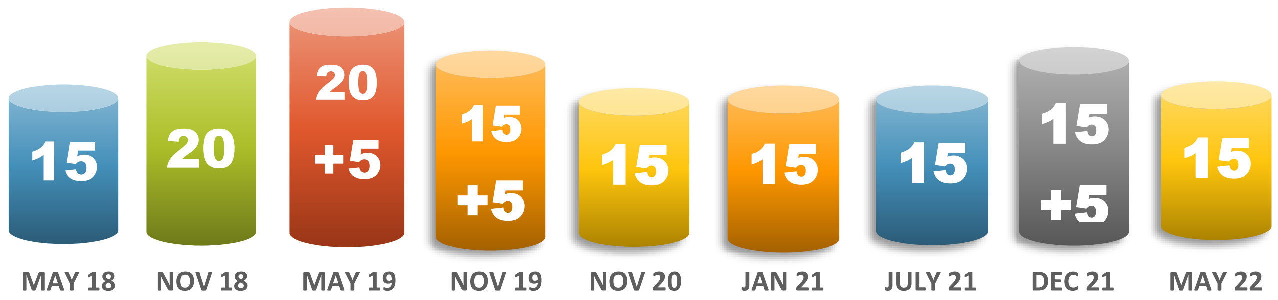
PARTNERSHIP ACCOUNTS

CH 3

*"Don't be pushed around by the **Fears** in your **Mind**. Be led by the **Dreams** in your **Heart**."*

WEIGHTAGE IN PAST YEAR EXAMS



TOPIC 1A1: DISSOLUTION

ACCOUNTING ENTRIES: BOOKS OF FIRM

1. Transfer of Assets to Realisation Account

Realisation A/c Dr.	
To Sundry Assets A/c	

- By Name of Individual Assets
- To be transferred at *BOOK VALUE*
- Do not transfer the following.
  - Fictitious Assets
  - P & L debit balance
  - Cash & Bank balance
  - Current & Capital Account debit balance
- If any asset is having corresponding provision, then gross value to be transferred.

2. Transfer of Outsider's Liabilities to Realisation Account

Liabilities A/c Dr.	
To Realisation A/c	

- By Name of Individual Liabilities
- To be transferred at *BOOK VALUE*
- Do not transfer the following
  - Partner's capital & current account balances
  - Reserves and surplus
  - Partner's Loan
- Any provision appearing on asset side is to be debited in this entry

3. Realisation of All Assets (whether recorded or unrecorded)

When assets are sold for cash	Cash/Bank A/c Dr. To Realisation Account
When assets are taken away by the partners	Partner's Capital A/c Dr. To Realisation Account
When assets are given away to any of the creditors towards his dues	No Entry

4. Discharge of Outsider's Liabilities (whether recorded or unrecorded)

When the liabilities are discharged in cash	Realisation Account Dr. To Cash/Bank A/c
When any of the partners agree to discharge the liability	Realisation Account Dr. To Partner's Capital A/c

5. Realisation Expenses:

When expenses are paid by the firm on its own behalf	Realisation Account Dr. To Cash/Bank A/c
When expenses are paid by a partner on firm's behalf	Realisation Account Dr. To Partner's Capital A/c
When any of the partners agree to do dissolution work for an agreed remuneration	Realisation Account Dr. To Partner's Capital A/c
When expenses are paid by a partner who has to bear such expenses	No Entry
When expenses are paid by firm on behalf of a partner who has to bear such expenses	Partner's Capital A/c Dr. To Cash/Bank A/c

6. Payment of Partner's Loan /Advance

Partner's Loan A/c Dr. To Capital A/c (Only to the extent of Dr. Balance in Capital A/c) To Cash/Bank A/c

7. Ascertainment of Profit/Loss on Realisation A/c & Transfer in Profit Sharing Ratio (PSR)

A: If Profit
Realisation A/c Dr. To All Partner's Capital A/c
B: If Loss
All Partner's Capital A/c Dr. To Realisation A/c

8. Transferring Accumulated Profits/Reserves & Losses to Partner's Capital Account in PSR

A: For Transfer of Accumulated Profits & Reserves
General Reserves A/c Dr. P&L A/c Dr. To All Partner's Capital A/c
B: For Transfer of Accumulated Losses
All Partner's Capital A/c Dr. To Misc. Expenditure A/c To P & L A/c (Dr. balance)

Realisation Account

To Sundry Assets (Individually at Book value) × Cash & Bank × Losses × Adv. to partner, Current/Capital (Dr. Bal.)		By Sundry Liabilities (Outsider) (Individually at Book value) × Capital/Current A/c × Reserves & Profits × Partner's Loan A/c	
To Cash & Bank / Partner's Capital A/c (Paid value) (Taken over value) [Including unrecorded Liabilities / Dissolution Expenses]		By Cash & Bank / Partner's Capital A/c (Realised value) (Taken over value) [Including unrecorded Assets]	
To Profit trfd. to Partner's Cap. A/c (B.f.) (PSR)		By Loss trfd. to Partner's cap. A/c (B.f.) (PSR)	

NOTES:

1) Debtors & Provision for Doubtful Debts

Balance Sheet

Liabilities		Assets	
		Debtors 50000 - Provision for Doubtful debt (3000)	47000

Realisation A/c

To Debtors	50000	By Provision for Doubtful Debt	3000

2) Treat Goodwill just like any other normal asset.

Transfer Goodwill to Realisation A/c by passing entry:

Realisation A/c — Dr.

To Goodwill A/c

3) If any asset is assigned for settlement of liability
Only transfer to Realisation A/c with no further effect.

Balance Sheet

Liabilities		Assets	
Creditors	100000	Stock	80000

Realisation A/c

To Stock	80000	By Creditors	100000

4) Question is silent on payment of liabilities & realisation of assets.

For Liabilities : Full payment is made.

For Assets: Depends on nature & value of asset.

Option 1: Assume full value realised.

Option 2 : Assume Nil value realised

[Eg. Goodwill, Prepaid Expenses, etc.]

TOPIC 1A2: DISSOLUTION (Theory)

DISSOLUTION

A partnership is dissolved or comes to an end on:

- ❖ expiry of the term for which it was formed or completion of the venture for which it was entered into
- ❖ death of a partner
- ❖ insolvency of a partner.

However, the partners or remaining partners (in case of death or insolvency) may continue to do the business. In such case there will be a new partnership but the firm will continue. When the business comes to an end then only it will be said that the firm has been dissolved

A firm stands dissolved in the following cases:

- ➢ The partners agree that the firm should be dissolved
- ➢ All partners except one become insolvent
- ➢ The business becomes illegal
- ➢ In case of partnership at will, a partner gives notice of dissolution and
- ➢ The court orders dissolution

The court has the option to order dissolution of a firm in the following circumstances:
(a) Where a partner has become of unsound mind;
(b) Where a partner suffers from permanent incapacity;
(c) Where a partner is guilty of misconduct of the business;
(d) Where a partner persistently disregards the partnership agreement;
(e) Where a partner transfers his interest or share to a third party;
(f) Where the business cannot be carried on except at a loss; and
(g) Where it appears to be just and equitable.

SETTLEMENT OF ACCOUNTS (Section 48 of the Partnership Act)

A. Treatment of Losses: Losses including deficiencies of capital are paid,
- → first out of profits,
- → next out of capital and,
- → lastly, if necessary, by the partners individually in their PSR.

B. Application of Assets: The assets of firm, including any sums contributed by the partners to make up deficiencies of capital have to be applied in the following manner and order:
- → paying the debts of the firm to third parties;
- → pay off loans from partners
- → pay off capitals of partners
- → Any surplus to be divided among the partners in their PSR

Dissolution before expiry of a fixed term

A partner who, on admission, pays a premium to the other partners with a stipulation that the firm will not be dissolved before the expiry of a certain term, will be entitled to a suitable refund of premium or of such part as may be reasonable, if the firm is dissolved before the term has expired.
No claim in this respect will arise if:
(1) the firm is dissolved due to the death of a partner;
(2) the dissolution is mainly due to the partner's (claiming refund) own misconduct; and
(3) the dissolution is in pursuance of an agreement containing no provision for the return of the premium or any part of it.

The amount to be repaid will be such as is reasonable having regard to the terms upon which the admission was made and to the length of period agreed upon and that already expired. Any amount that becomes due will be borne by other partners in their profit- sharing ratio.

Distinction Between Dissolution of Partnership & Dissolution of Firm

S. No.	Dissolution of Partnership	Dissolution of Partnership Firm
1	Refers to the discontinuance of the relation between the partners of firm.	Implies that entire firm ceases to exist, including the relation among all partners
2	In event of dissolution of the partnership, the business continues as usual, but the partnership is reconstituted.	In event of the dissolution of the firm, the business ceases to end.
3	There is no intervention by the court.	Court has inherent power to intervene. By its order, a firm can be dissolved.
4	Economic relationships among partners may remain same or change.	Economic relationship among partners comes to an end.
5	Assets and liabilities are revalued. New balance sheet is prepared	Assets are sold and realized. Liabilities are paid off.
6	Revaluation account is prepared	Realization account is prepared.
7	Books of accounts are not closed.	Books of accounts are closed.

TOPIC 1B: INSOLVENCY OF PARTNER

CONSEQUENCES OF INSOLVENCY OF A PARTNER

1. The partner adjudicated as insolvent ceases to be a partner on the date on which the order of adjudication is made.
2. The firm is dissolved on the date of the order of adjudication unless there is a contract to the contrary.
3. The estate of insolvent partner is not liable for any act of firm after the date of order of adjudication
4. The firm cannot be held liable for any acts of insolvent partner after the date of order of adjudication.

LOSS ARISING FROM INSOLVENCY OF A PARTNER

When a partner is unable to pay his debt due to the firm he is said to be insolvent & share of loss is to be borne by other solvent partners as per decision: English case of Garner vs Murray According to this decision, solvent partners have to bear the loss due to insolvency of a partner and have to categorically put that the normal loss on realisation of assets to be borne by all partners (including insolvent partner) in the profit sharing ratio but a loss due to insolvency of a partner has to be borne by the solvent partners in the capital ratio.

The provisions of the Indian Partnership Act are not contrary to Garner vs. Murray rule. However, if the partnership deed provides for a specific method to be followed in case of insolvency of a partner, the provisions as per deed should be applied.

Insolvency of Partner
[GARNER vs MURRAY]

1) Deficiency / Shortage on account of insolvency of partner to be borne by remaining (other) solvent partners (having credit balance) in their last agreed capital ratio

2) Realisation loss to be brought in cash by all the solvent partners (including Dr. Balance)

Last Agreed Capital Ratio
(upto the date of dissolution of firm)

- Fixed capital → Ratio of Fixed capital
- Fluctuating capital →

Capital Balances in B/s	xx
± Effect of Reserves, Profits & Losses	xx
	xx

Capital Ratio on Insolvency

- If they are maintaining capitals at fixed amounts then all adjustments regarding their share of profits, interest on capitals, drawings, interest on drawings, salary etc. are done through Current Accounts, which may have debit or credit balances and insolvency loss is distributed in the ratio of fixed capitals.
- But if capitals are not fixed and all transactions relating to drawings, profits, interest, etc., are passed through Capital Accounts then Balance Sheet of the business should not exhibit Current Accounts of partners & capital ratio will be determined after adjusting all reserves

& accumulated profits, all drawings, all interest on capitals & on drawings to the date of dissolution but before adjusting profit or loss on Realisation Account.

- If some partner is having a debit balance in his Capital Account and is not insolvent then he cannot be called upon to bear loss on account of the insolvency of other partner.

Non Applicability of Garner vs Murray

1. When the solvent partner has a debit balance in the capital account. Only solvent partners will bear the loss of capital deficiency of insolvent partner in their capital ratio. If incidentally a solvent partner has a debit balance in his capital account, he will escape the liability to bear the loss due to insolvency of another partner.
2. When the firm has only two partners.
3. When there is an agreement between the partners to share the deficiency in capital account of insolvent partner.
4. When all the partners of the firm are insolvent.

Insolvency of all Partners

- When the liabilities of the firm cannot be paid in full out of the firm's assets as well as personal assets of the partners, then all the partners of the firm are said to be insolvent. Under such circumstances don't transfer creditors (Outsider Liabilities) to Realisation A/c.
- Creditors (Outsider Liabilities) may be paid the amount available including the amount contributed by the partners in the ratio of their outstanding amount.

TOPIC 2: PIECEMEAL DISTRIBUTION

Generally, the assets sold upon dissolution of partnership are realised only in small instalments over a period of time. In such circumstances, the choice is either to distribute whatever is collected or to wait till the whole amount is collected. Usually, the first course is adopted. In order to ensure that the distribution of cash among the partners is in proportion to their interest in the partnership concern either of the two methods described below may be followed for determining the order in which the payment should be made.

PIECEMEAL DISTRIBUTION
(Instalments)

Sequence of Distribution:

1) Provide for Dissolution/Realisation Expenses (Estimated)
(Actual Amount decided in last instalment)
2) Outsider Liabilities [If >1, distribute in o/s Amount ratio until they are fully paid]
3) Partner's Loan
4) Partner's capital* → Highest Relative capital Method
→ Maximum loss Method

* Capital Balances	xx
+ Reserves & Surplus	xx
- P&L A/c (Dr.)	(xx)
- Loan to Partner	(xx)
	xx

TOPIC 3: SALE OF BUSINESS TO COMPANY OR CONVERSION OF FIRM INTO COMPANY

ABC & Co. —Transfer of Business→ ABC Pvt. Ltd. OR X Ltd.

Purchase Consideration
[Value at which business is purchased]

Net Payment Method		Net Assets Method	
Value of shares	xx	Assets	xx
+ Value of Debentures	xx	(−) Outsider Liabilities	(xx)
+ Cash/Bank etc.	xx		xx
	xx		

Note: If taken over value not given consider book value.

