

8. PARTNERSHIP ACCOUNTS

PROBLEM NO:1

(i) Dr. Realisation Account Cr.

Particulars	Rs.	Particulars	Rs.
To Fixed assets	5,00,000	By Creditors	3,20,000
To Stock in trade	3,00,000	By Cash (5,20,000+4,40,000)	9,60,000
To Debtors	5,00,000	By Y (Stock taken over)	2,50,000
To Cash - Expenses	6,000	By Loss transferred to partners' capital accounts	
To Cash - Creditors (3,20,000 x 95%)	3,04,000	X	35,555
		Y	26,667
		Z	17,778
	16,10,000		16,10,000

(ii) Dr. Partners' Capital Accounts Cr.

Particulars	X	Y	Z	Particulars	X	Y	Z
To Realisation Account	35,555	26,667	17,778	By Bal, b/d	4,00,000	3,00,000	2,00,000
To Realisation Account	-	2,50,000	-	By General reserve	40,000	30,000	20,000
To Cash	4,04,445	53,333	2,02,222				
	4,40,000	3,30,000	2,20,000		4,40,000	3,30,000	2,20,000

(iii) Dr. Cash Account Cr.

Particulars	Rs.	Particulars	Rs.
To Balance b/d	10,000	By Realisation A/c (Expenses)	6,000
To Realisation A/c (Fixed assets and book debts realized)	9,60,000	By Realisation A/c (Creditors)	3,04,000
		By X	4,04,445
		By Y	53,333
		By Z	2,02,222
	9,70,000		9,70,000

PROBLEM NO: 2

a) Capital's A/c of partners

Dr.				Cr.			
Particulars	A (Rs.)	B (Rs.)	C (Rs.)	Particulars	A (Rs.)	B (Rs.)	C (Rs.)
To Cash A/c	15636	-	-	By bal. b/d	12000	9000	6000
To Bal. C/d	-	17762	11438	By Realisation A/c	3636	2424	1212
				By Cash A/c	-	6338	4226
	15636	17762	11438		15636	17762	11438

b) Opening entry in the book new firm

Particulars	Amount Rs.	Amount Rs.
Stock A/c	4000	
Loose tools A/c	500	
Motor vehicles A/c	2500	
Plant & Machinery A/c	7800	
Free hold premises A/c	8400	
Goodwill A/c	6000	
To B Capital A/c		17762
To C Capital A/c		11438
(Being assets and capitals incorporated in new firm)		

c) Balance sheet of B & C as on 30.06.2003.

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Capitals		Stock A/c	4000
B	17762	Loose tools A/c	500
C	11438	Motor vehicles A/c	2500
		Plant & Machinery A/c	7800
		Free hold premises A/c	8400
		Good will A/c	6000
	<u>29200</u>		<u>29200</u>

W.N-1:

Dr.		Cr.	
Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Bal. b/d	2500	By Creditors A/c	3328
To Debtors A/c	5900		
To B Capital A/c	6338	By A Capital A/c	15636
To C Capital A/c	4226		
	<u>18964</u>		<u>18964</u>

W.N-2:

Dr.		Cr.	
Particulars	Rs.	Particulars	Rs.
To debtors	6,200	By creditors	3,400
To stock	3,700	By B & C Capital A/c	29200
To loose tools	8,00	By cash (debtors realization)	5,900
To motor vehicle	1,200		
To plant & machinery	6,000		
To freehold premises	10,000		
To cash A/c (creditors)	3,328		
To capital A/c			
A A/c	3636		
B A/c	2424		
C A/c	<u>1212</u>		
	<u>38,500</u>		<u>38,500</u>

PROBLEM NO: 3**Realisation Account**

Particulars	Amount	Amount	Particulars	Amount	Amount
To Assets:			By liabilities:		
Plant & Machinery A/c		7,97,850	Sundry Creditors A/c		4,25,250
Furniture A/c		48,487	Joint Life Policy		
Stock A/c		1,77,525	Reserve A/c		1,99,125
Sundry Debtors A/c		4,00,500	Cash A/c:		
Joint Life Policy A/c		1,99,125	Joint Life Policy		1,74,375
Commission			Commission		
Receivable		1,05,413	Receivable		1,05,413
To L's Capital A/c:			By L's Capital A/c:		
Dissolution Expenses		13,500	Plant and		
To Cash A/c:			Machinery	6,75,000	
Bill dishonoured		23,062	Furniture, Stocks	<u>1,35,000</u>	8,10,000
To Partner's Capital			By M's Capital A/c:		
Accounts:			Furniture and stocks		1,35,000
(Profit on realisation)					
L	41,851				
M	27,900				
N	13,950	83,701			
		<u>18,49,163</u>			<u>18,49,163</u>

Partners' Capital Accounts

Particulars	L	M	N	Particulars	L	M	N
To Realisation A/c:				By Balance b/d	3,15,000	1,68,750	90,000
Plant and Machinery	6,75,000	-	-	By Bank	4,54,837	-	-
Furniture, Stocks	1,35,000	1,35,000		Overdraft A/c			
To Cash A/c (Balancing figure)	1,27,688	61,650	1,03,950	By Loan from Mrs. L A/c	1,12,500	-	-
				By Realisation A/c:			
				Dissolution Expenses	13,500	-	-
				Profit on realisation	41,851	27,900	13,950
	9,37,688	1,96,650	1,03,950		9,37,688	1,96,650	1,03,950

Cash Account

Particulars	Amount	Particulars	Amount
To Balance b/d	36,562	By Realisation A/c:	
To Realisation A/c:		Bill dishonoured	23,062
Joint Life Policy	1,74,375	By Partners' Capital Accounts:	
Commission		L	1,27,688
Receivable A/c	1,05,413	M	61,650
		N	1,03,950
	3,16,350		3,16,350

Note: No entry is required regarding assignment of sundry debtors to sundry creditors in full satisfaction of their claims.

PROBLEM NO: 4

Dr.		REALISATION A/c		Cr.	
Particulars	Rs.	Particulars	Rs.		
To Fixed Assets A/c	1,00,000	By Cash A/c	60,000		
		By Partners Capitals A/c			
		P - 20,000			
		Q - 12,000			
		R - 8,000	40,000		
	1,00,000		1,00,000		

Dr.		BANK LOAN A/c		Cr.	
Particulars	Rs.	Particulars	Rs.		
To Deficiency A/c	18,000	By Balance b/d	60,000		
To Cash A/c	42,000				
	60,000		60,000		

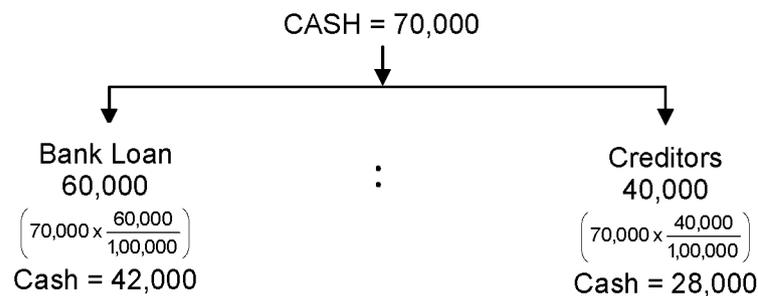
Dr.		CREDITORS A/c		Cr.	
Particulars	Rs.	Particulars	Rs.		
To Cash A/c	28,000	By Bal b/d	40,000		
To Deficiency A/c	12,000				
	40,000		40,000		

Dr.		CASH A/c		Cr.	
Particulars	Rs.	Particulars	Rs.		
To Balance b/d	10,000	By Bank Loan A/c	42,000		
To Realisation A/c	60,000	By Creditors A/c	28,000		
	70,000		70,000		

