Mr. Bill to take over investments for ₹ 3,040.

6) The Capitals of the Partners in the New Firm were to be ₹ 2,16,000 to be contributed in profit sharing ratio; any adjustment to be made in cash.

You are required to close the books of the Old Firms and prepare the Opening Balance Sheet of the New Firm. **(IDE, Oct. 2003, adapted)**

Solution:

Calculation of Purchase Consideration

Particulars		**BW & CO. ₹**	**MG & CO. ₹**	**Total ₹**
Assets taken over:				
Land & Building	… … … …	40,000	-	40,000
Furniture	… … … …	6,400	-	6,400
Vehicles	… … … …	11,200	5,200	16,400
Stock	… … … …	33,800	25,560	59.360
Goodwill	… … … …	25,200	18,000	43,200
Debtors	… … … …	27,200	23,200	50,400
Bank	… … … …	13,600	-	13,600
Rebate on Creditors	… … … …	416	480	896
	(A)	1,57,816	72,440	
Less : Liabilities taken over Creditors	… … … …	20,800	24,000	44,000
Bank Overdraft	… … … …	-	3,600	3,600
R.D.D.		1,360	1,160	2,520
	(B)	22,160	28,760	
Purchases Consideration (=Capitals tfd.)	**(A) - (B)**	1,35,656	43,680	

IN THE BOOKS OF BW & CO.

Dr. Realisation Account Cr.

Particulars	₹	Particulars	₹
To Land & Building	29,600	By Creditors	20,800
To Furniture	7,200	By BMW Group A/c (P.C)	1,35,656
To Vehicles	12,000	By Bill's Capital (Investments)	3,040
To Stock	33,200		
To Investments	3,200		
To Debtors	27,200		
To Bank	13,600		
To Partners Capital			
Bill (4/7) 19,141			
Will (3/7) 14,355	33,496		
	1,59,496		1,59,496

Dr. Partners' Capital Accounts Cr.

Particulars	Bill ₹	Will ₹	Particulars	Bill ₹	Will ₹
To Realisation A/c	3,040	-	By Balance b/d	61,200	44,000
To BMW Group	77,301	58,355	By Realisation A/c (Profit)	19,141	14,355
	80,341	58,355		80,341	58,355

Dr. BMW Group Account Cr.

Particulars	₹	Particulars	₹
To Realisation A/c	1,35,656	By Bill's Capital A/c	77,301
		By Will's Capital A/c	58,355
	1,35,656		1,35,656

IN THE BOOKS OF MG & CO.

Dr. Realisation Account Cr.

Particulars	₹	Particulars	₹
To Land & Building	40,000	By Creditors	24,000
To Furniture	5,600	By Bank Overdraft	3,600
To Vehicles	7,200	By Bank A/c (Land & Building)	54,000
To Stock	26,400	By BMW Group A/c (P.C.)	43,680
To Debtors	23,200		
To Partners Capital			
Mill (3/5) 13,728			
Gill (2/5) 9,152	22,880		
	1,25,280		1,25,280

Dr. Partners' Capital Accounts Cr.

Particulars	Mill ₹	Gill ₹	Particulars	Mill ₹	Gill ₹
To Bank A/c	32,400	21,600	By Balance b/d	45,200	29,600
To BMW Group	26,528	17,152	By Realisation A/c (Profit)	13,728	9,152
	58,928	38,752		58,928	38,752

Dr. BMW Group Account Cr.

Particulars	₹	Particulars	₹
To Realisation A/c (P.C.)	43,680	By Mill's Capital A/c	26,528
		By Gill's Capital A/c	17,152
	43,680		43,680

Dr. **Bank Account** **Cr.**

Particulars	₹	Particulars	₹
To Realisation A/c (Land & Building)	54,000	By Mill's Capital A/c (3/5)	32,400
		By Gill's Capital A/c	21,600
	54,000		54,000

BALANCE SHEET OF BMW GROUP ON 1-4-2013

Particulars		₹	Assets		₹
Partners Capital			Goodwill		43,200
- Bill	72,000		Land & Building		40,000
- Will	60,000		Furniture		6,400
- Mill	48,000		Vehicles		16,400
- Gill	36,000	2,16,000	Stock		59,360
Creditors	44,800		Debtors	50,400	
Less : Rebate on Creditors	896	43,904	Less : Prove. for D. Debts	2,520	47,880
Bank Overdraft		3,600	Bank	13,600	
			Add : Received from		
			Will	1,645	
			Mill	21,472	
			Gill	18,848	
				55,565	
			Less : Paid to Bill	5,301	50,264
		2,63,504			2,63,504

Working Notes:

1) Calculation of Excess / Shortage of Capital

In the books of BMW Group

Particulars	Bill ₹	Will ₹	Mill ₹	Gill ₹
Capitals	77,301	58,355	26,528	17,152
Required Capital (` 2,16,000 in 6 : 5 : 4 : 3)	72,000	60,000	48,000	36,000
Excess/(Shortage) of Capital	5,301	(1,645)	(21,472)	(18,848)

2) Cash received on Sale of assets not taken over by new firm is distributed amongst partners in P. S. R.

Illustration : 8

A and B were partners sharing profits and losses in the ratio of 3 : 1 and C and D were partners sharing equally.

Following were their Balance Sheet as on 31st March 2014.

Liabilities	₹	₹	Assets	₹	₹
Capital Accounts:			Goodwill	4,000	-
A	30,000	-	Plant and Machinery	20,000	27,000
B	30,000	-	Furniture	8,000	9,000
C	-	25,000	Stock	20,000	24,000
D	-	32,000	Debtors	19,000	17,000
Creditors	10,000	15,000	Fixtures	1,600	1,200
Bills Payable	4,000	8,000	Cash	3,400	3,300
Qutstanding Rent	2,000	1,500			
	76,000	81,500		76,000	81,500

The firms are amalgamated on the following terms :

1. Outstanding rent was paid in full by the respective firms.
2. Creditors of both the firms were taken by the new firm at a discount of 5%.
3. Plant and Machinery is subject to 5% depreciation of both the firms.
4. Furniture of 'C' and 'D' was sold in the market for ₹ 8,000 and furniture 'A' and 'B' was not taken over by the new firm.
5. Fixtures were not taken over by the new firm.
6. Stock of 'A' and 'B' was valued at ₹ 22,100 and that of 'C' and 'D' was valued at ₹ 21,000.
7. Goodwill of M/s A and B is valued at ₹ 6,000 and that of M/s C and D at ₹ 8,000. Goodwill account is not be retained in the books of the new firm.
8. Capital of each partner in the new firm is to be maintained at ₹ 25,000 by bringing cash or paying cash, as the case may be.

You are required to prepare :

1. Realisation A/c.
2. Partner's Capital A/c in the books of both the firms and
3. Amalgamated Balance Sheet of the new firm.

(IDE, Apr. 2011, adapted)

Solution:

Calculation of Purchase Consideration (PC)

Particulars		**A & B** ₹	**C & D** ₹	**Total** ₹
Assets taken over:				
Goodwill	… … … …	6,000	8,000	14,000
Plant and Machinery	… … … …	19,000	25,650	44,650
Stock	… … … …	22,100	21,000	43,100
Debtors	… … … …	19,000	17,000	36,000
Cash	… … … …	1,400	9,800	11,200
(AB: 3,400 - 2,000, CD: 3,300 + 8,000 - 1,500)	… … … …			
	(A)	67,500	81,450	
Less : Liabilities taken over				
Creditors	… … … …	9,500	14,250	23,750
Bills Payable	… … … …	4,000	8,000	12,000
	(B)	13,500	22,250	
Purchase Consideration	**(A) - (B)**	54,000	59,200	

In the Books of AB Enterprises

Dr. **Realisation A/c** **Cr.**

Particulars	₹	Particulars	₹
To Goodwill	4,000	**By Sundry Liabilities:**	
To Plant and Machinery	20,000	- Sundry Creditors	10,000
To Furniture	8,000	- Bills Payable	4,000
To Stock	20,000	- Partner's Capital (8,000 + 1,600)	9,600
To Debtors	19,000	- ABCD from A/c (PC)	54,000
To Fixtures	1,600		
To Cash (3,400-2,000)	1,400		
To Profit tfd. to			
A's Capital 2,700			
B's Capital 900	3,600		
	77,600		77,600

Capital A/c

Particulars	A ₹	B ₹	Particulars	A ₹	B ₹
To Realisation A/c	7,200	2,400	By Balance b/d	30,000	30,000
To New Firm A/c	25,500	28,500	By Realisation A/c	2,700	900
	32,700	30,900		32,700	30,900

New Firm A/c

Particulars	₹	Particulars	₹
To Realisation A/c	54,000	By Capital A/c	
		A 25,500	
		B 28,500	54,000
	54,000		54,000

In the Books of CD Enterprises

Dr. **Realisation A/c** **Cr.**

Liabilities		₹	Assets		₹
To Sundry Assets			By Sundry Liabilities		
- Plant and Machinery	27,000		- Creditors	15,000	
- Furniture	9,000		- Bills Payable	8,000	23,000
- Stock	24,000		By Cash (Furniture)		8,000
- Debtors	17,000		By C's Capital A/c (Fixtures)		600
- Fixtures	1,200		By D's Capital A/c (Fixtures)		600
- Cash	9,800	88,000	By New Firm (PC)		59,200
(3,300 + 8,800 - 1, 500)					
To Capital A/c					
C	1,700				
D	1,700	3,400			
		91,400			91,400

Capital A/c

Particulars	C ₹	D ₹	Particulars	C ₹	D ₹
To Realisation A/c	600	600	By Balance b/d	25,000	32,000
To New Firm A/c	26,100	33,100	By Realisation A/c	1,700	1,700
	26,700	33,700		26,700	33,700

New Firm A/c

Particulars	₹	Particulars	₹
To Realisation A/c	59,200	By Capital A/c	
		C 26,100	
		D 33,100	59,200
	59,200		59,200

Balance Sheet as on 31st March 2014

Liabilities		₹	Assets	₹
Capital A/cs			Goodwill	14,000
A	25,000		Plant and Machinery	44,650
B	25,000		Stock	43,100
C	25,000		Debtors	36,000
D	25,000	1,00,000		
Creditors		23,750		
Bills Payable		12,000		
Bank O/D		2,000		
(13,200 - 11,200)				
		1,37,750		1,37,750

Capital A/c

Particulars		A ₹	B ₹	C ₹	D ₹
B/f from Old Firm	... ...	25,500	28,500	26,100	33,100
Less : Closing Capital	... ...	25,000	25,000	25,000	25,000
Balance	... ...	500	3,500	1,100	8,100

Cash to be paid back = 13,200.

Illustration 9 :

X and Y are two sole traders. Their Balance Sheets as on 1st January, 2014 are given below:

A's Balance Sheet as at 1st January, 2014

Liabilities	₹	Assets	₹
Sundry Creditors	10,000	Plant & Machinery	7,500
Das Bank Ltd.	5,000	Stock in Trade	10,000
Capital Account	15,000	Sundry Debtors	12,500
	30,000		30,000

B's Balance Sheet as at 1st January, 2014

Liabilities	₹	Assets	₹
Sundry Creditors	8,500	Plant & Machinery	10,500
Capital Account	20,000	Stock in Trade	5,000
		Sundry Debtors	11,000
		Cash at Bank	2,000
	28,500		28,500

They agree to amargamate their business as on 1st January, 2014. The following revaluations were to be made :

1) Plant and Machinery were to be reduced by 10%.