BOOKS OF FIRM

Realisation Account

To Sundry Assets (Individually at Book value whether taken over or not) — Cash & Bank ✗ (Trfd. if taken over); Losses ✗; Adv. to partner, Current/Capital (Dr. Bal.) ✗	By Sundry Liabilities (Outsider) (Individually at Book value whether taken over or not) — Capital/Current A/c ✗; Reserves & Profits ✗; Partner's Loan A/c ✗ (Trfd. if taken over)
To Cash & Bank / Partner's Capital A/c (Liabilities not taken over: paid)	By Purchasing Co. Ltd. A/c (Purchase Consideration)
To Profit trfd. to Partner's cap. A/c (B.f.) (PSR)	By Cash & Bank / Partner's Capital A/c (Assets not taken over: Realised)
	By Loss trfd. to Partner's cap. A/c (B.f.) (PSR)

BOOKS OF COMPANY

1. Record the acquisition of business from Firm

Business Purchase A/c	Dr.	(with the Purchase Consideration)
To M/s Firm A/c		

2. Taking over Assets & Liabilities of Firm

Assets A/c	Dr.	(Individually at taken over value)
Goodwill A/c	Dr.	(Difference)
To Liabilities A/c		(Individually at taken over value)
To Business Purchase A/c		(with the Purchase Consideration)
To Capital Reserve A/c		(Difference)

3. Making Payment to Firm

M/s Firm A/c	Dr.
Discount on issue of debentures A/c	Dr.
To Equity share capital	
To Preference share capital	
To Debentures	
To Securities Premium	
To Bank A/c	

4. Record Reimbursement of Realisation expenses of the Firm

Goodwill/Capital Reserve A/c	Dr.
To Bank A/c	

5. Eliminate unrealized profit included in the unsold stock/ stock reserve

Goodwill/Capital Reserve A/c	Dr.
To Stock A/c	

6. Elimination of Inter-company/firm owing

Liability A/c	Dr.
To Asset A/c	
i.e.	
Creditors A/c	Dr.
To Debtors A/c	
Bills Payable A/c	Dr.
To Bills Receivable A/c	

TOPIC 4: AMALGAMATION OF FIRMS

AMALGAMATION OF FIRMS

Step 1: Revaluation of Assets & Liabilities

Any profit/(loss) on revaluation to be transferred to old partners in old ratio.

Step 2: Preparation of Capital Accounts: Old Firms

Existing Balances
± Reserves & Surplus (Old Ratio)
± Revaluation of Assets & Liabilities

Step 3: Adjustment of Goodwill

	A (1)	B (1)	C (2)	D (2)
Credit in Old Ratio (G/W: 1)	✓	✓		
Credit in Old Ratio (G/W: 2)			✓	✓
Debit In New Ratio [G/W (1) + (2)]	(✓)	(✓)	(✓)	(✓)
	✓	✓	✓	✓

Step 4: Adjustment of Partner's capital:

1) Question will specify how to adjust capital in PSR.
2) Adjustment difference can be through cash / current A/c as specified.

ASSIGNMENT QUESTIONS

TOPIC 1A: NORMAL DISSOLUTION

Question 1 *(ICAI Study Material)* *Pg no._____*

P, Q and R are partners sharing profits and losses as to 2:2:1. Their Balance Sheet as on 31st March, 2020 is as follows:

Liabilities	₹	Assets	₹
Partners' Capitals:		Plant and Machinery	1,08,000
P	1,20,000	Fixtures	24,000
Q	48,000	Stock in trade	60,000
R	24,000	Sundry debtors	48,000
Reserve Fund	60,000	Cash in hand	60,000
Creditors	48,000		
	3,00,000		**3,00,000**

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

	₹
Plant and Machinery	1,02,000
Fixtures	18,000
Stock	84,000
Sundry debtors	44,400

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

(i) Realisation account.
(ii) Partners' capital accounts.
(iii) Cash account.

Question 2 *Pg no._____*

X, Y and Z were in partnership sharing profits and losses in the ratio of 3:2:1 respectively. They decided to dissolve the partnership firm on 31.3.2020, when the Balance Sheet of the firm appeared as under:

Balance Sheet of the firm as on 31.3.2020

Liabilities	₹	Assets	₹
Sundry Creditors	8,50,500	Plant and Machinery	15,95,700
Bank Overdraft	9,09,675	Furniture	96,975
Joint Life Policy Reserve	3,98,250	Stock	3,55,050
Loan from Mrs. X	2,25,000	Sundry Debtors	8,01,000
Capital Accounts:		Joint Life Policy	3,98,250
X	6,30,000	Commission Receivable	2,10,825
Y	3,37,500	Cash in Hand	73,125
Z	1,80,000		
	35,30,925		35,30,925

The following details are relevant for dissolution:

(i) The joint life policy was surrendered for ₹ 3,48,750.
(ii) X took over plant and machinery for ₹ 13,50,000.
(iii) X also agreed to discharge bank overdraft and loan from Mrs. X.
(iv) Furniture and stocks were divided equally between X and Y at an agreed valuation of ₹ 5,40,000.

(v) Sundry debtors were assigned to firm's creditors in full satisfaction of their claims.
(vi) Commission receivable was received in time.
(vii) A bill discounted was subsequently returned dishonoured and proved valueless ₹ 46,125 (including ₹ 750 noting charges).
(viii) X paid the expenses of dissolution amounting to ₹ 27,000.

You are required to prepare:
(i) Realisation Account (ii) Partners' Capital Accounts and (iii) Cash Account.

Question 3 *(RTP May 2020) (Similar)* *Pg no._____*

Read, Write and Add give you the following Balance Sheet as on 31st March, 2020.

Liabilities	₹	Assets	₹
Read's Loan	15,000	Plant and Machinery at cost	30,000
Capital Accounts:		Fixtures and Fittings	2,000
Read 30,000		Stock	10,400
Write 10,000		Debtors 18,400	
Add 2,000	42,000	Less: Provision (400)	18,000
Sundry Creditors	17,800	Joint Life Policy	15,000
Loan on Hypothecation of Stock	6,200	Patents and Trademarks	10,000
Joint Life Policy Reserve	12,400	Cash at Bank	8,000
	93,400		93,400

The partners shared profits and losses in the ratio of Read 4/9, Write 2/9 and Add 1/3. Firm was dissolved on 31st March, 2020 and you are given the following information:

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

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

e) The liabilities were paid and a total discount of ₹ 500 was allowed by the creditors.
f) The expenses of realization amounted to ₹ 2,300.

Prepare Realisation Account, Bank Account & Partners Capital Accounts in columnar form.

TOPIC 1B: INSOLVENCY OF PARTNER

Question 4 *(ICAI Study Material)* *Pg no._____*

A, B, C and D sharing profits in the ratio of 4:3:2:1 decided to dissolve their partnership on 31st March 2020 when their balance sheet was as under:

Liabilities	₹	Assets	₹
Creditors	15,700	Bank	535
Employees Provident Fund	6,300	Debtors	15,850
Capital Accounts:		Stock	25,200

A	40,000		Prepaid Expenses	800
B	20,000	60,000	Plant & Machinery	20,000
			Patents	8,000
			C's Capital A/c	3,200
			D's Capital A/c	8,415
		82,000		82,000

Following information is given to you :-

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

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

Question 5 *(ICAI Study Material)* *Pg no._____*

P, Q and R were partners sharing profits and losses in the ratio of 3 : 2 : 1, no partnership salary or interest on capital being allowed. Balance sheet on 30th June, 2020 is as follows:

Liabilities	₹	Assets	₹
Fixed Capital		Fixed Assets:	
P- 20,000		Trademark	40,000
Q- 20,000		Freehold Property	8,000
R- 10,000	50,000	Plant and Equipment	12,800
Current Accounts:		Motor Vehicle	700
P- 500		Current Assets:	
Q- 9,000	9,500	Stock	3,900
Loan from P	8,000	Trade Debtors 2,000	
Trade Creditors	12,400	Less: Provision (100)	1,900
		Cash at Bank	200
		R's Current Account	400
		Profit and Loss Account	12,000
	79,900		79,900

On 1st July, 2020 the partnership was dissolved. Motor Vehicle was taken over by Q at a value of ₹ 500 but no cash passed specifically in respect of this transaction. Sale of other assets realised the following:

	₹
Trademark	Nil
Freehold Property	7,000
Plant and Equipment	5,000
Stock	3,000
Trade Debtors	1,600

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

(a) Cash and Bank Account,
(b) Realisation Account, and
(c) Partners Fixed Capital Accounts (after transferring Current Accounts' balances).

Question 6 *Pg no._____*

A, B, C and D are sharing profits and losses in the ratio 5 : 5 : 4 : 2. Frauds committed by C during the year were found out and it was decided to dissolve the partnership on 31st March, 2020 when their Balance Sheet was as under:

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

Following information is given to you:

(i) A cheque for ₹ 4,300 received from debtor was not recorded in the books and was misappropriated by C.

(ii) Investments costing ₹ 5,400 were sold by C at ₹ 7,900 and the funds transferred to his personal account. This sale was omitted from the firm's books.

(iii) A creditor agreed to take over investments of the book value of ₹ 5,400 at ₹ 8,400. The rest of the creditors were paid off at a discount of 2%.

(iv) The other assets realized as follows:

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

(v) The bills payable were settled at a discount of ₹ 400.

(vi) The expenses of dissolution amounted to ₹ 4,900

(vii) It was found out that realization from C's private assets would only be ₹ 4,000.

Prepare the necessary Ledger Accounts.

Question 7 *Pg no._____*

Neptune, Jupiter, Venus and Pluto had been carrying on business in partnership sharing profits and losses in the ratio of 3 : 2 : 1 : 1. They decide to dissolve the partnership on the basis of the following Balance Sheet as on 30th April, 2020:

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

(i) The other assets realized as follows:

Debtors	24,000
Stock	60,000
Furniture	16,000
Premises	90,000

(ii) Expenses of dissolution amounted to ₹ 4,000.
(iii) Further creditors of ₹ 12,000 had to be met.
(iv) General Reserve unlike Capital Reserve was built up by appropriation of profits.

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

Question 8 *(ICAI Study Material)* Pg no._____

M/s X, Y and Z who were in partnership sharing profits and losses in the ratio of 2:2:1 respectively, had the following Balance Sheet as at December 31, 2020:

Liabilities	₹	Assets	₹
Capital: X 29,200		Fixed Assets	40,000
Y 10,800		Stock	25,000
Z 10,000	50,000	Book Debts 25,000	
Z's Loan	5,000	Less: Provision (5,000)	20,000
Loan from Mrs. X	10,000	Cash	1,000
Sundry Trade Creditors	25,000	Advance to Y	4,000
	90,000		90,000

The firm was dissolved on the date mentioned above due to continued losses. After drawing up the balance sheet given above, it was discovered that goods amounting to ₹ 4,000 have been purchased in November, 2020 and had been received but the purchase was not recorded in books.

Fixed assets realised ₹ 20,000; Stock ₹ 21,000 and Book Debt ₹ 20,500. Similarly, the creditors allowed a discount of 2% on the average. The expenses of realisation come to ₹ 1,080. X agreed to take over the loan of Mrs. X. Y is insolvent, and his estate is unable to contribute anything. Give accounts to close the books; work according to the decision in Garner vs. Murray.

Question 9 *(ICAI Study Material)* Pg no._____

Amal and Bimal are in equal partnership. Their Balance Sheet stood as under on 31st March, 2020 when the firm was dissolved:

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

The assets realised as under:

Plant & Machinery	1,250
Furniture	150
Debtors	400
Stock	500

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

Show necessary ledger accounts to close the books of the firm.

TOPIC 2: PIECEMEAL DISTRIBUTION

Question 10 (RTP May 2019) (Similar) Pg no._____

A partnership firm was dissolved on 30th June, 2020. Its Balance Sheet on the date of dissolution was as follows:

Liabilities		₹	Assets	₹
Capital Accounts			Cash	10,800
A	76,000		Sundry Assets	1,89,200
B	48000			
C	36,000	1,60,000		
Loan A/c – B		10,000		
Sundry Creditors		30,000		
		2,00,000		2,00,000

The assets were realized in instalments and the payments were made on the proportionate capital basis. Creditors were paid ₹ 29,000 in full settlement of their account. Expenses of realization were estimated to be ₹ 5,400 but actual amount spent was ₹ 4,000. This amount was paid on 15th September.

Draw up a statement showing distribution of cash, which was realized as follows:

	₹
On 5th July, 2020	25,200
On 30th August, 2020	60,000
On 15th September, 2020	80,000

The partners shared profits and losses in the ratio of 2 : 2 : 1. Prepare a statement showing distribution of cash amongst the partners by 'Highest Relative Capital' method.

Question 11 (ICAI Study Material) Pg no._____

The partners A, B and C have called you to assist them in winding up the affairs of their partnership on 30th June, 2020. Their Balance Sheet as on that date is given below:

Liabilities	₹	Assets	₹
Sundry Creditors	17,000	Cash at Bank	6,000
Capital Accounts		Sundry Debtors	22,000
A	67,000	Stock in trade	14,000
B	45,000	Plant and Equipment	99,000
C	31,500	Loan-A	12,000
		Loan-B	7,500
	1,60,500		1,60,500

(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 2020

₹ 16,500 – collected from Debtors; balance is uncollectable.
₹ 10,000 – received from sale of entire stock.
₹ 1,000 – liquidation expenses paid.
₹ 8,000 – cash retained in the business at the end of the month.

August 2020

₹ 1,500 – liquidation expenses paid. As part payment of his Capital, C accepted a piece of equipment for ₹ 10,000 (book value ₹ 4,000).
₹ 2,500 – cash retained in the business at the end of the month.

September 2020

₹ 75,000 – received on sale of remaining plant and equipment.

₹ 1,000 – liquidation expenses paid. No cash retained in the business.

Required : Prepare a schedule of cash payments as of September 30, showing how the cash was distributed by applying Highest Relative Capital Method.

Question 12 *(ICAI Study Material)* Pg no._____

Ajay Enterprises, a Partnership firm in which A,B and C are three partners sharing profits and losses in the ratio of 4 : 3 : 3. the balance sheet of the firm as on 31st December, 2020 is as below:

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

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

	₹
I	18,650
II	17,320
III	10,000
IV	7,000
Dissolution expenses were provided for estimated amount of	3,000
The creditors were settled finally for	15,900

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

Question 13 Pg no._____

Amar, Akbar and Antony are in partnership. The following is their Balance Sheet as at March 31, 2020 on which date they dissolved their partnership. They shared profit in the ratio of 5:3:2.