Dr.		DEFICIENCY A/c		Cr.	
Particulars	Rs.	Rs.	Particulars	Rs.	
To Partners Capital A/c's			By Bank Loan	18,000	
P	15,000		By Creditors	12,000	
Q	9,000				
R	6,000	30,000			
		30,000			30,000

Dr.		PARTNERS CAPITAL A/C				Cr.	
Particulars	P (Rs.)	Q (Rs.)	R (Rs.)	Particulars	P (Rs.)	Q (Rs.)	R (Rs.)
To Realisation A/c	20,000	12,000	8,000	By Balance b/d	5,000	3,000	2,000
				By Deficiency A/c	15,000	9,000	6,000
	20,000	12,000	8,000		20,000	12,000	8,000

WORKING NOTE: Distribution of Available Cash Based On the Outstanding Balance Ratio



PROBLEM NO: 5

Dr.		Realisation A/c		Cr.	
Particulars	Amount Rs.	Particulars	Amount Rs.		
To land & Building A/c	2,46,000	By Sundry creditors A/c	36,000		
To Furniture A/c	65,000	By mortgage loan A/c	1,10,000		
To stock A/c	1,00,000	By cash A/c $\left(\frac{2,30,000 + 42,000}{+ 72,000 + 65,000}\right)$	4,09,000		
To Debtors A/c	72,500	By Partner's capital A/c's (Loss-4:3:2:1)			
To cash A/c (exp on dissolution)	7,800	P – 40,120			
To cash A/c (Creditors)	54,000	Q – 30,090			
(36,000 + 18,000)		R – 20,060			
To Cash A/c (Mortgage Loan)	1,10,000	S – 10,030			
	6,55,300				6,55,300

Dr.		Cash A/c		Cr.	
Particulars	Amount Rs.	Particulars	Amount Rs.		
To balance b/d	15,500	By Real A/c (exp)	7,800		
To Realisation A/c	4,09,000	By Realisation A/c (creditors)	54,000		
To P Capital A/c	40,120	By Real A/c (Loan)	1,10,000		
To Q Capital A/c	30,090	By P's Cap A/c	2,03,364		
To S Capital A/c	10,030	By Q's Cap A/c	1,35,576		
To S Capital A/c	6,000				
	5,10,740				5,10,740

Dr.					Cr.				
Partners Capital A/c									
Particulars	P (Rs.)	Q (Rs.)	R (Rs.)	S (Rs.)	Particulars	P (Rs.)	Q (Rs.)	R (Rs.)	S (Rs.)
To balance b/d	-	-	25,000	18,000	By balance b/d	1,68,000	1,08,000	-	-
To Realisation A/c (Loss)	40,120	30,090	20,060	10,030	By general Reserve A/c	38,000	28,500	19,000	9,500
To R's capital A/c (Deficiency) (W.N)	12,636	8,424	-	-	By Capital reserve A/c	10,000	7,500	5,000	2,500
To cash A/c	2,03,364	1,35,576	-	-	By Cash A/c	40,120	30,090	-	10,030
					By P's Capital A/c			12,636	
					By Q's Capital A/c			8424	
					By Cash A/c				6,000
	256,120	1,74,090	45,060	28030		2,56,120	1,74,090	45,060	28,030

Note: P, Q and S brought cash to make good, their share of loss on realization. However, in actual practice they will not be bringing any cash, only a notional entry will be made.

WORKING NOTE:

As per Garner Vs. Murray rule, solvent partners have to bear the loss due to insolvency of a partner in their capital ratio.

Calculation of capital ratio of solvent partners

Particulars	P (Rs.)	Q (Rs.)	S (Rs.)
Op Capital	1,68,000	1,08,000	(18,000)
Add : General reserve	38,000	28,500	9,500
Capital reserve	10,000	7,500	2,500
	2,16,000	1,44,000	(6,000)

Though S is a solvent partner yet he cannot be called upon to bear loss on account of insolvency of R because his capital account has a debit balance.

Therefore, Capital ratio of P & Q = 216 : 144 = 3 : 2

Deficiency of R = Rs. {(25,000+20,060) - (18,000+5,000)} = Rs.45,060 – Rs.24,000 = Rs.21,060

Deficiency of R will be shared by P&Q in the capital ratio of 3 : 2 i.e.

P = Rs.21,060 X 3/5 = Rs.12,636

Q = Rs.21,060 X 2/5 = Rs.8,424

PROBLEM NO: 6

Dr.		Realisation A/c		Cr.	
Particulars	Rs.	Particulars	Rs.		
To Fixed Assets A/c	40,000	By Creditors (Discount)	580		
To stock A/c	25,000	By provision for			
To Debtors A/c	25,000	Bad debts A/c	5,000		
To Cash A/c (exp)	1,080	By Cash A/c	61,500		
		(20,000 + 21,000 + 20,500)			
		By partner's capital A/c			
		X – 9600			
		Y – 9600			
		Z – 4800	24,000		
	91,080		91,080		

Dr.		Creditors A/c		Cr.	
Particulars	Rs	Particulars	Rs		
To Realisation A/c – Discount @ 2% on Rs.29,000	580	By Balance b/d	25,000		
To Cash	28,420	By partner capital A/c	4,000		
		(1600+1600+800)			
	29,000		29,000		

Dr.		Z's Loan A/c		Cr.	
Particulars	Rs	Particulars	Rs		
To Cash A/c	5,000	By Balance b/d	5,000		
	5,000		5,000		

Dr.		Mr's.x Loan A/c		Cr.	
Particulars	Rs	Particulars	Rs		
To x's capital A/c	10,000	By Balance b/d	10,000		
	10,000		10,000		

Dr.		Cash A/c		Cr.	
Particulars	Rs	Particulars	Rs		
To balance b/d	1000	By Sundry trade creditors	28,420		
To Realisation A/c – Assets realised	61,500	By Realisation A/c (exp)	1080		
		By Z's loan A/c	5,000		
To X's Cap A/c*	9,600	By X's Cap A/c	34,300		
To Z's Cap A/c*	4,800	By Z's Cap A/c	8100		
	76,900		76,900		

*X and Z bring these amounts to make good their share of loss on realization. In actual practice they will not be bringing any cash, only a notional entry will be made.

Dr.				Partners Capital A/c				Cr.			
Particulars	X (Rs.)	Y (Rs.)	Z (Rs.)	Particulars	X (Rs.)	Y (Rs.)	Z (Rs.)				
To creditors A/c	1,600	1,600	800	By Balance b/d	29,200	10,800	10,000				
To Balance c/d	27,600	9,200	9,200								
	29,200	10,800	10,000		29,200	10,800	10,000				
To Advance	-	4,000	-	By Balance b/d	27,600	9,200	9,200				
To Realisation A/c (loss)	9600	9,6000	4,800	By Mrs.X Loan	10,000	-	-				
To Y's cap	3,300	-	1,100	By cash (Real. Loss)	9,600	-	4,800				
				By X's cap	-	3,300	-				
To cash A/c (Bal.fig)	34,300	-	8,100	By Z's cap	-	1,100	-				
	47,200	13,600	19,000		47,200	13,600	14,000				

NOTE: Y's deficiency comes to Rs.4,400 (difference in the two sides of his Capital Account); this has been debited to X and Z in the ratio of 27,600 : 9,200 i.e., capital standing up just before dissolution but after correction of error committed while drawing up the accounts for 2012

PROBLEM NO: 7

Dr.		Realisation A/c		Cr.	
Particulars	Rs	Rs	Particulars	Rs	Rs
To land A/c		50,000	By Current liabilities		70,000
To building A/c		2,50,000	By Loan from NBFC		5,00,000
To Office equipment A/c		1,25,000	By Bank A/c:		
To computers A/c		70,000	--Land	1,00,000	
To Debtors A/c		4,00,000	--Building	3,00,000	
To stock A/c		3,00,000	--Office equipment	1,25,000	
To other current assets		22,600	--Computers	49,000	
To cash A/c (liabilities)		70,000	--Debtors	3,80,000	
To cash A/c (loan) (5,00,000 + 1%)		5,05,000	--Stock	2,70,000	
To Partner's capitals A/c			---Other current asset	22,600	12,46,600

F. Kapil	9,600			
S. kapil	9,600			
R. Dev.	2,400			
B. Dev.	2,400	<u>24,000</u>		
		<u>18,16,600</u>		<u>18,16,600</u>

Dr. **Bank (or) Cash A/c** Cr.