2) Stock in Trade was to be reduced in case of A by 20% and in case of B by 10%.

3) A reserve of $2\frac{1}{2}\%$ is to be raised against Sundry Debtors.

4) Each partner is to be credited with Goodwill of ` 5,000.

5) The bank overdraft of A is to be paid off by him.

You are required to give the journal entries for recording the above transactions in the books of A and B give also the amalgamated balance sheet of the New Firm as on 1st January, 2014.

(IDE, April 2000, adapted)

Solution:

IN THE BOOKS OF A

Journal

No	Particulars		Debit. ₹	Credit. ₹
1.	Realisation A/c	Dr.	30,000	
	To Plant & Machinery			7,500
	To Stock in Trade			10,000
	To Sundry Debtors			12,500
	(Being Assets transferred to Realisation Account)			
2.	Sundry Creditors	Dr.	10,000	
	To Realisation A/c			10,000
	(Being Liabilities transferred to Realisation Account)			
3.	M/s A & B A/c	Dr.	21,937	
	To Realisation A/c			21,937
	(Being Purchase Consideration Due)			
4.	Realisation A/c	Dr.	1,937	
	To A's Capital A/c			1,937
	(Being Profit on realization)			
5.	Das Bank Ltd.	Dr.	5,000	
	To B's Capital A/c			5,000
	(Being Bank Overdraft taken over by X personally)			
6.	A's Capital A/c	Dr.	21,937	
	To M/s A & B A/c			21,937
	(Being Capital account settled)			

IN THE BOOKS OF B

No	Particulars		Debit. ₹	Credit. ₹
1.	Realisation A/c	Dr.	28,500	
	To Plant & Machinery			10,500
	To Stock in Trade			5,000
	To Sundry Debtors			11,000
	To Cash at Bank			2,000
	(Being Assets transferred to Realisation Account)			
2.	Sundry Creditors	Dr.	8,500	
	To Realisation A/c			8,500
	(Being Liabilities transferred to Realisation Account)			
3.	M/s A & B A/c	Dr.	23,175	
	To Realisation A/c			23,176
	(Being Purchase Consideration Due)			
4.	Realisation A/c	Dr.	3,175	
	To B's Capital A/c			3,175
	(Being Profit on realization)			
5.	B's Capital A/c	Dr.	23,175	
	To M/s A & B A/c			23,175
	(Being Capital Account Settled)			

M/s A B & Co.

Balance Sheet As At 1-1-2014

Liabilities	**₹**	**₹**	**Assets**	**₹**	**₹**
Capital Accounts:			Goodwill		10,000
- A	21,937		Plant and Machinery		16,200
- B	23,175	45,112	Stock		12,500
Sundry Creditors		18,500	Debtors	23,500	
			Less : Prov. for Bad Debts	588	22,912
			Cash at bank		2,000
		63,612			63,612

Working Note :

Calculation of Purchase Consideration:		**A** ₹	**B** ₹	**A & B** ₹
Cash at Bank	… … … …	-	2,000	2,000
Plant & Machinery (90% of book value)	… … … …	6,750	9,450	16,200
Stock in Trade (Agreed value)	… … … …	8,000	4,500	12,500
Debtors (book value)	… … … …	12,500	11,000	23,500
Goodwill (agreed value)	… … … …	5,000	5,000	10,000
	… … … …	32,250	31,950	
Less:				
RDD ($2\frac{1}{2}$% of debtors)	… … … …	(313)	(275)	588
Creditors (book value)	… … … …	(10,000)	(8,500)	18,500
Purchase Consideration (= Capitals tfd.)	… … … …	21,937	23,175	

Illustration : 10

Vijay and Sanjay were carrying on business of supply of hardware as sole traders. Their balance sheets as on 31st March, 2014 are given below:

Liabilities	Vijay ₹	Sanjay ₹	Assets	Vijay ₹	Sanjay ₹
Bills Payable	50,000	40,000	Fixed Assets	40,000	50,000
Bank Overdraft	25,000	-	Stock	50,000	25,000
Capital A/c	75,000	1,00,000	Book Debts	60,000	55,000
			Cash Balance	-	10,000
	1,50,000	1,40,000		1,50,000	1,40,000

Both the parties decided to amalgamate their business and form a new partnership firm under the name of M/s Jay on 1st April, 2014. The terms of amalgamation were as follows:

1) Fixed assets were to be reduced by 10%.
2) Stock of Mr. Vijay to be reduced by 20% and that of Sanjay increased by 10%.
3) A reserve for 2.5% to be created against book debts.
4) Both the parties to be credited with goodwill of ` 25,000 each.
5) The bank overdraft of Mr.Vijay is to be paid by him.

You are required to prepare necessary Ledger Accounts in the books of Vijay and Sanjay.

(IDE, Oct.2004, adapted)

Solution:

Calculation of Purchase Consideration

Particulars		Vijay ₹	Sanjay ₹
Assets taken over :			
Fixed Assets (90%)	… … … … …	36,000	45,000
Stock (80%) (110%)	… … … … …	40,000	27,500
Book Debts	… … … … …	60,000	55,000
Cash	… … … … …	-	10,000
Goodwill	… … … … …	25,000	25,000
	[A]	1,61,000	1,62,500
Less: Liabilities taken			
Bills Payable	… … … … …	50,000	40,000
RDD (2.5% of Debtors)	… … … … …	1,500	1,375
	[B]	51,500	41,375
Purchase Consideration (=Capitals tfd.)	**[A] - [B]**	1,09,500	1,21,125

IN THE BOOKS OF VIJAY

Dr. Realisation A/c Cr.

Particulars	₹	Particulars	₹
To Fixed Assets	40,000	By Bills Payable	50,000
To Stock	50,000	By Bank Overdraft	25,000
To debtors	60,000	By M/s Jay P.C.)	1,09,500
To Vijay Capital (Overdraft)	25,000		
To Vijay's Capital (Profit)	9,500		
	1,84,500		1,84,500

Dr. Vijay's Capital Account Cr.

Particulars	₹	Particulars	₹
To M/s Jay)P.C.)	1,09,500	By Balance b/d	75,000
		By Realisation A/c (Overdraft)	25,000
		By Realisation A/c (Profit)	9,500
	1,09,500		1,09,500

Dr. M/s Jay Account Cr.

Particulars	₹	Particulars	₹
To Realisation A/c (P.C.)	1,09,500	By Vijay's Capital A/c	1,09,500
	1,09,500		1,09,500

IN THE BOOKS OF SANJAY

Dr. Realisation A/c Cr.

Particulars	₹	Particulars	₹
To Fixed Assets	50,000	By Bills Payable	40,000
To Stock	25,000	By M/s Jay (P.C.)	1,21,125
To Debtors	55,000		
To Cash	10,000		
To Sanjay's Capital (Profit)	21,125,		
	1,61,125		1,61,125

Dr. Sanjay's Capital Account Cr.

Particulars	₹	Particulars	₹
To M/s Jay (P.C.)	1,21,125	By Balance b/d	1,00,000
		By Realisation A/c (Profit)	21,125
	1,21,125		1,21,125

M/s Jay Account

Particulars	₹	Particulars	₹
To Realisation A/c C.P.C	1,21,125	By Sanjay Capital A/c	1,21,125
	1,21,125		1,21,125

5.5 EXERCISES

A. Fill in the blanks:

1. The new firm formed after amalgamation is called as ______________

2. The existing firms getting merged together to from new entity are called as -------.

3. For calculating Purchase consideration, it is necessary to get Assets ------.

4. If, one of the firm continues in future with taking the other firm's business is called ------.
5. Excess of Assets taken over liabilities is --------.
6. Economies of large-scale combined operations will ------fixed cost per unit.
7. Excess of Net Assets over Purchase Consideration is transferred to --------.
8. Purchase Consideration less Net Assets == ------
9. For transferring R.D.D. in the books of old firm ------ a/c is credited.
10. On amalgamation, Reserve Fund of vendor firm are transferred to ------- Accounts.
11. -------- is the amount payable by the purchasing firm to the vendor firm for taking over it's business.
12. On amalgamation, assets and liabilities of vendor firm are transferred to -------- a/c at book values.

Ans.	**1. Amalgamated Firm**	**2. Amalgamating firm**
	3. Revalued	**4. Absorption**
	5. Net assets / or Purchase Consideration	**6. Reduce**
	7. Capital Reserve	**8. Goodwill**
	9. Realisation a/c	**10. Partner's Capital A/c**
	11. Purchase Consideration	**12. Realisation a/c.**

B. Choose the appropriate word [Multiple Choice]

1. The New firm formed after amalgamation is called as -

   a] partnership firm, b] amalgamated firm

   c] Amalgamating firm d] old firm

2. ----- A/c is opened to find profit / loss on closing of the old firm.

   a] profit & loss a/c b] Realisation a/c

   c] Profit & loss suspense a/c d] profit & loss adjustment a/c

3. The firms which decide to merge together to from ------ entity are called as Amalgamating Firms.

   a] old firm, b] New

   c] Dormant firm d] none of the above.

4. Provision for depreciation on fixed assets appearing in the Balance Sheet of vendor firm is credited to ------ a/c.

   a] new firm a/c b] partner's capital a/c

   c] Realisation a/c d] profit & loss a/c

5. On amalgamation of firms, unrecorded assets taken over by partner is debited ------- to a/c.

   a] Assets a/c b] partner's capital a/c

   c] Realisation a/c d] new firm a/c

6. On amalgamation of firm, accumulated losses of old firm are transferred to.

   a] credited to old partner' in old PSR

   b] debited to old partner's in new PSR

   c] debited to old partner's in old PSR

   d] none of the above.

7. On amalgamation of firm unrecorded liabilities taken over by the partner is credited to

   a] new firm a/c b] partner's capital a/c

   c] Realisation a/c d] profit & loss a/c

8. Debit balance in Realisation a/c indicates -

   a] loss on realisation, b] profit on realization

   c] net assets, d] all of the above

9. On amalgamation, expenses on dissolution of vendor firm paid by partner is to be credited to ------ a/c.

   a] new firm a/c, b] partner's capital a/c,

   c] Realisation a/c, d] profit & loss a/c

10. Good will of amalgamated firm written off:

   a] credited to old partners in old is PSR,

   b] Debited to all new partners in new ratio

   c] Goodwill a/c.

   d] None of the above.

11. In case of amalgamation.

   a] Goodwill of both firms valued,

   b] valued goodwill is included in Purchase Consideration

   c] both of the above,

   d] none of the above.

12. On amalgamation of firms, assets shown in the Balance Sheet of vendor firm transferred to Realisation a/c at.

   a] market value b] Agreed value,

   c] Book Value, d] none of the above.

Ans. 1-b, 2-b, 3-b, 4-c, 5-b, 6-c, 7-b, 8-a, 9-b, 10-b, 11-b, 12-c,

C. Match the following columns:

(I)

COLUMN A	COLUMA B
A. Liabilities of vendor firm paid firm, on Amalgamation	1. No entry.
B. Assets of vendor firm taken over by creditors of vendor firm	2. Credit to realization a/c.
C. Reserve fund appearing in balance sheet of vendor firm.	3. Credit to Partner's capital a/c
	4. Debit to realization a/c

(II)

COLUMN A	COLUMA B
A. Deferred Revenue exp. appearing on as on date of amalgamation	1. Debit to Goodwill a/c in the books of purchasing firm.
B. Realisation exp. of vendor firm paid by purchasing firm a/c	2. Credit to New firm's a/c
C. Liabilities of vendor firm taken over by new firm	3. No entry
	4. Debit to its partners
	5. Debit to old partners in old PSR

(III)

COLUMN A	COLUMA B
A. Profit on realization on amalgamation	1. Credit to old partner's capital a/c
B. Debit balance on Realisation a/c	2. Debit to all to partner's capital a/c in new PSR
C. Goodwill written off by new firm.	3. Net Assets
D. Purchase Consideration	4. Loss due dissolution of old firm.