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

It was agreed to repay the amounts due to the partners as & when the assets were realised.

	₹
April 15, 2020	60,000
May 1, 2020	1,46,000
May 31, 2020	94,000

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

Question 14 *(ICAI Study Material)* *Pg no._____*

A, B & C are partners sharing profits & losses in ratio 5:3:2. Their capitals were 9,600, 6,000 and 8,400 respectively. After paying creditors, the liabilities and assets of the firm were:

	₹		₹
Liability for interest on loans from:		Investments	1,000
Spouses of partners	2,000	Furniture	2,000
Partners	1,000	Machinery	1,200
		Stock	4,000

The assets realised in full in the order in which they are listed above. Prepare statement showing distribution of cash as & when available, applying maximum possible loss procedure.

Question 15 *(Inter Nov 2018) (20 Marks)* *Pg no._____*

E, F and G were partners in a firm, sharing profits and losses in the ratio of 3:2:1, respectively. Due to extreme competition, it was decided to dissolve the partnership on 31st December, 2020. The balance sheet on that date was as follows:

Liabilites		Amount	Assets	Amount
Capital accounts:			Machinery	1,54,000
E	1,13,100		Furniture & fittings	25,800
F	35,400		Investments	5,400
G	31,500	1,80,000	Stock	97,700
Current accounts:			Debtors	56,400
E	26,400		Bank	29,700
G	6,000	32,400	Current account: F	18,000
Reserves		1,08,000		
Loan account: G		15,000		
Creditors		51,600		
		3,87,000		3,87,000

The realization of assets is spread over the next few months as follows:
February, Debtors, ₹ 51,900; March, Machinery, ₹ 1,39,500; April, Furniture, etc. ₹ 18,000; May, G agreed to take over investment at ₹ 6,300; June, Stock, ₹ 96,000.
Dissolution expenses, originally provided, were ₹ 13,500, but actually amounted to ₹ 9,600 and were paid on 30th April. The partners decided that after creditors were settled for ₹ 50,400, all cash received should be distributed at the end of each month in the most equitable manner. You are required to prepare a statement of actual cash distribution as received using "Maximum loss basis" method.

Question 16 *(ICAI Study Material)* *Pg no._____*

Daksh Associates is a reputed firm. On account of certain misunderstanding between the partners, it was decided to dissolve the firm as on 31st December, 2019. Their Balance Sheet as on 31st December, 2019 was follows:

Liabilities		₹	Assets	₹
Capitals:			Land and Buildings	7,00,000
Daksh	3,00,000		Other Fixed Assets	3,00,000
Yash	2,00,000		Stock in Trade	2,00,000
Siddhart (Minor)	1,00,000	6,00,000	Debtors	4,00,000
Trade Loans		3,00,000	Bills Receivable	1,50,000

Bank Overdraft	3,00,000	Goodwill	30,000
Other Loans	2,00,000	Cash	20,000
Creditors	2,00,000		
Siddhart's Loan	2,00,000		
	18,00,000		18,00,000

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

		₹
1-1-2020	Debtors	3,50,000
15-1-2020	Fixed Assets	4,00,000
1-2-2020	Debtors	50,000
15-2-2020	Bills Receivable	1,40,000
1-3-2020	Fixed Assets	50,000
15-3-2020	Land and Buildings	8,00,000

Prepare a statement showing how the money received on various dates will be distributed:
(a) The actual expenses of realization amounted to ₹ 20,005.
(b) The firm is solvent.
(c) The profit sharing ratio was as under:

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

(d) The final dissolution is made on 15th March, 2020

TOPIC 3: SALE OF BUSINESS TO COMPANY OR CONVERSION OF FIRM INTO COMPANY

Question 17 *(ICAI Study Material)* *Pg no._____*

Ramesh, Roshan & Rohan were partners of the firm '3R Enterprises' sharing profits & losses in the ratio of 3:2:1 respectively. On 31st March, 2020 their Balance Sheet stood as follows:

Liabilities	₹	Assets	₹
Ramesh's Capital A/c	16,80,000	Land and Buildings	14,00,000
Roshan's Capital A/c	11,60,000	Machinery	11,00,000
Rohan's Capital A/c	6,70,000	Furniture	6,10,000
General Reserve	6,30,000	Stock	8,40,000
Creditors	6,00,000	Debtors	6,00,000
		Cash at Bank	1,90,000
	47,40,000		47,40,000

On the above-mentioned date, the partners decided to convert their firm into a private limited company and named it '3R Enterprises (Private) Ltd.'. The company took over all the assets including cash at bank and all the creditors for ₹ 42,00,000 payable in the form of fully paid equity shares of ₹10 each. It recorded in its books, land and buildings at ₹ 16,40,000, machinery at ₹ 9,90,000 and created a provision for bad debts @ 5% on debtors. The expenses of the take-over came to ₹ 23,000 which were paid and borne by the company.
The expenses of getting the company incorporated were ₹ 57,000.
The partners distributed the company's shares amongst themselves in their profit sharing ratio. They settled their accounts by paying or receiving cash.
Prepare Realization Account and all the partners' capital accounts in the firm's ledger and pass journal entries in the books of the company for all of its transactions mentioned above.

Question 18 *(ICAI Study Material)* Pg no._____

Prabhu & Co. is a partnership firm consisting of Mr. Prabhu, Mr. Bhola and Mr. Shiv who share profits and losses in the ratio of 2:2:1 and Bhagwan Ltd. is a company doing similar business. Following is summarized Balance Sheet of the firm and that of the company as at 31.3.2020:

Liabilities	Prabhu & Co.	Bhagwan Ltd.	Assets	Prabhu & Co.	Bhagwan Ltd.
Capital:			Plant & Machinery	2,50,000	8,00,000
Equity shares of ₹ 10 each		10,00,000	Furniture & Fixture	25,000	1,12,500
Partners' capital:			Inventories	1,00,000	4,25,000
Prabhu	1,00,000		Debtors	1,00,000	4,12,500
Bhola	1,50,000		Cash at bank	5,000	2,00,000
Shiv	50,000		Cash in hand	20,000	50,000
General reserve	50,000	3,50,000			
Creditors	1,50,000	6,50,000			
	5,00,000	20,00,000		5,00,000	20,00,000

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

Partners of Prabhu & Co. agreed to divide the shares issued by Bhagwan Ltd. in the profit sharing ratio and bring necessary cash for settlement of their capital. The creditors of Prabhu & Co. includes ₹ 50,000 payable to Bhagwan Ltd. An unrecorded liability of ₹ 12,500 of Prabhu & Co. must also be taken over by Bhagwan Ltd. Prepare:

(i) Realisation A/c, Partners' capital A/cs & Cash in hand/Bank account in the books of Prabhu & Co.

(ii) Pass journal entries in the books of Bhagwan Ltd. for acquisition of Prabhu & Co. and draw the balance sheet after takeover.

Question 19 Pg no._____

Riu, Inu and Sinu were running Partnership business sharing Profits and Losses in 2 : 2 : 1 ratio. Their Balance sheet as on 31st March, 2020 stood as follows:

Balance Sheet as on 31st March, (Figures ₹ in '000)

Liabilities		₹	Assets		₹
Fixed Capital			Fixed Assets		400.00
Riu	300.00		Investments		50.00
Inu	200.00		Current Assets		
Sinu	100.00	600.00	Stock	100.00	
Current Account:			Debtors	275.00	
Riu	60.00		Cash & Bank	125.00	500.00
Inu	40.00	100.00			
Unsecured Loans		100.00			
Current Liabilities		150.00			
		950.00			950.00

On 01.04.2020, they agreed to form a New company RIS (P) Ltd. which shall take over firm as a going concern including Goodwill, but excluding Cash & Bank Balances. Following are also agreed upon:

a) Goodwill will be valued at 3 year's purchase of super profits.
b) The actual profit for the purpose of Goodwill valuation will be ₹ 2,00,000.
c) 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) Purchase Consideration will be payable partly in Shares of ₹ 10 each and partly in cash. Payment in Cash being to meet 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) Realization expenses amounted to ₹ 51,000.

You are required to prepare Realization Account, Cash and Bank Account, RIS (P) Limited Account and Capital Account of Partners.

Question 20 *(RTP Nov 2022)* *Pg no._____*

A and V, sharing profits and losses equally, desired to convert their business into a limited company on 31st December, 2020 when their balance sheet stood as follows:

Liabilities		₹	Assets	₹
Capital accounts:			Sundry debtors	2,40,000
A	1,60,000		Bills receivable	40,000
V	1,60,000	3,20,000	Stock in trade	1,44,000
Reserve fund		24,000	Patents	32,000
Sundry creditors		1,92,000	Plant and machinery	64,000
Loan creditors		1,60,000	Land and building	2,40,000
Bank overdraft		64,000		
		7,60,000		7,60,000

a) The goodwill of firm to be valued at two years' purchase of the profits average of the previous 3 years.
b) All assets and liabilities were taken over by the company. The loan creditor agreed to accept 7½% redeemable preference shares in settlement of his claim.
c) Land and buildings and plant and machinery were to be valued at ₹ 4,00,000 and ₹ 96,000 respectively.
d) The vendors were to be allotted equity shares by the purchasing company.
e) The past working results of the firm showed that they had made profits of ₹ 1,20,000 in 2018, ₹ 1,44,000 in 2019 and ₹ 1,68,000 in 2020 after setting aside ₹ 8,000 to reserve fund each year.

You are required to show realisation account and partners' capital accounts in the books of the firm assuming that all the transactions are duly completed.

Question 21 *(RTP May 2018 / RTP May 2021) (Similar)* *Pg no._____*

A, B and C share profits and losses of a business as to 3:2:1 respectively. Their balance sheet as at 31st March, 2020 was as follows:

Liabilities	₹	Assets		₹
Capital Accounts		Goodwill		10,000
A	70,000	Land		20,000
B	80,000	Buildings		1,10,000
C	10,000	Machinery		50,000
General Reserve	18,000	Motor Car		28,000
Investment Fluctuation Fund	4,000	Furniture		12,000
C's Loan	33,000	Investments		18,000
Mrs. A's loan	15,000	Loose tools		7,000
Creditors	96,000	Stock		18,000
Bills Payable	14,000	Bills receivable		20,000
Bank overdraft	60,000	Debtors:	40,000	
		Less: Provision	2,000	38,000
		Cash		1,000

		C's current A/c	56,000
		Profit and Loss A/c	12,000
	4,00,000		4,00,000

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

(i) Motor car, furniture, investments, loose tools, debtors & cash are not to be taken over by company

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

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

(iv) The remaining assets and liabilities of the firm are directly disposed of by the firm as per details given below:
Investments are taken over by A for ₹ 13,000; debtors realize in all ₹ 20,000; Motor Car, furniture and loose tools fetch ₹ 24,000, ₹ 4,000, and ₹ 1,000 respectively. A agrees to pay his wife's loan. The creditors were paid ₹ 94,000 in final settlement of their claims. The realization expenses amount to ₹ 500.

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

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

Question 22

Pg no._____

'X' & 'Y' carrying on business in partnership sharing Profit & Losses equally, wished to dissolve the firm & sell business to 'X' Limited on 31-3-2020, when the firm's position was as follows:

Liabilities	₹	Assets	₹
X's Capital	1,50,000	Land & 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	4,000
	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 ₹ 40,000.

(iv) The firm's debtors, cash and creditors were not to be taken over, but company agreed to collect 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 ₹ 10 each at a premium of ₹ 2 per share. The shares received from the company were distributed between the partners in the ratio of their final claims

The company collected all the amounts from debtors. The creditors were paid off less by ₹ 1,000 allowed by them as discount. The company paid the balance due to the vendors in cash. Prepare the Realization account, the Capital accounts of the partners and the Cash account in the books of firm.

Question 23 *(ICAI Study Material)* *Pg no._____*

Hari, Lal and Jay have been in partnership for a number of years, sharing profits/losses in the ratio of 2:2:1 as wholesale stationers trading under the name 'Hari Brothers'. They decide to convert their partnership into a limited company (with effect from 1st January, 2020) to be known as Hari Ltd. Immediately prior to this conversion the balance sheet of partnership as at 31st December 2019 was as follows:

Balance Sheet As on 31st December 2019

Liabilities		₹	Assets	₹
Capital accounts			Fixed assets	
Hari	70,000		(at written down value)	
Lal	30,000		Land & Buildings	50,000
Jay	20,000	1,20,000	Plant & Machinery	30,000
Current accounts			Motor vehicles	20,000
Hari	7,000		Current Assets:	
Lal	5,000		Inventories	60,000
Jay	3,000	15,000	Debtors	25,000
Current liabilities			Axis Bank Account	5,000
Creditors	25,000			
Dena Bank Account	20,000	45,000		
Long-term liabilities				
Loan-Hari	3,000			
Loan-Gopi Ltd.	7,000	10,000		
		1,90,000		1,90,000

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

	Valuation for take-over ₹
Land and Building	96,000
Plant and Machinery	28,000
Motor vehicles	15,000
Inventories	60,000
Debtors	24,000
Creditors	25,000
Goodwill	10,000

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

Lal took over one of the motor vehicles at an agreed amount of ₹ 2,000. All other liabilities were paid from the Dena Bank account.

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

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

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

Question 24 Pg no._____

P, Q and R are partners sharing profits and losses in the ratio 3 : 2 : 1 after allowing interest on capital @ 9% p.a. Their Balance Sheet as at 31st March, 2020 are as follows:

Liabilities		₹	Assets	₹
Capital Accounts:			Plant & Machinery	1,08,000
P	50,000		Fixtures	20,000
Q	30,000		Stock	50,000
R	20,000	1,00,000	Sundry Debtors	30,000
Reserve Fund		60,000		
Creditors		48,000		
		2,08,000		2,08,000

They applied for conversion of the firm into a Private Limited Company named PQR Pvt. Ltd. and the certificate was received on 01-04-2020. They decided to maintain same profit sharing ratio and to preserve the priority in regard to repayment of capital as far as possible. For that purpose, they decided to insert a clause of issuance of Preference shares in Memorandum of Association in addition to issuance of Equity shares of ₹ 10 each.