Particulars	Rs	Particulars	Rs
To Bal b/d	75,000	By Realisation A/c	5,75,000
To Realisation A/c	12,46,600	By F. Kapil Cap A/c	2,42,600
		By S. Kapil Cap A/c	3,42,600
		By R. Dev's Cap A/c	<u>1,61,400</u>
	<u>13,21,600</u>		<u>13,21,600</u>

Dr. **Partner's capital accounts** Cr.

Particulars	F.kapil (Rs.)	S.kapil (Rs.)	R.dev (Rs.)	B.dev (Rs.)	Particulars	F.kapil (Rs.)	S.kapil (Rs.)	R.dev (Rs.)	B.dev (Rs.)
To current A/c	-	-	-	87,400	By Balance b/d	2,00,000	2,00,000	1,00,000	-
To B.Dev A/c (50%deficiency)	-	-	42,500	-	By partner current A/c	50,000	1,50,000	1,10,000	-
To B Dev cap A/c (Remaining 2:2:1)	17,000	17,000	8,500	-	By Realisation (profit)	9,600	9,600	2,400	2,400
To Bank A/c (Bal.Fig)	2,42,600	3,42,600	1,61,400	-	By R.Dev's capital (50% deficiency)	-	-	-	42,500
					By F cap A/c	-	-	-	17,000
					By S cap A/c	-	-	-	17,000
					By R Dev cap A/c	-	-	-	<u>8,500</u>
	<u>2,59,600</u>	<u>3,59,600</u>	<u>2,12,400</u>	<u>87,400</u>		<u>2,59,600</u>	<u>3,59,600</u>	<u>2,12,400</u>	<u>87,400</u>

PROBLEM NO: 8

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

Particulars	Amount	Particulars	Amount
To Building	1,20,000	By Trade creditors	47,000
To Stock	85,500	By Bills payable	20,000
To Investment	29,000	By Cash	
To Debtors	42,000	--Building	1,26,000
To Cash-creditors paid (W.N.1)	37,828	--Stock	78,000
To Cash-expenses	4,900	--Investments (W.N.2)	23,000
To Cash-bills payable (20,000-400)	19,600	--Debtors (W.N. 3)	33,176
To Partners' Capital A/cs		By C's Capital (Debtors-unrecorded)	4,300
A 171		By Investments-unrecorded	7,900
B 171			
C 137			
D 69	548		
	<u>3,39,376</u>		<u>3,39,376</u>

Cash Account

Particulars	Amount	Particulars	Amount
To Balance b/d	14,500	By Realisation - creditors paid	37,828
To Realisation – assets realized		By Realisation - bills payable	19,600
Building	1,26,000	By Realisation - expenses	4,900
Stock	78,000	By Capital account	
Investments	23,000	A	90,528

Debtors	33,176	2,60,176	B	90,528
To C's capital A/c		4,000	D	35,292
		2,78,676		2,78,676

Partners' Capital Accounts

Particulars	A	B	C	D	Particulars	A	B	C	D
To Balance b/d			15,000		By Balance b/d	90,000	90,000	-	35,000
To Realisation (Debtors-misappropriation)			4,300		By General reserve	7,500	7,500	6,000	3,000
To Investment-misappropriation			7,900		By Realisation profit	171	171	137	69
To C's capital A/c (W.N. 4)	7,143	7,143		2,777	By Cash A/c			4,000	-
To Cash A/c	90,528	90,528		35,292	By A's capital A/c			7,143	-
					By B's capital A/c			7,143	
					By D's capital A/c			2,777	
	97,671	97,671	27,200	38,069		97,671	97,671	27,200	38,069

Working Notes:

(i) Amount paid to creditors

Book value	47,000
Less: Creditors taking over investments	(8,400)
	38,600
Less: Discount @ 2%	(772)
₹	37,828

(ii) Amount received from sale of investments

Book value	29,000
Less: Misappropriated by C	(5,400)
	23,600
Less: Taken over by a creditor	(5,400)
	18,200
Add: Profit on sale of investments	4,800
	23,000

(iii) Amount received from debtors

Book value	42,000
Less: Unrecorded receipt	(4,300)
	37,700
Less: Discount @ 12%	(4,524)
	33,176

(iv) Deficiency of C

Balance of capital as on 31st March, 2012	15,000
Debtors-misappropriation	4,300
Investment-misappropriation	7,900
	27,200
Less: Realisation Profit	(137)
General reserve	(6,000)
Contribution from private assets	(4,000)
Net deficiency of capital	17,063

This deficiency of Rs. 17,063 in C's capital account will be shared by other partners A, B and D in their capital ratio of 90 : 90 : 35.

Accordingly,

A's share of deficiency = $[17,063 \times (90/215)] = \text{Rs. } 7,143$

B's share of deficiency = $[17,063 \times (90/215)] = \text{Rs. } 7,143$

D's share of deficiency = $[17,063 \times (35/215)] = \text{Rs. } 2,777$

PROBLEM NO: 9

Statement of Distribution of Cash

	Realisation	Interest on loans from partners' Spouses	Interest on loans from partners'	Partners' Capitals			Total
				A	B	C	
Balances due (1)		2,000	1,000	9,600	6000	8400	24000
(i) Sale of investments	1,000	(1,000)	-				
		1,000	1,000				
(ii) Sale of furniture	2,000	(1,000)	(1,000)				
		-	-				
(iii) Sale of machinery	1,200						
Maximum possible loss (total of capitals Rs. 24,000 less cash available Rs. 1,200) allocated to partners in the profit sharing ratio i.e. 5 : 3 : 2	Rs. 22,800			(11,400)	(6,840)	(4,560)	(22,800)
Amounts at credit				(1,800)	(840)	3840	1200
Deficiency of A and B written off against C				1800	840	(2640)	-
Amount paid (2)				-	-	1200	1200
Balances in capital accounts(1 - 2) = (3)				9600	6000	7200	22,800
(iv) Sale of stock Maximum possible loss (Rs. 22,800 - Rs. 4,000) Allocated to partners in the ratio 5 : 3 : 2	4,000 18,800			(9400)	(5640)	(3760)	(18,800)
Amounts at credit and cash paid (4) (4,000)				200	360	3440	4000
Balances in capital accounts left unpaid - Loss (3 - 4) = (5)				9400	5640	3760	18,800

PROBLEM NO: 10

Maximum loss method

Statement Showing distribution of cash

Particulars	Creditors (Rs.)	Amar's loan (Rs.)	Capital Balances (Rs.)		
			Amar	Akbar	Antony
Balance due	80,000	20,000	1,00,000	30,000	90,000
15 April					
Cash Realized	60,000	(60,000)	-	-	-
Balance due	20,000	20,000	1,00,000	30,000	90,000
1 st May Realised	1,46,000				
Paid	(20,000)	(20,000)	-	-	-
Balance due			1,00,000	30,000	90,000
Maximum loss					

