

Chapter 6

DISSOLUTION OF PARTNERSHIP

1. Question

X, Y and Z commenced business on 1-1-2007 with capitals of Rs. 50,000, Rs. 40,000 and Rs. 30,000. Profits and losses were shared in the ratio of 4:3:3. Capitals carried interest at 5% p.a. During 2007 and 2008 they made profits of Rs. 20,000 and 25,000 (before allowing interest on capital). Drawings of each partner was Rs. 5,000 p.a. On 31-12-2008, the firm was dissolved. Creditors on that date were Rs. 12,000. The assets realised Rs. 1,30,000 net

Give the ledger accounts to close the books of the firm. **(S.A-147000, Realisation 17000(loss) and bank-130000)**

2. Appollo, Binaca and Colgate, the three partners, give you the following Balance Sheet as on December 31,

| Liabilities | Rs. | Assets | Rs. |
|---------------------------|-----------------|-------------------------|-----------------|
| Appollo's Loan | 15,000 | Plant & Machinery | 30,000 |
| Reserve Fund | 27,000 | Furniture | 12,000 |
| Capital Accounts : | | Stock | 12,000 |
| Appollo | 26,000 | Debtors | 18,000 |
| Binaca | 10,000 | Joint Life Policy | 15,000 |
| Sundry Creditors | 17,000 | Patents & Trade Marks | 12,000 |
| Loan on Hypothecation | | Cash at Bank | 13,000 |
| of Stock | 7,000 | Capital Account—Colgate | 2,000 |
| Joint Life Policy Reserve | 12,000 | | |
| | 1,14,000 | | 1,14,000 |

The partners shared profits and losses in the ratio 5 : 3 : 2. The firm was dissolved and you are given the following information :

- Colgate had taken a loan from insurance company for Rs. 6,000 on the security of the Joint Life Policy. The policy was surrendered and the company paid a sum of Rs. 10,000 after deducting Rs. 6,000 for Colgate's loan and Rs. 500 interest thereon.
- One of the creditors took some patents whose book value was Rs. 10,000 at Rs. 8,000. The balance to that creditor was paid in cash.
- The firm had a typewriter which was depreciated to its full cost. One of the creditors agreed to take it at an agreed value of Rs. 5,000.
- The remaining assets were realised as under :

| | Rs. |
|---------------------|-------------------|
| Plant and Machinery | 15,000 |
| Furniture | 5,000 |
| Stock | 10,000 |
| Debtors | 17,500 |
| Patents | 40% of book value |

- (v) The liabilities were paid and a total discount of Rs. 450 was allowed by the creditors.
 (vi) Appollo was entitled to 2% commission on all assets realised in cash except joint life policy.
 (vii) The expenses of realisation amounted to Rs. 2,284. Prepare the necessary accounts

**Appollo, Binaca And Colgate
Realisation Account**

| | Rs. | | Rs. |
|----------------------------------|-----------------|------------------------------|-----------------|
| Plant and Machinery | 30,000 | Sundry Creditors | 17,000 |
| Furniture | 12,000 | Loan | 7,000 |
| Stock | 12,000 | Joint Life Policy Reserve | 12,000 |
| Debtors | 18,000 | Bank | 10,000 |
| Joint Life Policy | 15,000 | Colgate' Capital Account | 6,500 |
| Patents and Trade Marks | 12,000 | Bank | 48,300 |
| Bank (Loan and Creditors) | 10,550 | Loss Transferred to : | |
| Appollo (Commission : | | Appollo' Capital Account | 6,000 |
| 2% on Rs. 48,300) | 966 | Binaca' Capital Account | 3,600 |
| Bank (Expenses) | 2,284 | Colgate' Capital Account | 2,400 |
| | 1,12,800 | | 1,12,800 |

3. Ram, Rahim, Rajesh and Rahbar are partners carrying business under partnership. Ram gets 1/4th share in profits. The other partners shared the balance equally. The following is their balance sheet as on 31 March.

| | Rs. | | Rs. |
|--------------------|-----------------|------------------------|-----------------|
| Liabilities | | Assets | |
| Capital accounts : | | Plant and machinery | 67,500 |
| Rajesh | 65,000 | Furniture and fixtures | 28,000 |
| Rahbar | 35,000 | Sundry debtors | 50,000 |
| Reserves | 1,00,000 | Less : R.D.D | 15,850 |
| Sundry creditors | 40,000 | Bills receivable | 12,500 |
| | | Trademarks | 7,000 |
| | | Stock | 40,000 |
| | | Capital accounts: | |
| | | Ram | 30,000 |
| | | Rahim | 14,850 |
| | | Cash in hand | 6,000 |
| | 2,40,000 | | 2,40,000 |

The partnership was dissolved on 31 March, on the following terms:

- (i) On this day it was found that a liability for purchase of goods of Rs. 20,000 had been omitted to be recorded and that the goods has been included in stock.
 (ii) The assets realised as follows: Plant and machinery Rs. 60,000; Furniture and fixtures Rs. 18,000; Debtors Rs. 21,000; Stock Rs. 30,000.
 (iii) The creditors including the unrecorded creditors were paid in full. There was a contingent liability in respect of bills discounted for Rs. 3,500.

- (iv) During the year there was an unrecorded asset purchased for Rs. 10,000. Half of the assets was handed over to the vendor of the asset (also unrecorded) in full settlement of his claim. The remaining half was sold for Rs. 4,000.
- (v) The realisation expenses amounted to Rs. 3,850.
- (vi) Mr. Rahim is insolvent and can contribute only Rs. 2,350.
- (vii) The contingent liability did not materialise.

Prepare Realisation Account Partners' Capital Accounts and Cash Account. Working should form part of the answer

**Ram, Rahim, Rajesh And Rahbar
Realisation Account**

| | Rs. | | Rs. |
|-------------------------|----------|------------------------------------|----------|
| Plant and Machinery | 67,500 | Reserve for Doubtful Debts | 15,850 |
| Furniture and Fixtures | 28,000 | Creditors | 60,000 |
| Debtors | 50,000 | (40,000 + 20,000) | |
| Bills Receivable | 12,500 | Cash (Assets Realised) : | |
| Trade Marks | 7,000 | Plant and Machinery | 60,000 |
| Stock | 40,000 | Furniture and Fixtures | 18,000 |
| Cash (Creditors) | 60,000 | Debtors | 21,000 |
| Cash (Expenses) | 3,850 | Stock | 30,000 |
| | | Unrecorded Asset | 4,000 |
| | | | 1,33,000 |
| | | Loss transferred to Capital | |
| | | Accounts : | |
| | | Ram' | 15,000 |
| | | Rahim' | 15,000 |
| | | Rajesh' | 15,000 |
| | | Rahbar' | 15,000 |
| | | | 60,000 |
| | 2,68,850 | | 2,68,850 |

4.

Ram, Shyam and Mohan were partners sharing profits and losses in the ratio of 5 : 3 : 2 respectively. Their balance sheet as on 31 March, 2004 was as follows :

| | Rs. | | Rs. |
|--------------------|-----------------|-------------------------|-----------------|
| Liabilities | | Assets | |
| Sundry creditors | 2,30,000 | Furniture and fixtures | 60,000 |
| General reserves | 1,00,000 | Stock | 2,60,000 |
| Capital accounts : | | Debtors | 4,00,000 |
| Ram | 2,00,000 | | |
| Shyam | 1,60,000 | Less : Provision | |
| Mohan | 30,000 | for bad debts | 20,000 |
| | | Cash | 20,000 |
| | 7,20,000 | | 7,20,000 |

The firm was dissolved as on the above mentioned date. Assets realised as follows :

- (i) Furniture and fixtures : Rs. 20,000; Stock : Rs. 2,00,000 and Debtors : Rs. 2,40,000.
- (ii) Sundry creditors to the extent of Rs. 1,00,000 were paid in full. The total payment to sundry creditors was Rs. 2,09,000. It was found that there was a liability of Rs. 61,000 for damages which had also to be paid.
- (iii) Winding up expenses amounted to Rs. 20,000. Mohan became insolvent and he could pay only 20 paise in a rupee.

(iv) Prepare ledger accounts to close the books of the firm following Garner Vs. Murray rule. (16 marks)

5. A, B, C and D were partners sharing profit and losses in the ratio of 3 : 3 : 2 : 2. Following was the Balance Sheet as on 31 March, 2003 :

| Liabilities | | Rs. | Assets | Rs. |
|-------------------|--------|--------|-----------------------------|--------|
| Sundry Creditors | | 15,500 | Sundry Debtors | 16,000 |
| A's loan | | 10,000 | Less : Provision for | |
| Capital Account : | | | Bad debts | 500 |
| | | | Stock-in-Trade | 10,000 |
| A | 20,000 | | Cash at Bank | 2,000 |
| B | 15,000 | 35,000 | Furniture and Fixture | 4,000 |
| | | | Trade Mark | 7,000 |
| | | | Capital Account : | |
| | | | C | 16,000 |
| | | | D | 6,000 |
| | | | | 22,000 |
| | | 60,500 | | 60,500 |

On 31 March, 2003, the partnership firm was dissolved and B was appointed to realise the assets and pay off the liabilities. He was entitled to receive 5% commission on the amount finally paid to other partners as capital. He was to bear the expenses of realisation.

The assets realised were as follows : Sundry Debtors Rs. 11,000; Stock Rs. 8,000; Furniture and Fixture Rs. 1,000; Trade Mark Rs. 4,000; Creditors were paid off in full; in addition a contingent liability for bills receivable discounted, materialised to the extent of Rs. 2,500. Also there was a joint life insurance policy for Rs. 30,000. This was surrendered for Rs. 3,000. Expenses of realisation amounted to Rs. 500. 'C' was insolvent, but Rs. 3,700 were recovered from his estate.

You are required to show the following accounts in the books of partnership firm :

- (i) Realisation Account
- (ii) Cash Account
- (iii) Partners' Capital Account.

6. A, B and C were equal partners. Their Balance Sheet on 31.12.2000 stood as under, when the firm was dissolved :

| Balance Sheet as at 31.12.2000 | | | | |
|--------------------------------|--|--------|----------------|--------|
| Liabilities | | Rs. | Assets | Rs. |
| Sundry Creditors | | 32,000 | Machinery | 12,000 |
| A's Capital | | 4,000 | Furniture | 3,000 |
| B's Capital | | 3,000 | Sundry Debtors | 5,000 |
| Stock | | 4,000 | | |
| Cash at Bank | | 2,800 | | |
| C's Capital | | 12,200 | | |
| | | 39,000 | | 39,000 |

The Assets realised as under :

Machinery Rs. 6,000; Furniture Rs. 1,000; Sundry Debtors Rs. 4,000 and Stock Rs. 3,000.

The expenses of realisation came to Rs. 1,400.

A's personal properties are not sufficient to pay his personal liabilities, whereas in B's and C's private estate there is a surplus of Rs. 2,400 and Rs. 3,000 respectively.

Show Necessary Accounts closing the books of the Firm.