(IV)

COLUMN A	COLUMA B
A. Purchase Consideration	1. Amalgamating firm
B. The firms decided to merge	2. Amalgamated firm
C. Repayment of partner's loan	3. Debit new firm a/c
D. Amalgamation of firm	4. Credit to cash a/c
	5. Eliminates competition

Ans. I: a-4, b-1, c-3, II: a-5, b-1, c-4, III:a-1, b-4, c-2, d-3, IV: a-3, b-1, c-4, d-5

D. Substitute the following in a single WORD / Term / Phrase.

1. The new firm formed after amalgamation.
2. The account opened by old firm to find profit or loss due to dissolution.
3. Excess of net assets over purchase consideration.
4. Combination of two or more firm coming together to secure economies of large scale production.
5. The amount payable by purchasing firm to the vendor firm for taking over its business.

Ans. 1-amalgamated firm, 2-Realisation a/c, 3-Capital Reserve, 4- Amalgamation of firm, 5-Purchase Consideration.

E. State whether True of False, giving reasons in brief.

1. If creditors took over stock in full settlement of liabilities on amalgamation, Realisation a/c is credited.
2. On amalgamation of firms, unrecorded assets taken over by new firm, new firm a/c is debited.
3. On amalgamation of firms, fictitious assets are transferred to the partner's capital a/c in their old ratio.
4. On amalgamation of firms, sundry debtors transferred to Realisation a/c at net amount [after deducting R.D.D]
5. On amalgamation of firms, Profit & Loss a/c is opened to find out profit or loss due to dissolution of firm.
6. On amalgamation of firms, Goodwill of amalgamated firm is written off in new profit sharing ratio.
7. The new firm records assets & liabilities taken over at book value, which were appearing in the books of old firms.

8. On amalgamation of firms, old firms may continue their old business.
9. On amalgamation of firms, old partners continue to share profits or losses in their old ratio.
10. On amalgamation of firms, unrecorded liabilities taken over by partner, partner's capital a/c is credited.
11. On amalgamation of firms, Realisation a/c is opened in the books of Amalgamated firm.
12. On amalgamation of firms, Assets realized credited to realization a/c.

Ans: True : 3, 6, 10, and 12.

False: 1, 2, 4, 5, 7, 8, 9, 11.

F. Theoretical

1. What is amalgamation of firms?
2. What do you understand by the word Purchase Consideration?
3. What are the basic objectives of amalgamation of firm?
4. What are the consequences of amalgamation of the firm?
5. Explain the term 'Net Asset'
6. How you account for Goodwill in the books of the new firm?
7. What do you mean by the term 'Trade Liabilities'?

G. Practical Problems:

1. Following are Balance Sheet of two firms M/s AB & CO. and CD & Co. as on 31st March, 2014.

Liabilities	**AB & CO ₹**	**CD & CO ₹**	**Assets**	**AB & CO ₹**	**CD & CO ₹**
Capital : A	100,000		Building	80,000	-
B	100,000		Plant & Machinery	100,000	70,000
C		54,000	Fixtures and Patterns	20,000	14,000
D		54,000	Furniture	12,000	20,000
Creditors	1,20,000	60,000	Debtors	60,000	50,000
Bills Payable	42,000	36,000	Stock in trade	88,000	42,000
			Cash on Hand	2,000	8,000
	3,62,000	2,04,000		3,62,000	2,04,000

A & B sharing profits & losses equally and C, D were sharing in the ratio of 3:2. The two firm were amalgamated on that date, AB, C & D decided to shares in the ratio of 3:2:3:2 and assets and liabilities were revalued as follows :

1. Building was appreciated by 20% but Plant and Machinery of both the firms were to be depreciated by 12.5%.
2. 5% R.D.D should be provided on debtors of both the firms.
3. Fixtures and patterns of AB & CO. were revalued at ₹ 20,000 that of CD & CO. ₹ 18,000.
4. Reserve 2% for discount on creditors of both firms.
5. Furniture of both the firms taken at 120% of book value.
6. Other assets and liabilities were taken over at Book Value.
7. Goodwill of AB & CO. valued at ₹ 25,000 that of CD & CO. at ₹ 50,000.

Pass necessary Journal Entries in the books of AB & CO., Ledger Accounts in the books of CD & CO. and prepare the Balance Sheet of the amalgamated firm.

2. A & CO and C & CO. decided to amalgamate on the following terms and conditions on 1st January, 2014, when their Balance Sheets were as follows:

Liabilities	A & CO ₹	C & CO ₹	Assets	A & CO ₹	C & CO ₹
A's capital	1,20,000	-	Building	2,00,000	-
B's capital	60,000	-	Furniture	12,000	20,000
C's capital	--	66,000	Investments	60,000	40,000
D's capital		44,000	Stocks	40,000	50,000
Creditors	20,000	30,000	Debtors	28,000	50,000
Bills Payable	40,000	50,000	Cash at bank	--	30,000
Bank Loan	100,000	--			
Total ₹	3,40,000	1,90,000	Total ₹	3,40,000	1,90,000

Terms of amalgamation:

A. In case of A & Co.

1. Goodwill was valued at ₹ 25,000.
2. A & Co. should pay its bank loan.
3. Building was taken to be worth ₹ 2,50,000
4. Stock to be valued at ₹ 55,000.
5. Provision for doubtful debts to be created at 4% on debtors.

B. In case of C & CO.

1. Goodwill was valued at ₹ 30,000.
2. Investments were not taken over by the firm.
3. Stock was valued at ₹ 45,000.
4. Provision for doubtful debts to be created at 5% on debtors.

C. It was further decided that the total capital of the new firms shall be ₹ 2,00,000 and the capital of each shall be in profit sharing partner shall be in profit sharing ratio i.e. ₹ 3:2:3:2. the difference to be transferred to the current accounts.

3. P & K were in partnership as PK & CO., S and T were in partnership as ST & CO. They decided to amalgamate on 1st April, 2014 into the firm, PK & CO. The profit sharing ratio was as under:

	P	:	K	C	S	:	T
Old Firm	4	:	1	:	3	:	2
New Firm	6	:	5	:	4	:	3

Balance Sheet as on 31st March 2014

Liabilities	PK & CO ₹	ST & CO ₹	Assets	PK & CO ₹	ST & CO ₹
Capital : P	30,000	-	Property	15,000	20,000
K	22,000	-	Fixtures	3,500	2,500
S		25,000	Vehicles	16,500	4,000
T		15,200	Investment	2,000	15,000
Sundry Creditors	11,000	12,000	Debtors	12,000	
Bank Overdraft		2,000	Bank bal.	7,200	12,700
			Profit & loss a/c	6,800	
	63,000	54,200		63,000	54,200

Terms of amalgamation were :

A] Provision for doubtful debts at 5% to be made on debtors and provision for discount on creditors @ 2% on creditors is to made.

B] New firm to take over assets of old firms at the following values :

Assets	PK & CO ₹	ST & CO ₹
Stock	17,000	12,000
Vehicles	20,000	2,500
Fixtures	1,000	---
Property	20,000	---
Goodwill	30,000	12,000

C] Property and fixtures of PK & CO. not to taken over by PK & CO. These assets were sold for ₹ 35,000 cash on 1st April 2014.

D] Kis to take over his firm's investment at ₹ 2,500/-

E] The capital of PK & CO. to be ₹ 100,000 and to be contributed by the partners in profit sharing Ratio, any adjustment to be made in cash.

Close the books of old firms, and prepare Balance Sheet of the New Firm.

4. The Balance Sheet of the two firms as on 31st December, 2013 were as follows:

Liabilities	**P & Q** ₹	**R & S** ₹	**Assets**	**P & Q** ₹	**R & S** ₹
Creditors	10,000	5,000	Cash	2,700	1,500
Outstanding Expenses	1,000	500	Investments	3,300	-
Loan	-	10,000	Debtors	8,000	6,000
Reserve	4,000	2,000	Stock	30,000	24,000
Capital A/c			Furniture	6,000	4,000
P	30,000	-	Machinery	20,000	22,000
Q	25,000	-			
R	-	24,000			
S	-	16,000			
	70,000	57,500		70,000	57,500

Partner's in both the firms share profits and losses equally.

The two firms decided to amalgamate as from 1st January 2014 on the following terms and conditions.

a) Goodwill of P & Q was valued at ₹ 20,000 and that of R & S ₹ 10,000.

b) The new firm would not take over the Investment of P & Q & the Loan of R & S.

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

d) An unrecorded Typewriter with R & S. valued at ₹ 1,000 was not taken over by the new firm.

e) Other assets valued as under:

Particulars	P & Q ₹	R & S ₹
Stock	36,000	29,000
Furniture	5,000	2,000
Machinery	17,000	20,000

Your are required to.

i. Accounts to close the books of the old firms; and

ii. Opening Balance Sheet of the new firm. Hints:

Hints :

i. Investment not taken over by the new firm should be transferred to Capital A/c's in P.S.R

ii. Loan and R & S not taken over by the new firm should be taken over by the Partner's as the cash is not sufficient to play it.

iii. Typewriter worth ₹ 1,000 not taken by the new firm. It may be assumed that it is sold by the old firm.

5. The following were the balance sheets of the two firms as on 31st December, 2013.

Liabilities	K & L ₹	M & N ₹	Assets	K & L ₹	M & N ₹
Creditors	25,000	15,000	Bank Balance	21,000	5,000
Bills Payable	5,000	4,000	Investments	10,000	-
Bank Loan	4,000	3,000	Debtors 20,000		15,000
Ks Loan	1,000	-	Less: Prov. 1,000	19,000	
Outstanding Salary	2,000	1,000	Due from M & N	4,000	
Due to K & L		4,000	Stock	29,000	34,000
Employees Provident Fund	5,000	-	Furniture	8,000	5,000
Investment Fluctuation Fund	3,000		Machinery	20,000	18,000
Capital A/c's			Patent Rights	6,000	
K	50,000		Advertisement		
L	30,000		Suspense	5,000	
M		30,000	Goodwill	9,000	
N		20,000			
Current Accounts					
K	5,000				
L	1,000				
	1,31,000	77,000		1,31,000	77,000

Partner's in both firms share profits and losses equally.

The two firms decided to amalgamate as from 1st Jan 2014 on the following terms

a) The new firm shall not take over the furniture of both the firms.

b) The new firm shall take over only the trade liabilities of both the firms.

c) Goodwill of each firm was valued at two years purchase of the average profits of the last three years. The profits were:

	2011	2012	2013
K & L	7,000	8,000	9,000
M & N	2,000	4,000	6,000

d) Advertising Suspense to be written off by the concerned firm.

e) Current account to be eliminated.

f) Mutual dues between the two firms to be treated as book adjustments.

g) Assets to be revealed as follows:

	K & L ₹	M & N ₹
Debtors	18,000	13,000
Investments	9,000	-
Stock	40,000	40,000
Machinery	18,000	16,000
Patent Rights	4,000	-

h) The cash required for working of the new firm was estimated at ` 60,000 to be provided by the Partner's in their new profit-sharing proportions which was : $K\, ^3\!/_{10}, L\, ^3\!/_{10}, M\, ^2\!/_{10}, N\, ^2\!/_{10}$

Pass:

i. Closing Entries in the books of old firms; and

ii. Opening entries and Balance Sheet of the new firm.