(1,06,000 - 1,00,000 - 30,000 - 90,000) = (1,14,000)					
distribution of loss 5:3:2	-	-	(57,000)	(34,200)	(22,800)
			43,000	(4,200)	67,200
Akbar's Deficiency shared to	-	-	(2210)	4200	(1990)
Cash paid			40,790	-	65,210
Balance due			59,210	30,000	24,790
31 st May realized 94,000					
Maximum loss (94,000 - 59,210 - 30,000 - 24,790) = (20,000)					
Distribution of loss	-	-	(10,000)	(6,000)	(4,000)
Cash paid			49,210	24,000	20,790
Balance loss on realisation			10,000	6,000	4,000

Dr.		Cash A/c		Cr.	
Particulars	Amount (Rs.)	Particulars	Amount (Rs.)		
To Realisation A/c	60,000	By creditors A/c	60,000		
To Realisation A/c	1,46,000	By creditors A/c	20,000		
To Realisation A/c	94,000	By Amar's loan A/c	20,000		
		By Amar's capital A/c	40,790		
		By Antony's capital A/c	65,210		
		By Amar's capital A/c	49,210		
		By Akbar's capital A/c	24,000		
		By Antony's capital A/c	20,790		
	3,00,000		3,00,000		

Dr.				Partner's capital account				Cr.			
Particulars	Amar (Rs.)	Akbar (Rs.)	Antony (Rs.)	Particulars	Amar (Rs.)	Akbar (Rs.)	Antony (Rs.)	Particulars	Amar (Rs.)	Akbar (Rs.)	Antony (Rs.)
To Cash A/c	40,790	-	65,210	By Balance b/d	1,00,000	30,000	90,000				
To Cash A/c	49,210	24,000	20,790								
To Balance c/d (Realisation loss)	10,000	6,000	4,000								
	1,00,000	30,000	90,000		1,00,000	30,000	90,000				

*If no further realisation takes place then amar, Akbar and anthony will bear loss on realisation respectively Rs.10,000, Rs.6000, Rs.4000

PROBLEM NO: 11

Statement showing distribution cash to Creditors and Bank loan:

Particulars	Cash Balance (Rs)	Creditors (Rs)	Bank loan (Rs)
Balance due		2,00,000	5,00,000
1) Realisation	5,00,000		
Less : Liquidation expenses	(1,00,000)		
	4,00,000		
Cash paid on outstanding ratio (2:5)	(4,00,000)	(1,14,286)	(2,85,714)
Balance due	-	85,714	2,14,286
2) Realisation	15,00,000		
Less :Cash paid	(3,00,000)	(85,714)	(2,14,286)
Balance	12,00,000	-	-

Statement showing distribution cash to partners

Particulars	Balance (Rs.)	L's Loan (Rs.)	L (Rs.)	M (Rs.)	S (Rs.)
Balance due	12,00,000	10,00,000	15,00,000	10,00,000	5,00,000
Less: Cash paid	(10,00,000)	(10,00,000)	-	-	-
Balance due	2,00,000	-	15,00,000	10,00,000	5,00,000
Less: Paid (W.N-1)	(2,00,000)	-	(2,00,000)	-	-
Balance due	-	-	13,00,000	10,00,000	5,00,000
3) Realisation	15,00,000				
Less: Paid	(3,00,000)	-	(3,00,000)	-	-
Balance due	12,00,000	-	10,00,000	10,00,000	5,00,000
Less : Paid	(10,00,000)	-	(5,00,000)	(5,00,000)	-
Balance due	2,00,000	-	5,00,000	5,00,000	5,00,000
Less : Paid	(2,00,000)	-	(66,667)	(66,667)	(66,666)
Balance due	-	-	4,33,333	4,33,333	4,33,334
4) Realised	30,00,000				
Cash paid (1:1:1)	(30,00,000)	-	(10,00,000)	(10,00,000)	(10,00,000)
Profit			(5,66,667)	(5,66,667)	(5,66,677)
5) Realised	30,00,000				
Less : paid to all	(30,00,000)	-	(10,00,000)	(10,00,000)	(10,00,000)
Total Reliasation profit	-	-	(15,66,777)	(15,66,777)	(15,66,666)

W.N 1:

(i) Scheme of payment of surplus amount of Rs.2,00,000 out of second instalment

Particulars	L (Rs.)	M (Rs.)	S (Rs.)
Capital balance	15,00,000	10,00,000	15,00,000
P&L ratio	1	1	1
Proportionate Capitals taking as 'S' Capital	(5,00,000)	(5,00,000)	(5,00,000)
Surplus	10,00,000	5,00,000	-
Profit sharing Ratio	1	1	
Proportionate Capital taking as 'M' Capital	(5,00,000)	(5,00,000)	
Higher relative capital	5,00,000	-	

So, Mr. L should get Rs. 5,00,000 first which will bring down his capital account balance from Rs. 15,00,000 to Rs. 10,00,000. Accordingly, surplus amounting to Rs. 2,00,000 will be paid to Mr. L towards higher relative capital.

(ii) Scheme of payment of Rs. 15,00,000 realised in 3rd Instalment:

- Payment of Rs.3,00,000 will be made to Mr. L to discharge higher relative capital. This makes the higher capital of both Mr. L and Mr. M Rs. 5,00,000 as compared to capital of Mr. S.
- Payment of Rs. 5,00,000 each of Mr. L & Mr. M to discharge the higher capital.
- Balance Rs. 2,00,000 equally to L, M and S, i.e., Rs. 66,667 Rs. 66,667 and Rs. 66,666 respectively.

PROBLEM NO: 12

Particulars	Cash	Creditors	Capitals		
			P(Rs.)	Q(Rs.)	R(Rs.)
Balance due after loan		16,000	52,000	43,500	32,000
January					
Balance available	9,000				
Realization less expenses and cash retained	10,000				
Amount available and paid	19,000	(16,000)	-	-	3,000
Balance due	-	-	52,000	43,500	29,000

February					
Opening Balance	6,000				
Expenses paid and cash carried forward	3,000				
Available for distribution	3,000				
Cash paid to Q and Machinery given to R			-	3,000	9,000
Balance due	-		52,000	40,500	20,000
March					
Opening Balance	2,000				
Amount realized less expenses	87,300				
Amount paid to partners	89,300		41,689	32,767	14,844
Loss			10,311	7,733	5,156

Working Note:**(i) Highest Relative Capital Basis**

	P(Rs.)	Q(Rs.)	R(Rs.)
Scheme of payment for January 2014			
Balance of Capital Accounts	65,000	50,500	32,000
Less: Loans	(13,000)	(7,000)	-
	(A) 52,000	43,500	32,000
Profit Sharing Ratio	4	3	2
Capital / Profit sharing Ratio	13,000	14,500	16,000
Capital in profit sharing ratio, taking P's capital as base (B)	52,000	39,000	26,000
Excess of R's capital and Q's Capital (A – B) (i)		4,500	6,000
Profit Sharing Ratio		3	2
Capital / Profit sharing Ratio		1,500	3,000
Capital in profit sharing ratio, taking Q's capital as base (ii)		4,500	3,000
Excess of R's Capital over Q's capital (i – ii)			3,000

(ii) Scheme of distribution of available cash for March:

	P (Rs.)	Q (Rs.)	R (Rs.)
Balance of Capital Accounts end of February (A)	52,000	40,500	20,000
Profit Sharing Ratio	4	3	2
Capital / Profit sharing Ratio	13,000	13,500	10,000
Capital in profit sharing ratio, taking R's capital as base (B) (i)	40,000	30,000	20,000
Excess of P's Capital and Q's Capital (A – B) (i)	12,000	10,500	
Profit Sharing Ratio	4	3	
Capital / Profit sharing Ratio	3000	3500	
Capital in profit sharing ratio taking P's capital as base (ii)	12000	9000	
Excess of Q's Capital over P's Capital (i – ii)		1500	
Payment Rs. 1500 (C)		(1500)	
Balance of Excess Capital (i – C)	12000	9000	
Payment Rs. 21000 (D)	(12000)	(9000)	
Balance due (A – C – D)	40,000	30,000	20,000
Balance cash Payment (Rs. 89,300 – Rs. 22,500) = Rs. 66,800 (E)	(29689)	(22267)	(14844)
Total Payment (Rs. 89,000) (C + D + E) (iii)	41689	32767	
			14844
Loss (A – iii)	10311	7733	5156

PROBLEM NO: 13**Adjustment for raising & writing off of Good will**

Goodwill raised in old firms			Total	Written off new ratio	Difference
Partner	S & co (Rs.)	T & co (Rs.)	(Rs.)	(Rs.)	(Rs.)
B	45,000	-	45,000	55,000	10,000
			Cr	Dr	Dr

S	15,000	33,333	48,333	36,666	11,667
			Cr	Dr	Cr
T	-	16,667	16,667	18,334	1,667
			Cr	Dr	Dr

Journal entries in the books of BST&CO

Date	Particulars	Debit (Rs.)	Credit (Rs.)
31-10	Cash A/c Dr	10,000	
	Bank A/c Dr	15,000	
	T&CO A/c Dr	50,000	
	Debtors A/c Dr	80,000	
	Stock A/c Dr	60,000	
	Furniture A/c Dr	10,000	
	Machinery A/c Dr	90,000	
	Building A/c Dr	50,000	
	To Provision for Bad debts A/c		4,000
	To X&CO A/c		40,000
	To Creditors A/c		60,000
	To B's Capital A/c (W.N.1)		1,65,750
	To S Capital A/c (W.N.1)		95,250
	(Being asset & liability of S&CO recorded)		
	Cash A/c Dr	5,000	
	Bank A/c Dr	20,000	
	X&CO A/c Dr	30,000	
	Debtors A/c Dr	1,00,000	
	Stock A/c Dr	70,000	
	Furniture A/c Dr	3,000	
	Vehicles A/c Dr	1,00,000	
	To Provision for Bad debts		5,000
	To S&CO		50,000
	To Sundry Creditors		58,000
	To S Capital (W.N.2)		1,43,333
	To T Capital (W.N.2)		71,667
	(Being assets & liability of T&CO recorded)		
	B's Capital A/c Dr	10,000	
	T's Capital A/c Dr	1,667	
	To S's Capital A/c		11,667
	(Being difference in goodwill adjusted)		
	S&CO A/c Dr	50,000	
	To T & CO		50,000
	(Being inter firm owings eliminated)		
	B's Current A/c Dr	54,250	
	To B's Capital A/c		54,250
	(Being B's Capital to bring cash debited to B's Current A/c)		
	S's Capital A/c Dr	1,10,250	
	To S's Current A/c		1,10,250
	(Being surplus amount in S's capital transferred to current A/c)		

W.N 1: Capital Balance in S & CO:

Particulars	B Capital (Rs)	S Capital (Rs)
Balances	1,20,000	80,000
Add: Reserves	18,750	6,250
Add: Profit on revaluation after adjustment of provision (40,000-4,000)	27,000	9,000
	1,65,750	95,250

W.N 2: Capital Balance in T&CO

Particulars	S Capital (Rs)	T Capital (Rs)
Balances	1,00,000	50,000
Add: Reserves	33,333	16,667
Add: Profit on revaluation after adjustment of provision (20,000-5,000)	10,000	5,000
	1,43,333	71,667

W.N 3: Capitals in New firm BST&CO

Particulars	B (Rs.)	S (Rs.)	T (Rs.)
Balance Credited from S&CO	1,65,750	95,250	-
Balance Credited from T&CO	-	1,43,333	71,667
Total	1,65,750	2,38,583	71,667
Goodwill Adjustment	(10,000)	11,667	(1,667)
	1,55,750	2,50,250	70,000
Proportionate capitals based on T's Share (3:2:1)	(2,10,000)	1,40,000	70,000
Adjusted in current accounts	54,250	1,10,250	-
	Deficiency	Surplus	

Note: T Capital is Rs. 70,000 and it is 1/6 of total. The total there fore is Rs. 4,20,000

PROBLEM NO: 14**(i) Adjustment for raising & writing off of goodwill**

	Goodwill raised in old profit sharing ratio			Goodwill written off in new ratio	Difference
	AB & Co.	CD & Co.	Total		
A	50,000		50,000 Dr.	31,250 Dr.	18,750 Cr.
B	25,000		25,000 Cr.	15,625 Dr.	9,375 Cr.
C		30,000	30,000 Cr.	46,875 Dr.	16,875 Dr.
D		<u>20,000</u>	<u>20,000 Cr.</u>	<u>31,250 Dr.</u>	11,250 Dr.
	75,000	50,000	125,000	1,25,000	

(ii) In the books of AD & Co.**Journal Entries**

Date	Particulars	Debit	Credit
April 1, 2017	Building A/c Dr Machinery A/c Dr. Furniture A/c Dr. Stock A/c Dr. Debtors A/c Dr. CD & Co. A/c Dr. Cash at bank A/c Dr. Cash in hand A/c Dr. To Provision for doubtful debts A/c To Creditors A/c To A's capital A/c (W.N. 2a) To B's capital A/c (W.N.2 a) (Being the sundry assets and liabilities of AB & Co. taken over at the values stated as per the agreement)	1,00,000 1,25,000 15,000 24,000 65,000 47,000 18,000 4,000	5,000 52,000 2,10,667 1,30,333
April 1, 2017	Building A/c Dr. Machinery A/c Dr Furniture A/c Dr. Stock A/c Dr. Debtors A/c Dr.	1,25,000 1,10,000 12,000 36,000 78,000	

Cash at bank A/c Dr. Cash in hand A/c Dr. To Provision for doubtful debts A/c To Creditors A/c To AB & Co. A/c To C's capital A/c (W.N. 2b) To D's capital A/c (W.N. 2b) (Being the sundry assets and liabilities of CD & Co. taken over at the values stated as per the agreement)	15,000 5,000	8,000 35,000 47,000 1,74,600 1,16,400
C's capital A/c Dr. D's capital A/c Dr. To A's capital A/c To B's capital A/c (Being adjustment in capital accounts of the partners on account of goodwill)	16,875 11,250	18,750 9,375
AB & Co. A/c Dr. To CD & Co. A/c (Being mutual indebtedness of AB & Co. and CD & Co. cancelled)	47,000	47,000
A's Capital A/c Dr. To A's Current A/c (Being excess amount in A's capital A/c transferred to A's current A/c – refer W.N.3)	1,24,267	1,24,267
B's Capital A/c Dr. To B's Current A/c (Being excess amount in B's capital A/c transferred to B's current A/c – refer W.N.3)	87,133	87,133

Working Notes:**(1) Profit on Revaluation**

	AB & Co.	CD & Co.
Building (1,00,000 – 75,000)	25,000	
(1,25,000 – 90,000)		35,000
Machinery (1,25,000 – 1,20,000)	5,000	
(1,10,000 – 1,00,000)		10,000
	30,000	45,000
Less: Provision for doubtful debts	(5,000)	(8,000)
	25,000	37,000

(2) Balance of capital accounts of partners on transfer of business to AD & Co.**(a) AB & Co.**

	A's Capital	B's Capital
Balance as per the Balance Sheet	1,50,000	1,00,000
Reserves in the profits and losses sharing ratio	44,000	22,000
Profit on revaluation in the profits and losses sharing ratio (W.N.1)	16,667	8,333
	2,10,667	1,30,333

(b) CD & Co.