7. A, B and C were partners. D, a minor was admitted to the benefits of partnership. D was given 20% share. A, B and C were to share the balance profits in the ratio of 2 : 1 : 1. The following is their balance sheet as at 31 March, 2003 :

| Liabilities | Rs. | Assets | Rs. |
|--------------------|------------|------------------------------|------------|
| Creditors | 1,40,000 | Bank | 10,000 |
| Bills Payable | 20,000 | Assets | 2,90,000 |
| Capitals : | | Advertising Suspense Account | 20,000 |
| A | 50,000 | | |
| B | 40,000 | | |
| C | 10,000 | | |
| D | 60,000 | | |
| | 1,60,000 | | |
| | 3,20,000 | | 3,20,000 |

On that date, C became insolvent. It was decided to dissolve the firm. The assets realized Rs. 2,30,000. Creditors were settled for Rs. 1,30,000. Expenses of realization amounted to Rs. 2,000. A dividend of 40 paise in a rupee was received from C'S estate. Close the books of the firm.

8. Question

The firm of Kapil and Dev has four partners and as of 31st March, 1995, its Balance Sheet stood as follows:

Balance Sheet as on 31st March, 1995

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

The partners have been sharing profits and losses in the ratio of 4:4:1:1. It has been agreed to dissolve the firm on 1.4.1995 on the basis of the following understanding :

(a) The following assets are to be adjusted to the extent indicated with respect to the book values and other at book values:

| | |
|-----------|------|
| Land | 200% |
| Building | 120% |
| Computers | 70% |
| Debtors | 95% |
| Stocks | 90% |

(b) In the case of the loan, the lender's are to be paid at their insistence a prepayment premium of 1%.

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

show the Cash A/c, Realisation Account and the Partners' Accounts. (Intermediate – May 1995)
 .(.Realization 24000(loss))

9. Question

The firm of LMS was dissolved on 31.3.95, at which date its Balance Sheet stood as follows:

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

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

Realisations are:

| S.No. | Amount in Rs. |
|-------|---------------|
| 1 | 5,00,000 |
| 2 | 15,00,000 |
| 3 | 15,00,000 |
| 4 | 30,00,000 |
| 5 | 30,00,000 |

The Chartered Accountant firm decided to pay off the partners in 'Higher Relative Capital Method'. You are required to prepare a statement showing distribution of cash with necessary workings.

Realisation profit 15,66,667 credited to partners

**In the Books of M/s LMS
Statement of Piecemeal Distribution
(Under Higher Relative Capital Method)**

| Particulars | Amount available | Creditors | Bank Loan | L's Loan | Capital Accounts | | |
|---|------------------|------------|------------|-----------|------------------|-----------|----------|
| | | | | | L | M | S |
| | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. |
| Balance due | | 2,00,000 | 5,00,000 | 10,00,000 | 15,00,000 | 10,00,000 | 5,00,000 |
| 1st Instalment (including Cash and Bank balances) | 5,00,000 | | | | | | |
| Less: Liquidator's expenses and fees | (1,00,000) | | | | | | |
| | 4,00,000 | | | | | | |
| Less: Payment to Creditors and repayment of Bank Loan in the ratio of 2:5 | (4,00,000) | (1,14,286) | (2,85,714) | — | — | — | — |
| Balance Due | — | 85,714 | 2,14,286 | 10,00,000 | 15,00,000 | 10,00,000 | 5,00,000 |
| 2nd Instalment | 15,00,000 | | | | | | |
| Less: Payment to Creditors and Re- | | | | | | | |

| | | | | | | |
|--|--------------------|------------|------------------|------------------|-----------------|---|
| payment of Bank Loan in full settlement | (3,00,000)(85,714) | (2,14,286) | – | – | – | – |
| | 12,00,000 | – | – | | | |
| Less : Repayment of L's Loan | (10,00,000) | | (10,00,000) | – | – | – |
| | 2,00,000 | | | | | |
| Less : Payment to Mr. L towards relative higher capital (W.N.1) | (2,00,000) | | (2,00,000) | – | – | – |
| Balance Due | – | | 13,00,000 | 10,00,000 | 5,00,000 | |
| 3rd Instalment | 15,00,000 | | | | | |
| Less : Payment to Mr. L towards higher relative capital (W.N.2) | (3,00,000) | | (3,00,000) | | | |
| | 12,00,000 | | | | | |
| Less : Payment to Mr. L and Mr. M towards excess Capital (W.N. 1&2) | (10,00,000) | | (5,00,000) | (5,00,000) | | |
| | 2,00,000 | | 5,00,000 | 5,00,000 | | |
| Less : Payment to all the partners equally | (2,00,000) | | (66,667) | (66,667) | (66,666) | |
| Balance Due | | | 4,33,333 | 4,33,333 | 4,33,333 | |
| 4th Instalment | 30,00,000 | | | | | |
| Less : Payment to all the partners equally | (30,00,000) | | (10,00,000) | (10,00,000) | (10,00,000) | |
| Realisation profit credited to Partners | | | 5,66,667 | 5,66,667 | 5,66,666 | |
| 5th Instalment | 30,00,000 | | | | | |
| Less : Payment to all partners equally | (30,00,000) | | 10,00,000 | 10,00,000 | 10,00,000 | |
| Realisation profit credited to partners | | | 15,66,667 | 15,66,667 | 15,66,667 | |

Statement Showing Surplus Capital

| | | | | | |
|--|-----------|---|-----------|---|----------|
| Profit sharing ratio | 1 | : | 1 | : | 1 |
| Partners | L | | M | | S |
| Balance | 15,00,000 | | 10,00,000 | | 5,00,000 |
| Taking S's Capital as base, the surplus Capital of L and M would be : | 5,00,000 | | 5,00,000 | | 5,00,000 |
| | 10,00,000 | | 5,00,000 | | – |
| Taking M's Capital as base | 5,00,000 | | 5,00,000 | | – |
| Surplus Capital | 5,00,000 | | – | | – |

So L should get Rs. 5,00,000 first and this would bring down his capital account balance from Rs. 15,00,000 to Rs. 10,00,000. Accordingly surplus amounting to Rs. 2,00,000 would be paid to L towards his higher relative capital from the second instalment. The sum of Rs. 15,00,000 from the third instalment would be distributed as under

- (1) Payment of Rs. 3,00,000 will be made to L to discharge higher relative capital. This makes the higher capital of both L and M by Rs. 5,00,000 as compared to the capital of S.
- (2) Payment of Rs. 5,00,000 each to L and M to discharge their higher capitals.
- (3) Balance of Rs. 2,00,000 will be paid equally to L, M and S respectively

i.e., Rs. 66,667 to L Rs. 66,667 to M and Rs. 66,666 to S.

10. Question

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

| Balance Sheet of the firm as on 31.3.1998 | | | |
|--|----------------------|-----------------------|------------------|
| Liabilities | Rs. | Assets | Rs. |
| Sundry Creditors | 5,67,000 | Goodwill A/c | 4,56,300 |
| Bank Overdraft | 6,06,450 | Plant and Machinery | 6,07,500 |
| Joint Life Policy Reserve | 2,65,500 | Furniture | 64,650 |
| Loan from Mrs. Ram | 1,50,000 | Stock | 2,36,700 |
| Capital Accounts: | | Sundry Debtors | 5,34,000 |
| Ram 4,20,000 | | Joint Life Policy | 2,65,500 |
| Rahim 2,25,000 | | Commission Receivable | 1,40,550 |
| Auntony <u>1,20,000</u> | <u>7,65,000</u> | Cash in Hand | <u>48,750</u> |
| | 23,53,950 | | <u>23,53,950</u> |

The following details are relevant for dissolution :

- (i) The joint life policy was surrendered for Rs. 2,32,500.
- (ii) Ram took over goodwill and plant and machinery for Rs. 9,00,000.
- (iii) Ram also agreed to discharge bank overdraft and loan from Mrs. Ram.
- (iv) Furniture and stocks were divided equally between Ram and Rahim at an agreed valuation of Rs. 3,60,000.
- (v) Sundry debtors were assigned to firm's creditors in full satisfaction of their claims.
- (vi) Commission receivable was received in toto in time.
- (vii) A bill discounted was subsequently returned dishonoured and proved valueless Rs. 30,750 (including Rs. 500 noting charges).
- (viii) Ram paid the expenses of dissolution amounting to Rs. 18,000.
- (ix) Auntony agreed to receive Rs. 1,50,000 in full satisfaction of his rights, title and interest in the firm.

You are required to show accounts relating to closing of books on dissolution of the firm. (**Realization 111600(loss)**) (15 Marks) (Intermediate–Nov. 1998)

Answer

Realisation Account

| | <i>Rs.</i> | | <i>Rs.</i> |
|--------------------------------|------------------|----------------------------------|------------------|
| To Goodwill A/c | 4,56,300 | By Sundry Creditors A/c | 5,67,000 |
| To Plant & Machinery A/c | 6,07,500 | By Joint Life Policy Reserve A/c | 2,65,500 |
| To Furniture A/c | 64,650 | By Cash A/c : | |
| To Stock A/c | 2,36,700 | Joint Life Policy | 2,32,500 |
| To Sundry Debtors A/c | 5,34,000 | By Ram's Capital A/c: | |
| To Joint Life Policy A/c | 2,65,500 | Goodwill, Plant and | |
| To Ram's Capital A/c: | | Machinery | 9,00,000 |
| Dissolution Expenses | 18,000 | Furniture, Stocks | <u>1,80,000</u> |
| To Cash A/c : | | | 10,80,000 |
| Bill dishonoured | 30,750 | By Rahim's Capital A/c: | |
| To Partner's Capital Accounts: | | Furnitures stocks | |
| (Profit on realisation) | | | 1,80,000 |
| Ram | 55,800 | | |
| Rahim | 37,200 | | |
| Auntony | <u>18,600</u> | | |
| | <u>1,11,600</u> | | |
| | <u>23,25,000</u> | | <u>23,25,000</u> |

Capital Accounts

| | <i>Ram</i> | <i>Rahim</i> | <i>Auntony</i> | | <i>Ram</i> | <i>Rahim</i> | <i>Auntony</i> |
|--------------------------|------------|--------------|----------------|-----------------------|------------|--------------|----------------|
| | <i>Rs.</i> | <i>Rs.</i> | <i>Rs.</i> | | <i>Rs.</i> | <i>Rs.</i> | <i>Rs.</i> |
| To Realisation A/c: | | | | By Balance b/d | 4,20,000 | 2,25,000 | 1,20,000 |
| Goodwill, Plant | | | | By Bank Overdraft A/c | 6,06,450 | - | - |
| and Machinery | 9,00,000 | - | - | By Loan from | | | |
| Furniture, Stocks | 1,80,000 | 1,80,000 | | Mrs. Ram A/c | 1,50,000 | - | - |
| To Auntony's Capital A/c | 6,840 | 4,560 | - | By Realisation A/c: | | | |
| To Cash A/c | | | 1,50,000 | Dissolutin Expenses | 18,000 | - | - |

| | | | | | | | |
|--------------------|------------------|-----------------|-----------------|----------------------------|------------------|-----------------|-----------------|
| To Cash A/c | 1,63,410 | 77,640 | – | By Realisation A/c: | | | |
| (Balancing figure) | | | | Profit on realisation | 55,800 | 37,200 | 18,600 |
| | | | | By Partners' Capital A/cs: | – | – | – |
| | | | | Ram | – | – | 6,840 |
| | | | | Rahim | – | – | 4,560 |
| | | | | (Note 2) | | | |
| | <u>12,50,250</u> | <u>2,62,200</u> | <u>1,50,000</u> | | <u>12,50,250</u> | <u>2,62,200</u> | <u>1,50,000</u> |

Cash Account

| | Rs. | | Rs. |
|------------------------------|-----------------|--------------------------------|-----------------|
| To Balance b/d | 48,750 | By Realisation A/c: | |
| To Realisation A/c: | | Bill dishonoured | 30,750 |
| Joint Life Policy | 2,32,500 | By Partners' Capital Accounts: | |
| To Commission Receivable A/c | 1,40,550 | Ram | 1,63,410 |
| | | Rahim | 77,640 |
| | | Auntony | <u>1,50,000</u> |
| | <u>4,21,800</u> | | <u>4,21,800</u> |

Notes:

- (1) No entry is required regarding assignment of sundry debtors to sundry creditors in full satisfaction of their claims.
- (2) The amount of excess payments to Auntony (Rs. 1,50,000 less Rs. 1,38,600 i.e., Rs. 11,400) has been debited to Ram and Rahim in the ratio of 3:2.