❖❖❖❖

6

CONVERSION / SALE OF PARTNERSHIP FIRM INTO A LTD. CO.

Unit Structure:

6.0 OBJECTIVES

After studying the unit the students will be able to:

- Understand the concept conversion of partnership firm
- Calculate the Purchase consideration
- Explain the journal entries
- Solve the practical problems.

6.1 INTRODUCTION

Partnership firm in India is a major type of business concern which has led not only to the growth of the economy but also has provided employment and entrepreneur skills to the business. A growth in this business results in a need for tremendous expansion. However, a partnership firm suffers various inherent limitations of insufficient funding, unlimited liability, skills and competence in handling a business and so on under such a situation it becomes very necessary for the firm to change its form. The firm in such a situation may convert itself into either

1) A Joint Stock Company or
2) Limited Liability Partnership Firm to handle the spurt in the growth of the business.

In case the operations are very voluminous or large scaled a joint stock company becomes the most desirable solution. However it all depends on the partners' argument to change the form of the business.

This change of form may be done by either selling the firm altogether by converting it to a company.

Conversion / sale of partnership Firm into a Ltd. Co.

It has to be done through the following stages:

1. Finding out prospective buyer of the partnership firm who will purchase the firm and then form a company.

   (In some cases, the partners may take help of the financial service providing firms and themselves complete the formalities)

2. Estimate the Purchase Consideration.
3. Transfer assets and liabilities to the companies.
4. Distribute the purchase consideration to the partners.

In the process of conversion or sale the **students are required to:**

1. Ascertain purchase consideration.
2. Close books of old firms.
3. Preparation of Balance Sheet of the New Firm.

Purchase Consideration (PC): It means the price to be paid to the partners for giving up their ownership rights.

The previous chapter has already discussed purchase consideration, a quick reviews is presented here.

It can be calculated as follows:

1. **Net Assets Method**: Here the PC means Difference between the agreed values of assets taken over and liabilities accepted by the new company.
2. **Net Payment Method**: Here the PC means payment made through equity shares, preference shares, debentures, and cash to the partners.
3. **Lump sum Method:** It means large single payment to the partners.

6.2 COMPANY ACT 2013

Section 2(20) of the Act defines a company as, "Any company farmed and registered under this Act or any previous Act". Also through schedule III, the Act has laid down the disclosure requirements of the financial statements. (The Act is detailed in the following chapter - Introduction to Company Accounts)

Proforma of Balance sheet as required for the Curriculum

	Particulars	Note No.	₹
I)	**Equity & Liabilities**		
1.	Shareholders' funds		
a.	Share Capital		
b.	Reserves & Surplus		
2	Non-Current Liabilities		
3	Current Liabilities (CL)		
	Total		
II)	**Assets**		
1.	Non-Current Assets		
2.	Current Assets (CA)		
	Total		

(The notes to the accounts should provide the contents of each of the heads of the assets and the liabilities)

6.3 ACCOUNTING ENTRIES FOR CONVERSION

A. In the books of the Partnership Firm.

1. Transfer all assets to the Realisation A/c

   Realisation A/c Dr.

   To All Assets A/c

2. Transfer liabilities except capital

   Liabilities A/c Dr.

   To Realisation A/c

3. Create Partners claim (only if there are reserves / profits not added to the Capital)

   General Reserve A/c Dr.

   Profit and Loss A/c Dr.

   To Partner's Capital A/c

4. Transfer of Partners loan.

Partners Loans A/c Dr.

To Partner's Capital A/c

OR

Payment or settlement of partner's loan

Partner's Loan A/c Dr.

To Bank / asset A/c

5. Record the Purchase Consideration

New Company A/c Dr.

To Realisation A/c

6. Calculate realization loss or gain and transfer to the capital A/c.

Gain

Realisation A/c Dr.

To Partners' Capital A/c

Loss :

Partners' Capital A/c Dr.

To Realisation A/c

7. Receiving the purchase consideration

Shares / Debentures / Cash A/c Dr.

To New Company A/c

8. Disburse the Purchase Consideration to the Partners

Partners' Capital A/c Dr.

To Shares / Debentures / Cash

B. In books of the new company (Not included in the syllabus**)**

C. Balance sheet of the New Company (as per format discussed earlier)

6.4 SOLVED PRACTICAL PROBLEMS

Illustration 1

A, B and C share profits and losses in the ratio of 3:2:1 respectively. Their Balance sheet as on 31/12/2018 is as follows:

Capital		Goodwill	20,000
A	1,40,000	Land	40,000
B	1,60,000	Building	2,20,000
C	20,000	Machinery	1,00,000
General Reserve	36,000	Vehicles	56,000
Investment Fluctuation loan	8,000	Furniture	24,000
C's Loan	66,000	Investment	36,000
Mrs. A's loan	30,000	Loose Tools	14,000
Creditors	1,52,000	Bills Receivable	40,000
Outstanding Expenses	40,000	Debtors 80,000	
Bills Payable	28,000	Provision 4,000	76,000
Bank Over Draft	1,20,000	Cash	38,000
		C's Current A/c	1,12,000
		Profit & Loss A/c	24,000
	8,00,000		**8,00,000**

Adjustments :

1) The partners decided to convert the firm into ABC Ltd. a Joint Stock Company having an authorized capital of 1,00,000 equity shares of `10 each.

2) The purchase consideration was decided at ₹5,80,000 and settled by paying ₹1,00,000 in cash and balance through equity shares.

3) The outstanding expenses was to be settled by the firm.

4) Loose Tools, vehicles, furniture and investments are sold by the firm at ₹10,000; ₹50,000; ₹25,000 and ₹42,000 respectively.

5) The Partner's and their spouses loan are taken over by the respective partners along with current A/c balances.

Prepare the ledger accounts in the books of the partnership firm.

Solution :

Purchase consideration (P.C.)

P.C. (given)		5,80,000
Settlement		
1)Cash / Bank	1,00,000	
2)Equity shares	4,80,000	5,80,000
(40,000 shares of ₹10 each)		

Ledger Accounts

Realisation A/c

Dr. Cr.

To Assets A/c		By Liabilities A/c	
Goodwill	20,000	Creditors	1,52,000
Land	40,000	Bill Payable	28,000
Building	2,20,000	Provision on Debtors	4,000
Machinery	1,00,000	By ABC Ltd. (PC)	5,80,000
Bills Received	40,000	By Furniture	1,000
Debtors	80,000	By Investments	6,000
To loose tools	4,000		
To Vehicles	6,000		
To P. Capital			
(in A 1,30,500			
PSR) B 87,000			
C 43,500	2,61,000		
(gain on realization)			
	7,71,000		**7,71,000**

Partners' Capital A/C

	Partners				Partners		
	A	B	C		A	B	C
To Current A/c	-	-	1,12,000	By Balance b/d	1,40,000	1,60,000	20,000
To Profit & Loss A/c (PSR)	12,000	8,000	4,000	By General Reserve (PSR)	18,000	12,000	6,000
To Equity Share in ABC ltd.	2,40,000	1,60,000	80,000	By Investment fluctuation period (PSR)	4,000	2,667	1,333
To Bank (final payment done)	70,500	93,667	--	By Loan's (adj 5)	30,000	--	66,000
				By Realisation (gain)	1,30,500	87,000	43,500
				By Bank (Cash brought to adj. excess)	--	--	59,167
	3,22,500	**2,61,667**	**1,96,000**		**3,22,500**	**2,61,667**	**1,96,000**

ABC Ltd. A/c

To Realisation A/c	5,80,000	By Bank By Equity Shares in ABC	1,00,000 4,80,000
	5,80,000		**5,80,000**

Bank A/c

To Balance b/d (Cash)	38,000	By Balance b/d	1,20,000
To ABC Ltd.	1,00,000	By O/S Expenses	40,000
To loose tools	10,000	By B's Capital	93,667
To Vehicles	50,000	By A's Capital	70,500
To Furniture	25,000		
To Investments	42,000		
To C's Capital	59,167		
	3,24,167		**3,24,167**

Loose Tools A/c

To Balance b/d	14,000	By Bank	10,000
		By Realisation (Loss)	4,000
	14,000		**14,000**

Vehicles A/c

To Balance b/d	56,000	By Bank	50,000
		By Realisation (Loss)	6,000
	56,000		**56,000**

Furniture A/c

To Balance b/d	24,000	By Bank	25,000
To Realisation (gain)	1,000		
	25,000		**25,000**

Investment A/c

To Balance b/d	36,000	By Bank	42,000
To Realisation	6,000		
	42,000		**42,000**

Outstanding Expenses A/c

To Bank	40,000	By Balance b/d	40,000
	40,000		**40,000**

Equity Share in ABC Ltd.

To ABC Ltd.	4,80,000	By Partners' Capital (in PSR)	
		A (3/6)	2,40,000
		B (2/6)	1,60,000
		C (1/6)	80,000
	4,80,000		**4,80,000**

Illustration 2

Amar, Akbar and Anthony were carrying on a Partnership business sharing profits & losses in the ratio of 4 : 3 : 1. Their business was expanding rapidly and hence they decided to convert their firm to AB Ltd., a joint stock company on 1/4/2018.

The Balance sheet of the firm as on 31/3/2018 was as follows :

Capital		Property	3,60,000
Amar	4,00,000	Equipment	2,40,000
Akbar	3,00,000	Debtors	3,00,000
Anthony	2,60,000	Stock	2,60,000
Bank Loan	80,000	Bank balance	40,000
Creditors	1,60,000		
	12,00,000		**12,00,000**

Adjustments :

1) The Co. agreed to take the assets & liabilities at the following values :

Property - ₹4,40,000

Equipment - ₹2,00,000

Debtors - ₹2,75,000

Stock - ₹2,50,000

Creditors - ₹1,45,000

2) The Co. agreed to pay `8, 00,000 through equity shares of `10 each and balance in cash.

3) The expenses of liquidation of the firm amounted to `10,000.

Journalise all the transactions in the books of the partnership firm.