	C's Capital	D's Capital
Balance as per the Balance Sheet	1,20,000	80,000
Reserves in the profits and losses sharing ratio	32,400	21,600
Profit on revaluation in the profits and losses sharing ratio (W.N.1)	22,200	14,800
	1,74,600	1,16,400

(3) Calculation of capital of each partner in the new firm

Particulars	A	B	C	D
	Rs.	Rs.	Rs.	Rs.
Balance as per W.N.2	2,10,667	1,30,333	1,74,600	1,16,400
Adjustment for goodwill	18,750	9,375	(16,875)	(11,250)
	2,29,417	1,39,708	1,57,725	1,05,150
Total capital Rs. 4,20,600* in the new ratio of 2:1:3:2	(1,05,150)	(52,575)	(1,57,725)	(1,05,150)
Transfer to Current Account	1,24,267 Cr.	87,133 Cr.	-	-

* Taking D's capital as the base which is 2/8th of total capital; total capital will be 1,05,150 x 8/2 i.e. Rs. 4,20,600.

PROBLEM NO: 15

Balance sheet of firm as on 30-6-2014

Liabilities	Amount Rs.	Assets	Amount Rs	Amount Rs.
Capitals		Plant	1,60,000	
P	133800	Less : Dep	(8,000)	1,52,000
Q	115800	Building	48,000	
Creditors	60,000	Less : Written off	(2,400)	45,600
Bank O.D	40,000	Debtors		68,000
		Stock		84,000
	3,49,600			3,49,600

Dr.		Realisation A/c		Cr.	
Particulars	Amount Rs	Particulars	Amount Rs		
To Plant A/c	1,52,000	By Trade creditors A/c	60,000		
To Bulding A/c	45,600	By Bank O.D A/c	40,000		
To Stock A/c	84,000	By PQ Ltd (P.C) (W.N-2)	3,79,600		
To Debtors A/c	68,000				
To Partner's Capital A/c (Profit)					
P's Capital	65,000				
Q's Capital	65,000				
	4,79,600				4,79,600

Dr.		Partners capital A/c				Cr.	
Date	Particulars	P (Rs.)	Q (Rs.)	Date	Particulars	P (Rs.)	Q (Rs.)
1.1.14	To P & L A/c	15000	15000	1.1.14	By bal. b/d	1,50,000	1,30,000
1.1.14	To drawings A/c	9000	7000	30.6.14	By profit (W.N-1)	15600	15600
30.6.14	To Drawings A/c (W.N-1)	7800	7800				
30.6.14	To Bal. c/d	133800	115800				
		165600	145600			165600	145600
30.6.14	To Shares in PQ.Ltd.	198800	180800	30.6.14	By balance b/d	133800	115800
				30.6.14	By Realisation A/c (Profit)	65000	65000
		1,98,800	1,80,800			1,98,800	1,80,800

W.N: 1 Calculation of profit up to 30-6-2014

Particulars	Amt (Rs)
Total Assets as per Balance Sheet	3,49,600
Less: Liabilities	
Creditors	(60,000)
Bank O.D	(40,000)

NAV (or) Closing combined capitals	2,49,600
Less : Opening Capitals after P&L A/c (Dr) Written off & Drawings	
P(1,50,000 – 15,000 – 9,000)	(1,26,000)
Q (1,30,000 – 15,000 – 7000)	(1,08,000)
Profit after Drawings	15,600
Add: Drawings 1/2 of Profits	15,600
Actual profit for six months before drawings.	31,200
Share of 'P'	15,600
Share of 'Q'	15,600

W.N-2 Calculation of P.C

Particulars	Amt (Rs.)
Net Assets	2,49,600
Add: Goodwill	1,30,000
Purchase Consideration	3,79,600

PROBLEM NO: 16**Realisation Account**

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

Partners' Capital Accounts

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

Working Notes:**(1) Ascertainment of total capital:****Balance Sheet as at 30th September, 20X1**

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

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

Total capital (of S and T) on 30th September, 20X1 (W.N.1)		13,40,000
Capital on 1st April, 20X1		
S	6,40,000	
T	6,60,000	13,00,000
Net increase (after drawings)		40,000
Since drawings are half of profits therefore, actual profit earned is Rs. 40,000 x 2 = Rs. 80,000 (shared equally by partners S and T). Half of the profits, has been withdrawn by both the partners equally i.e. drawings Rs. 40,000 (Rs. 80,000 x ½) withdrawn by S and T in 1:1 (i.e. Rs. 20,000 each).		

(3) Purchase consideration:

	Rs.
Total assets (W.N.1)	17,43,500
Add: Goodwill	5,40,000
	22,83,500
Less: Liabilities (277500 + 51,000 + 75,000)	(4,03,500)
Purchase consideration	18,80,000

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

PROBLEM NO: 17

Dr. Partners Current Accounts (1.04.2013 to 31.03.2014) Cr.

Particulars	X	Y	Z	Particulars	X	Y	Z
To Bal. b/d	-	-	10,000	By Bal. b/d	40,000	30,000	-
To x's current a/c – goodwill – (W.N.1)	-	30,000	15,000	By y's current A/c (goodwill) – (W.N.1)	30,000	-	-
To X's current A/c – Revaluation profit – (W.N.2)	-	20,000	10,000	By Z's current A/c (goodwill) - (W.N.1)	15,000	-	-
To X's Capital A/c - Transfer	121000	-	-	By Y's current A/c(W.N.2) (Revaluation Profit)	20,000	-	-
				By Z's current A/c (W.N.2) (Revaluation Profit)	10,000	-	-
				By Joint life policy (52000 – 40000)	6,000	4,000	2,000
				By Bal. c/d	-	16,000	33,000
	1,21,000	50,000	35,000		1,21,000	50,000	35,000
To Bal. b/d	-	16,000	33,000	(31.03.14) By Profit & Loss appropriation	-	29,136	14,568
To Drawings	-	15,000	8,000	(31.03.14) By Bal. c/d	-	1,864	26,432
		31,000	41,000			31,000	41,000

Dr. Partners Current Accounts (01.04.2014 to 30.06.2014) Cr

Date	Particulars	X	Y	Z	Date	Particulars	X	Y	Z
01.04.14	To Bal. b/d	-	1,864	26,432	30.6.14	By realization	-	31,674	15,837
	To Y's Capital	-	29,810	-		A/c	-	-	10595
		-	31,674	26,432		By Z's capital	-	31,674	26,432

Dr. Partner's capital Accounts Cr.

Date	Particulars	X	Y	Z	Date	Particulars	X	Y	Z
01.04.13	To X's Execution	1,81,000	-	-	01.04.13	By Bal. b/d	60,000	40,000	20,000
	To Bal. c/d	-	40,000	20,000		By X's Current A/c	1,21,000	-	-

31.03.14	To Bal. c/d	1,81,000	40,000	20,000	01.04.13	By Bal. b/d	1,81,000	40,000	20,000
		-	40,000	20,000			-	40,000	20,000
		1,81,000	40,000	20,000			1,81,000	40,000	20,000
		-	-	10,595			-	40,000	20,000
30.06.14	To Z's Current A/c	-	69,810	9,405	01.04.14	By Bal. b/d	-	29,810	-
30.06.14	To Bank	-	69,810	20,000	30.06.14	By Y's Current A/c	-	69,810	20,000

Dr.

X's Executor's Account

Cr.