11. Question

X, Y and Z are partners of the firm XYZ and Co., sharing Profits and Losses in the ratio of 4 : 3 : 2. Following is the Balance sheet of the firm as at 31st March, 2008:

Balance Sheet as at 31st March, 2008

| Liabilities | | Assets | |
|---------------------|------------------|----------------|------------------|
| Partners' Capitals: | | Fixed Assets | 5,00,000 |
| X | 4,00,000 | Stock in trade | 3,00,000 |
| Y | 3,00,000 | Sundry debtors | 5,00,000 |
| Z | 2,00,000 | Cash in hand | 10,000 |
| General Reserve | 90,000 | | |
| Sundry Creditors | <u>3,20,000</u> | | |
| | <u>13,10,000</u> | | <u>13,10,000</u> |

Partners of the firm decided to dissolve the firm on the above said date. It was found that a credit purchase of Rs. 20,000 in January, 2008 had not been recorded in the books of the firm. Fixed assets realized Rs. 5,20,000 and book debts Rs. 4,40,000. Stocks were valued at Rs. 2,50,000 and it was taken over by partner Y.

Creditors allowed discount of 5% and the expenses of realization amounted to Rs. 6,000.
You are required to prepare:

- (i) Realisation account;(loss-99000)
- (ii) Partners capital account; and
- (iii) Cash account.

Answer

(i)

Realisation Account

| | <i>Rs.</i> | | <i>Rs.</i> |
|---------------------------------------|------------------|---|------------------|
| To Fixed assets | 5,00,000 | By Creditors | 3,20,000 |
| To Stock in trade | 3,00,000 | By Cash (5,20,000+4,40,000) | 9,60,000 |
| To Debtors | 5,00,000 | By Y (Stock taken over) | 2,50,000 |
| To Cash - Expenses | 6,000 | By Loss transferred to partners' capital accounts | |
| To Cash -Creditors (3,40,000x 95%) | 3,23,000 | X | 44,000 |
| | | Y | 33,000 |
| | | Z | <u>22,000</u> |
| | <u>16,29,000</u> | | <u>16,29,000</u> |

(ii)

Partners' Capital Accounts

| | <i>X</i> | <i>Y</i> | <i>Z</i> | | <i>X</i> | <i>Y</i> | <i>Z</i> |
|------------------------|-----------------|-----------------|-----------------|--------------------|-----------------|-----------------|-----------------|
| | <i>Rs.</i> | <i>Rs.</i> | <i>Rs.</i> | | <i>Rs.</i> | <i>Rs.</i> | <i>Rs.</i> |
| To Realisation Account | 44,000 | 33,000 | 22,000 | By Balance b/d | 4,00,000 | 3,00,000 | 2,00,000 |
| To Realisation Account | - | 2,50,000 | - | By General reserve | 40,000 | 30,000 | 20,000 |
| To Cash | <u>3,96,000</u> | <u>47,000</u> | <u>1,98,000</u> | | <u>4,40,000</u> | <u>3,30,000</u> | <u>2,20,000</u> |
| | <u>4,40,000</u> | <u>3,30,000</u> | <u>2,20,000</u> | | | | |

(iii)

Cash Account

| | <i>Rs.</i> | | <i>Rs.</i> |
|---|-----------------|--------------------------------|-----------------|
| To Balance b/d | 10,000 | By Realisation A/c (Expenses) | 6,000 |
| To Realisation A/c (Fixed assets and book debts realized) | 9,60,000 | By Realisation A/c (Creditors) | 3,23,000 |
| | | By X | 3,96,000 |
| | | By Y | 47,000 |
| | | By Z | <u>1,98,000</u> |
| | <u>9,70,000</u> | | <u>9,70,000</u> |

12. Question

Mr. B and Mr. E are partners sharing Profits and Losses in the ratio of 3:2. On 30th September, 1993 they admit Mr. C as a partner, and the new profit ratio is 2:2:1. C brought in Fixtures Rs. 3,000 and cash Rs. 10,000, the goodwill being (i) B and E Rs. 20,000 and (ii) C Rs. 10,000 but neither figure is to be brought into the books. On 31st March, 1994, the partnership is dissolved, B retiring and the other two partners forming a company called BC Limited with equal capitals, taking over all remaining assets and liabilities, goodwill being agreed at Rs. 40,000 and brought into books of the company. B agrees to take over the business car at Rs. 3,700: Plant was sold for Rs. 3,000 being in excess of requirements. The profit of the two preceding years were Rs. 17,200 and Rs. 19,000 respectively and it was agreed that for the half year ended 30th September, 1993 the net profit was to be taken as equal to the average of the two preceding years and the current year.

No entries has been made when C entered, except cash. No new book being opened by BC Company Ltd., B agreed to have Rs. 50,000 as loan to the company, secured by 12% Debentures. The following is the Trial Balance as on 31st March, 1994.

| | Debit | Credit |
|--|-----------------|-----------------|
| | Rs. | Rs. |
| Capital Accounts: | | |
| B | | 35,000 |
| E | | 20,000 |
| C | | 10,000 |
| Drawing Accounts: | | |
| B | 6,000 | |
| E | 5,000 | |
| C | 2,800 | |
| Debtors & Creditors | 31,000 | 12,000 |
| Plant (Book value of plant sold Rs. 4,000) | 23,000 | |
| Fixtures | 7,000 | |
| Motor Car | 2,700 | |
| Stock on 31st March, 94 | 13,000 | |
| Bank | | 16,300 |
| P & L A/c for the year | | <u>29,800</u> |
| | <u>1,06,800</u> | <u>1,06,800</u> |

Prepare :

- (1) Goodwill Adjustment Account
- (2) Capital Accounts of Partner
- (3) Profit and Loss Appropriation Account
- (4) Balance Sheet of BC Ltd. as on 31st March, 1994 (20 Marks) (Intermediate–Nov. 1994)

Answer

Goodwill Adjustment Account

| | Rs. | | Rs. |
|---|---------------|---|---------------|
| 1993 | | 1993 | |
| 30th Sept. To Partners' Capital A/c (Goodwill raised) | | 30th Sept. By Partners' Capital A/c (Goodwill written off) (W.N.1) | |
| B | 12,000 | B | 12,000 |
| E | 8,000 | E | 12,000 |
| C | 10,000 | C | 6,000 |
| 1994 | | 1994 | |
| 31st March To Partners' Capital A/cs (goodwill raised) | | 31st March By Goodwill A/c (Goodwill raised in the books transferred) | |
| B | 16,000 | | 40,000 |
| E | 16,000 | | |
| C | 8,000 | | |
| | <u>70,000</u> | | <u>70,000</u> |

(2) Partners' Capital Accounts

| 1994 | B | E | C | 1994 | B | E | C | | |
|--------------------------------|---|---------------|---------------|---------------|---|---------------|---------------|---------------|--------|
| 31st March | | | | 31st March | | | | | |
| To Drawings | | 6,000 | 5,000 | 2,800 | By Balance b/d | | 35,000 | 20,000 | 10,000 |
| To Motor Car | | 3,700 | - | - | By Fixtures (not recorded earlier) | | - | - | 3,000 |
| To 12% Debentures | | 50,000 | - | - | By Profit upto 30th Sept 93 (W.N.2) | 13,200 | 8,800 | | |
| To Goodwill Adjustment Account | | 12,000 | 12,000 | 6,000 | By Profit for 6 months ended 31st March 1994 | 3,120 | 3,120 | 1,560 | |
| To Bank Account | | 7,620 | | | By Goodwill Adjustment A/c | 12,000 | 8,000 | 10,000 | |
| To Bank Account(WN 3) | | - | 7,580 | - | By Goodwill Adjustment A/c | 16,000 | 16,000 | 8,000 | |
| To Share Capital | | - | 31,340 | 31,340 | By Bank A/c (W.N. 3) | - | - | 7,580 | |
| | | <u>79,320</u> | <u>55,920</u> | <u>40,140</u> | | <u>79,320</u> | <u>55,920</u> | <u>40,140</u> | |

**(3) Profit & Loss Appropriation Account
For the year ended 31st March, 1994**

| | Rs. | | Rs. |
|--|---------------|--|---------------|
| To Partners' Capital Account (Distribution of Profit) | | By Profit & Loss A/c (Net profit transferred) | 29,800 |
| B | 16,320 | | |
| E | 11,920 | | |
| C | 1,560 | | |
| | <u>29,800</u> | | <u>29,800</u> |

**(4) Balance Sheet of BC Ltd.
As on 31st March, 1994**

| Liabilities | Rs. | Assets | Rs. |
|-----------------------------------|--------|---------------------------------------|--------|
| Share Capital | 62,680 | Fixed Assets : | |
| Secured Loan : | | Goodwill | 40,000 |
| 12% Debentures | 50,000 | Plant | 19,000 |
| Current Liabilities & Provisions: | | Fixtures | 10,000 |
| Creditors | 12,000 | Current Assets, Loans & Advances : | |

| | | |
|--|----------------------|-----------------|
| | Stock | 13,000 |
| | Debtors | 31,000 |
| | Cash at bank (W.N.4) | 11,680 |
| | | <u>1,24,680</u> |
| | | <u>1,24,680</u> |

Working Notes :

(1) *Goodwill Adjustment as on 30th September, 1993*

| | Total Rs. | B Rs. | E Rs. | C Rs. |
|------------------------------------|---------------|----------|----------|----------|
| Goodwill raised - B and E (3:2) | 20,000 | 12,000 | 8,000 | – |
| C | <u>10,000</u> | | | 10,000 |
| | <u>30,000</u> | | | |

| | | | | |
|---|---------------|---------------|---------------|--------------|
| Goodwill written off in the new profit sharing ratio (2:2:1) | <u>30,000</u> | <u>12,000</u> | <u>12,000</u> | <u>6,000</u> |
|---|---------------|---------------|---------------|--------------|

(2) *Calculation of half yearly profit:*

| | Rs. | Rs. |
|--|-----|---------------|
| Profit of the preceding two years (Rs. 17,200 + Rs. 19,000) | | 36,200 |
| Current year's profit | | <u>29,800</u> |
| | | <u>66,000</u> |

| | |
|--|--------|
| Profit for six months ended 30th September, 1993 (× 66,000) | 22,000 |
| Profit for next six months ended 31st March, 1994 (Rs. 29,800 – Rs. 22,000) | 7,800 |