Solution :

I) Calculation of P.C. & its settlement Assets taken over (at agreed values)

Property -	4, 40,000
Equipment -	2, 00,000
Debtors -	2, 75,000
Stock -	2, 50,000
Creditors -	40,000
	12, 05,000

Less : Liabilities

Creditors	1,45,000	
Bank Loan	80,000	2,25,000
P.C		**9,80,000**

		Dr. Rs.	Cr. Rs.
1.	Realisation A/c Dr. To Property A/c To Equipment A/c To Debtors A/c To Stock A/c To Bank A/c (Being Assets transfer to Realization a/c)	12,00,000	 3,60,000 2,40,000 3,00,000 2,60,000 40,000
2.	Creditors A/c Dr. Bank loan A/c Dr To Realisation A/c (Being liabilities transfer to realization A/c)	1,60,000 80,000	2,40,000
3.	AB Ltd. A/c Dr. To Realisation A/c (Being P.C. recorded)	9,80,000	9,80,000
4.	Realisation A/c Dr. To Bank A/c (Being realization expenses paid)	10,000	10,000
5.	Equity Shares in AB Ltd. A/c Dr. Bank A/c Dr. To AB Ltd. A/c (Being P.C. Received)	8,00,000 1,80,000	9,80,000
6.	Realisation A/c Dr. To Amar's Capital A/c To Akbar's Capital A/c To Anthony's Capital A/c (Being Realisation gain transferred to Capital)	20,000	 10,000 7,500 2,500
7.	Amar's Capital A/c Dr Akbar Capital A/c Dr. Anthony's Capital A/c Dr To Bank A/c (Being Cash paid to Partners)	10,000 7,500 1,62,500	1,80,000

8.	Amar's Capital A/c Dr. Akbar's Capital A/c Dr. Anthony's Capital A/c Dr. To Equity Shares in AB Ltd. A/c (Being equity shares received in P.C. settled to the partners)	4,00,000 3,00,000 1,00,000	8,00,000

Partners Capital A/c

WN1

	Amar	Akbar	Anthony		Amar	Akbar	Anthony
To Equity Shares (8L in PSR)	4,00,000	3,00,000	1,00,000	By Balance	4,00,000	3,00,000	2,60,000
To Cash	10,000	7,500	1,62,500	By Realisation	10,000	7,500	2,500
(Balance)	**4,10,000**	**3,07,500**	**2,62,500**		**4,10,000**	**3,07,500**	**2,62,500**

WN-2 **Realisation A/c**

To Total Assets	12,00,000	By Total Liabilities	2,40,000
To Partners' Capital		By AB Ltd. A/C	9,80,000
Amar 10,000			
Akbar 7,500			
Anthony 2,500	20,000		
	12,20,000		**12,20,000**

Illustration 3

Kavita and Savita are equal partners. Their Balance sheet as on 31/3/2018 is as follows :

Liabilities	**Rs.**	**Assets**	Rs.
Capital			
Kavita	1,50,000	Bank	15,000
Savita	1,40,000	Fixed Assets	2,15,000
Creditors	1,00,000	Stock	1,00,000
Bank overdraft	40,000	Debtors	1,00,000
	4,30,000		4,30,000

The partners sold the business to KS Ltd. a Company on 1/4/2018. The value of goodwill was fluid at ₹15,000 and rest of the assets & liabilities were taken at the Balance sheet values. The company paid the purchase consideration through

1) 2500 10% debentures of ₹100 each and

2) Equity shares of ₹10 each

Prepare the Balance sheet of the Ltd. Co.

Solution :

I) Calculation of P.C.

Goodwill -		75,000
Bank -		15,000
Fixed Assets		2,15,000
Stock -		1,00,000
Debtors -		1,00,000
		5,05,000
Less : Liabilities		
Creditors	1,00,000	
Bank Overdraft	40,000	1,40,000
P.C		**3,65,000**

Settlement of P.C.

1)	10% Debenture (2500 x `100 each)	2,50,000
2)	Equity shares (bal) (11500 shares x `10)	1,15,000
	Total	**3,65,000**

II) Balance sheet of KS Ltd. as on 1/4/2018

Particulars	Note no.	₹
A) Capital & Liabilities		
1) Share holders funds		
a) Share Capital	**1**	1,15,000
b) Reserves & Surplus		--
2)Non Current Liabilities	**2**	2,50,000
3) Current Liabilities	**3**	1,40,000
Total		**5,05,000**
B) Assets		
1) Non Current Assets	**4**	2,90,000
2) Current Assets	**5**	2,15,000
Total		**5,05,000**

Notes to Accounts :

Note 1 : Share Capital

11,500 equity shares of `10 each	1,15,000

(These shares are issued to vendors for settlement of PC so no consideration has been received hereupon.)

Note 2 : Non Current Liabilities

2500 10% Debenture of `100 each	2,50,000

(There debenture are issued to vendors for settlement of PC o no consideration has been received hereupon.)

Note 3 : Current Liabilities

Creditors	1,00,000
Bank O/D	40,000
	1,40,000

Note 4 : Non Current Assets

Goodwill	75,000
Fixed Assets	2,15,000
	2,90,000

Note 5 : Current assets

Stock	1,00,000
Debtors	1,00,000
Bank	15,000
	2,15,000

Illustration 4

Abhishek, Aishwarya and Aradhya were partners sharing Profit and Loss in the ratio of 2 : 1 : 1. Their Balance sheet as on 31/12/2018 was as follows:

Liabilities	Rs.	Assets	Rs.
Creditors	60,000	Bank	30,000
Capital		Debtors	60,000
Abhishek	1,80,000	Bills Received	30,000
Aishwarya	1,50,000	Fixed Assets	3,00,000
Aradhya	30,000		
	4,20,000		**4,20,000**

On 1/1/2019; they farmed a Ltd. Co. "Pink Ad Films Ltd." on the following conditions:

1) Distribute the bank balance amongst themselves.
2) The Company would discharge the P.C. through
   a) 10% Debentures - ₹60,000
   b) 15% Preference shares - ₹1,20,000
   c) 15,000 equity shares of ₹10 each of `12 share
3) The partners agreed to share the debentures as : Aishwarya - ₹30,000 & Aradhya - ₹30,000
4) The Preference shares were to be allotted in the PSR and the equity shares will adjust the remaining capital balances.

Prepare the Realisation A/c and partners capital in the books of the partnership firm and Balance sheet of the new Co.

Solution :

Calculation of P.C.

1)	10% Debentures	60,000
2)	15% Preference shares	1,20,000
3)	Equity shares (15,000 x 12)	1,80,000
	(Equity Capital - 15,000 x 10 = 1,50,000	**3,60,000 (PC)**
	Sec Premium - 15,000 x 2 = 30,000)	

Realisation A/c

To Debtors	60,000	By Creditors	60,000
To Bill Received	30,000	By Pink Advising Films Ltd. (PC)	3,60,000
To Fixed Assets	3,00,000		
To Partners' Capital*			
Abhishek (2/4) 15,000			
Aishwarya (1/4) 7,500			
Aradhya (1/4) 7,500	30,000		
	4,20,000		**4,20,000**

*(Profit on Realisation = ₹30,000)

Partners Capital A/c

	Abhishek	Aishwarya	Aradhya		Abhishek	Aishwarya	Aradhya
To Bank (PSR)	15,000	7,500	7,500	By Balance b/d	1,80,000	1,50,000	30,000
To 10% Debentures	--	30,000	30,000	By Realisation	15,000	7,500	7,500
To Preference Shares (PSR)	80,000	46,000	--				
To Equity Shares (Balance)	1,00,000	80,000	--				
	1,95,000	**1,57,500**	**37,500**		**1,95,000**	**1,57,500**	**37,500**

***Note-** As the capital and dues of Aradhya are settled through Bank and debentures she will not be given preference and equity shares.

Pink Ad Films Ltd.

Balance sheet as on 1/1/2019

Particulars	Note no.	`
1) Share holders funds		
a) Share Capital	1	2,70,000
b) Reserves & surplus	2	30,000
2) Non Current Liability	3	60,000
3) Current Liabilities	4	60,000
Total		**4,20,000**
Assets		
1) Non Current Assets	5	3,00,000
2) Current Assets	6	1,20,000
Total		**4,20,000**

Notes to Accounts

Note 1 : Share Capital

15% Preference Share Capital	1,20,000
Equity Share Capital	1,50,000
	2,70,000

(The entire shares have been issued to the vendors; hence no consideration is received here upon.)

Note 2 : Reserves & Surplus

Security Premium 30,000

(Refer P.C. Calculation)

Note 3: Non Current Liabilities

10% Debentures 60,000

*(The debentures have been issued to the vendors hence there is no amount received from them.)

Note 4: Current Liabilities

Creditors	60,000

Note 5: Non Current Assets

Fixed Assets	3, 00,000

Note 6 : Current Assets

Debtors	60,000
Bills Received	30,000
	90,000

Illustration 5

Following is the Balance sheet of Amar and Naman sharing Profit & Loss in the ratio of 2 : 3.

Liabilities	Rs.	Assets	Rs.
Capital		Plant & Machinery	4,00,000
Aman	4,00,000	Equipment	4,00,000
Naman	5,00,000	Stock	65,000
Bank Loan	75,000	Debtors	50,000
Creditors	50,000	Bills Received	45,000
		Bank	65,000
	10,25,000		**10,25,000**

Aman & Naman sold their business to Mr. Shaman who formed a new company Namaste Ltd. The Co. took over all the assets at book values excluding equipment which was taken at ₹3,00,000. The Co. settled the P.C. by issuing.

i) 40,000 equity shares of ₹10 each

ii) 4000 10% Preference shares of ₹100 each &

iii) 11% Debentures - ₹1,50,000

Close the books of the partnership firm and prepare the Balance sheet of the Co.

Solution :

Calculation of P.C.

1)	Equity shares (40,000 x `10)	4,00,000
2)	10% Preference shares (4000 x `100)	4,00,000
3)	11% Debentures	1,50,000
	P.C.	**9,50,000**

Calculation of assets & liabilities taken over for finding out goodwill / Capital reserves

Assets		
Plant & Machinery		4,00,000
Equipment		3,00,000
Stock		65,000
Debtors		50,000
Bills Receive		45,000
Bank		65,000
		9,25,000
Less : Liabilities		
Bank Loan	75,000	
Creditors	50,000	1,25,000
Net Assets		**8,00,000**

****Point to Remember**

1) PC > NA = Goodwill

2) PC < NA = Capital Reserve

****In this case, the Company will have Goodwill of `1,50,000.**

(PC Rs. 9,25,000- Net Assets Rs. 8,00,000= 1,50,000)

Realisation A/c

To Plant & Machinery	4,00,000	By Bank Loan	75,000
To Equipment	4,00,000	By Creditors	50,000
To Stock	65,000	By Namaste Ltd.	9,50,000
To Debtors	50,000	(PC)	
To B / R	45,000		
To Bank	65,000		
To Partners' Capital			
Aman (2/5) 20,000			
Naman (3/5) 30,000	50,000		
	10,75,000		**10,75,000**

Namaste Ltd. A/c

To Realisation	9,50,000	By Equity Shares	4,00,000
		By Preference Shares	4,00,000
		By Debentures	1,50,000
	9,50,000		**9,50,000**

Partners Capital A/c

	Amar	Akbar		Amar	Akbar
To Equity Shares	1,60,000	2,40,000	Balance b/d	4,00,000	5,00,000
To Preference Shares	1,60,000	2,40,000	Realization	20,000	30,000
To Debentures (Balance)	1,00,000	50,000			
	4,20,000	**5,30,000**		**4,20,000**	**5,30,000**

Equity Shares in Namaste Ltd. A/c

To Namaste Ltd.	4,00,000	By Aman (2/5)	1,60,000
		By Naman (3/5)	2,40,000
	4,00,000		**4,00,000**

Preference Shares in Namaste Ltd. A/c

To Namaste Ltd.	4,00,000	By Aman	1,60,000
		By Naman	2,40,000
	4,00,000		**4,00,000**

Debentures in Namaste Ltd. A/c

To Namaste Ltd.	1,50,000	By Aman	1,00,000
		By Naman	50,000
	1,50,000		**1,50,000**

Note : As the apportionment ratios are not given, one of the disbursement has to be used for settling the partners capital A/c. (Here debentures are settled based on the partners capital's pending settlement)

Namaste Ltd.