On 01-04-2020, the value of goodwill is to be determined on the basis of 2 years' purchase of average profit from the business of the last 5 years. The particulars of profits are as under:

		₹
Year ended 31-03-16	Profit	10,000
Year ended 31-03-17	Loss	5,000
Year ended 31-03-18	Profit	18,000
Year ended 31-03-19	Profit	27,000
Year ended 31-03-20	Profit	30,000

The loss for the year ended 31-03-2017 was on account of loss by strike to the extent of ₹ 10,000. It was agreed that rest of the assets are valued on the basis of the Balance Sheet as at 31-03-2020 except Plant & Machinery which is valued at ₹ 1,02,000.

You are required to prepare

(a) the Balance Sheet of the Company as at 01-04-2020,

(b) Partners' Capital Accounts and

(c) Statement showing the final settlement between the partners taking Q's capital as basis.

Question 25 *(RTP May 2020)* Pg no._____

Mohit, Neel and Om were Partners sharing Profits and Losses in the ratio of 5:3:2 respectively. The Trial Balance of the Firm 31st March, 2020 was the following:

Particulars	₹	₹
Machinery at Cost	2,00,000	
Inventory	1,37,400	
Trade receivables	1,24,000	
Trade payables		1,69,400
Capital A/c:		
Mohit		1,36,000
Neel		90,000
Om		46,000
Drawing A/c:		
Mohit	50,000	
Neel	46,000	
Om	34,000	
Depreciation on Machinery		80,000

Profit for the year ended 31st March		2,48,600
Cash at Bank	1,78,600	
	7,70,000	7,70,000

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

You are required as under:

1. Machinery is to be transferred at ₹ 1,40,000.
2. Shares in the Company are to be issued to the partners, at par, in such numbers, and in such classes as will give the partners, by reason of their shareholdings alone, the same rights as regards interest on capital and the sharing of profit and losses as they had in the partnership.
3. Before transferring the business, the partners wish to draw from the partnership profits to such an extent that the bank balance is reduced to ₹ 1,00,000. For this purpose, sufficient profits of the year are to be retained in profit-sharing ratio.
4. Assets and liabilities except Machinery and Bank, are to be transferred at their book value as on the above date.

You are required to prepare:

(a) Statement showing the workings of the Number of Shares of each class to be issued by the company, to each partner.
(b) Capital Accounts showing all adjustments required to dissolve the Partnership.
(c) Balance Sheet of the Company immediately after acquiring the business of the Partnership and Issuing of Shares.

Question 26 *(ICAI Study Material)* Pg no._____

`A and B were carrying on business sharing profits and losses equally. The firm's Balance Sheet as at 31.12.2019 was:

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

The business was carried on till 30.6.2020. The partners withdrew in equal amounts half the amount of profits made during the period of six months after charging depreciation at 10% p.a. on machinery and after writing off 5% on leasehold premises. In the half year, sundry creditors were reduced by ₹ 10,000 and bank overdraft by ₹ 15,000.

On 30.6.2020, stock was valued at ₹ 75,000 and Debtors at ₹ 60,000; the Joint Life Policy had been surrendered for ₹ 9,000 before 30.6.2020 and other items remained the same as at 31.12.2019. On 30.6.2020, the firm sold the business to a Limited Company. The value of goodwill was fixed at ₹ 1,00,000 and the rest of the assets were valued on the basis of the Balance Sheet as at 30.6.2020. The company paid the purchase consideration in Equity Shares of ₹ 10 each.

You are required to prepare: (a) Balance Sheet of the firm as at 30.6.2020; (b) Realisation Account; (c) Partners' Capital Accounts showing the final settlement between them.

Question 27 *(ICAI Study Material)* *Pg no._____*

The following is the Balance Sheet of Messers A and B as on 31st March 2019:

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

It was agreed that Mr. C is to be admitted for a fifth share in the future profits from 1st April 2019. He is required to contribute cash towards goodwill and ₹ 10,000 towards capital.

The following further information is furnished:

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

(ii) Mr. A was receiving a salary of ₹ 500 p.m. from the very inception of the firm in 2006 in addition to share of profit.

(iii) The future profit ratio between A, B and C will be 3:1:1. Mr. A will not get any salary after the admission of Mr. C.

(iv)

a. The goodwill of the firm shall be determined on the basis of 2 years' purchase of the average profits from business of the last 5 years. The particulars of profits are as under:

			₹
Year ended	31-03-15	Profit	20,000
Year ended	31-03-16	Loss	10,000
Year ended	31-03-17	Profit	20,000
Year ended	31-03-18	Profit	25,000
Year ended	31-03-19	Profit	30,000

The above profits and losses are after charging the salary of Mr. A. The profit of the year ended 31st March 2015 included an extraneous profit of ₹ 30,000 and the loss of the year ended 31st March 2016 was on account of loss by strike to the extent of ₹ 20,000.

b. It was agreed that value of goodwill of the firm shall appear in the books of the firm.

(v) The trading profit for the year ended 31st March, 2020 was ₹ 40,000 before depreciation.

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

(vii) The value of the other assets and liabilities as on 31st March, 2020 were as under:

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

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

(ix) They applied for conversion of the firm into a Private Limited Company i.e. ABC Pvt Ltd. Certificate received on 1-4-2020. They decided to convert Capital A/cs of the partners into share capital in the ratio of 3 : 1 :1 on the basis of total Capital as on 31-3-2020. If necessary, partners have to subscribe to fresh capital or withdraw.

Prepare Statement of Profit & Loss for the year ended 31st March, 2020 & Balance Sheet of company.

Question 28 *(ICAI Study Material)* *Pg no._____*

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

A died on 1.01.2019 and on that date, the partners' balance were as under:

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

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

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

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

No Goodwill Account was raised and no alteration was made to the book values of fixed assets. The Joint Assurance Policy shown in the books at ₹ 20,000 matured on 1.1.2019, realising ₹ 26,000; payments of ₹ 20,000 each were made to A's Executors on 1.1.2019, 30.6.2019 and 31.12.2019.

B and C continued trading on the same terms as previously and the net profit for the year to 31.12.2019 (before charging the interest due to A's estate) amounted to ₹ 32,000. During that period, the partners drawings were: B- ₹ 15,000; and C- ₹ 8,000.

On 1.1.2020, the partnership was dissolved and an offer to purchase the business as a going concern for ₹ 1,40,000 was accepted on that day. A cheque for that sum was received on 30.6.2020. The balance due to A's estate, including interest, was paid on 30.6.2020 and on that day, B and C received the sums due to them.

Prepare Partners' Capital & Current Accounts from 1.1.2019 to 30.6.2020. Show also A's executors A/c.

TOPIC 4: AMALGAMATION OF FIRMS

Question 29 *Pg no._____*

Vinod and Raj are partners of M/s Vinod and Co., sharing profits and losses in ratio of 3 : 1 and Raj and Kumar are partners of M/s Raj & Co., sharing profits and losses in ratio of 2 :1. On 31st March, 2020, they decide to amalgamate & form a new firm M/s VRK & Co., wherein Vinod, Raj and Kumar would be partners sharing profits & losses in the ratio of 3 :2 :1.

Balance Sheets of two firms are as under:

Liabilities	Vinod & Co.	Raj & Co.	Assets	Vinod & Co.	Raj & Co.
Capital:			Fixed assets:		
Vinod	9,60,000	-	Building	2,00,000	-
Raj	6,40,000	8,00,000	Machinery	6,00,000	6,40,000
Kumar	-	4,00,000	Furniture	80,000	24,000
Reserves	2,00,000	6,00,000	Stock-in-trade	4,80,000	5,60,000
Sundry creditors	4,80,000	4,64,000	Sundry debtors	6,40,000	8,00,000
Due to Vinod & Co.	-	4,00,000	Cash at Bank	1,20,000	3,60,000
Bank overdraft	3,20,000	-	Cash in hand	80,000	40,000
			Due from Raj & Co.	4,00,000	-
			Advances	-	2,40,000
	26,00,000	26,64,000		26,00,000	26,64,000

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

(a) Building of Vinod & Co., was valued at ₹ 4,00,000.

(b) Machinery of Vinod & Co., was valued at ₹ 9,00,000 and that of Raj & Co. at ₹ 8,00,000. All other assets and liabilities were taken over at book value.

(c) Goodwill of Vinod and Co., valued at ₹ 2,00,000 and Raj & Co. ₹ 1,64,000 but the same will not appear in the books of VRK & Co.

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

Pass journal entries in the books of M/s VRK & Co. and prepare the Balance Sheet as at 31.3.2020.

Question 30 *(ICAI Study Material)* *Pg no.____*

P and Q are partners of P & Co. sharing Profit and Losses in the ratio of 3:1 and Q and R are partners of R & Co., sharing profits and losses in the ratio of 2:1. On 31st March, 2020, they decide to amalgamate and form a new firm M/s PQR & Co., wherein P, Q and R would be partners sharing profits and losses in the ratio of 3:2:1.

The Balance Sheets of two firms on the above date are as under:

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

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

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

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

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

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

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

(f) Provision for doubtful debts has to be carried forward at ₹ 12,000 in respect of debtors of P & Co. and ₹ 26,000 in respect of debtors of R & Co.

Prepare the Balance Sheet of new firm and capital accounts of the partners in the books of old firms.

Question 31 *(ICAI Study Material)* *Pg no.____*

B and S are partners of S & Co. sharing profits and losses in the ratio of 3:1. S and T are partners of T & Co. sharing profits and losses in the ratio of 2:1. On 31st October, 2020, they decided to amalgamate and form a new firm M/s. BST & Co. wherein B, S and T would be partners sharing profits and losses in the ratio of 3:2:1.

Their balance sheets on that date were as under:

Liabilities	S& Co.	T& Co.	Assets	S& Co.	T& Co.
Due to X & Co.	40,000	-	Cash in hand	10,000	5,000
Due to S & Co.	-	50,000	Cash at Bank	15,000	20,000
Other Creditors	60,000	58,000	Due from T & Co.	50,000	-
Reserves	25,000	50,000	Due from X & Co.	-	30,000
Capitals			Other Debtors	80,000	1,00,000
B	1,20,000	-	Stock	60,000	70,000
S	80,000	1,00,000	Furniture	10,000	3,000
T	-	50,000	Vehicles	-	80,000
			Machinery	75,000	-
			Buildings	25,000	-
	3,25,000	3,08,000		3,25,000	3,08,000

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

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

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

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

You are required to:

(i) Compute the adjustments necessary for goodwill.

(ii) Pass the journal entries in the books of BST & Co. assuming that excess/deficit capital (taking T's Capital as base) with reference to share in profits are to be transferred to current accounts.

Question 32 *(ICAI Study Material)* *Pg no._____*

On 31st March 2020, Sri Raman acquires on payment of ₹ 80,000 the business of M/s Gupta and Singh taking over at book value the following assets and liabilities:

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

There was no change between 1st January, 2020 and 31st March, 2020 in the book value of the assets and liabilities not taken over. The same set of books has been continued after the acquisition and no entries of the acquisition have been passed except for the payment of ₹ 80,000 made by Sri Raman.

From the following balance sheet and trial balance prepare Business Purchase Account, Profit & Loss Account for the year ended 31st December, 2020 and Balance Sheet at that date.

Balance Sheet as at 31st December, 2019

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

On 31st December 2020 the trial balance is:

	₹	₹
Stock	40,000	
Furniture	3,000	
Investment	5,000	
Insurance Policy	2,000	
Business Purchase Account	80,000	
Bank Loan		18,000
Capital:		
Gupta		30,000
Singh		20,000
Raman		30,000
Bank	3,000	
Debtors	48,000	
Creditors		15,000
Purchases	3,20,000	
Expenses	12,000	
Sales		4,00,000
	5,13,000	5,13,000
Closing Stock ₹ 50,000		

PRACTICE QUESTIONS

TOPIC 1A: NORMAL DISSOLUTION

Question 1 *(ICAI Study Material)* *Pg no._____*

X, Y, and Z are partners of the firm XYZ and Co., sharing Profits & Losses in the ratio of 4: 3: 2. Following is the Balance Sheet of the firm as on 31st March, 2020.

Liabilities	₹	Assets	₹
Partner's Capital:		Fixed Assets	5,00,000
X	4,00,000	Stock	3,00,000
Y	3,00,000	Debtors	5,00,000
Z	2,00,000	Cash in Hand	10,000
General Reserve	90,000		
Sundry Creditors	3,20,000		
	13,10,000		13,10,000

Partners of the firm decided to dissolve the firm on the above-said date.
Fixed assets realized ₹ 5,20,000 & book debts ₹ 4,40,000. Stocks were valued at ₹ 2,50,000 and it was taken over by partner Y. Creditors allowed discount of 5% and the expenses of realization amounted to ₹ 6,000. You are required to prepare:
(i) Realization account; (ii) Partners capital account; and (iii) Cash account.
(Ans: Realisation Loss 80,000)

Question 2 *(RTP Nov 2021)* *Pg no._____*

P and Q were partners sharing profits equally of P & Q Co. Their Balance Sheet as on March 31, 2021 was as follows:

Liabilities		Amount	Assets	Amount
Capitals:			Bank	30,000
P	1,00,000		Debtors	25,000
Q	50,000	1,50,000	Stock	35,000
Creditors		20,000	Furniture	40,000
Q's current account		10,000	Machinery	60,000
Reserves		15,000	P's current account	10,000
Bank overdraft		5,000		
		2,00,000		2,00,000

The firm was dissolved on the above date:
P took over 50% of the stock at 10% less on its book value, and the remaining stock was sold at a gain of 15%. Furniture and Machinery realized for ₹ 30,000 and ₹ 50,000 respectively; There was an unrecorded investment which was sold for ₹ 25,000; Debtors realized 90% only and ₹ 1,245 were recovered for bad debts written off last year; There was an outstanding bill for repairs which had to be paid for ₹ 2,000.
You are required to prepare Realization Account, Partners' capital accounts (including transfer of current account balances) and Bank Account in the books of the firm.
(Ans: Realisation Profit 2,620)

Question 3 *(RTP Nov 2020) (Similar) / (ICAI Study Material) (Similar)* *Pg no._____*

P, Q and R are partners sharing profit and losses in the ratio 2:2:1. The partners decided to dissolve the partnership on 31st March, 2020 when their Balance Sheet was as under:

Liabilities	Amount	Assets	Amount
Capital Accounts:		Land & Building	90,000
P	40,000	Plant & Machinery	30,000
Q	40,000	Furniture-	17,000
General Reserve	41,000	Investments	10,000
R's Loan A/c	10,000	Book Debts 40,000	
Loan from D	80,000	Less: Prov. for bad debts (4,000)	36,000
Trade Creditors	20,000	Stock	24,000
Bills Payable	8,000	Bank	9,000
Outstanding Salary	5,000	Deferred Advertisement Expense	8,000
		Capital withdrawn: R	20,000
	2,44,000		2,44,000

The following information is given to you:

(i) Realisation expenses amounted to ₹ 12,000 out of which ₹ 2,000 was borne by P.