(3) *Share Capital of BC Ltd:*

| | | |
|---|---------------|--------|
| Total Capital of the firm before conversion - | | |
| E | 38,920 | |
| C | <u>23,760</u> | 62,680 |
| E and C should have have equal share in BC Ltd. | | |
| C should bring in cash ($\frac{1}{2} \times 62,680 - 23,760$) | | 7,580 |
| E should withdraw cash ($38,920 - \frac{1}{2} \times 62,680$) | | 7,580 |

Bank Account

| | Rs. | | Rs. |
|--|---------------|--------------------------------------|---------------|
| (4) To Balance b/d | 16,300 | By B's Capital Account | 7,620 |
| To Plant Account (Sale of Plant) | 3,000 | By E's Capital (Amount withdrawn) | 7,580 |
| To Cs capital A/c (Amount brought in) | 7,580 | By Balance c/d | 11,680 |
| | <u>26,880</u> | | <u>26,880</u> |

| | |
|--|-------|
| (5) Profit and loss on sale and takeover of assets: | Rs. |
| Profit on Motor car taken over (Rs. 3,700 – Rs. 2,700) | 1,000 |
| Loss on sale of plant (Rs. 4,000 – Rs. 3,000) | 1,000 |
| Not effect | Nil |

13. Question

A, B and C were partners in business, sharing profits & losses in the ratio 2:1:1. Their Balance Sheet as at 31.3.97 is as follows:

Balance Sheet as at 31.3.97

(Figures in Rs.'000)

| Liabilities | Rs. | Assets | Rs. |
|-------------------|------------|-----------------|------------|
| Fixed Capital: | | Fixed Assets | 300 |
| A | 200 | Investments | 50 |
| B | 100 | Current Assets: | |
| C | 100 | Stock | 100 |
| Current Accounts: | | Debtors | 60 |
| A | 40 | Cash & Bank | <u>150</u> |
| | | B | 20 |
| Unsecured Loans | <u>200</u> | | 60 |
| | <u>660</u> | | <u>660</u> |

On 1.4.97, it is agreed among the partners that BC (P) Ltd. a newly formed company with B and C having each taken up 100 shares of Rs. 10 each will take over the firm as a going concern including goodwill but excluding cash & bank balances. The following points are also agreed upon:

- Goodwill will be valued at 3 years purchase of super profits.
- The actual profit for the purpose of goodwill valuation will be Rs. 1,00,000.
- Normal rate of return will be 15% on fixed capital.
- All other assets and liabilities will be taken over at book values.
- The purchase consideration will be payable partly in shares of Rs. 10 each and partly in cash. Payment in cash being to meet the requirement to discharge A, who has agreed to retire.
- B and C are to acquire equal interest in the new company.
- Expenses of liquidation Rs. 40,000.

You are required to prepare the necessary Ledger Accounts.

14. Question

Ram, Rahim and Robert are partners of the firm 'RR Traders' for the past 5 years. The partners decided to dissolve the firm consequent to insolvency of partner Robert in October, 2002. The Balance Sheet of the firm as on 31.10.2002 is furnished below. They share profits and losses equally:

| Liabilities | Rs. | Assets | Rs. |
|-------------------|-----------------|------------------------|---------------|
| Capital Accounts: | | Land and Building | 5,00,000 |
| Ram | 4,50,000 | Plant and Machinery | 2,00,000 |
| Rahim | 4,50,000 | Furniture and Fittings | 50,000 |
| Robert | 2,00,000 | Stock in Trade | 3,00,000 |
| General Reserve | 2,10,000 | Debtors | 5,00,000 |
| Creditors | <u>2,90,000</u> | Cash at Hand/Bank | <u>50,000</u> |

16,00,000

16,00,000
0

The partners Ram and Rahim decided to form a new firm 'RR Enterprises' and takeover all the assets and liabilities of the firm at values given below:

| | |
|------------------------|--------------|
| Land and Building | Rs. 3,50,000 |
| Plant and Machinery | Rs. 1,50,000 |
| Furniture and Fittings | Rs. 20,000 |
| Stock in trade | Rs. 2,00,000 |

Debtors include Rs. 3,00,000 due from SK & Co. owned by Robert. (Nothing is recoverable from the said concern). Other debtors can be recovered fully.

Prepare:

- Realisation account, Partners' capital accounts in the books of RR Traders; and
- The Balance Sheet of RR Enterprises (immediately after commencement).

15. Question

Riu, Inu and Sinu were running Partnership business sharing Profits and Losses in 2 : 2 : 1 ratio. Their Balance Sheet as on 31st March, 2003 stood as follows:

Balance Sheet as on 31st March, 2003(Figures in Rs.'000)

| Liabilities | Amount | Amount | Assets | Amount | Amount |
|---------------------|---------------|---------------|-----------------|---------------|---------------|
| | Rs. | Rs. | | Rs. | Rs. |
| Fixed Capital: | | | Fixed Assets | | 400.00 |
| Riu | 300.00 | | Investments | | 50.00 |
| Inu | 200.00 | | Current Assets: | | |
| Sinu | <u>100.00</u> | 600.00 | Stock | 100.00 | |
| Current Accounts: | | | Debtors | 275.00 | |
| Riu | 60.00 | | Cash & Bank | <u>125.00</u> | 500.00 |
| Sinu | <u>40.00</u> | 100.00 | | | |
| Unsecured Loans | | 100.00 | | | |
| Current Liabilities | | <u>150.00</u> | | | _____ |
| | | <u>950.00</u> | | | <u>950.00</u> |

On 01.04.2003, they agreed to form a new company RIS (P) Ltd. with Inu and Sinu each taking up 200 shares of Rs. 10 each, which shall take over the firm as a going concern including Goodwill, but excluding Cash and Bank Balances. The following are also agreed upon:

- Goodwill will be valued at 3 year's purchase of superprofits.
- The actual profit for the purpose of Goodwill valuation will be Rs. 2,00,000.
- The normal rate of return will be 18% per annum on Fixed Capital.

- (d) All other Assets and Liabilities will be taken over at Book values.
 (e) The Purchase Consideration will be payable partly in Shares of Rs. 10 each and partly in cash. Payment in cash being to meet the requirement to discharge Riu, who has agreed to retire.
 (f) Inu and Sinu are to acquire interest in the new company at the ratio 3 : 2.
 (g) Realisation expenses amounted to Rs. 51,000.

Prepare Realisation Account, Cash and Bank Account, RIS (P) Limited Account and Capital Account of Partners.

16. Question

Firm X & Co. consists of partners A and B sharing Profits and Losses in the ratio of 3 : 2. The firm Y & Co. consists of partners B and C sharing Profits and Losses in the ratio of 5 : 3. On 31st March, 2006 it was decided to amalgamate both the firms and form a new firm XY & Co., wherein A, B and C would be partners sharing Profits and Losses in the ratio of 4:5:1.

Balance Sheet as at 31.3.2006

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

The following were the terms of amalgamation:

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

You are required to:

- (i) Show, how the Goodwill value is adjusted amongst the partners.
 (ii) Prepare the Balance Sheet of XY & Co. as at 31.3.2006 by keeping partners capital in their profit sharing ratio by taking capital of 'B' as the basis. The excess or deficiency to be kept in the respective Partners' Current account. (16 Marks) (PE-II – May 2006)

17. Question

'X' and 'Y' carrying on business in partnership sharing Profit and Losses equally, wished to dissolve the firm and sell the business to 'X' Limited Company on 31-3-2006, when the firm's position was as follows:

| Liabilities | Rs. | Assets | Rs. |
|------------------|----------|-------------------|--------------|
| X's Capital | 1,50,000 | Land and Building | 1,00,000 |
| Y's Capital | 1,00,000 | Furniture | 40,000 |
| Sundry Creditors | 60,000 | Stock | 1,00,000 |
| | | Debtors | 66,000 |
| | | Cash | <u>4,000</u> |

3,10,000

3,10,000

The arrangement with X Limited Company was as follows:

- (i) Land and Building was purchased at 20% more than the book value.
- (ii) Furniture and stock were purchased at book values less 15%.
- (iii) The goodwill of the firm was valued at Rs.40,000.
- (iv) The firm's debtors, cash and creditors were not to be taken over, but the company agreed to collect the book debts of the firm and discharge the creditors of the firm as an agent, for which services, the company was to be paid 5% on all collections from the firm's debtors and 3% on cash paid to firm's creditors.
- (v) The purchase price was to be discharged by the company in fully paid equity shares of Rs.10 each at a premium of Rs.2 per share.

The company collected all the amounts from debtors. The creditors were paid off less by Rs.1,000 allowed by them as discount. The company paid the balance due to the vendors in cash.

Prepare the Realisation account, the Capital accounts of the partners and the Cash account in the books of partnership firm.

18. Question

S and T were carrying on business as equal partners. Their Balance Sheet as on 31st March, 2007 stood as follows:

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

The operations of the business was carried on till 30th September, 2007. S and T both withdrew in equal amounts, half the amount of profits made during the current period of 6 months after 10% p.a. had been written off on building and plant and 5% p.a. written off on furniture. During the current period of 6 months, creditors were reduced by Rs.50,000, Bills payables by Rs.11,500 and bank overdraft by Rs.75,000. The Joint life policy was surrendered for Rs.47,500 on 30th September, 2007. Stock was valued at Rs.3,17,000 and debtors at Rs.3,25,000 on 30th September, 2007. The other items remained the same as they were on 31st March, 2007.

On 30th September, 2007 the firm sold its business to ST Ltd. The goodwill was estimated at Rs.5,40,000 and the remaining assets were valued on the basis of the balance sheet as on 30th September, 2007. The ST Ltd. paid the purchase consideration in equity shares of Rs.10 each.