Balance sheet as on ________

I) Capital and Liabilities		
1) Share holder's funds		
a) Share Capital	1	8,00,000
b) Reserves & surplus		
2) Non Current Liabilities	2	2,25,000
3) Current Liabilities	3	50,000
Total		**10,75,000**
Assets		
1) Non Current Assets	4	8,50,000
2) Current Assets	5	2,25,000
Total		**10,75,000**

Notes to Accounts

1) Share Capital

10% Preference Share of `100 each	4,00,000
Equity share of `10 each	4,00,000
	8,00,000

(These shares are issued to the vendors hence no consideration is received here upon)

2) Non Current Liabilities

11% Debentures	1,50,000
Bank Loan	75.000
	2,25,000

(The Debentures are issued to the vendor for the settlement of PC hence no consideration is received here upon)

3) Current Liabilities

Creditors	50,000

4) Non Current Assets

Intangible		
Goodwill (refer **Point to remember)		1,50,000
Tangible		
Plant & Machinery	4,00,000	
Equipment	3,00,000	
	8,50,000	

5) Current Assets

Stock	65,000
Debtors	50,000
Bills Received	45,000
Bank	65,000
	2,25,000

6.5 EXERCISE

i) State whether the following statements are True or False.

1) Upon conversion the old partnership firm ceases to exist.

2) A company is suitable for the business having large scale operations.

3) Purchase consideration on conversion of a company is settled in shares and debentures only.

4) Profit or loss on realization should be transferred equally to the partners.

5) Asset taken over is debited to the partner's capital A/c

(**Answers:** True - 1, 2, 5 - False - 3, 4)

ii) Fill in the Blanks

1) A Joint Stock Company has ------------------ liability.

2) Purchase consideration has to be distributed to the partners in ---------------------- ratio.

3) ------------------ A/c is debited when cash is taken over by a limited company.

4) A new company is formed on ----------------- of a partnership firm.

5) ------------------ method of calculating P.C. = Assets - Liabilities.

(1- Limited, 2 - Profit sharing, 3 - Partner capital, 4 - dissolution, 5 - Net assets method)

1. Akshay and Raveena were equal partners. Their Balance sheet as on 31/12/2018 was as follows :

Liabilities	Rs.	Assets	Rs.
Capital		Bank	1,62,500
Akshay	10,00,000	Debtors	1,75,000
Raveena	12,50,000	Stock	2,25,000
Creditors	1,25,000	L & B	8,00,000
Loans	1,87,500	Plant & Machinery	8,00,000
		Office assets	4,00,000
	25,62,500		25,62,500

Due to continuous differences amongst them, they decided to sell their business to Krafts Ltd. on 1/1/19. The Co. agreed to pay the vendors :

i) 10,000 Equity shares of ₹100 each

ii) 10,000 10% Preference shares of ₹100 each

iii) 12% Debentures amounting to ₹3,75,000

The Co. agreed to take over all assets at book values including office assets that were taken at ₹3,00,000 L & B at 10,00,000 and plant at 3,00,000.

Journalise the transaction in the books of Akshay & Raveena to close their business.

(Hint: Realisation A/c gain - 1,25,000)

2. Amitabh, Jaya & Rekha were partners sharing Profit & Loss as 3 : 2 : 2. Their Balance sheet as on 31/12/2018 was as follows :

Liabilities	Rs.	Assets	Rs.
Capital		Premises	2,40,000
Amitabh	2,42,500	Plant	70,000
Jaya	1,45,000	Inventory	30,000
Rekha	62,500	Debtors	1,50,000
Creditors	40,000		
	4,90,000		4,90,000

The partners decided to convert the business into a private limited company on the above date as per the following terms :

1) The Company will issue 3500 equity shares of ₹100 each and pay the balance per capital in cash.

2) The Co. agreed to pay ₹96,000 as goodwill

3) It assumed all the liabilities and assets except stock which was taken over by Jaya for ₹10,000.

Journalise the transactions in the books of the partners.

(Hint: P.C. - 5,46,000, Realisation gain - 1,06,000)

3. Alia, Anushka and Dipika were in partnership sharing Profit & Loss in the ratio of 2:2:1 respectively. They decided to form a company with immediate effect. The Balance sheet of the firm was as follows.

Liabilities	Rs.	Assets	Rs.
Capital		Premises	6,00,000
Alia	4,00,000	Equipment	1,20,000
Anushka	6,00,000	Plant	4,50,000
Dipika	2,00,000	Stock	3,50,000
Bank Loan	2,00,000	Debtors	4,00,000
Creditors	6,00,000	Bank	80,000
	20,00,000		**20,00,000**

1) The new company 3A Ltd. issued 50,000 equity shares of ₹10 each, 5000 10% Debenture of `100 each and cash ₹1,00,000 in settlement of the P.C.

2) The Creditors were absorbed to the extent of 90%.

3) The equipments were salvaged by the partners at ₹50,000 and plant was valued by the co. at ₹5,00,000.

Calculate the P.C. and prepare the Balance sheet of 3A Ltd.

(Hint: P.C. - 11,00,000, Net Assets - 9,80,000, Goodwill - 1,20,000, B/S Total = 17,80,000)

4. Saqib and Huma were equal partners. To ensure smooth conduct of their expanding business, the decided to convert it to a Ltd. Co. - H.S. International Ltd. The Balance sheet of the firm was as follows :

Liabilities	Rs.	Assets	Rs.
Creditors	6,10,000	Bank	20,000
Capital A/c		Investments	1,50,000
Saqib	5,00,000	Debtors	2,60,000
Huma	3,00,000	Stock	3,30,000
Current A/c		Fixed assets	8,80,000
Saqib	1,40,000		
Huma	90,000		
	16,40,000		**16,40,000**

1) The company revalued the assets as under :

   Investments - ₹1,60,000, Debtors ₹2,40,000, Stock ₹4,00,000 & fixed assets - ₹8,40,000.

2) The Co. also valued the goodwill of the firm at ₹2,40,000.

3) The partners received ₹90,000 cash 1000 12% Debenture of ₹100 each and balance equity shares in full settlement of their claim.

Close the books of the partners by preparing appropriate ledgers.

(Hint: Realisation gain - 2,60,000, P.C. - 12,90,000)

5. Jaquiline & Jennifor were partners sharing Profit & Loss at 60% & 40% respectively. Their Balance sheet as on 1st April 2018 was as follows :

Liabilities	Rs.	Assets	Rs.
Capital		Furniture	2,00,000
Jaquiline	6,60,000	Bank	3,00,000
Jenanifer	4,40,000	Debtors	4,80,000
Creditors	3,00,000	Stock	5,20,000
Other liabilities	5,00,000	Investments	4,00,000
	19,00,000		19,00,000

1) J2 Ltd. was farmed to take over the business from the partners.

2) J2 Ltd. valued the assets of the form as goodwill - ₹4,00,000 and stock ₹3,76,000.

3) Investments were not taken over by the company.

4) The partners were paid ₹9,56,000 for full settlement of their claim of the firm.

5) The P.C. was settled through the issue of equity shares of ₹100 each.

Prepare necessary ledgers in the books of the partnership firm and a balance sheet of J2 Ltd.

(Hint: Realisation gain - 2,56,000 B/S Total - 17,56,000)

❖❖❖❖

7

ACCOUNTING OF TRANSACTIONS OF FOREIGN CURRENCY

Unit Structure:

7.0 OBJECTIVES

After studying this unit, the student will be able to:

- Understand Foreign Currency Transactions
- Describe the need for conversion
- Know how to recognize exchange differences
- Explain the accounting of foreign currency transactions

7.1 INTRODUCTION

When a transaction takes place between two or more concerns which are situated in the same region or country, their respective accounts are finalized in the same currency.

However, when one of these concerns are located in another country, it becomes difficult to record transactions in different currencies. Each of the concerns then has to enter the transaction in this own/ domestic currency in its books. Thus, a need to convert the currency arises by using currency exchange rates.

For example, Arun & Co., Mumbai buys goods from Preston & Co. of USA. The invoice for the same by Preston & Co. may be in US $ while accounting by Arun & Co. will be in Indian Currency ₹. The $ will have to be converted into ₹ by appropriate exchange rate, in such a case.

From the point of view of Arun & Co.:

" ₹ " is the Reporting Currency

" $" is a Foreign Currency

From the point of view of Preston & Co.:

" $" is the Reporting Currency

" ₹" is the Foreign Currency

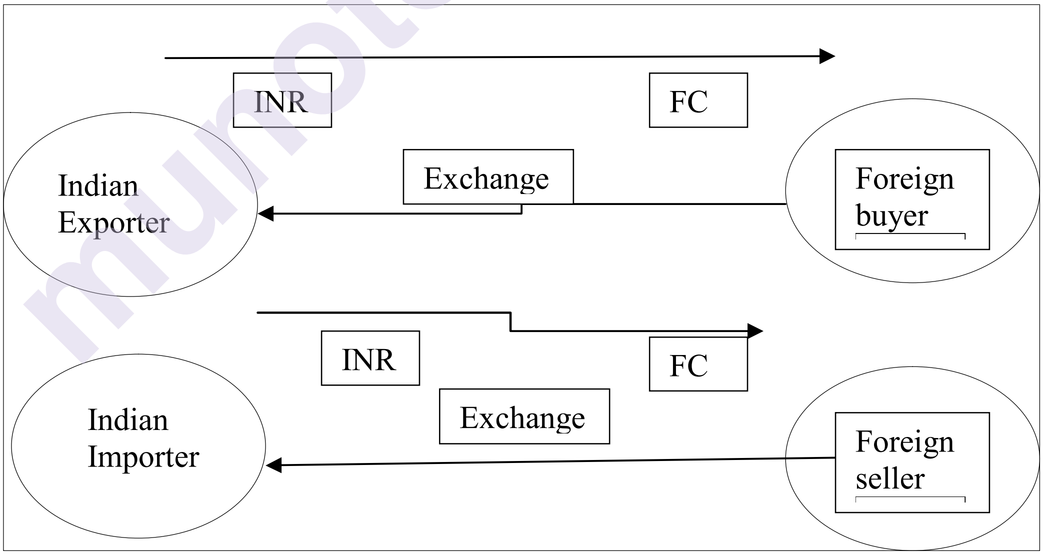
The rate of exchange between $ and is the exchange rate

7.2 NEED FOR CONVERSION / TRANSLATION

It is the process of converting the accounting data from one currency to another. This may be required when an Indian concern may either be selling or buying goods from a foreign concern.

The currency of settlement, until paid, amounts to a receivable or payable which will require conversion to Indian currency at the date of initial transaction and again on the date of finalization of accounts for the Indian entity.

The following diagram depicts such a transaction:



In such a case,one of the concerns must accept the responsibility or receive its payment in foreign currency. The party that agrees this incurs an exchange gain or loss, depending on the direction and amount of exchange rate fluctuation between date of billing and date of payment.

For example, if a domestic importer has purchased goods from abroad and is billed in a foreign currency, the invoice may be translated to domestic currency at current exchange rate as on the billing date. To settle the debt, the domestic importer must acquire foreign currency for the purpose of payment, between the billing date and the payment date. In case the exchange rate fluctuated in that period, the subsequent acquisition of foreign currency results in a gain or loss which falls on the domestic importer. Had the billing been accounted for in domestic currency, the exchange risk would have been with the foreign exporter. A similar case can be drawn for a domestic exporter and a foreign importer.

7.3 ACCOUNTING STANDARD

In order to maintain uniformity of accounting policies, principles and treatments, 'Accounting Standards' are prescribed, which are to be followed.

The Institute of Chartered Accountants of India which is the sole authority to issue the Accounting Standards has issued Accounting Standard 11 (AS-11) to cover the subject of foreign exchange transactions for Standardization of Accounting treatments.

The said Standard has been revised and is mandatory. It is to be applied w.e.f. 1st April 2004. But as far as the accounting for transactions in foreign currencies entered into by the reporting enterprise itself before the date this standard comes into effect, AS 11 (1994) i.e. (the old Standard) will continue to be applicable.