Date	Particulars	Amount	Date	Particulars	Amount
01.04.13	To bank	30,000	01.04.13	By X's Capital	1,81,000
01.04.13	To bal. b/d	1,51,000			
		1,81,000			1,81,000
30.09.13	To bank	30,000	01.04.13	By bal. b/d	1,51,000
30.09.13	To bal. b/d	1,25,530		By interest (1,51,000 x 6%) x(6/12)	4,530
		1,55,530			1,55,530
31.03.14	To bank	30,000	01.10.13	By bal. B/d	1,25,530
	To bal. b/d	99,296	31.03.14	By interest (1,25,530 x 6%) x(6/12)	3,766
		1,29,296			1,29,296
30.06.14	To bank	1,00,785	30.06.14	By bal. B/d	99,296
		1,00,785		By interest (99,296 x 6%) x(3/12)	1,489
					1,00,785

Working notes

1. Adjustment of Goodwill

Particulars	X	Y	Z
Share of goodwill before death	45,000	30,000	15,000
Share of goodwill after death	-	60,000	40,000
	(45,000) Cr	30,000 Dr	15,000 Dr

2. Adjustment in relation to revaluation of assets

Particulars	X	Y	Z
Share of profit on revaluation credited to partners	30,000	20,000	10,000
Debited to continuing parties	-	40,000	20,000
	(30,000) Cr	20,000 Dr	10,000 Dr

3. Ascertainment of profit in the year 31-03-2014

Particulars	X
Profit before changing interest on balance due to X's Executor	52,000
Less: Interest payable to X's executor	
From 1-04-2013 to 30-09-2013	4,530
From 1-10-2013 to 31-03-2014	3,766
Balance of profit to be shared by Y and Z in 2:1	43,704

4. Ascertainment of sundry Assets in the year 31-03-2014

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capital of Y	40,000	Sundry Assets (b / f)	1,31,000
Capital of Z	20,000	Partner's current A/c	
X's Executor	99,296	Y	1,864
		Z	26,432
	1,59,296		1,59,296

5. Dr. Realisation A/c Cr

Particulars	Amount	Particulars	Amount
To Sundry Assets	1,31,000	By Bank A/c	1,80,000
To Interest A/c	1,489	(Purchases Consideration)	
To Partners Account of Y - 31,674 of Z - 15,837	47,511		
	1,80,000		1,80,000

6. Dr. Bank A/c Cr

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

PROBLEM NO: 18

(i) In the books of XYZ & Co.

Realisation Account

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

Partners' Capital Accounts

	X	Y	Z		X	Y	Z
To Realisation A/c	20,000	20,000	10,000	By Balance b/d	2,00,000	3,00,000	1,00,000
To Shares in ABC Ltd.	2,40,000	2,40,000	1,20,000	By General Reserve	40,000	40,000	20,000
To Cash A/c	-	80,000	-	By Cash A/c	20,000	-	10,000
	2,60,000	3,40,000	1,30,000		2,60,000	3,40,000	1,30,000

Cash and Bank Account

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

* It is assumed that cash at bank has been withdrawn to pay Rs. 80,000 to partner Y. However, payment to Y of Rs. 80,000 can also be made by cash Rs. 70,000 & by cheque Rs. 10,000.

(ii) In the Books of ABC Ltd.

Journal Entries

	Particulars		Rs.	Rs.
1	Business Purchase Account To XYZ & Co. (Being business of XYZ & Co. purchased and payment due)	Dr.	6,00,000	6,00,000
2.	Plant and Machinery Account	Dr	5,00,000	

	Furniture and Fixture Account	Dr.	50,000	
	Inventories Account	Dr.	2,00,000	
	Trade Receivables Account	Dr.	2,00,000	
	To Trade Payables Account			3,00,000
	To Unrecorded Liability Account			25,000
	To Business Purchase Account			6,00,000
	To Capital Reserve Account (Bal. Fig.)			25,000
	(Being take over of all assets and liabilities)			
3.	XYZ & Co.	Dr.	6,00,000	
	To Equity Share Capital Account			5,00,000
	To Securities Premium Account			1,00,000
	(Being purchase consideration discharged in the form of shares of Rs. 10 each issued at a premium of Rs. 2 each)			
4.	Trade Payables Account Dr.		1,00,000	
	To Trade Receivables Account			1,00,000
	(Being mutual owings eliminated)			

Balance Sheet of ABC Ltd. (After take over of XYZ & Co.) as at 31.3.2017

	Note no.	
Equity and Liabilities		
Shareholders funds		
Share capital	1	25,00,000
Reserve and Surplus	2	8,25,000
Current liabilities:		
Trade Payables (3,00,000 + 13,00,000 – 1,00,000)		15,00,000
Others (Unrecorded Liability)		25,000
Total		48,50,000
Assets		
Non-current assets:		
Fixed assets		
Tangible assets	3	23,75,000
Current assets:		
Inventories (2,00,000 + 8,50,000)		10,50,000
Trade Receivables (2,00,000 + 8,25,000 – 1,00,000)		9,25,000
Cash and cash equivalent	4	5,00,000
Total		48,50,000

Notes to Accounts

1. Share Capital		25,00,000
2,50,000, Equity shares of Rs. 10 each fully paid up (out of which 50,000 shares has been issued for consideration other than cash)		
2. Reserve and Surplus		
Securities Premium	1,00,000	
Capital Reserve	25,000	
General Reserve	<u>7,00,000</u>	8,25,000
3. Tangible assets		
Plant and Machinery (5,00,000 + 16,00,000)	21,00,000	
Furniture and fixture (50,000 + 2,25,000)	<u>2,75,000</u>	23,75,000
4. Cash and cash equivalent		
Cash at Bank	4,00,000	
Cash in hand	<u>1,00,000</u>	5,00,000

Working Note:

Computation of purchase consideration:

50,000, Equity shares of Rs. 12 (10+2) each = Rs. 6,00,000

Equity shares distributed among partners:

Partner X = 20,000 shares @ Rs. 12 = Rs. 2,40,000

Partner Y = 20,000 shares @ Rs. 12 = Rs. 2,40,000

Partner Z = 10,000 shares @ Rs. 12 = Rs. 1,20,000

Rs. 6,00,000

PROBLEM NO: 19

Realisation A/c

Particulars	Rs.	Rs.	Particulars	Rs.
To Sundry Assets:			By Unsecured loans	15,000
Fixed assets	45,000		By current liabilities	15,000
Investments	15,000		By YTR Ltd (W.N.2)	85,500
Stock	10,000			
Debtors	27,500	97,500		
To Bank A/c (Realisation expenses)	5,000	5,000		
To profit on realization transferred to				
Yash	6,500			
Tanish	4,333			
Ruchika	2,167	13,000		
		1,15,500		1,15,500

Cash and Bank A/c

Particulars	Rs.	Particulars	Rs.
To Balance B/d	12,500	By Realisation - Expenses	5,000
To YTR (P) Ltd.	8,667	By Ruchika Capital A/c	16,617
	21,167		21,167

YTR Pvt. Ltd.