You are required to prepare a Realisation account and Capital accounts of the partners

Answer

Realisation Account

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

Working Notes:(1) Ascertainment of total capital

Balance Sheet as at 30th September, 2007

| <i>Liabilities</i> | <i>Rs.</i> | <i>Assets</i> | <i>Rs.</i> |
|---------------------------|------------------|---------------|------------------|
| Sundry creditors | 2,77,500 | Building | 9,10,000 |
| Bills payable | 51,000 | Less: | |
| | | Depreciation | <u>45,500</u> |
| Bank overdraft | 75,000 | Plant | 1,72,500 |
| Total capital (bal. fig.) | 13,40,000 | Less: | |
| | | Depreciation | <u>8,625</u> |
| | | Furniture | 75,000 |
| | | Less: | |
| | | Depreciation | <u>1,875</u> |
| | | Stock | 3,17,000 |
| | | Debtors | <u>3,25,000</u> |
| | <u>17,43,500</u> | | <u>17,43,500</u> |

(2) Profit earned during six months to 30 September, 2007

| | <i>Rs.</i> |
|--|------------------|
| Total capital (of S and T) on 30 th September, 2007 (W.N.1) | 13,40,000 |
| Capital on 1 st April, 2007 | |
| S | 6,40,000 |
| T | <u>6,60,000</u> |
| | <u>13,00,000</u> |

Net increase (after drawings)

40,000

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

19. (Sale to a Company) On June 30 the Balance Sheet of the partnership business of Bhim and Arjun sharing profits and losses in the ratio of 3 : 2 stood as under :

| Liabilities | Rs. | Assets | Rs. |
|--------------------|------------|-----------------|------------|
| Capital Accounts: | | Building, plant | |
| Bhim | 3,75,800 | and machinery | 3,60,000 |
| Arjun | 2,20,400 | Vehicles: | |
| | 5,96,200 | Car | 40,000 |
| Loan from Arjun | 1,50,000 | Scooter | 20,000 |
| Interest accrued | 4,000 | Investments | 1,60,000 |
| Sundry Creditors | 1,25,000 | Stock | 2,00,000 |
| Bank Overdraft | 79,800 | Book Debts | 1,75,000 |
| | 9,55,000 | | 9,55,000 |

- (a) Bhim and Arjun dissolved the partnership on that date.
 - (b) Building, plant and machinery and stocks were sold to Inderprastha Ltd. in consideration of Rs. 10,00,000 satisfied by cash payment of Rs. 5,50,000 and balance by allotment of 45,000 equity shares of Rs. 10 each.
 - (c) Bhim took over the car at a valuation of Rs. 42,500 and Arjun the scooter for Rs. 17,500.
 - (d) Arjun' loan together with the interest accrued thereon was transferred to his capital account.
 - (e) Cash realisation was (i) on sale of investment Rs. 1,40,000 and (ii) book debts Rs. 1,65,000 while the creditors were settled for Rs. 1,20,000.
 - (f) Costs of realisation were Rs. 7,500 while bank charged interest of Rs. 4,000.
 - (g) Shares in Inderprastha Ltd. were sold in the market at par.
- You are required to prepare :
- (i) The realisation account (ii) The bank account
 - (iii) Partners' capital accounts showing the settlement between them.

**Bhim And Arjun
Realisation Account**

| | Rs. | | Rs. |
|--------------------------------|------------|-----------------------------------|------------|
| Building, Plant and Machinery | 3,60,000 | Sundry Creditors | 1,25,000 |
| Vehicles : | | Inderprastha Ltd. | 10,00,000 |
| Car | 40,000 | Bhim's Capital Account (Cash) | 42,500 |
| Scooter | 20,000 | Arjun's Capital Account (Scooter) | 17,500 |
| Investments | 1,60,000 | Bank Account (Assets Realised): | |
| Stock | 2,00,000 | Investments | 1,40,000 |
| Book Debts | 1,75,000 | Book Debts | 1,65,000 |
| Bank Account (Creditors) | 1,20,000 | | 3,05,000 |
| Bank Account (Expenses) | 7,500 | | |
| Bank Account (Interest) | 4,000 | | |
| Profit transferred to : | | | |
| Bhim's Capital Account | 2,42,100 | | |

| | | |
|-------------------------|-----------|-----------|
| Arjun's Capital Account | 1,61,400 | |
| | 14,90,000 | 14,90,000 |

Inderprastha Ltd.

| | Rs. | | Rs. |
|---------------------|-----------|------------------------------------|-----------|
| Realisation Account | 10,00,000 | Equity Shares in Inderprastha Ltd. | 4,50,000 |
| | | Bank Account | 5,50,000 |
| | 10,00,000 | | 10,00,000 |

Equity Shares in Inderprastha Ltd.

| | Rs. | | Rs. |
|-------------------|----------|--------------|----------|
| Inderprastha Ltd. | 4,50,000 | Bank Account | 4,50,000 |

Bhim's Capital Account

| | Rs. | | Rs. |
|---------------------------|----------|---------------------|----------|
| Realisation Account (Car) | 42,500 | Balance b/d | 3,75,800 |
| Bank Account | 5,75,400 | Realisation Account | 2,42,100 |
| | 6,17,900 | | 6,17,900 |

Arjun's Capital Account

| | Rs. | | Rs. |
|-------------------------------|----------|---------------------|----------|
| Realisation Account (Scooter) | 17,500 | Balance b/d | 2,20,400 |
| Bank Account | 5,18,300 | Realisation Account | 1,61,400 |
| Laon from Arjun Account | 1,54,000 | | |
| | 5,35,800 | | 5,35,800 |

Bank Account

| | Rs. | | Rs. |
|---------------------|-----------|----------------------------|-----------|
| Inderprastha Ltd. | 5,50,000 | Balance b/d | 79,800 |
| Equity Shars in | | Realisation Account (Cash) | 1,20,000 |
| Inderprastha Ltd. | 4,50,000 | Realisation Account | 7,500 |
| Realisation Account | 3,05,000 | Realisation Account | 4,000 |
| (Assets Realised) | | Bhim's Capital Account | 5,75,400 |
| | | Arjun's Capital Account | 5,18,300 |
| | 13,05,000 | | 13,05,000 |

20. Brick and Stone were in partnership sharing profits and losses three-fifth and two-fifth respectively and their Balance Sheet at December 31 was summarised as follows :

| Liabilities | Rs. | Assets | Rs. |
|--------------------|------------|--------------------------|------------|
| Capital Accounts : | | Buildings, Equipment and | |
| Brick | 89,150 | two Motor Cars | 74,000 |
| Stone | 46,000 | Investments at Cost | 32,000 |
| Loan from : | 1,35,150 | Stock of Materials | 35,750 |
| Stone | 10,000 | Debtors | 43,700 |
| Interest due | 1,000 | | |
| Creditors | 23,300 | | |
| Bank Overdraft | 16,000 | | |
| | 1,85,450 | | 1,85,450 |

It was agreed that the partnership be dissolved and that an offer from Walls Ltd. to purchase the buildings, equipment and stock of materials should be accepted on following terms :

- (i) The total purchase price to be Rs. 2,00,000 payable as to Rs. 1,20,000 in cash and balance by the issue to the partners of 5,000 shares of Rs. 10 each in Walls Ltd.
- (ii) Of the Motor Cars, which were excluded from the sale, one to be taken over by Brick at Rs. 8,450 and the other by Stone at Rs. 3,200.
- (iii) The loan from Stone was to be transferred to his capital account together with interest due.
- (iv) The investments were all sold and realised Rs. 29,000.
- (v) The debtors realised Rs. 41,100 only due to bad debts but allowances of Rs. 800 were obtained from creditors.
- (vi) Cost of Rs. 2,100 was incurred and paid by the partnership.
- (vii) It was agreed that the partners would divide the shares from Walls Limited in proportion to their capital accounts after completion of the realisation and their balances in cash.

Required : (a) Realisation Account, (b) The Bank Account, (c) The Partners's Capital Accounts.

**Brick And Stone
Realisation Account**

| | Rs. | | Rs. |
|--------------------------------|----------|-------------------------|----------|
| Building and Motor Cars | 74,000 | Creditors | 23,300 |
| Investments | 32,000 | Walls Ltd. | 2,00,000 |
| Stock | 35,750 | Brick's Capital Account | 8,400 |
| Debtors | 43,700 | Stone's Capital Account | 3,200 |
| Bank (Expenses) | 2,100 | Bank (Assets Realised) | 70,100 |
| Bank (Creditors) | 22,500 | | |
| Profit transferred to : | | | |
| Brick's Capital Account | 57,000 | | |
| Stone's Capital Account | 38,000 | | |
| | 95,000 | | |
| | 3,05,050 | | 3,05,050 |

Brick's Capital Account

| | Rs. | | Rs. |
|---|----------|---------------------|----------|
| Realisation Account | 8,450 | Balance b/d | 89,150 |
| Shares in Walls Ltd. (3/5 of Rs. 80,000) | 48,000 | Realisation Account | 57,000 |
| Bank Account | 89,700 | | |
| | 1,46,150 | | 1,46,150 |

Stone's Capital Account

| | Rs. | | Rs. |
|--|--------|----------------------|--------|
| Realisation Account | 3,200 | Balance b/d | 46,000 |
| Shares in Wall Ltd. (2/5 of Rs. 80,000) | 32,000 | Stone's Loan Account | 11,000 |
| Bank Account | 59,800 | Realisation Account | 38,000 |
| | 95,000 | | 95,000 |

Walls Ltd.

| | Rs. | | Rs. |
|---------------------|----------|----------------------|----------|
| Realisation Account | 2,00,000 | Bank | 1,20,000 |
| | | Shares in Walls Ltd. | 80,000* |
| | 2,00,000 | | 2,00,000 |

* Shares are issued at a premium of Rs. 6 per share.

Bank Account

| | Rs. | | Rs. |
|---------------------|----------|-------------------------|----------|
| Realisation Account | 70,100 | Balance b/d | 16,000 |
| Walls Ltd. | 1,20,000 | Realisation Account | 2,100 |
| | | Realisation Account | 22,500 |
| | | Brick's Capital Account | 89,700 |
| | | Stone's Capital Account | 59,800 |
| | 1,90,100 | | 1,90,100 |

ATTENTION PLEASE

Shares have been divided in the ratio of 1,37,700 : 91,800 or 3:2. The ratio represents the final claims of Brick and Stone after the transfer of balance in capital, loan and realisation accounts in capital accounts respectively

- 21.** A, B and C were partners in a business, sharing profits and losses in the ratio 2 : 1 : 1. Their balance sheet as at 31 March is as follows :

Figures in '000

| Liabilities | Rs. | Assets | Rs. |
|--------------------|------------|---------------|------------|
| Fixed Capitals : | | Fixed Assets | 300 |
| A | 200 | Investments | 50 |
| B | 100 | Stocks | 100 |
| C | 100 | Debtors | 60 |
| Current Accounts : | | Cash and Bank | 150 |
| A | 40 | | |
| B | 20 | | |
| Unsecured Loans | 200 | | |
| | 660 | | 660 |

On 1 April it is agreed among the partners that BC (P) Ltd., a newly formed company with B and C having each taken up 100 shares of Rs. 10 each will take over the firm as a going concern including goodwill but excluding cash and bank balances.

The following points are also agreed upon :

- (i) Goodwill will be valued at 3 year's purchase of super profits.
- (ii) The actual profit for the purpose of goodwill valuation will be Rs. 1,00,000.
- (iii) Normal rate of return will be 15% on fixed capital.
- (iv) All other assets and liabilities will be taken over at book values.
- (v) The purchase consideration will be payable partly in shares of Rs. 10 each and partly in cash. Payment in cash being to meet the requirement to discharge A who has agreed to retire.
- (vi) B and C are to acquire equal interest in the new company.
- (vii) Expenses of liquidation Rs. 40,000.

Prepare necessary ledger accounts.