(ii) A creditor agreed to takeover furniture of book value ₹ 8,000 at ₹ 7,200. The rest of the creditors were paid off at a discount of 6.25%.

(iii) The other assets realized as follows:

Furniture - Remaining taken over by R at 90% of book value

Stock - Realised 120% of book value

Book Debts - ₹ 8,000 of debts proved bad, remaining were fully realized

Land & Building - Realised ₹ 1,10,000

Investments - Taken over by P at 15% discount

(iv) For half of his loan, D accepted Plant & Machinery and ₹ 5,000 cash. The remaining amount was paid at a discount of 10%.

(v) Bills payable were due on an average basis of one month after 31st march, 2020, but they were paid immediately on 31st March @ 6% discount "per annum".

Prepare the Realisation Account, Bank Account and Partners Capital Accounts.

(Ans: Realisation Profit 15,440)

Question 4 Pg no._____

Ravi paid ₹ 70,000 as premium to other partners of the firm at the time of his admission to the firm, with a condition that it will not be dissolved before expiry of five years. The firm is dissolved after three years. Ravi claims refund of premium. Explain -

(1) Whether he is entitled to get a refund of the premium? If yes, list the criteria for the calculation of the amount of the refund.

(2) Also explain any two conditions when no claim in this respect will arise.

TOPIC 1B: INSOLVENCY OF PARTNER

Question 5 Pg no._____

Kamal, Kishor, Mohan, and Sohan, were partners sharing profits and losses in the ratio of 3:3:2:2. Following was the balance sheet as on 31st March, 2020

Liabilities	₹	Assets	₹
Capital Accounts		Capital Accounts	
Kamal 30,000		Mohan 24,000	
Kishor 22,500	52,500	Sohan 9,000	33,000
Trade creditors	23,250	Trade debtors 24,000	
Kamal's loan	15,000	Less: Provision (750)	23,250
		Inventories	15,000
		Cash at bank	3,000

		Furniture and fixture	6,000
		Trademarks	10,500
	90,750		90,750

On 31st March, 2020, the partnership firm was dissolved.

The assets realised were as follows: trade debtors ₹ 16,500; inventories ₹ 12,000; furniture and fixture ₹ 1,500; trade mark ₹ 6,000; trade creditors were settled at ₹ 23,000. Also there was a joint life insurance policy for ₹ 45,000. This was surrendered for ₹ 4,500. Expenses of realisation amounted to ₹ 750. 'Mohan' was insolvent, but ₹ 5,550 were recovered from his estate. You are required to show the following accounts in the book of partnership firm:

(a) Realisation account;

(b) Cash account;

(c) Partners' capital accounts.

(Ans: Realisation Loss 14,750 & Deficiency of 21,400 shared as 12,229 & 9,171)

Question 6 Pg no._____

A, V, R and S are partners in a firm sharing profits and losses in the ratio of 4 : 1 : 2 : 3. The following is their Balance Sheet as at 31st March, 2020:

Liabilities	₹	Assets	₹
Sundry Creditors	6,00,000	Sundry Debtors 7,00,000	
Capital Accounts:		Less: Doubtful Debts (1,00,000)	6,00,000
A 14,00,000		Cash in hand	2,80,000
S 6,00,000	20,00,000	Stocks	4,00,000
		Other Assets	6,20,000
		Capital Accounts:	
		V 4,00,000	
		R 3,00,000	7,00,000
	26,00,000		26,00,000

On 31st March, 2020, the firm is dissolved and the following points are agreed upon:

(a) A is to takeover sundry debtors at 80% of book value.

(b) S is to takeover the stocks at 95% of the value.

(c) R is to discharge sundry creditors.

(d) Other assets realise ₹ 6,00,000 and the expenses of realisation come to ₹ 60,000.

(e) V is found insolvent and ₹ 43,800 is realised from his estate.

Prepare Realisation Account , Partner's Capital Accounts & Cash A/c. The loss arising out of capital deficiency may be distributed following the decision in Garner vs Murray.

(Ans: Realisation Loss 1,40,000 & Deficiency of 3,70,200 shared as 2,59,140 & 1,11,060)

Question 7 *(ICAI Study Material)* Pg no._____

'Thin', 'Short' and 'Fat' were in partnership sharing profits and losses in the ratio of 2:2:1. On 30th September, 2020 their Balance Sheet was as follows :

Liabilities	₹	Assets	₹
Capital Accounts:		Premises	50,000
Thin 80,000		Fixtures	1,25,000
Short 50,000		Plant	32,500
Fat 20,000	1,50,000	Stock	43,200
Current Accounts:		Debtors	54,780
Thin 29,700			
Short 11,300			
Fat (Dr.) (14,500)	26,500		
Sundry Creditors	84,650		

Bank Overdraft	44,330		
	3,05,480		3,05,480

'Thin' decides to retire on 30th September, 2020 and as 'Fat' appears to be short of private assets, 'Short' decides that he does not wish to take over Thin's share of partnership, so all three partners decide to dissolve the partnership with effect from 30th September, 2020. It then transpires that 'Fat' has no private assets whatsoever.

The premises are sold for ₹ 60,000 and the plant for ₹ 1,07,500. The fixtures realize ₹ 20,000 and the stock is acquired by another firm at book value less 5%. Debtors realise ₹ 45,900. Realisation expenses amount to ₹ 4,500. The bank overdraft is discharged and the creditors are also paid in full. You are required to write up the following ledger accounts following the rules in Garner vs. Murray:

(i) Realisation Account;

(ii) Partners' Current Accounts;

(iii) Partners' Capital Accounts showing the closing of the firm's books

(Ans: Realisation Loss 35,540 & Deficiency of 1,608 shared as 990 & 618)

Question 8 *(Inter Nov 2019) (15 Marks)* Pg no._____

G, S & J were partners sharing profits and losses in the ratio of 4:3:2, no partnership salary or interest on capital being allowed. Their Balance Sheet as on 31.3.2019 is as follows:

Liabilities	Amount	Assets	Amount
Partners' Fixed capital accounts		Fixed assets:	
G	24,000	Goodwill	48,000
S	24,000	Land	9,600
J	12,000	Plant & Machinery	15,360
Partners' current accounts:		Motor Car	840
G	600	Current assets:	
S	10,800	Stock	4,680
J	(480)	Trade debtors 2,400	
Loan from G	9,600	Less: Provision (120)	2,280
Trade creditors	14,880	Cash at bank	240
		Miscellaneous losses:	
		Profit & loss	14,400
	95,400		95,400

On 1st April, 2019, the partnership was dissolved. Motor car was taken over by G at a value of ₹ 600, but no cash was given specifically in respect of this transaction. Sale of other assets realized the following amounts:

Particulars	Amount
Goodwill	Nil
Land	8,400
Plant & Machinery	6,000
Stock	3,600
Trade Debtors	1,920

Trade creditors were paid ₹ 14,040 in full settlement of their debts. The cost of dissolution amounted to ₹ 1,800. The loan from G was repaid; G and S both were fully solvent and able to bring in any cash required but J was forced into bankruptcy and was only able to bring 1/2 of the amount due. You are required to prepare: (Applying Garner Vs. Murray rule.)

(i) Cash & Bank account

(ii) Realization account, and

(iii) Partners' Fixed Capital Accounts (after transferring current accounts balances)

(Ans: Realisation Loss 61,200 & Deficiency of 2,640 shared as 1,320 & 1,320)

Question 9 *(RTP Nov 2019)* *Pg no._____*

P, Q, R and S are sharing profits and losses in the ratio 3 : 3 : 2 : 1. Frauds committed by R during the year were found out and it was decided to dissolve the partnership on 31st March, 2020 when their Balance Sheet was as under:

Liabilities	₹	Assets	₹
Capital Accounts:		Building	1,90,000
P	1,50,000	Stock	1,30,000
Q	1,50,000	Investments	50,000
R	-	Debtors	70,000
S	60,000	Cash	30,000
General reserve	40,000	R	40,000
Trade creditors	80,000		
Bills payable	30,000		
	5,10,000		5,10,000

Following information is given to you:

(i) A cheque for ₹ 7,000 received from debtor was not recorded in books and & misappropriated by R

(ii) Investments costing ₹ 8,000 were sold by R at ₹ 11,000 and the funds transferred to his personal account. This sale was omitted from the firm's books.

(iii) A creditor agreed to take over investments of the book value of ₹ 9,000 at ₹ 13,000. The rest of the creditors were paid off at a discount of 5%.

(iv) The other assets realized as follows:

	₹
Building	110% of book value
Stock	1,20,000
Investments	The rest of investments were sold at a profit of ₹ 7,000
Debtors	The rest of the debtors were realized at a discount of 10%

(v) The bills payable were settled at a discount of ₹ 500.

(vi) The expenses of dissolution amounted to ₹ 8,000.

(vii) It was found out that realization from R's private assets would only be ₹ 7,000.

Prepare Realisation Accounts, Cash Account and Partner's Capital Account.

(Ans: Realisation Profit 12,550 & Deficiency of 39,322 shared as 16,421, 16421 & 6,480)

Question 10 *(Inter May 2022) (15 Marks)* *Pg no._____*

Ajay, Vijay and Sanjay have been in partnership for a number of years, sharing profits and losses in the ratio 7:7:4 as a wholesale stationer running business under the name "AVS Traders". On 31st March,2021, it was found that some frauds were committed by Sanjay during the year 2020-2021. So, it was decided to dissolve the partnership business on 31st March,2021 when their Balance sheet stood as under:

Balance Sheet as at 31st March,2021

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital accounts:		Building	1,90,000
Ajay 1,80,000		Inventory	1,30,000
Vijay 1,80,000	3,60,000	Investments	50,000
General Reserve	36,000	Trade Debtors	70,000
Trade Creditors	80,000	Cash & Bank	26,000
Bills payables	30,000	Sanjay's Capital (overdrawn)	40,000
	5,06,000		5,06,000

Additional Information:

(i) Following frauds were committed by Sanjay:
1) Investments costing ₹8,000 were sold by Sanjay at ₹ 11,000 and the funds were transferred to his personal account. This sale was omitted from firm's books.
2) A cheque for ₹ 7,000 received from trade debtors was not recorded in the books and was misappropriated by Sanjay.

(ii) A trade creditor agreed to take over investments of the book value of ₹ 9,000 at ₹ 13,000. The rest of the trade creditors were paid off at a discount of 10%.

(iii) Other assets were realized as follows:

Inventory	₹ 1,20,000
Building	110% of book value
Investments	The rest of the investments were sold at a profit of ₹ 7,000
Trade Debtors	The rest of the trade debtors were realised at a discount of 10%

(iv) The Bills payables were settled at a discount of, ₹500.

(v) The expenses of dissolution amounted to ₹8,060.

(vi) It was found out, that realisation from Sanjay's private assets would be ₹ 7,000.

You are required to prepare
1. Realisation Account
2. Cash & Bank Account
3. Partners' Capital Accounts.

(Ans: Realisation Profit 15,840 & Deficiency of 39,480 shared as 19,740 & 19,740)

Question 11 Pg no._____

P, Q, R and S had been carrying on business in partnership sharing profits & losses in the ratio of 4:3:2:1. They decided to dissolve the partnership on the basis of following Balance Sheet as on 30th April, 2020:

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

(i) The other assets realized as follows:

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

(ii) Expenses of dissolution amounted to ₹ 7,800.

(iii) Further creditors of ₹ 18,000 had to be met.

(iv) R became insolvent and nothing was realized from his private estate.

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

(Ans: Realisation Loss 1,00,300 & Deficiency of 21,060 shared as 12,636 & 8,424)

Question 12 *(RTP May 2022)* Pg no._____

The firm of M/s OM has 4 partners A, B, C & D and as on 31st March, 2021, its Balance Sheet stood as follows:

Liabilities	₹	Assets	₹
Capital Accounts:		Land	50,000
A	2,00,000	Building	2,50,000
B	2,00,000	Office Equipment	1,25,000
C	1,00,000	Computers	70,000
Current Accounts:		Debtors	4,00,000
A	50,000	Stock	3,00,000
B	1,50,000	Cash at Bank	75,000
C	1,10,000	Other Current Assets	22,600
Loan from NBFC	5,00,000	Current A/c:	
Current Liabilities	70,000	D	87,400
	13,80,000		13,80,000

The partners have been sharing profits & losses in the ratio of 4:4:1:1. It has been agreed to dissolve the firm on 01.04.2021 on the basis of the following understanding:

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

b) In case of loan the lenders are to be paid at their insistence a prepayment premium of 1%.

c) D is insolvent & no amount is recoverable from him. His father C, however agrees to bear 50% of his deficiency. The balance of the deficiency is agreed to be apportioned according to law.

d) The assets are realized at the agreed (adjusted) values.

Assuming that the realization of the assets and discharge of liabilities is carried out immediately, show the Bank Account, Realization Account & the Partner's Capital Accounts (including Current Accounts).