Old AS 11 states that:

Exchange differences arising on transactions of foreign currency should be recognized as income or an expense in the period in which they arise.

Exchange difference arising on repayment of liabilities incurred for the purpose of acquisition of fixed assets, should be adjusted in the carrying amount of the respective fixed assets.

Revised AS 11 states that:

Exchange difference arising on the settlement of monetary items should be recognized as income or an expense in the period in which they arise.

When the transaction is settled i.e. completed in the same accounting period (ending 31st March) as that in which it arose, the entire exchange difference arises in that period. However, when the transaction is settled in the next accounting period, the exchange difference is spread over two different accounting years and will have to be split into those two years on time basis.

7.4 DEFINITIONS OF TERMS

Closing rate is the exchange rate at the balance sheet date

Average rate is the mean of the exchange rates in force during a period

Exchange rate is the ratio of exchange of currencies of two countries

Foreign currency is the currency other than the reporting currency of an enterprise

Reporting currency is the currency used in presenting financial statements

7.5 TRANSLATION OF THE TRANSACTIONS

INITIAL RECOGNITION

In case the imports are on immediate payment basis, the concerned Indian company will purchase US $ from an Indian bank and make such payment in dollars to the concerned foreign company in USA. The dollar will be purchased at the prevailing rate. Translation is done into rupees at that time. This is known as initial recognition.

RECOGNITION IN STAGES

In case the import of goods is on credit basis, the translation will be done at different stages as below:

1. On the date of purchase the import will be recorded.
2. If the payment is outstanding, creditors will be recorded as on the Balance Sheet date.
3. On the date of settlement, the payment in US $ will be recorded.

ACCOUNTING PROBLEMS

As the exchange rate may be different at each stage, it gives rise to the following accounting problems:

1. At what rate translation should be done on each date i.e. (a) on the date of purchase, (b) on the date of payment, (c) on the date of Balance Sheet
2. In instances the exchange rates are different, how profit or loss arising due to such difference should be recorded in the books of accounts

7.6 TRANSLATION OF BALANCES AT YEAR END

The following balances in foreign currency need to be translated in rupees.

A. Monetary Items
   Cash in Hand, Bank balances, Debtors, Creditors and Loans
B. Non-monetary Items
   Fixed Assets, Long-term Investments, Inventory and Current Investments

Rate of Translation

1. Monetary Items are translated at Closing rate or at realizable vale (when closing rate is unrealistic)
2. Non-monetary Items are translated at historical cost or at fair value.

Treatment of Exchange difference

Exchange difference arises due to the following:

a) A transaction being reported at a rate different from the rate at which it was initially recorded

b) A monetary or non-monetary item being settled at a rate different from the rate at which it was initially recorded

c) A transaction being settled at a rate different from the one taken for the reporting in the financial statement.

7.7 EXERCISES

Illustration 1

Goods purchased on 07.07.2021 of US $ 20,000	₹ 45 per US $
Exchange rate on 37.03.2021	₹44 per US $
Date of actual payment 07.07.2021	₹ 43 per US $

Ascertain the loss/gain for financial year 2020-21 and 2021-22 also give their treatment as per AS 11

<u>Solution</u>

1. At the date of Transaction: As per AS11 all foreign currency transactions should be recorded at the exchange rate on the date of transactions.
   Accordingly, goods purchased on 07.07.2021 and corresponding creditors would be recorded at ₹ 9,00,000 (i.e. $ 20,000 x ₹ 45). At the balance sheet date all monetary transactions should be reported at the closing rate

2. At Reporting date: As per AS11 creditor of US $ 20,000 on 37.03.2021 should be reported at ₹ 8,80,000 (i.e. $ 20,000 x ₹44) and exchange profit of ₹ 20,000 (i.e. 9,00,000 – 8,80,000) should be credited to profit and loss account in the year 2020-27.

3. Settlement date: As per AS11, exchange difference on settlement of the account should be transferred to profit and loss account. Therefore, ₹ 20,000 (8,80,000 – 8,60,000) should be credited to Profit and Loss account for the year 2021-22.

Illustration 2

On 31st March 2021, the following ledger balances have been extracted from the books of Washington branch office:

Ledger accounts	$
Building	360
Stock as on 07.04.2020	52
Cash and Bank balances	114
Purchases	192
Sales	220
Commission receipts	56
Debtors	92
Creditors	130

You are required to convert above Ledger balances into Indian Rupees using the following rates of exchange:

Rate	₹ per US$
Opening Rate	46
Closing Rate	50
Average Rate	48
For Fixed Assets	42

Solution

Conversion of Ledger Balances (in Dollars) into Rupees

Particulars	$	Rate Per $	Amount in Rupees
Building	360	42	15,120
Stock as on 07.04.2020	52	46	2,392
Cash and Bank balances	114	50	5,700
Purchases	192	48	9,216
Sales	220	48	10,560
Commission receipts	56	48	2,688
Debtors	92	50	4,600
Creditors	130	50	6,500

Illustration 3

M/s Moon International, an Indian Exporter, sells goods to a foreign purchaser Roy & Co. invoicing at \$ 24,000 on 31st December 2020. The exchange rate at the time of invoice was 45.50. After 95 days, M/s Moon International received remittance of \$ 23,500. The rate of exchange at the time of remittance was 47. The local bank deducted their charges of 750 while crediting the amount in the account of M/s Moon International.

Record the above transactions in the books of M/s Moon International

Solution

Journal of M/s Moon International

Date	Particulars	Dr. ₹	Cr. ₹
31 Dec 2020	Roy & Co. a/c (\$ 24,000 @ 45.50) To Sales a/c *(Being goods exported)*	10,92,000	 10,92,000
15 April 2021	Bank a/c (\$ 23,500 @ 47) - 750 Bank charges a/c To Roy & Co. a/c (\$ 23,500 @ 45.50) To exchange difference (\$ 23,500 @ 7.50) *(Being \$ 23,500 received from Roy & Co. Exchange rate difference being US \$ 1 = ₹ 7.50 transferred to FEF a/c. Bank charges of ₹ 750 being debited)*	11,03,750 750	 10,69,250 35,250
31 March 2021	Exchange difference a/c To Profit & Loss a/c *(Profit on exchange difference for the year ended 31 March 2021 transferred)*	35,250	 35,250

Illustration 4

Smita Ltd of Mumbai sold goods worth \$ 20,00,000 to Barak Ltd of America on 31st January 2020. Amounts were received from Barak Ltd as follows:

Date	$
07.02.2020	8,00,000
07.03.2020	2,00,000
30.03.2020	10,00,000

Accounts were closed on 31st March every year. Exchange rate of $ 7.

37.07.2020	₹ 61
07.02.2020	₹ 60
07.03.2020	₹ 62
30.03.2020	₹ 58

Pass journal entries in the books of Smita Ltd for the year ended 31 March 2020.

Solution

Journal of Smita Ltd

Date	Particulars	Dr. ₹	Cr. ₹
31 January 2020	Barak Ltd ($20,00,000 x 61) To Sales *(Being goods worth $20,00,000 exported to Barak Ltd. Exchange rate being $1 = 61)*	12,20,00,000	12,20,00,000
01 February 2020	Bank a/c ($ 8,00,000 @ 60) Foreign exchange fluctuations a/c ($ 8,00,000 @1) To Barak Ltd a/c *(Being $ 8,00,000 received from Barak Ltd. Exchange rate difference being $ 1 = ₹1 transferred to FEF a/c)*	4,80,00,000 8,00,000	 4,88,00,000

01 March 2020	Bank a/c ($ 2,00,000 @ 62) To Barak Ltd ($ 2,00,000 @ 61) To Foreign exchange fluctuation a/c ($ 2,00,000 @ 1) *(Being $ 2,00,000 received from Barak Ltd. Exchange rate difference being $ 1 = 1 transferred to FEF a/c)*	1,24,00,000	 1,22,00,000 2,00,000
30 March 2020	Bank a/c ($ 10,00,000 @ 58) Foreign exchange fluctuation a/c To Barak Ltd *(Being $ 10,00,000 received from Barak Ltd. exchange rate diff being $1= ₹3 transferred to FEF a/c)*	5,80,00,000 30,00,000	 6,10,00,000
31 March 2020	Profit & Loss a/c To Foreign exchange fluctuation a/c *(Being balance in foreign exchange fluctuation a/c transferred to Profit & Loss a/c)*	36,00,000	 36,00,000

Illustration 5

Journalise the following transactions in the books of M/s Rumani& Co. for the year ended 31st March 2019:

Date	Transactions
30/11/2018 27/12/2018 13/01/2019	Export of goods worth US $ 1,20,000 to M/s Jackson Ltd Import of goods worth US $ 80,000 from M/s Max Ltd

27/01/2019	Received US $ 50,000 from M/s Jackson Ltd
19/02/2019	Paid to M/s Max Ltd US $ 40,000
31/03/2019	Received from M/s Jackson Ltd US $ 50,000 Paid US $ 40,000 to M/s Max Ltd

Exchange rate per US $ was as follows:

Date	Exchange rate per US $ (□)
30/11/2018	47.00
27/12/2018	48.00
13/01/2019	50.00
27/01/2019	49.00
19/02/2019	45.00
31/03/2019	49.00

Solution

Journal of M/s Rumani and Co.

Date	Particulars	Dr. ₹	Cr. ₹
30/11/2018	Jackson Ltd (1,20,000 x 47) To Sales a/c *(Being goods exported)*	56,40,000	56,40,000
27/12/2018	Purchases a/c (80,000 x 48) To Max Ltd a/c *(Being goods purchased)*	38,40,000	38,40,000
13/01/2019	Bank a/c (50,000 x 50) To Jackson Ltd a/c (50,000 x 47) To Foreign exchange fluctuation a/c (50,000 x 3) *(Being amount received from Jackson Ltd)*	25,00,000	23,50,000 1,50,000

27/01/2019	Max Ltd a/c (40,000 x 48) Foreign exchange fluctuation a/c (40,000 x 1) To Bank a/c (40,000 x 49) *(Being paid to Max Ltd on a/c)*	19,20,000 40,000	 19,60,000
19/02/2019	Bank a/c (50,000 x 45) Foreign exchange fluctuation a/c (50,000 x 2) To Jackson Ltd a/c (50,000 x 47) *(Being received from Jackson Ltd)*	22,50,000 1,00,000	 23,50,000
31/03/2019	Max Ltd a/c (40,000 x 48) Foreign exchange fluctuation a/c (40,000 x 1) To Bank a/c (40,000 x 49) *(Being paid to Max Ltd)*	19,20,000 40,000	 19,60,000
31/03/2019	Jackson Ltd a/c To Foreign exchange fluctuation a/c (20,000 x 2) *(Being transfer of balance on foreign exchange fluctuation a/c)*	40,000	 40,000
31/03/2019	Foreign exchange fluctuation a/c To Profit & Loss a/c (1,50,000 + 40,000 - 40,000 - 1,00,000 - 40,000) *(Being profit transferred to profit & loss a/c)*	10,000	 10,000

Illustration 6

Pass necessary journal entries in the books of N Ltd of Nasik.

A machine was imported on 20th January 2020 from Jackie Chan of China for
US $ 4,00,000

The payment for the same was made as follows:

US $ 3,00,000 on 27th February 2020

US $ 1,00,000 on 15th March 2020

The Exchange rate for $ 1 was as follows:

On 20th January 2020 ₹ 47.00

On 27th February 2020 ₹ 46.50

On 15th March 2020 ₹48.00

The company follows financial year as accounting year.