A, B, And C

| | Rs. |
|---|-----------------|
| Capital Employed on 31 March 2000 (Fixed) | 4,00,000 |
| <hr/> | |
| Calculation of Goodwill | |
| Average Profits (Given) | 1,00,000 |
| Less : Normal Profit at 15% of Rs. 4,00,000 | 60,000 |
| Super Profit | 40,000 |
| Goodwill at 3 year's purchase of super profit (40,000 × 3) | 1,20,000 |
| <hr/> | |
| Calculation of Purchase Consideration | |

| | |
|--------------------------------------|----------|
| Total Assets as per balance sheet | 6,60,000 |
| Less : Cash and bank balances | 1,50,000 |
| | 5,10,000 |
| Add : Goodwill | 1,20,000 |
| Less : Unsecured Loans | 6,30,000 |
| | 2,00,000 |
| | 4,30,000 |

Realisation Account

| | Rs. | | Rs. |
|--------------------------|----------|------------------------------|----------|
| Sundry Assets | 5,10,000 | Unseured Loans | 2,00,000 |
| Goodwill | 1,20,000 | BC (P) Ltd. | 4,30,000 |
| Bank (Expenses) | 40,000 | Loss transferred to : | |
| | | Capital Accounts : | |
| | | A | 20,000 |
| | | B | 10,000 |
| | | C | 10,000 |
| | 6,70,000 | | 40,000 |
| | | | 6,70,000 |

A's Current Account

| | Rs. | | Rs. |
|---------------------|--------|-------------|--------|
| Realisation Account | 20,000 | Balance b/d | 40,000 |
| A's Capital Account | 20,000 | | |
| | 40,000 | | 40,000 |

A's Capital Account

| | Rs. | | Rs. |
|--------------|----------|---------------------|----------|
| Cash Account | 2,80,000 | Balance b/d | 2,00,000 |
| | | A's Current Account | 20,000 |
| | | Goodwill Account | 60,000 |
| | 2,80,000 | | 2,80,000 |

B's Current Account

| | Rs. | | Rs. |
|---------------------|--------|-------------|--------|
| Realisation Account | 10,000 | Balance b/d | 20,000 |
| B's Capital Account | 10,000 | | |
| | 20,000 | | 20,000 |

B's Capital Account

| | Rs. | | Rs. |
|-----------------------------|----------|---------------------|----------|
| C's Capital Account | 10,000 | Balance b/d | 1,00,000 |
| (Capital Adjustment) | | B's Current Account | 10,000 |
| 1,30,000 Goodwill Account | | 30,000 | |
| | 1,40,000 | | 1,40,000 |

C's Capital Account

| | Rs. | | Rs. |
|-----------------------------|----------|---------------------|----------|
| Realisation Account | 10,000 | Balance b/d | 1,00,000 |
| Shares in BC (P) Ltd. | 1,30,000 | Goodwill Account | 30,000 |
| (Capital Adjustment) | | B's Capital Account | 10,000 |
| | 1,40,000 | | 1,40,000 |

Cash and Bank Account

| | Rs. | | Rs. |
|---------------------------------------|----------|---------------------------------------|----------|
| Balance b/d | 1,50,000 | Realisation Account (Expenses) | 40,000 |
| BC (P) Ltd. (Balancing Figure) | 1,70,000 | A's Capital Account | 2,80,000 |
| | 3,20,000 | | 3,20,000 |

BC (P) Ltd.

| | Rs. | | Rs. |
|---------------------|----------|-----------------------------------|----------|
| Realisation Account | 4,30,000 | Cash | 1,70,000 |
| | | Equity Shares in BC (P) Ltd. | 2,60,000 |
| | | (Balancing Figure : 26,000 | |
| | | Shares of Rs. 10 each) | |
| | 4,30,000 | | 4,30,000 |

Proportion of Equity Capital - B : C = 1 : 1

No. of Shares : $\frac{26,000}{2} = 13,000$ Shares for each partner.

2

22. A and B were equal partners. On 31 December their balance sheet was as follows :

| Liabilities | Rs. | Assets | Rs. |
|---------------------|------------|---------------------|------------|
| A's Capital Account | 75,000 | Fixed Assets (Cost) | 1,40,000 |
| B's Capital Account | 35,000 | Less : Depreciation | |
| A's Loan | 10,000 | Provision | 45,000 |
| Sundry Creditors | 26,800 | Joint Life Policy | 6,300 |
| | | Stock | 27,000 |
| | | Debtors | 15,000 |
| | | Cash | 3,500 |
| | 1,46,800 | | 1,46,800 |

On that date, they dissolved the firm. Fixed assets were sold to Jupiter Co. Ltd. for Rs. 1,00,000 payable in the form of 10,000 shares of Rs. 10 each. A took over joint life policy at an agreed valuation of Rs. 5,000. Stock and Debtors realised Rs. 23,700. Expenses came to Rs. 300. A and B agreed to distribute shares in Jupiter Co. Ltd. between themselves in the ratio of their final claims. Sundry Creditors were paid at book value.

Prepare Realisation Account, Capital Accounts and Cash Book.

**A And B
Realisation Account**

| | Rs. | | Rs. |
|-------------------------|----------|-------------------------------------|----------|
| Fixed Assets | 1,40,000 | Provision for Depreciation | 45,000 |
| Joint Life Policy | 6,300 | Sundry Creditors | 26,800 |
| Stock | 27,000 | A's Capital Account (J.L.P.) | 5,000 |
| Debtors | 15,000 | Jupiter Co. Ltd. | 1,00,000 |
| Bank (Creditors) | 26,800 | Bank Account | 23,700 |
| Bank (Expenses) | 300 | Loss transferred to : | |
| | | A's Capital Account | 7,450 |
| | | B's Capital Account | 7,450 |
| | 2,15,400 | | 14,900 |
| | | | 2,15,400 |

A's Loan Account

| | Rs. | | Rs. |
|------|-----|-------------|--------|
| Bank | 100 | Balance b/d | 10,000 |

| | | | |
|------------------------|--------|--|--------|
| Shares in Jupiter Ltd. | 9,900 | | |
| | 10,000 | | 10,000 |

A's Capital Account

| | Rs. | | Rs. |
|-----------------------------------|--------|-------------|--------|
| Realisation Account (J.L.P) | 5,000 | Balance b/d | 75,000 |
| Realisation Account | 7,450 | | |
| Equity Shares in Jupiter Co. Ltd. | 62,550 | | |
| | 75,000 | | 75,000 |

B's Capital Account

| | Rs. | | Rs. |
|-----------------------------------|--------|-------------|--------|
| Realisation Account | 7,450 | Balance b/d | 35,000 |
| Equity Shares in Jupiter Co. Ltd. | 27,550 | | |
| | 35,000 | | 35,000 |

Bank Account

| | Rs. | | Rs. |
|---------------------|--------|-----------------------------|--------|
| Cash Account | 3,500 | Realisation Account | 300 |
| Realisation Account | 23,700 | Realisation | 26,800 |
| | | A's Loan (Balancing Figure) | 100 |
| | 27,200 | | 27,200 |

ATTENTION PLEASE

- (i) A's loan account has to be paid before capital accounts of the partners. Hence Rs. 100, available after meeting the claims of the creditors, shall be paid towards A's loan. The balance in the loan account will have to be paid in equity shares received from Jupiter Co. Ltd.
- (ii) The remaining equity shares would be received by A and B in the ratio their final claims.

23. . Rajesh Khanna and James Bond sharing profits in proportion of 5 : 3 decided to convert their partnership into a limited company under the name of K. Bond Ltd. Their Balance Sheet as at 31 March was as follows :

Balance Sheet As At 31 March

| Liabilities | Rs. | Assets | Rs. |
|-------------------------|----------|---------------------|----------|
| Rajesh Khanna's Capital | 2,20,000 | Camera & Equipments | 1,80,000 |
| James Bond's Capital | 1,50,000 | Shooting vans | 80,000 |
| General Reserve | 60,000 | Copyrights | 20,000 |
| Loan from Rajesh Khanna | 40,000 | Stock of Films | 1,70,000 |
| Bank Overdraft | 80,000 | Bills Receivable | 1,20,000 |
| Sundry Creditors | 50,000 | Sundry Distributors | 30,000 |
| | 6,00,000 | | 6,00,000 |

Various terms and conditions of conversion agreed upon by and between the partners were as under :

- (a) Goodwill of the firm to be valued on the basis of purchase of two years average of profits of the previous three years which were Rs. 70,000, Rs. 75,000 and Rs. 71,000 after setting aside Rs. 20,000 to general reserve each year.
- (b) Camera & equipment to be taken over at the valuation of Rs. 2,00,000.
- (c) 15% Debentures in K. Bond Ltd. to be issued to discharge loan from Rajesh Khanna.
- (d) K. Bond Ltd. to pay off bank overdraft and creditors immediately for which the company should sell stock of films at an estimated value of Rs. 1,72,000.

- (e) Partners to be issued 200-12% preference shares of Rs. 100 each fully paid; 9,600 equity shares of Rs. 100 each, Rs. 50 per share paid up and the balance in cash.
- (f) Partners to distribute equity shares in K. Bond Ltd. in their profit sharing ratio.
- (g) The company made a call of Rs. 25 per equity share and amount due was received.
- You are requested to give :
- (i) The statement showing purchase consideration.
- (ii) Realisation Account and Partners' Capitals Accounts.

**Rajesh Khanna And James Bond
Calculation of Purchase Consideration**

| Assets taken over | Rs. | Rs. |
|--|------------|-----------------|
| Goodwill | 1,84,000 | |
| Camera and Equipments | | 2,00,000 |
| Shooting Vans | | 80,000 |
| Stock of Films | | 1,72,000 |
| Copy Right | | 20,000 |
| Bills Receivable | | 1,20,000 |
| Sundry Distributors | | 30,000 |
| | | 8,06,000 |
| Less: Liabilities taken over | | |
| Bank Overdraft | 80,000 | |
| Creditors | 50,000 | 1,30,000 |
| | | 6,76,000 |
| Purchase Consideration | | |
| Mode of Purchase Consideration | | |
| 5% Debentures in K. Bond Ltd. | | 40,000 |
| 200, 6% Preference Shares of Rs. 100 each | 20,000 | |
| 9,600 Equity Shares of Rs. 100 each, Rs. 50 Paid | 4,80,000 | |
| Bank | | 1,36,000 |
| | | 6,76,000 |

Realisation Account

| | Rs. | | Rs. |
|--------------------------------|------------|------------------|------------|
| Camera and Equipments | 1,80,000 | Bank Overdraft | 80,000 |
| Shooting Vans | 80,000 | Sundry Creditors | 50,000 |
| Copy Right | 20,000 | K. Bonds Ltd. | 6,76,000 |
| Stock of Films | 1,70,000 | | |
| Bills Receivable | 1,20,000 | | |
| Sundry Distributors | 30,000 | | |
| Profit transferred to : | | | |
| Rajesh Khanna's | | | |
| Capital A/c | 1,28,750 | | |
| James Bond's | | | |
| Capital Account | 77,250 | | |
| | 8,06,000 | | 8,06,000 |

Rajesh Khanna's Capital Account

| | Rs. | | Rs. |
|-------------------------------|------------|---------------------|------------|
| Equity Shares in K. Bond Ltd. | 3,00,000 | Balance b/d | 2,20,000 |
| 6% Preference Shares in | 12,500 | General Reserve | 37,500 |
| K. Bond Ltd. | | Realisation Account | 1,28,750 |

| | | |
|--------------|----------|----------|
| Bank Account | 73,750 | |
| | 3,86,250 | 3,86,250 |

James Bond's Capital Account

| | Rs. | | Rs. |
|--------------------------------------|----------|---------------------|----------|
| Equity Shares in K. Bond Ltd. | 1,80,000 | Balance b/d | 1,50,000 |
| 6% Preference Shares in K. Bond Ltd. | 7,500 | General Reserve | 22,500 |
| Bank | 62,250 | Realisation Account | 77,250 |
| | 2,49,750 | | 2,49,750 |

24. A, B and C were partners sharing profit in the ratio of 4 : 3 : 1. Their balance sheet on 31 March was as follows :

| Liabilities | | Rs. | Assets | | Rs. |
|---------------------|--------|------------|---------------|--|------------|
| Creditors | | 26,250 | Buildings | | 60,000 |
| Bank Loan (Secured) | | 8,750 | Plant | | 20,000 |
| Loan from A | | 10,000 | Stock | | 55,000 |
| Capital Accounts : | | | Debtors | | 60,000 |
| A | 70,000 | | | | |
| B | 30,000 | | | | |
| C | 50,000 | | | | |
| | | 1,95,000 | | | 1,95,000 |

They decided to dissolve the business. The assets were realised gradually and the net amounts were distributed immediately as given below :

| | Rs. | | Rs. |
|--------------|------------|---------------|------------|
| May 20 | 22,000 | Expenses paid | 2,000 |
| July 30 | 16,800 | Expenses paid | 1,800 |
| September 20 | 38,000 | Expenses paid | 3,000 |
| November 15 | 45,000 | Expenses paid | 5,000 |
| December 30 | 72,000 | Expenses paid | 7,000 |

Show the distribution of cash and the loss to be borne by the partners.