(Ans: Realisation Profit 24,000 & Deficiency of 42,500 shared as 17,000, 17,000 & 8,500)

Question 13 *(Inter May 2019) (5 Marks) / (Inter Dec 2021) (5 Marks)* **Pg no._____**

State the circumstances when Garner V/s Murray rule is not applicable

TOPIC 2: PIECEMEAL DISTRIBUTION

Question 14 *(ICAI Study Material)* **Pg no._____**

The firm of Omega was dissolved on 31.3.2020, at which date its Balance Sheet stood as:

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

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

	₹
I (including Cash & Bank)	5,00,000
II	15,00,000
III	15,00,000

IV	30,00,000
V	30,00,000

The Chartered Accountant firm decided to pay off the partners in 'Higher Relative Capital Method'. Prepare a statement showing distribution of cash with necessary workings.
(Ans: Final Balance (Profit): 15,66,667, 15,66,667 & 15,66,666)

Question 15 (RTP Nov 2022) Pg no._____

The partners P, Q & R have called you to assist them in winding up the affairs of their partnership on 31.12.2019. Their balance sheet as on that date is given below:

Liabilities	₹	Assets	₹
Capital Accounts		Land & Building	50,000
P	65,000	Plant and Machinery	46,000
Q	50,500	Furniture & Fixture	10,000
R	32,000	Stock in trade	14,500
Sundry Creditors	16,000	Cash at Bank	9,000
		Sundry Debtors	14,000
		Loan-P	13,000
		Loan-Q	7,000
	1,63,500		1,63,500

(a) The partners share profit and losses in the ratio of 4:3:2.
(b) Cash is distributed to the partners at the end of each month.
(c) A summary of liquidation transactions are as follows:

January 2020

- ₹ 9,000 – collected from debtors; balance is uncollectable.
- ₹ 8,000 – received from the sale of entire furniture
- ₹ 1,000 – Liquidation expenses paid.
- ₹ 6,000 – Cash retained in the business at the end of month

February 2020

- ₹ 1,000 – Liquidation expenses paid.
- As part payment of his capital, R accepted a machinery for ₹ 9,000 (book value ₹ 3,500)
- ₹ 2,000 – Cash retained in the business at the end of month

March 2020

- ₹ 38,000 – received on the sale of remaining plant and machinery.
- ₹ 10,000 – received from the sale of entire stock.
- ₹ 1,700 – Liquidation expenses paid.
- ₹ 41,000 – Received on sale of land & building.
- No Cash is retained in the business.

Prepare a schedule of cash payments amongst the partners by "Higher Relative Capital Method". *(Ans: Final Balance (Loss): 10,311, 7,733 & 5,156)*

Question 16 (Inter Jan 2021) (15 Marks) Pg no._____

Ananya Enterprises is a partnership firm is which A, B and C are 3 partners sharing profits & losses in the ratio of 5 : 3 : 2. The Balance Sheet of firm as on 31st October, 2020 is as below:

Liabilities	₹	Assets	₹
Capital Accounts		Land & Building	45,00,000
A	95,00,000	Plant and Machinery	65,00,000
B	75,00,000	Furniture & Fixture	18,00,000
C	30,00,000	Stock in trade	13,50,000
Sundry Creditors	11,00,000	Cash	7,00,000
		Sundry Debtors	7,50,000

		Loan-A	25,00,000
		Loan-B	30,00,000
	2,11,00,000		2,11,00,000

On the Balance Sheet date all the 3 partners have decided to dissolve their partnership and called you to assist them in winding up the affairs of the firm. They also agreed that asset realization is distributed among them at the end of each month.

A summary of liquidation transactions is as follows:

November, 2020:

- ₹ 3,00,000 - collected from debtors, balance is uncollectable
- ₹ 11,00,000 - received from the sale of entire furniture
- ₹ 2,00,000 - liquidation expenses paid
- ₹ 6,00,000 - Cash retained in the business at the end of month

December, 2020:

- ₹ 2,20,000 - Liquidation expenses paid
- As part payment of his capital, C accepted a machinery for ₹ 9,00,000 (Book value ₹ 6,00,000)
- ₹ 2,00,000 - Cash retained in the business at the end of month.

January, 2021:

- ₹ 28,00,000 - Received on the sale of remaining plant & machinery
- ₹ 9,00,000 - Received from the sale of entire stock
- ₹ 1,50,000 - Liquidation expenses paid
- ₹ 63,00,000 - Received on sale of Land & Buildings
- No cash is retained in the business.

You are required to prepare a schedule of cash payments amongst the partners by "Highest Relative Capital Method" as on 31st January, 2021.

(Ans: Final Balance (Loss): 15,85,000, 9,51,000 & 6,34,000)

Question 17 (RTP Nov 2018 (Similar) / RTP May 2021) Pg no._____

X, Y and Z are in partnership sharing profits and losses in the ratio of 5:4:4. The Balance Sheet of the firm as on 31st March, 2020 is as below:

Liabilities	₹	Assets	₹
X' s Capital	60,000	Factory Building	96,640
Y' s Capital	40,000	Plant & Machinery	65,100
Z' s Capital	50,000	Trade Receivables	21,600
Y' s Loan	18,000	Inventories	49,560
Trade Payables	66,000	Cash at Bank	1,100
	2,34,000		2,34,000

On Balance Sheet date, all the three partners have decided to dissolve their partnership. Since the realisation of assets was protracted, they decided to distribute amounts as and when feasible & for this purpose they appoint Z who was to get as his remuneration 1% of value of the assets realised other than cash at bank and 10% of the amount distributed to the partners. Assets were realised piecemeal as under:

	₹
I	74,600
II	69,301
III	40,000
IV	28,000
Dissolution expenses were provided for estimated amount of	12,000
The creditors were settled finally for	63,600

You are required to prepare a statement showing distribution of cash amongst the partners by "Highest Relative Capital Method". *(Ans: Final Balance (Loss): 16,684, 13,348 & 13,348)*

Question 18 *(ICAI Study Material)* Pg no._____

Following is Balance Sheet of A,B,C on 31st Dec, 2020 when they decided to dissolve partnership

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

The assets realised the following sums in instalments:

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

The expenses of realisation were expected to be ₹ 500 but ultimately amounted to ₹ 400 only. Show how at each stage the cash received should be distributed between partners. They share profits in the ratio of 2:2:1. Show by Maximum Loss Method.

(Ans: Final Balance (Loss): 6,000, 6,000 & 3,000)

Question 19 *(Inter Nov 2019) (5 Marks)* Pg no._____

AD, BD & SD are partners sharing profits and losses in the ratio of 5:3:2. There capitals were ₹13,440, ₹8,400, ₹11,760 respectively. Liabilities and assets of the firm are as under:

Liabilities:	Amount
Trade creditors	2,800
Loan from partners	1,400
Assets of the firm:	
Patent	1,400
Furniture	2,800
Machinery	1,680
Stock	5,600

The assets realized in full in the order in which they are listed above. BD is insolvent. You are required to prepare a statement showing the distribution of cash as and when available, applying maximum possible loss procedure. *(Ans: Final Balance (Loss):13,160, 7,896 & 5,264)*

TOPIC 3: SALE OF BUSINESS TO COMPANY OR CONVERSION OF FIRM INTO COMPANY

Question 20 *(Inter Dec 2021) (15 Marks)* Pg no._____

TJM & Sons is a partnership firm consisting of T, J, and M who share profits & losses in the ratio of 2:2:1 and JEK Limited is another company doing similar business. The firm (TJM & Sons) and the company (JEK Ltd.) provide you the following ledger balances as on 31.03.2021:

	TJM & Sons (₹)	JEK Ltd. (₹)
Debit Balances:		
Plant & Machinery	7,50,000	24,00,000
Furniture & Fixtures	75,000	3,37,500
Inventories	3,00,000	12,75,000
Trade Receivables	3,00,000	12,37,500
Cash at Bank	15,000	6,00,000
Cash in Hand	60,000	1,50,000
Credit Balances:		
Equity share capital: Equity share of 10 each		30,00,000
Partner's capitals		
T	3,00,000	
J	4,50,000	
M	1,50,000	
General Reserve	1,50,000	10,50,000
Trade Payables	4,50,000	19,50,000

On the Balance sheet date, it was decided that the firm TJM & Sons be dissolved and all the assets (except cash in hand & cash at bank) and all the liabilities of the firm be taken over by JEK Ltd. By issuing 75,000 shares of ₹10/- each at the premium of ₹4/- per share. Plant & Machinery and Furniture & Fixtures are to be revalued at ₹ 8,50,000 & ₹ 1,00,000 respectively. Partners of TJM & Sons agreed to divide shares issued by JEK Ltd. in the profit sharing ratio and bring necessary cash for settlement of capital. Trade payables of TJM & Sons includes ₹ 1,50,000 payable to JEK Ltd. An unrecorded liability of ₹ 37,500 of TJM & Sons must also be taken over by JEK Ltd. You are required to prepare:

(i) Realisation Account, Partners capital accounts and cash in hand / bank account in the books of TJM & Sons.

(ii) Pass necessary Journal Entries in the books of JEK Ltd. for acquisition of TJM & Sons.

(Ans: Realisation Profit 75,000 & Capital Reserve 12,500)

Question 21

Pg no.______

X, Y and Z share profits and losses in the ratio of 5:3:2. Their firm was dissolved due to misconduct of Y and their balance sheet on that date was as under:

Balance Sheet as at 31-3-2020

Liabilities		₹	Assets	₹
Capital Accounts			Land and Building	2,00,000
X	3,00,000		Plants	2,00,000
Y	2,00,000		Trade receivables	1,00,000
Z	1,00,000	6,00,000	Inventories	1,50,000
Current Accounts:			Cash	1,00,000
X	50,000		Current Account:	
Y	30,000	80,000	Z	50,000
Trade payables		1,20,000		
		8,00,000		8,00,000

The whole business of the firm was sold to Omega Limited, on that day on the following terms:

a. Omega Limited will issue the following securities in consideration for business transfer: 10,000 equity shares @ ₹ 15 each, 15,000 preference shares @ ₹ 15 each; and 20,000 debentures @ ₹ 14.725.

b. The agreed value of assets and liabilities of partnership firm are as follows:

Land & Building – ₹ 3,00,000, Plants – ₹ 1,50,000, Inventory – ₹ 1,40,000, Trade Receivable – ₹ 97,500, and Trade Payable – ₹ 1,18,000.

It is mutually decided that preference shares and debentures will be distributed in profit sharing ratio and cash brought in by the partner (if any) will be shared equally by the remaining partners before distribution of equity shares. Equity shares are distributed on residual basis at the end. Prepare the necessary accounts, to close the books of the firm.
(Ans: Realisation Profit 39,500 Purchase Consideration 6,69,500 & Equity shares distribution 87,000 & 63,000)

Question 22 *(ICAI Study Material)* Pg no._____

Yash, Tanish and Ruchika were partners sharing Profit & Loss in ratio of 3:2:1. Balance Sheet of the firm is as follows:

Liabilities		₹	Assets		₹
Fixed Capital			Fixed Assets		45,000
Yash	50,000		Investments		15,000
Tanish	20,000		Current Assets		
Ruchika	10,000	80,000	Stock	10,000	
Current Account:			Debtors	27,500	
Yash	6,000		Cash & Bank	12,500	50,000
Ruchika	4,000	10,000	Current Account:		
Unsecured Loans		15,000	Tanish		10,000
Current Liabilities		15,000			
		1,20,000			1,20,000

On 1st April, 2020 all the partners agreed to form a new company YTR Pvt. Ltd., which shall take over the firm as going concern including goodwill, but excluding cash and bank balances. The following matters were also agreed upon:

a) Goodwill shall be valued at 3 years' purchase of super profits.
b) Actual profit for the purpose of goodwill valuation will be ₹ 20,000.
c) The normal rate of return will be 17.50% per annum of Fixed Capital.
d) All other Assets and Liabilities will be taken over at book value.
e) The purchase consideration will be paid partly in share of ₹ 1 each and partly in cash. Yash and Tanish to acquire interest in new company in the ratio of 3:2 at face value. Ruchika agreed to retire after taking her share in cash.
f) Realisation expenses amounted to ₹ 5,000.

Prepare Realisation Account, Cash and Bank Account, YTR Private Limited Account and Capital Accounts of the partners
(Ans: Realisation Profit 13,000 Purchase Consideration 85,500 & Equity shares distribution 46,100 & 30,733)

Question 23 Pg no._____

A, B and C carried on business in partnership, sharing Profits and Losses in the ratio of 1 : 2 : 3. They decided to form a private limited company, AB (P) Ltd. and C is not interested to take over the shares in AB (P) Ltd. The authorised share capital of the company is ₹ 12,00,000 divided into 12,000 ordinary shares of ₹ 100 each.
The company was incorporated & took over goodwill as valued & certain assets of partnership firm on 31.3.2020. The Balance Sheet of the partnership firm on that date was a follows:

Liabilities		₹	Assets	₹
Capital Accounts:			Fixed Assets:	
A	1,00,000		Machinery	1,20,000
B	2,00,000		Land	1,74,000
C	3,00,000	6,00,000	Motorcycles	30,000
Current Accounts:			Furniture & Fittings	11,000

A	39,420		Current Assets:	
B	60,580	1,00,000	Stock	2,35,000
A's Loan A/c	28,000		Debtors	43,000
Interest accrued	2,000	30,000	Cash in hand	87,000
Current Liability:			C's overdrawn	1,00,000
Creditors		70,000		
		8,00,000		8,00,000

C, who retired was presented by the other partners (A and B) with one motorcycle valued in the books of the firm ₹ 9,000. The remaining motorcycles were sold in the open market for ₹ 13,000. C also received certain furniture for which he was charged ₹ 2,000. The debtors which were all considered good, were taken over by C for ₹ 40,000. A and B were charged in their profit sharing ratio for the book value of Motorcycle presented by them to C.

It was agreed that C who is not willing to take the shares in AB (P) Ltd. was discharged first by providing necessary cash. A and B should bring cash, if necessary.

AB (P) Ltd. took over the remaining furniture and fittings at a price of ₹ 13,000, the machinery for ₹ 1,25,000, the stock at an agreed value of ₹ 2,00,000 and the land at its book value. The value of the goodwill of the partnership firm was agreed at ₹ 88,000. The creditors of the firm were settled by the firm for ₹ 70,000. A's loan account together with interest accrued was transferred to his capital account. The purchase consideration was discharged by the company by the issue of equal number of fully paid up equity shares at par to A and B.