Particulars	Rs.	Particulars	Rs.
To Realisation A/c	85,500	By Cash and Bank A/c	8,667
		By Equity shares in YTR Pvt. Ltd	76,833
	85,500		85,500

Partners' Capital Accounts

Particulars	Yash	Tanish	Ruchika	Particulars	Yash	Tanish	Ruchika
To Current A/c	-	10,000	-	By Balance B/d	50,000	20,000	10,000
To Cash and Bank A/c	-	-	16,167	By Current A/c	6,000	-	4,000
To Equity shares in YTR Ltd. (in 3:2)	46,100	30,733	-	By Realisation A/c	6,500	4,333	2,167
To Tanish's Capital A/c - adjustment	16,400			By Yash's Capital A/c - adjustment		16,400	-
	62,500	40,733	16,617		62,500	40,733	16,617

Working notes:

1. Calculation of Goodwill

Particulars	Rs.
Actual profits	20,000
Less: Normal rate of return @ 17.5% of fixed capital worth Rs.80,000	14,000
Super profits	6,000
Goodwill valued at 3 years' Purchase	18,000

2. Calculation of Purchase consideration

Particulars	Rs.
Total value of assets as per balance sheet	1,20,000
Less: Cash and Bank balances	12,500
Current Account	10,000
	97,500
Add: Goodwill	18,000
	1,15,500
Less: Liabilities taken over	
Unsecured Loan	15,000
Current liabilities	15,000
Purchase consideration	85,500

Note: In the above answer, goodwill has not been raised but has been considered for the purpose of computation of purchase consideration.

PROBLEM NO: 20

Books of Arun and Varun

Realisation Account

Particulars	Amount	Amount	Particulars	Amount
To Sundry debtors		1,20,000	By Sundry creditors	96,000
To Bills receivable		20,000	By Loan creditors	80,000
To Stock in trade		20,000	By Bank overdraft	32,000
To Patents		16,000	By Purchasing Company	4,20,000
To Plant and Machinery		82,000	(W.N. 2)	
To Land and Building		1,20,000		
To Capital A/c (Profit)				
Arun	24,000			
Varun	24,000	2,48,000		
		6,28,000		6,28,000

Partners' Capital Accounts

Particulars	Amount	Amount	Particulars	Amount	Particulars
To Shares in Purchasing Co.	2,10,000	2,10,000	By Balance b/d	80,000	80,000
			By Reserves	6,000	6,000
			By Realization A/c	1,24,000	1,24,000
	2,10,000	2,10,000		2,10,000	2,10,000

Working Notes

1. Goodwill = $(60,000 + 72,000 + 84,000 + 12,000^*) / 3 \times 2 \text{ Years} = 1,52,000$

* Profit transferred to reserve @ Rs.4,000 for 3 years.

2. Purchase Consideration

	Amount	Amount
Assets taken over:		
Goodwill (W.N.1)		1,52,000
Land and Buildings		2,00,000
Plant and Machinery		48,000
Sundry Debtors		1,20,000
Bills Receivable		20,000
Stock in trade		72,000
Patents		16,000
		6,28,000

Less: Liabilities taken over:		
Creditors	96,000	
Loan Creditors	80,000	
Bank Overdraft	32,000	2,08,000
Purchase Consideration		4,20,000

PROBLEM NO: 21

M/s P, Q and R

Profit and Loss Account for the year ending on 31st March, 2013

To Depreciation on Machinery	6,000	By Trading Profit	50,000
To Depreciation on furniture	500	By Interest on Investment	5,000
To Interest on Q's loan	900		
To Net Profit to :			
P's Capital A/c	23,800		
Q's Capital A/c	11,900		
R's Capital A/c	11,900	47,600	
	55,000		55,000

Balance Sheet of the PQR Pvt. Ltd. as on 1st April, 2013

I. Equity and Liabilities		
Shareholders' funds		
Share capital		1,41,600
Current liabilities		
Short term borrowings	1	15,900
Trade payables		20,000
Total		1,77,500
II. Assets		
Non-current assets		
Fixed assets		
Tangible assets	2	63,500
Non-current investments		50,000
Current assets		
Inventories		15,000
Trade receivables		30,000
Cash and cash equivalents		19,000
Total		1,77,500

Notes to Accounts

1. Short term borrowings		
Loan from Q		15,900
2. Tangible assets		
Machinery	54,000	
Furniture	9,500	63,500

Working Notes:**1. Calculation of goodwill**

	2007- 08	2008 - 09	2009 - 10	2010 - 11	2011 - 12
Profits/(Loss)	25000	12500	(2500)	35000	30000
Adjustment for extraneous profit of 2007-08 and abnormal loss of 2009 - 10	(40000)	-	20000	-	-
	(15000)	12500	17500	35000	30000
Add: Salary of P (750 x12)	9000	9000	9000	9000	9000
	(6000)	21500	26500	44000	39000
Less: Interest on non-trading investment*	(5000)	(5000)	(5000)	5000	(5,000)
	(11000)	16500	21500	39000	34000
Total Profit from 2008-09 to 2011-12					1,11,000

Less : Loss for 2007-08					(11,000)
					1,00,000
Average Profit					20,000
Goodwill equal to 3 years' Purchase					60,000
Contribution from R for ¼ Share					15,000

* Investments are assumed to be non-trading investments

2. Calculation of sacrificing ratio of Partners P and Q on admission of R

	Old share	New share	Sacrificing share	Gaining share
P	3/5	1/2	$3/5 - 1/2 = (6 - 5)/10 = 1/10$	
Q	2/5	1/4	$2/5 - 1/4 = (8 - 5)/20 = 3/20$	
R		1/4		1/4

3. Goodwill adjustment entry* through Partners' capital accounts (in their sacrificing ratio of 2:3)

R' s capital A/c	Dr.	15,000	
To P's capital A/c			6000
To Q' s capital A/c			9000
(R's share in goodwill adjusted through P and Q)			

*As per AS 26 "Intangible Assets", only purchased goodwill should appear in the books. Therefore, goodwill though required to be shown in the books as per the requirement of the question, has been adjusted through capital accounts of the partners in line with the provisions of AS 26.

4. Partners' Capital Accounts

	P	Q	R		P	Q	R
To Drawings (1,000 x 12)	12,000	12,000	12,000	By Balance b/d	50,000	30,000	-
To P			6,000	By General Reserve	12,000	8,000	-
To Q			9,000	By R	6,000	9,000	-
To Balance c/d	79,800	46,900	14,900	By Bank (15,000+15,000)			30,000
				By Profit & Loss A/c	23,800	11,900	11,900
	91,800	58,900	41,900		91,800	58,900	41,900

5. Balance Sheet of the firm as on 31st March, 2013

Liabilities	Amount	Assets	Amount
P's Capital	79,800	Machinery	60,000
Q's Capital	46,900	Less : Depreciation	(6,000)
R's Capital	14,900	Furniture	10,000
Q's Loan	15,000	Less : Depreciation	(500)
Add : Interest due	900	Investments	50,000
Creditors	20,000	Stock-in-trade	15,000
		Debtors	30,000
		Cash (W.N.6)	19,000
	1,77,500		1,77,500

6. Cash balance as on 31.3.2013

	Amount	Amount
Cash trading profit		50000
Add: Investment Interest		5000
Add: Decrease in Stock Balance		5000
	60,000	60,000
Less: Increase in Debtors	9,000	
Less: Decrease in Creditors	20,000	(29,000)
		31,000
Add: Opening cash balance	5,000	
Add: Cash brought in by R	30000	35,000

		66000
Less: Drawings (12000 +12000 +12000)	36000	
Less: Additions to Machine (60000 - 54000)	6,000	
Furniture (10000 - 5000)	5000	(47000)
Closing cash balance		19,000

7. **Distribution of shares – Conversion into Company**

	Amount
Capital : P	79,800
Q	46,900
R	14,900
Share Capital	1,41,600
Distribution of shares : P (1/2)	70,800
Q (1/4)	35,400
R (1/4)	35,400

P and Q should withdraw capital of Rs. 9,000 (Rs. 79,800 – Rs. 70,800) and Rs.11,500 (Rs. 46,900 – Rs. 35,400) respectively and R should subscribe shares of Rs. 20,500 (Rs.35,400 – Rs. 14,900).

THE END