**A, B, And C
Statement Showing Piecemeal Distribution**

| | Bank Loan Rs. | Creditos Rs. | A's Loan Rs. | A Rs. | Capital Accounts B Rs. | C Rs. |
|----------------------------|---------------------|-----------------|--------------------|---------------|------------------------------|---------------|
| Balance Due | 8,750 | 26,250 | 10,000 | 70,000 | 30,000 | 50,000 |
| May 20 (22,000 - 2,000) | 20,000 | | | | | |
| Paid to Bank | (8,750) | (8,750) | | | | |
| Paid to Creditors | (11,250) | (11,250) | - | - | - | - |
| Balance Due | × | 15,000 | 10,000 | 70,000 | 30,000 | 50,000 |
| July 30 (16,800 - 1,800) | 15,000 | | | | | |
| Paid to Creditors (15,000) | | (15,000) | - | - | - | - |
| Sept. 20 (38,000 - 3,000) | 35,000 | | | | | |
| Paid to A for his loan | 10,000 | × | 10,000 | 70,000 | 30,000 | 50,000 |
| Available for partners | 25,000 | | 10,000 | | | |

Maximum Possible Loss :

$$1,50,000 - 25,000 = 1,25,000$$

| | | | | | |
|--|-------|----------|---------------|---------------|---------------|
| Distributed in the ratio of 4:3:1 | | | (62,500) | (46,875) | (15,625) |
| × | 7,500 | (16,875) | 34,375 | | |
| Deficiency of B distributed between A and C in the ratio of 7 : 5 | | | (9,844) | 7,031 | (7,031) |
| | | | (2,344) | – | 27,344 |
| Deficiency of A charged to C | | | (2,344) | | (2,344) |
| | | | | – | 25,000 |
| Paid to C | | | | – | 25,000 |
| Balance Due | | | 70,000 | 30,000 | 25,000 |
| November 15 (45,000 – 5,000) | | | | | |
| 40,000 | | | | | |
| Maximum Possible Loss : | | | | | |
| 1,25,000 – 40,000 = Rs. 85,000 | | | | | |
| Distributed in the ratio of 4 : 3 : 1 | | | (42,500) | (31,875) | (10,625) |
| | | | | 27,500 | (1,875) |
| | | | | | 14,375 |
| Deficiency of B to be shared by A and C in the ratio of 7:5 | | | (1,094) | 781 | (781) |
| | | | 26,406 | – | 13,594 |
| Payments made | | | 26,406 | – | 13,594 |
| Balance Due | | | 43,594 | 30,000 | 11,406 |
| December 30 (72,000 – 7,000) | | | | | |
| Rs.65,000 | | | | | |
| Maximum Possible Loss : | | | | | |
| 85,000 – 65,000 = Rs. 20,000 | | | | | |
| Distributed in the ratio of 4:3:1 | | | (10,000) | (7,500) | (2,500) |
| | | | | 33,594 | 22,500 |
| | | | | | 8,906 |
| Payments made | | | 33,594 | 22,500 | 8,906 |
| | × | × | × | | |
| Unpaid Amounts | | | 10,000 | 7,500 | 2,500 |

25. A, B and C were in partnership sharing profits and losses in the ratio of 2 : 1 : 1 respectively. On 31 March, they decided to dissolve the partnership when their balance sheet stood as follows :

Balance Sheet as on 31 March

| Liabilities | Rs. | Assets | Rs. |
|--------------------------------|------------|----------------|------------|
| Trade creditors | 5,000 | Premises | 40,000 |
| Loan (on mortgage of premises) | 30,000 | Furniture | 10,000 |
| Loan from partner A | 15,000 | Stock | 70,000 |
| General reserve | 10,000 | Sundry debtors | 50,000 |
| A's Capital Account | 50,000 | Cash | 3,000 |
| B's Capital Account | 40,000 | | |
| C's Capital Account | 23,000 | | |
| | 1,73,000 | | 1,73,000 |

The assets were realised in piecemeal as follows :

April : Premises : Rs. 5,000 (received after meeting in full the liability on the mortgage loan); Sundry debtors : Rs. 6,000; and stock Rs. 7,000.

May: Sundry debtors Rs. 7,500; and stock : Rs. 8,500.

June : Sundry debtors Rs. 20,000; and stock : Rs. 23,000.

| | | | |
|--------------------------------|--------------|--------------|--------------|
| Furniture | 8,000 | | |
| Stock taken by B | 3,000 | | |
| | 51,000 | | |
| Payments made : Stock | | (3,000) | |
| Cash | (25,500) | (9,750) | (12,750) |
| Balance left being loss | 5,500 | 2,750 | 2,750 |

26. The firm if LMS was dissolved on 31 March at which date its balance sheet stood as follows :

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

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

| S.No. | Rs. |
|--------------|------------|
| 1. | 5,00,000 |
| 2. | 15,00,000 |
| 3. | 15,00,000 |
| 4. | 30,00,000 |
| 5. | 30,00,000 |

The chartered accountants firm decided to pay off partners in Higher Relative Capital Method. Prepare a statement showing distribution of cash with necessary workings.

27. L, D and P were in partnership, their respective shares being 1/2, 1/4, and 1/4. The following was their balance sheet on 31 December on which date they decided to dissolve the firm :

| Liabilities | Rs. | Assets | Rs. |
|------------------------------|-----------------|---------------|-----------------|
| Creditors | 15,000 | Cash | 9,000 |
| Income tax payable | 4,000 | Stock | 40,000 |
| Loan from Bank | 30,000 | Debtors | 60,000 |
| (Secured by pledge of stock) | | Furniture | 36,000 |
| D's Loan | 11,000 | Motor Car | 25,000 |
| Capital Accounts : | | | |
| L | 40,000 | | |
| D | 40,000 | | |
| P | 30,000 | | |
| | 1,70,000 | | 1,70,000 |

- Bank could realise only Rs. 25,000 on disposal of stock.
- A sum of Rs. 3,000 was spent on furniture for getting better price.
- Other assets were realised as follows :

Rs.

Rs.

| | | | |
|----------|--------|-------|--------|
| January | 12,000 | April | 30,000 |
| February | 15,000 | May | 35,000 |
| March | 10,000 | | |

The partners distributed the cash as and when available. Show the distribution of cash by proportionate capital method.

**L, D And P
Calculation of Surplus Capital**

| Partners | L | D | P |
|------------------------------------|---------------|---------------|---------------|
| Profit sharing ratio | 1/2 | 1/4 | 1/4 |
| | Rs. | Rs. | Rs. |
| Opening Balance | 40,000 | 40,000 | 30,000 |
| Taking L's Capital as base | (40,000) | (20,000) | (20,000) |
| Surplus Capital | – | 20,000 | 10,000 |
| Taking P's Surplus Capital as base | | 10,000 | 10,000 |
| Surplus Capital | 10,000 | – | |

Order of Payment

First : Expenses on furniture Rs. 3,000 to be incurred or paid.

Second : Rs. 4,000 to be paid for income tax - a preferential payment.

Third : Payment is to be made between bank loan of Rs. 5,000
(Rs. 30,000 – Rs. 25,000) and creditors in the ratio of 1 : 3.

Next Payment is to be made on account of D's loan and lastly payment to the partners on the basis of their relative higher or surplus capitals.

Statement Showing Piecemeal Distribution

| | Income Tax Payable | Bank Loan | Creditors | D's Loan | L | Capital D | P |
|--|--------------------|--------------|---------------|---------------|---------------|---------------|---------------|
| Balance due | 4,000 | 5,000 | 15,000 | 11,000 | 40,000 | 40,000 | 30,000 |
| January Realisation including cash in hand : Rs. 21,000 (Paid Rs. 3,000 for furniture; Rs. 4,000 for income tax; Rs. 14,000 for bank loan and creditors in the ratio of 1:3) | (4,000) | (3,500) | (10,500) | | | | |
| Balance Due | – | 1,500 | 4,500 | 11,000 | 40,000 | 40,000 | 30,000 |
| February Realisation Rs. 15,000 (Rs. 6,000 for bank loan and creditors, Rs. 9,000 for D's Loan) | | (1,500) | (4,500) | (9,000) | | | |
| Balance Due | | – | – | 2,000 | 40,000 | 40,000 | 30,000 |
| March Realisation Rs. 10,000 (Rs., 2,000 to D's Loan) | | | | | | | |

| | | | | | |
|---------------------------------|---|-------|---------------|--------------|--------------|
| Rs. 8,000 to D) | | 2,000 | - | 8,000 | - |
| Balance Due | - | - | 40,000 | 32,000 | 30,000 |
| April Realisation | | | | | |
| Rs. 30,000 | | | | | |
| (Rs. 2,000 to D | | | - | (2,000) | |
| Rs. 20,000 to D and P | | | | (1,000) | (1,000) |
| in ratio of 1 : 1 | | | (4,000) | (2,000) | (2,000) |
| Rs. 8,000 to L, D and | | | | | |
| P in the ratio of 2:1:1) | | | | | |
| | | | 36,000 | 18,000 | 18,000 |
| Balance Due | | | | | |
| May Realisation | | | | | |
| Rs. 35,000 | | | | | |
| to L : D : P in the | | | | | |
| ratio of 2 : 1 : 1 | | | (17,500) | (8,750) | (8,750) |
| Loss on realisation | | | 18,500 | 9,250 | 9,250 |

2 28 ICWA

Illustration 1 :

A and B carry on independent business and their position on 31.03.2008 are reflected in the Balance Sheet given below:

| Liabilities | A | B | Assets | A | B |
|--------------------------------|----------|----------|------------------------|----------|----------|
| Sundry creditors for purchases | 1,10,000 | 47,000 | Stock-in-trade | 1,70,000 | 98,000 |
| Sundry creditors for expenses | 750 | 2,000 | Sundry Debtors | 89,000 | 37,000 |
| Bills payable | 12,500 | - | Cash at bank | 13,000 | 7,500 |
| Capital A/C | 1,53,000 | 95,500 | Cash in hand | 987 | 234 |
| | | | Furniture and Fixtures | 2,750 | 1,766 |
| | | | Investments | 513 | — |
| | 2,76,250 | 1,44,500 | | 2,76,250 | 1,44,500 |

Both of them want to form a partnership firm from 1.4.2008 in the style of AB & Co. on the following terms:

- (a) The capital of the partnership firm would be Rs 3,00,000 and to be contributed by them in the ratio of 2: 1.
- (b) The assets of the individual businesses would be evaluated by C at which values, the firm will take them over and the value would be adjusted against the contribution due by A and B.
- (c) C gave his valuation report as follows:

Assets of A : Stock-in trade to be written-down by 15% and a portion of the sundry debtors amounting to Rs 9,000 estimated uncollectible; furniture and fixtures to be valued at Rs 2,000 and investments to be taken at market value of Rs 1,000.