Prepare Realisation A/c, Capital A/cs of the partners and Cash A/c. Also draw the Balance Sheet of AB (P) Ltd.

(Ans: Realisation Profit 51,000 Purchase Consideration 6,00,000)

Question 24 *(Inter May 2018) (15 Marks)* *Pg no._____*

A and B carrying on business in partnership sharing profits and losses equally, wished to dissolve the firm and sell the business to AB Limited Company on 31.03.2020 when the firm's position was as follows:

Liabilites	Amount	Assets	Amount
A's Capital	7,50,000	Land & Building	5,00,000
B's Capital	5,00,000	Furniture	2,00,000
Sundry Creditors	3,00,000	Stock	5,00,000
		Debtors	3,30,000
		Cash	20,000
	15,50,000		15,50,000

The arrangement with AB 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 value less 15%.
(iii) The Goodwill of the firm was valued at ₹ 2,00,000.
(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 ₹ 10 each at a premium of ₹ 2 per share.

The company collected all the amounts from the debtors. The creditors were paid off less by ₹ 5,000 allowed as discount. The company paid the balance due to the vendors in cash.

Prepare the Realisation A/c, the Capital Accounts of the Partners and the Cash Account in the books of the Partnership firm *(Ans: Realisation Profit 1,74,650 Purchase Consideration 13,95,000 & Equity shares distribution 8,19,900 & 5,75,100)*

Question 25

Pg no._____

Avinash, Rohit and Madwesh were carrying on business in partnership sharing Profits and Losses in the ratio of 5 : 4 : 3 respectively. The Trial Balance of the firm as on 31st March, 2020 was the following:

Particulars	Dr. (₹)	Cr. (₹)
Plant and Machinery @ Cost	1,05,000	-
Stock	60,200	-
Sundry Debtors	85,000	-
Sundry Creditors	-	1,05,200
Capital A/cs:		
Avinash	-	70,000
Rohit	-	50,000
Madwesh	-	30,000
Drawings A/cs:		
Avinash	30,000	
Rohit	25,000	
Madwesh	20,000	
Depreciation on Plant & Machinery	-	35,000
Trading Profit for the year	-	1,29,800
Cash at Bank	94,800	-
	4,20,000	4,20,000

Additional Information:

a) Interest on Capital Accounts at 10% on the amount standing to the credit of partners' Capital Accounts at the beginning of year was not provided before preparing above Trial Balance.

b) On 31st March, 2020 they formed a Private Ltd. Company Anagha (P) Ltd. to take over the partnership business.

c) You are further informed as under:

(i) Plant and Machinery is to be transferred at ₹ 80,000.

(ii) Equity Shares of ₹ 10 each of the company are to be issued to the partners at par in such numbers to ensure that by reason of their share holdings alone, they will have the same rights of sharing Profits and Losses as they had in the partnership. Balance if any in their Capital Accounts will be settled by giving 7 1/2% Preference Shares at par.

(iii) Before transferring the business, the partners withdrew by cash from partnership the following amounts over and above the drawings as shown in the Trial Balance:

Avinash	20,000
Rohit	10,600
Madwesh	14,200

(iv) All Assets and Liabilities except Plant and Machinery and the Bank Balance are to be transferred at their value in the books of the partnership as at 31st March, 2020.

You are required to prepare:

a) Profit and Loss Adjustment Account for the year ending 31st March, 2020.

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

c) A statement showing the number of shares of each class to be issued by the company to each of the partners to settle their accounts.

d) Prepare Balance Sheet of the company Anagha (P) Ltd. as on 31.03.2020 after take over of the business.

(Ans: Purchase Consideration 1,70,000 Equity shares distribution 50,000, 40,000 & 30,000 and Preference Shares distribution 29,000 & 21,000)

Question 26 *(ICAI Study Material)* *Pg no.______*

'S' & 'T' were carrying on business as equal partner. Their Balance Sheet as on 31st Mar, 2020

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

The operations of the business were carried on till 30th September, 2020. S and T both withdrew in equal amounts half the amount of profits made during the current period of 6 months after 10% per annum had been written off on building and plant and 5% per annum written off on furniture. During the current period of 6 months, creditors were reduced by ₹ 50,000, Bills payable by ₹ 11,500 and Bank overdraft by ₹ 75,000. The Joint Life policy was surrendered for ₹ 47,500 on 30th September, 2020. Stock was valued at ₹ 3,17,000 and debtors at ₹ 3,25,000 on 30th September, 2020. The other items remained the same as on 31st March, 2020.

On 30th September, 2020 the firm sold its business to ST Ltd. The value of goodwill was estimated at ₹ 5,40,000 and the remaining assets were valued on the basis of the Balance Sheet as on 30th September, 2020. The ST Ltd. paid the purchase consideration in equity shares of ₹ 10 each. You are required to prepare a Realization Account and Capital accounts of the partners

(Ans: Combined Capital on 30.09:- 13,40,000 Purchase Consideration 18,80,000)

Question 27 *Pg no.______*

Ali and Beta were carrying on business, sharing profits and losses equally. The firm's balance sheet as at 31-12-2019 was:

Liabilities		₹	Assets		₹
Sundry Creditors		1,44,000	Stock		1,44,000
Bank overdraft		84,000	Machinery		3,60,000
Capital A/cs:			Debtors		1,68,000
Ali	3,36,000		Joint Life Policy		21,600
Beta	3,12,000	6,48,000	Leasehold Premises		81,600
			Profit & Loss A/c		62,400
			Drawings Accounts:		
			Ali	24,000	
			Beta	14,400	38,400
		8,76,000			8,76,000

The business was carried on till 30-06-2020. The partners withdrew the amounts equal to half the amount of profit made during the period of six months ended on 30 -06-2020, in equal proportion. The profit was calculated after charging depreciation at 10% p.a. on machinery and after writing off 5% on leasehold premises.

In the half year, sundry creditors were reduced by ₹ 24,000 and bank overdraft by ₹ 36,000.

On 30-06-2020, stock was valued at ₹ 1,80,000 & debtors at ₹ 1,44,000; Joint Life Policy had been surrendered for ₹ 21,600 before 30-06-20 & other items remained same as at 31-12-19.

On 30-06-2020, the firm sold the business to a limited company. The value of goodwill was fixed at ₹ 2,40,000 and the rest of the assets were valued on the basis of the balance sheet as at 30-06-2020. The company paid the purchase consideration in equity shares of ₹ 10 each.

You are required to prepare:
a) Balance Sheet of the firm as at 30-06-2020;
b) Realisation Account; and
c) Partners' Capital Accounts showing the final settlement between them
(Ans: Combined Capital on 30.06:- 5,75,520 Purchase Consideration 8,15,520)

Question 28 *(Inter Nov 2020) (15 Marks)* *Pg no._____*

Mohan and Sohan were carrying business in partnership, sharing profit and losses equally. The Balance Sheet of the firm as on 31st March, 2020 stood as under:

Liabilities		₹	Assets		₹
Trade Payables		72,000	Inventories		72,000
Bank overdraft		42,000	Plant & Machinery		1,80,000
Capital A/cs:			Trade Receivables		84,000
Mohan	1,68,000		Joint Life Policy		10,800
Sohan	1,56,000	3,24,000	Leasehold Premises		40,800
			Profit & Loss A/c		31,200
			Partner's Current Accounts:		
			Mohan	12,000	
			Sohan	7,200	19,200
		4,38,000			4,38,000

The business was carried on till 30th September, 2020. The partners withdrew the amounts equal to half the amount of profit made during the period of six months ended on 30th September, 2020 equally. The profit was calculated after charging depreciation @5% per annum on Leasehold premises and 10% per annum on Plant & Machinery.
In the half year, the amounts of Bank Overdraft and Trade Payables stood reduced by ₹ 18,000 and ₹ 12,000 respectively. On 30th September, 2020, the inventories were valued at ₹ 90,000 and Trade Receivables at ₹ 72,000. The Joint Life Policy had been surrendered for ₹ 10,800 before 30th September, 2020 and all other items remained the same as at 31st March, 2020.
On 30th September, 2020, the firm sold off its business to PKR Limited. The value of Goodwill was fixed at ₹ 1,20,000 and the rest of the assets and liabilities were valued on the basis of their book values as at 30th September, 2020. PKR Ltd. paid the purchase consideration in equity shares of ₹10 each. You are requested to prepare the following:
(1) Balance Sheet of the Firm as at 30th September, 2020;
(2) Realization Account;
(3) Partners' Capital Account showing the final settlement between them.
(Ans: Combined Capital on 30.09:- 2,88,780 Purchase Consideration 4,08,780)

Question 29 *(RTP May 2022)* *Pg no._____*

U and V were in partnership with sharing of profit and loss equally. The firm's Balance sheet as at 31/12/2021 (for 9 months) was:

Liabilities			Assets	
Partners' Capital Accounts:			Plant	1,85,000
U	1,50,000		Building	1,00,000
V	1,80,000	3,30,000	Debtors	85,000
Sundry Creditors		90,000	Stock	56,000
Bank Overdraft		83,000	Profit & Loss A/c (Dr. balance)	60,000
			Partners' Drawings Accounts:	
			U 8,000	

		V	9,000	17,000
	5,03,000			5,03,000

The operations of the business were carried on till 31/03/2022. U and V both withdrew in equal amount half the amount of profit made during the current period of three months after charging depreciation of ₹ 5,000 on plant and after writing off 5% of building. During the current period of three months, creditors were reduced by ₹ 50,000 and bank overdraft by ₹ 50,000. The stock was valued at ₹ 24,000 and debtors at ₹ 40,500 on 31st March, 2022. The other items remained the same as at 31/12/2021.

On 31/03/2022, the firm sold its business to UV Limited. The value of goodwill was estimated at ₹ 1,84,000 and the remaining assets were valued on the basis of the balance sheet as on 31/03/2022 except building and stock, which were valued as below:

Building ₹ 1,20,000
Stock ₹ 36,000

UV Limited paid the purchase consideration in equity shares of ₹ 10 each. You are required to prepare (with necessary working notes):

a) Balance sheet of the firm as at 31/03/2022
b) Realization account and
c) Partners' capital accounts showing the final settlement between them

(Ans: Combined Capital on 31.03:- 2,66,500 Purchase Consideration 4,87,500)

Question 30 (Inter May 2019) (20 Marks)

Pg no.______

The following is the Balance Sheet of Messers Red and Black as on 31st March 2019:

Liabilities		₹	Assets	₹
Red's Capital	80,000		Buildings	1,00,000
Black's Capital	1,00,000	1,80,000	Stock	60,000
Red's Loan		20,000	Debtors	40,000
General Reserve		20,000	Investment	
Creditors		40,000	6% Debentures in Cool Ltd.	40,000
			Cash	20,000
		2,60,000		2,60,000

It was agreed that Mr. White is to be admitted for a fifth share in the future profits from 1st April 2019. He is required to contribute cash towards goodwill and ₹ 20,000 towards capital.

The following further information is furnished:

(i) The partners Red and Black shared the profits in the ratio 3:2.
(ii) Mr. Red was receiving a salary of ₹ 1,000 p.m. from the very inception of the firm in addition to share of profit.
(iii) The future profit ratio between Red, Black and White will be 3:1:1. Mr. Red will not get any salary after the admission of Mr. White.
(iv)
   a. The goodwill of the firm shall be determined on the basis of 2 years' purchase of the average profits from business of the last 5 years. The particulars of profits are as under:

			₹
Year ended	31-03-15	Profit	40,000
Year ended	31-03-16	Loss	20,000
Year ended	31-03-17	Profit	40,000
Year ended	31-03-18	Profit	50,000
Year ended	31-03-19	Profit	60,000

The above profits and losses are after charging the salary of Mr. Red. The profit of the year ended 31st March 2015 included an extraneous profit of ₹ 60,000 and the loss of the year ended 31st March 2016 was on account of loss by strike to the extent of ₹ 40,000.

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

(v) The trading profit for the year ended 31st March, 2020 was ₹ 80,000 before depreciation.

(vi) Each partner had drawn ₹ 2,000 per month as drawing during the year 2019-20.

(vii) The value of the other assets and liabilities as on 31st March, 2020 were as under:

Building (before depreciation)	1,20,000
Stock	80,000
Debtors	Nil
Investment	40,000
Creditors	Nil

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

(ix) Interest on Debenture was received during the year.

(x) Depreciation is to be provided @ 5% on Closing Balance of Building.

(xi) Partners applied for conversion of the firm into a private Limited Company i.e. RBW Private Limited. Certificate received on 1.4.2020.

They decided to convert Capital accounts of the partners into share capital, in the ratio of 3:1:1 (on the basis of total Capital as on 31.3.2020). If necessary, partners have to subscribe to fresh capital or withdraw. You are required to prepare:

(1) Profit & Loss Account for the year ended 31st March, 2020 in the books of M/s Red & Black.

(2) Balance Sheet as on 1st April, 2020 in the books of RBW Private Limited.

(Ans: Goodwill 79,200 Profit 75,200 & Balance Sheet Total 2,60,240)

Question 31 (RTP May 2020) (Similar) / RTP Nov 2021

Pg no._____

The following is the Balance Sheet of M/s. P and Q as on 31st March, 2020:

Liabilities		₹	Assets	₹
Capital Accounts:			Machinery	54,000
P	50,000		Furniture	5,000
Q	30,000	80,000	Investment	50,000
Reserves		20,000	Stock	20,000
Loan Account of Q		15,000	Debtors	21,000
Creditors		40,000	Cash	5,000
		1,55,000		1,55,000

It was agreed that Mr. R is to be admitted for a fourth share in the future profits from 1st April, 2020. He is required to contribute cash towards goodwill and ₹ 15,000 towards capital. The following further information is furnished:

(a) P & Q share the profits in the ratio 3 : 2.

(b) P was receiving salary of ₹ 750 p.m. from the very inception of the firm in 2013 in addition to share of profit.

(c) The future profit ratio between P, Q & R will be 2:1:1. P will not get any salary after admission of R.