Solution

Journal of N Ltd

Date	Particulars	Dr. ₹	Cr. ₹
20 January 2020	Machinery a/c To Jackie Chan a/c *(Being purchase of machinery $ 4,00,000 @ 47)*	1,88,00,000	 1,88,00,000
20 February 2020	Jackie Chan a/c To Bank a/c To Exchange difference a/c *(Being amount paid $ 3,00,000 @ 46.5 and foreign exchange loss adjusted $ 3,00,000) (46.5 - 47)*	1,41,00,000	 1,39,50,000 1,50,000
15 March 2020	Jackie Chan a/c Exchange difference a/c To Bank a/c *(Being payment made $ 1,00,000 @ 48 and foreign exchange loss $ 1,00,000) (48-47)*	47,00,000 1,00,000	 48,00,000
31 March 2020	Exchange difference a/c To Profit & Loss a/c *(Being transfer of the balance on exchange difference account to profit & loss account)*	50,000	 50,000

Illustration 7

Godrej Industries Ltd. exported refrigerators and received the amounts as under:

Sales Transactions:

1) On 5th January 2021 to C of Canada amount US $ 20,000 at exchange rate
   ₹ 41 per US $
2) On 7th January 2021 to W of Germany amount US $ 40,000 at exchange rate
   ₹ 41 per US $

Receipt Transactions

1) On 5th February 2021 from C of Canada amount US $ 12,000 at exchange rate ₹42 per US $
2) On 10th February 2021 from W of Germany amount US $ 12,000 at exchange rate ₹ 43 per US $
3) On 15th April 2021 from W of Germany amount US $ 28,000 at exchange rate
   ₹42 per US $
4) On 31st May 2021 from C of Canada amount US $ 8,000 at exchange rate
   ₹ 44 per US $

Exchange rate on 31 March 2021 ₹ 44 per US $

You are required to:

1)Pass necessary Journal entries to record above transactions

Solution

Journal of A Ltd

Date	Particulars	Dr. ₹	Cr. ₹
5 January 2021	C of Canada (20,000 x 41) To Sales a/c *(Being export to C of Canada)*	8,20,000	 8,20,000
7 January 2021	W of Germany (40,000 x 41) To Sales a/c *(Being export to W of Germany)*	16,40,000	 16,40,000
5 February 2021	Bank a/c (12,000 x 42) To Foreign exchange fluctuation a/c (12,000 x 1) To C of Canada (12,000 x 41) *(Being received from C of Canada)*	5,04,000	 12,000 4,92,000

10 February 2021	Bank a/c (12,000 x 43) To Foreign exchange fluctuation a/c (12,000 x 2) To W of Germany (12,000 x 41) *(Being received from W of Germany)*	5,16,000	 24,000 4,92,000
31 March 2021	C of Canada (20,000 – 12,000) x (44 – 41) To Foreign exchange fluctuation a/c *(Being exchange difference transferred to FEF a/c)*	24,000	 24,000
31 March 2021	W of Germany (40,000 – 12,000) x (44 – 41) To Foreign exchange fluctuation a/c *(Being exchange difference transferred to FEF a/c)*	84,000	 84,000
31 March 2021	Foreign exchange fluctuation a/c To Profit & Loss a/c *(Being the balance of FEF a/c transferred to profit & loss a/c)*	1,44,000	1,44,000

Illustration 8

Krishna Ltd imported goods from Skylark Ltd. of USA worth US $ 6,00,000 on 31st October 2020 when the exchange rate was ₹ 65 per US $. The amount was paid in instalments as follows:

Date	Amount of Installment – US $	Exchange Rate per US $ (₹)
15/11/2020	2,00,000	64
15/03/2021	1,00,000	66
20/04/2021	1,00,000	63
10/01/2022	2,00,000	61

Krishna Ltd. closes its books on 31st March every year. On 31st March 2021, the exchange rate was ₹61 per US $.

You are required to pass the Journal Entries in the books of Krishna Ltd. for the years ended 31st March 2021 and 31st March 2022.

Also prepare Foreign Exchange Fluctuation Account in the books of Krishna Ltd. for the relevant years

Solution

Journal of Krishna Ltd

Date	Particulars	Dr. ₹	Cr. ₹
31/10/2020	Purchase a/c (6,00,000 x 65) To Skylark Ltd a/c *(Being goods imported from SkyLark Ltd. exchange rate being 1$ = ₹ 64)*	3,90,00,000	 3,90,00,000
15/11/2020	Skylark Ltd a/c (2,00,000 x 65) To Foreign exchange fluctuation a/c (2,00,000 x 1) To Bank a/c (2,00,000 x 64) *(Being $ 2,00,000 paid, exchange rate being 1$ = 64)*	1,30,00,000	 2,00,000 1,28,00,000
15/03/2021	Skylark Ltd a/c (1,00,000 x 65) Foreign exchange fluctuation a/c (1,00,000 x 1) To Bank a/c (1,00,000 x 66) *(Being $ 1,00,000 paid, exchange rate being 1$ = 66)*	65,00,000 1,00,000	 66,00,000
31/03/2021	Skylark Ltd a/c To Foreign Exchange Fluctuation a/c *(Being creditor's balance adjusted - $ 3,00,000 x ₹ 4, as on 31/03/2021)*	12,00,000	 12,00,000
31/03/2021	Foreign Exchange Fluctuation a/c (2,00,000 + 12,00,000 – 1,00,000) To Profit & Loss a/c *(Being balance in FEF a/c transferred to P&L a/c)*	13,00,000	 13,00,000

20/04/2021	Skylark Ltd a/c (1,00,000 x 61) Foreign exchange fluctuation a/c (1,00,000 x 2) To Bank a/c (1,00,000 x 63) *(Being $ 1,00,000 paid, exchange rate being $ 1 = 63)*	61,00,000 2,00,000	63,00,000
10/01/2022	Skylark Ltd a/c (2,00,000 x 61) To Bank a/c *(Being amount paid, exchange rate being $1 = ₹61)*	1,22,00,000	1,22,00,000
31/03/2022	Profit & Loss a/c To Foreign exchange fluctuation a/c *(Being balance in FEF a/c transferred to P&L a/c)*	2,00,000	2,00,000

Dr. **Foreign Exchange Fluctuation a/c** **Cr.**

Date	Particulars	₹		Date	Particulars	₹
15/03/2022	To Bank a/c	1,00,000		15/11/2020	By Skylark Ltd. a/c	2,00,000
31/03/2021	To P&L a/c (Bal. fig)	13,00,000		31/03/2021	By Skylark Ltd. a/c	12,00,000
		14,00,000				14,00,000
20/04/2021	To Bank a/c	2,00,000		31/03/2022	By P&L a/c (Bal. fig)	2,00,000

7.8 MULTIPLE CHOICE QUESTIONS

1. **Average rate**
   (a) is the exchange rate at the balance sheet date
   (b) is the mean of the exchange rates in force during a period
   (c) is the ratio for exchange of two currencies
   (d) is the rate at which an asset could be exchanged between knowledgeable, willing parties inan arm's length transaction

2. **Currency other than the reporting currency of an enterprise**
   (a) Non-Reporting currency
   (b) U.S. Dollars
   (c) Foreign Currency
   (d) Indian Rupees

3. **Money held and assets and liabilities to be received or paid in fixed or determinable amounts of money**
   (a) Current items
   (b) Non-monetary items
   (c) Monetary items
   (d) Forward Exchange Contract

4. **Currency used in presenting the financial statements**
   (a) Reporting currency
   (b) Non-Foreign Currency
   (c) Official Currency
   (d) Indian Rupees

5. **A change from Rs. 60 = 1 dollar to Rs. 62 = 1 dollar indicates that Rs. has ______**
   (a) Appreciated
   (b) Depreciated
   (c) Falling short in supply
   (d) Increasing in demand

6. **Cash and bank balances are translated at _____ on year end**
   (a) Average rate
   (b) Opening rate
   (c) Exchange rate
   (d) Closing rate

7. **The currency translation is governed by _____**
   (a) AS 2
   (b) AS 7
   (c) *AS 11*
   (d) AS 9

8. **______ occurs when there is a change in the exchange rate between the transaction date and the date of settlement of any monetary items arising from a foreign currency transaction**
   (a) Exchange difference
   (b) Initial recognition
   (c) Outstanding payment
   (d) Closing difference

7.9 PRACTICAL PROBLEMS

Unsolved 1

On 1st January 2020, John Ltd. imported goods worth $ 1,70,000 from Synergy Ltd. USA. The payments were made as under:

Date	Amount ($)	Exchange rate / dollar
10/01/2020	32,000	₹61
15/02/2020	36,000	₹62
15/03/2020	58,000	₹63
15/04/2020	44,000	₹59

Exchange rate on 01/01/2020 was $1 = ₹ 60.

Books are closed on 31st March every year. The exchange rate on 31/03/2020 was $1 = ₹ 63.

Pass necessary journal entries in the books of John Ltd. To record the above transactions and also prepare foreign exchange fluctuation account in the books of John Ltd. for the year ended 31/03/2020 and 31/03/2027.

Unsolved 2

Exported goods to Pashchim Ltd. as on 1st March 2021 for $ 2,00,000 when the exchange rate was 1 US $ = ₹ 62. The amount was received in three instalments as under:

Date	Instalment (US $)	Exchange rate
05/03/2021	80,000	₹61
18/03/2021	70,000	₹63
30/03/2021	50,000	₹60

Pass the journal entries for the above transactions in the books of Purab Ltd. for the year ended 31st March 2027.

Unsolved 3

Journalise the following transactions in the books of M/s. Dhavan and Co. for the year ended 31 March 2027.

Date	Transactions
30/11/2020	Export of goods worth US $ 1,20,000 to M/s Jackson Ltd
27/12/2020	Import of goods worth US $ 40,000 from M/s Mcmilan& Co.
19/02/2021	Received from M/s Jackson Ltd. US $ 50,000
22/03/2021	Paid US $ 20,000 to M/s Mcmilan& Co.

Exchange rate per US $ was as under:

Date	Exchange rate per US $ (₹)
30/11/2020	47.00
27/12/2020	48.00
19/02/2021	45.00
22/03/2021	46.00
31/03/2021	49.00

Unsolved 4

Aparna Ltd. imported goods from Zen Ltd. of USA worth US $ 20,00,000 on 1st November 2019 when the exchange rate was ₹ 63 per US $. The amount was paid to Zen Ltd. in five equal installments on the following dates:

Date	Exchange rate per US $ (₹)
01/12/2019	62
15/01/2020	64
10/02/2020	61
30/04/2020	66
20/06/2020	65

Aparna Ltd. closes the books on 31st March every year. On 31st March 2020 the exchange rate was ₹ 63 per US $.

You are required to pass Journal entries in the books of Aparna Ltd. for the year ended 31st March 2020 and 31st March 2027.

Unsolved 5

Marvel Ltd. imported goods from Larson Ltd. of Germany worth US $ 4,00,000 on 30th November 2021 when the exchange rate was ₹69 per US $. The payment was made as follows:

Date	Amount	Exchange rate per US $
12th November 2021	2,00,000	₹68
17th December 2021	1,00,000	₹70
25th January 2022	1,00,000	₹67

Marvel Ltd. closes its books on 31st March every year. On 31st March 2022, the exchange rate was ₹ 68 per US $.

You are required to pass Journal entries in the books of Marvel Ltd. for the year ended 31st March 2022.

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