Assets of B : Stocks to be written-up by 10% and sundry debtors to be admitted at 85% of their value; rest of the assets to be assumed at their book values.

- (d) The firm is not to consider any creditors other than the dues on account of purchases made.

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 1.4.2008.

29.

30.

Solution

**In the books of A
Journal**

| | | Dr. | Cr. |
|-------|---|----------|----------|
| Date | Particulars | Rs | Rs |
| 2008 | Realisation A/c Dr. | 2,76,250 | |
| Apr.1 | To Stock-in-trade A/c | | 1,70,000 |
| | To Sundry Debtors A/c | | 89,000 |
| | To Cash at bank A/c | | 13,000 |
| | To Cash in hand A/c | | 987 |
| | To Furniture & Fixture A/c | | 2,750 |
| | To Investments A/c | | 513 |
| | (Transfer of different Assers to Realisation A/c) | | |
| | Creditors for Goods A/c Dr. | 1,10,000 | |
| | Creditors for Expenses A/c Dr. | 750 | |
| | Bills Payable A/c Dr. | 12,500 | |
| | To Realisation A/c | | 1,23,250 |
| | (Transfer of different liabilities to Realisation A/c) | | |
| | AB & Co. A/C (Note 1) Dr. | 1,18,987 | |
| | To Realisation A/c | | 1,18,987 |
| | (Purchase consideration due) | | |
| | Capital A/c Dr. | 34,013 | |
| | To Realisation A/c | | 34,013 |
| | (Realisation loss transferred to Capital A/c) | | |
| | Capital in AB & Co. A/c Dr. | 1,18,987 | |
| | To AB & Co. A/c | | 1,18,987 |
| | (Settlement of purchase consideration) | | |
| | Capital A/c Dr. | 1,18,987 | |
| | To Capital in AB & Co. A/c | | 1,18,987 |
| | (Final adjustment to close the books of account) | | |

In the books of B
Journal

| Date | Particulars | Rs | Rs |
|----------------|---|-----------------|---|
| 2008 Apr. 1 | Realisation A/c Dr. To Stock-in-trade A/c To Sundry Debtors A/c To Cash at bank A/c To Cash in hand A/c To Furniture & Fixture A/c (Transfer of different Assers to Realisation A/c) | 1,44,500 | 98,000 37,000 7,500 234 1,766 |
| | Creditors for Goods A/c Dr. Creditors for Expenses A/c Dr. To Realisation A/c (Transfer of different liabilities to Realisation A/c) | 47,000 2,000 | 49,000 |
| | AB & Co. A/c Dr. To Realisation A/c (Purchase consideration due) | 1,01,750 | 1,01,750 |
| | Realisation A/c Dr. To Capital A/c (Realisation loss transferred to Capital A/c) | 6,250 | 6,250 |
| | Capital in AB & Co. A/c Dr. To AB & Co. A/c (Settlement of purchase consideration) | 1,01,750 | 1,01,750 |
| | Capital A/c Dr. To Capital in AB & Co. A/c (Final adjustment to close the books of account) | 1,01,750 | 1,01,750 |

~~~~~

Balance Sheet of AB & Co. as on 01.04.2008

| Liabilities                     | Rs       | Assets.                                   | Rs       |
|---------------------------------|----------|-------------------------------------------|----------|
| Capital Accounts:               |          | Furniture & Fittings                      | 3,766    |
| A                               | 2,00,000 | Investments                               | 1,000    |
| B                               | 1,00,000 | Stock-in-trade                            | 2,52,300 |
| Sundry creditors for purchases. | 1,57,000 | Sundry Debtors                            | 1,11,450 |
| Bills payable                   | 12,500   | Cash at bank Rs(13000+7500+81013 - 1,750) | 99,763   |
|                                 |          | Cash in hand (Rs 987 + 234)               | 1,221    |
|                                 | 4,69,500 |                                           | 4,69,500 |

**Working: Calculation of purchase consideration:**

|                                                         | A(Rs)    | B(Rs)     |
|---------------------------------------------------------|----------|-----------|
| Furniture                                               | 2,000    | 1,776     |
| Investments                                             | 1,000    | -         |
| Stock-in-trade                                          | 1,44,500 | 1,07,800  |
| Sundry Debtors                                          | 80,000   | 31,450    |
| Cash at bank                                            | 13,000   | 7,500     |
| Cash in hand                                            | 987      | 234       |
|                                                         | 2,41,487 | 1,48,750  |
| Less: Sundry creditors for purchases                    | 1,10,000 | 47,000    |
| Bills payable (Assumed arising out of credit purchases) | 12,500   | -         |
| Net assets taken over by the AB & Co.                   | 1,18,987 | 1,01,750  |
| Capital as per agreement                                | 2,00,000 | 1,00,000  |
| Less: Net assets taken over                             | 1,18,987 | 1,01,750  |
| Cash to be introduced (+) / withdrawn(-)                | (+81,013 | (-) 1,750 |

31. Following are the Balance Sheets of partners X and Y (sharing profits and losses in the ratio of their capital) and the sole proprietor Z as on 31.03.2008:

| Liabilities | Partners X & Y | Sole Proprietor Z | Assets           | Partners X & Y | Sole Proprietor Z |
|-------------|----------------|-------------------|------------------|----------------|-------------------|
| Capital X   | 15,000         | -                 | Goodwill         | -              | 2,000             |
| Y           | 5,000          | -                 | Building         | 25,000         | -                 |
| Z           | -              | 10,000            | Stock            | 10,000         | 15,000            |
| Creditors   | 26,000         | 13,000            | Bills receivable | 5,000          | 5,000             |
| Loan        | -              | 5,000             | Debtors          | 4,000          | 6,000             |
|             |                |                   | Cash in Hand     | 2,000          | -                 |
|             | 46,000         | 28,000            |                  | 46,000         | 28,000            |

The partners decided to admit Z as a partner and Z agreed to amalgamate his business with that of the partnership on the following terms :

1. The new profit-sharing ratio among X, Y, and Z will be in the ratio of their capitals.
2. The building is to be appreciated by Rs 15,000 and provision @ 5 % is to be created on debtors.
3. The goodwill of the partnership is valued at Rs 10,000 and of the sole proprietor at Rs 1,500; both are to be recorded in the books.
4. Stock is to be taken at Rs 9,200 and Rs 16,800, respectively of the firm and the sole proprietor.

Prepare ledger accounts to close the books of Z, to make necessary Journal entries in the books of the firm and prepare the Balance Sheet of the re-constituted partnership.

Calculation of purchase consideration

| Assets taken over:                   | Rs     | Rs            |
|--------------------------------------|--------|---------------|
| Goodwill                             | 1,500  |               |
| Stock                                | 16,800 |               |
| Bills receivable                     | 5,000  |               |
| Debtors                              | 6,000  | 29,300        |
| <b>Less: Liabilities taken over:</b> |        |               |
| Creditors                            | 13,000 |               |
| Loan                                 | 5,000  |               |
| Provision for bad debts              | 300    | 18,300        |
| <b>Purchase consideration</b>        |        | <b>11,000</b> |

In the books of Z  
Realisation Account

Dr

Cr.

| Date | Particulars             | Rs     | Date | Particulars           | Rs     |
|------|-------------------------|--------|------|-----------------------|--------|
|      | To Goodwill A/c         | 2,000  |      | By Creditors A/c      | 13,000 |
|      | To Stock A/c            | 15,000 |      | By Loan A/c           | 5,000  |
|      | To Bills receivable A/c | 5,000  |      | By Partners X & Y A/c | 11,000 |
|      | To Debtors A/c          | 6,000  |      |                       |        |
|      | To Capital A/c - Profit | 1,000  |      |                       |        |
|      |                         | 29,000 |      |                       | 29,000 |



### Capital Account

| Dr.  |                       |        | Cr   |                    |        |
|------|-----------------------|--------|------|--------------------|--------|
| Date | Particulars           | Rs     | Date | Particulars        | Rs     |
|      | To Partners X & Y A/c | 11,000 |      | By Balance b/d     | 10,000 |
|      |                       | 11,000 |      | By Realisation A/c | 1,000  |
|      |                       |        |      |                    | 11,000 |

### Partners X & Y Account

| Dr   |                    |        | Cr   |                |        |
|------|--------------------|--------|------|----------------|--------|
| Date | Particulars        | Rs     | Date | Particulars    | Rs     |
|      | To Realisation A/c | 11,000 |      | By Capital A/c | 11,000 |
|      |                    | 11,000 |      |                | 11,000 |

### In the Books of X & Y

#### Journals

| Date | Particulars                                                                                                                                                                                     | L.F                      | Rs                                | Rs                               |
|------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|-----------------------------------|----------------------------------|
|      | Building A/c<br>To Revaluation A/c<br>( Increase in the Value of Building)                                                                                                                      | Dr.                      | 15,000                            | 15,000                           |
|      | Revaluation A/c<br>To Stock A/c<br>To Provision for Bad Debt A/c<br>(Decrease in the value of assets )                                                                                          | Dr.                      | 1,000                             | 800<br>200                       |
|      | Revaluation A/c<br>To X Capital A/c<br>To Y Capital A/c<br>(Profit on revaluation transferred)                                                                                                  | Dr.                      | 14,000                            | 10,500<br>3,500                  |
|      | Goodwill A/c<br>To X Capital A/c<br>To Y Capital A/c<br>(Goodwill raised in the books)                                                                                                          | Dr.                      | 10,000                            | 7,500<br>2,500                   |
|      | Goodwill A/c<br>Stock A/c<br>Bills Receivable A/c<br>Debtors A/c<br>To Loan A/c<br>To Creditors A/c<br>To Provision for Bad Debt A/c<br>To Z Capital A/c<br>(Assets and liabilities taken over) | Dr.<br>Dr.<br>Dr.<br>Dr. | 1,500<br>16,800<br>5,000<br>6,000 | 5,000<br>13,000<br>300<br>11,000 |





**Balance Sheet of X, Y & Z (after absorption) as at 01.04.08**

| Liabilities     | Rs     | Assets           |        | Rs     |
|-----------------|--------|------------------|--------|--------|
| Capital Account |        | Goodwill         |        | 11,500 |
| - X             | 33,000 | Building         |        | 40,000 |
| - Y             | 11,000 | Stock            |        | 26,000 |
| - Z             | 11,000 | Bills Receivable |        | 10,000 |
| Loan            | 5,000  | Debtors          | 10,000 |        |
| Creditors       | 39,000 | Less: Provision  | 500    | 9,500  |
|                 |        | Cash in hand     |        | 2,000  |
|                 | 99,000 |                  |        | 99,000 |