(d) It was agreed that the value of goodwill of the firm shall appear in the books of the firm. The goodwill of firm shall be determined on the basis of 3 years' purchase of the average profits from business of the last 5 years. The particulars of the profits are as under:

Year ended 31-03-16	Profit	25,000
Year ended 31-03-17	Profit	12,500
Year ended 31-03-18	Loss	2,500
Year ended 31-03-19	Profit	35,000
Year ended 31-03-20	Profit	30,000

The above Profits and Losses are after charging the Salary of P. The Profit of the year ended 31st March, 2016 included an extraneous profit of ₹ 40,000 and the loss for the year ended 31st March, 2018 was on account of loss by strike to the extent of ₹ 20,000.

(e) The cash trading profit for the year ended 31st March, 2021 was ₹ 50,000 before depreciation.
(f) The partners had drawn each ₹ 1,000 p.m. as drawings.
(g) The value of other assets and liabilities as on 31st March, 2021 were as under:

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

(h) Provide depreciation @ 10% on Machinery and @ 5% on Furniture on Closing Balance and interest is accumulated @ 6% on Q's loan. Loan alongwith interest would be repaid within next 12 months.
(i) Investments are held from inception of the firm and interest is received @ 10% p.a.
(j) The partners applied for conversion of the firm into a Private Limited Company. Certificate was received on 1st April, 2021. They decided to convert Capital A/cs of the partners into share capital in the ratio of 2:1:1 on the basis of a total Capital as on 31st March, 2021. If necessary, partners have to subscribe to fresh capital or withdraw.

Prepare the Profit and Loss Account of the firm for the year ended 31st March, 2021 and the Balance Sheet of the Company on 1st April, 2021

(Ans: Goodwill 60,000 Profit 47,600 & Balance Sheet Total 1,77,500)

Question 32 (ICAI Study Material) Pg no.______

X, Y and Z were in partnership sharing profits and losses 3:2:1. There was no provision in the agreement for interest on capital or drawings.
X died on 31.3.2019 and on that date, the partners' balance were as under:

Capital Account: X – ₹ 60,000, Y – ₹ 40,000, Z – ₹ 20,000.
Current Account: X – ₹ 40,000 (Cr.), Y – ₹ 30,000 (Cr.), Z – ₹ 10,000 (Dr.)

By the partnership agreement, the sum due to X's estate was required to be paid within a period of 3 years, and minimum instalment of ₹ 30,000 each were to be paid, the first such instalment falling due immediately after death and the subsequent instalments at half-yearly intervals. Interest @ 6% p.a. was to be credited half yearly.
In ascertaining his share, goodwill (not recorded in the books) was to be valued at ₹ 90,000 and the assets, excluding the Joint Endowment Policy (mentioned below), were valued at ₹ 60,000 in excess of the book values.
No Goodwill Account was raised and no alteration was made to the book values of fixed assets. The Joint Assurance Policy shown in the books at ₹ 40,000 matured on 1.4.2019, realizing ₹ 52,000; payments of ₹ 30,000 each were made to X's Executors on 1.4.2019, 30.9.2019 and 31.3.2020.
Y and Z continued trading on the same terms as previously and the· net profit for the year ending 31.3.2020 (before charging the interest due to X's estate) amounted to ₹ 52,000. During that period, the partners' drawings were Y – ₹ 15,000; and Z ₹ 8,000.
On 1.4.2020, the partnership was dissolved and an offer to purchase the business as a going concern for ₹ 1,80,000 was accepted on that day. A cheque for that sum was received on 30.6.2020. The balance due to X's estate, including interest, was paid on 30.6.2020 and on that day, Y and Z received the sums due to them.
You are required to write-up the Partners' Capital and Current Accounts from 1.4.2019 to 30.6.2020. Show also the account of the executors of X.

(Ans: Final Payment to X Executor 1,00,785; Y 69,810 & Z 9,405)

TOPIC 4: AMALGAMATION OF FIRMS

Question 33 *Pg no._____*

Avi and Bishnu are partners of Abhay & Co. sharing profit and losses in the ratio 3 : 1 and Bishnu and Joe are partners of Bijoy & Co. sharing profit and losses in the ratio 2 : 1. On 31st March, 2020, they decided to amalgamate and form a new firm M/s Abeejay & Co., wherein Avi, Bishnu and Joe would be partners sharing profit and losses in the ratio 3 : 2 : 1.

The Balance Sheets of the two firms on 31st March, 2020 were as under:

Liabilities	Abhay & Co.	Bijoy & Co.	Assets	Abhay & Co.	Bijoy & Co.
Capital:			Building	3,50,000	2,80,000
Avi	5,31,000		Plant & Machinery	2,00,000	1,50,000
Bishnu	2,00,000	3,97,000	Vehicles	-	90,000
Joe		2,00,000	Furniture	-	10,000
Reserves	12,000	9,000	Office Equipments	38,000	45,000
Sundry Creditors	1,20,000	89,000	Stock in trade	65,000	70,000
Bank O/D	90,000	-	Sundry Debtors	1,00,000	90,000
Due to R & Co.	-	1,00,000	Bank Balances	80,000	60,000
			Cash in hand	20,000	-
			Due from R & Co	1,00,000	
	9,53,000	7,95,000		9,53,000	7,95,000

The amalgamated firm M/s Abeejay & Co. took over the business on the following terms:

(a) Goodwill of Abhay & co. was worth ₹ 42,000 and that of Bijoy & Co. ₹ 30,000. Goodwill account was not to be opened in the books of the new firm, the adjustments being recorded through capital accounts of the partners.

(b) The following assets were valued as below:

	Abhay & Co.	Bijoy & Co.
Building	4,00,000	3,00,000
Plant & Machinery	2,50,000	2,00,000
Vehicles	-	98,000
Furniture	-	11,000
Office Equipments	39,000	50,000
Stock in trade	70,000	80,000

(c) Provision for doubtful debt was carried forward at ₹ 4,000 in respect of Debtors of Abhay & co. and ₹ 3,000 in respect of Debtors of Bijoy & Co.

(d) Partners of new firm brought necessary cash to pay other partners to adjust their capitals according to the profit sharing ratio.

You are required to:

(i) Prepare the Balance Sheet of the new firm as on 31st March, 2020.

(ii) Prepare Capital Accounts of the partners in the books of old firms.

(Ans: Balance Sheet Total 18,41,000)

Question 34 *Pg no._____*

R and S are partners of RS & Co. sharing the profit and losses in the ratio of 3:2 and S and M were partners in SM & Co. sharing the profits and losses in the ratio of 4:1. On 31st March, 2020, they decided to amalgamate their firms and form a new firm namely M/s RSM & Co. wherein R, S, and M will share the profits and losses in the ratio of 5 : 3 : 2. The Balance Sheets of the two firms as on 31st March, 2020 were as under:

Liabilities	RS & Co.	SM & Co.	Assets	RS & Co.	SM & Co.
Capital:			Building	75,000	80,000
R	2,50,000	-	Plant & Machinery	2,00,000	1,50,000
S	1,50,000	1,75,000	Office Equipments	30,000	15,000
M	-	1,25,000	Stock in trade	1,30,000	1,25,000
Reserves	40,000	1,25,000	Sundry Debtors	1,50,000	1,75,000
Sundry Creditors	60,000	2,25,000	Bank Balances	40,000	35,000
Due to SM & Co.	50,000	-	Cash in hand	25,000	20,000
Bank O/D	1,00,000	-	Due from RS& Co	-	50,000
	6,50,000	6,50,000		6,50,000	6,50,000

The amalgamation of the firms was done on the following terms:

a) Building of both the firms were valued at ₹ 1.00 lac each.

b) Plant and Machinery of RS & Co. was valued at ₹ 1,75,000 and of SM & Co. was at ₹ 1,60,000.

c) Stock in trade of RS & Co. was to be appreciated by 10% and of SM & Co. by 15%.

d) Goodwill of RS & Co. was valued at ₹ 1,50,000 and of SM & Co. at ₹ 1,00,000, but the same will not appear in the books of accounts of the amalgamated firm.

e) Provisions for doubtful debts @ 5% for debtors of both the firms have to be made.

f) Other assets and liabilities will be taken over at their respective book value.

g) The partners will bring necessary cash as may be required to pay the other partners to adjust their capitals according to their profit sharing ratio.

Prepare the Balance Sheet of the Amalgamated Firm and Capital Accounts of the partners in the books of the old Firms. *(Ans: Balance Sheet Total 12,95,500)*

Question 35 *(ICAI Study Material)* *Pg no._____*

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, 2020 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 31.3.2020

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

The following were the terms of amalgamation:

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

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

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

You are required to:

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

(ii) Prepare the Balance Sheet of XY & Co. as at 31.3.2020 by keeping partners capital in their profit sharing ratio by taking capital of 'B' as the basis. The excess or deficiency to be kept in the respective Partners' Current accounts. *(Ans: Balance Sheet Total 6,45,000)*

Question 36 *Pg no._____*

A and B are partners of AB & Co. sharing profits and losses in the ratio of 2:1 and C and D are partners of CD & Co. sharing profits and losses in the ratio of 3:2. On 1st April 2020, they decided to amalgamate and form a new firm M/s. AD & Co. wherein all the partners of both the firm would be partners sharing profits and losses in the ratio of 2:1:3:2 respectively to A,B,C and D. Their balance sheets on that date were as under:

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

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

b) Building was taken over at ₹ 1,00,000 and ₹ 1,25,000 of AB & Co. and CD & Co. respectively. Machinery was taken over at ₹ 1,25,000 & ₹ 1,10,000 of AB & Co. and CD & Co. respectively

c) Goodwill of AB & Co. was worth ₹ 75,000 and that of CD & Co. was worth ₹ 50,000. Goodwill account was not to be opened in the books of the new firm, the adjustments being recorded through capital accounts of the partners

d) Provision for doubtful debts has to be carried forward at ₹ 5,000 in respect of debtors of AB & Co. and ₹ 8,000 in respect of CD & Co

You are required:

a) Compute the adjustments necessary for goodwill.

b) Pass the Journal Entries in the books of AD & Co. assuming that excess/deficit capital (taking D's capital as base) with reference to share in profits are to be transferred to current accounts. *(Ans: Current Acc Adjustments A: 1,24,267 & B: 87,133)*

Question 37 *Pg no._____*

A & B are partners in AB & Co. sharing Profit/Loss in the ratio of 3:2 and B & C are partners in BC & Co. sharing Profit/Loss in the ratio of 2: 1 carrying on same type of business. On 1st April, 2020, A, B & C decide to form a new Partnership Firm ABC & Co. by amalgamating AB & Co. and BC & Co. A, B & C will share Profit/Loss in the ratio of 3:2:1 in ABC & Co.

Their Balance Sheets on 1st April, 2020 were as under:

Liabilities	AB & Co.	BC & Co.	Assets	AB & Co.	BC & Co.
Capitals			Buildings	20,000	10,000
A	66,000	-	Plant & Machinery	21,000	29,000
B	67,000	50,000	Vehicles	15,000	5,000
C	-	48,000	Furniture	4,000	7,500
Reserves	10,000	5,000	Stock	50,500	19,500
Sundry Creditors			Sundry Debtors		
Others	41,000	38,000	Others	43,500	37,000
BC & Co.	15,000	-	AB & Co.	-	15,000
XYZ & Co.	-	9,000	XYZ & Co.	25,000	-
			Cash at Bank	15,000	18,000
			Cash in hand	5,000	9,000
	1,99,000	1,50,000		1,99,000	1,50,000

Following are the terms for the amalgamation:

(a) Goodwill will be valued at ₹ 25,000 for AB & Co. and ₹ 18,000 for BC & Co. But same will not appear in the books of the new firm.

(b) Building was taken over as follows:
- Building of AB & Co. was valued with upward revision of ₹ 10,000
- Building of BC & Co. valued at ₹ 16,000.

(c) Plant & Machinery to be taken over with downward valuation by ₹ 2,000 of AB & Co. and with new value of ₹ 32,000 of BC & Co.

(d) Value of vehicles to be taken over was reduced by ₹ 5,000 of AB & Co. and reduced to ₹ 2,000 of BC & Co.

(e) Excess/Deficit Capitals for partners taking A's Capital as base with reference to share in profits are to be transferred to Current Accounts.

You are required to prepare Balance Sheet of the new firm and Capital Accounts of the partners in the books of old firm.

(Ans: Balance Sheet Total 3,34,000 Current Acc Adjustments B: 92,333 & C: 28,067)

Question 38 *(Inter July 2021) (15 Marks)* Pg no._____

A Partnership firm C & Co. consists of partners P and Q sharing Profits and Losses in the ratio of 4:1. The firm H & Co. consists of Partners Q and R sharing Profits and Losses in the ratio of 3:2. On 31st March, 2021, it was decided to amalgamate both the firms and form a new firm CH & Co., wherein P, Q, R would be partners sharing Profits and Losses in the ratio of 6:3:1. The summarized Balance Sheets of both the firms as on 31st March, 2021 were as follows:

Labilities	C & Co. (₹ in 000)	H & Co. (₹ in 000)	Assets	C & Co. (₹ in 000)	H & Co. (₹ in 000)
Capital			Cash in hand/bank	160	120
P	600	-	Debtors	240	320
Q	400	300	Stock	200	80
R	-	200	Vehicles	-	350
Reserve	200	150	Machinery	480	-
Creditors	480	220	Building	600	-
Total	1,680	870	Total	1,680	870

The following were the terms of amalgamation:

(i) Goodwill of C & Co. was valued at ₹ 2,80,000 and the Goodwill of H & Co. was valued at ₹ 1,60,000. Goodwill account is not to be opened in the books of the new firm but to be adjusted through the Capital accounts of the partners.

(ii) Building, Machinery and Vehicles are to be taken over at ₹ 8,00,000, ₹ 4,00,000 and ₹ 3,00,000, respectively.

(iii) Provision for doubtful debts at ₹ 20,000 in respect of C & Co. and ₹ 10,000 in respect of H & Co. are to be provided.

You are required to:

a) Show how the Goodwill value will be adjusted amongst the partners.

b) Prepare the Balance Sheet of CH & Co as at 31st March, 2021 by keeping Partners' capital in their profit sharing ratio taking capital of 'Q' as the basis. The excess or deficiency to be kept in the respective Partner's Current Account.

(Ans: Balance Sheet Total 34,80,000 Current Acc Adjustments P: 8,68,000 & R: 22,000)