II YEAR – III SEMESTER
COURSE CODE: 7BCS3C2

CORE COURSE - VI – PARTNERSHIP ACCOUNTING

Unit I

Partnership Accounts – General principles – Profit and loss appropriation Account – Capital account – Fixed and fluctuating – Past adjustment and guarantees.

Unit II

Admission of partners – Goodwill – Revaluation – Accumulated profits – Losses and reserves– Retirement of partners – Death of partners.

Unit III

Amalgamation of partnership – Creation of new firm – Dissolution of partnership – Sale to a company

Unit IV

Insolvency of Partners – Garner Vs Murray case – Two or more partners becoming insolvent– All partners becoming insolvent.

Unit V

Piece-meal distribution – Proportionate Capital method –Maximum loss method

Books for Reference:

1. M.C.Shukla and T.S.Grewal, Advanced Accounts, S. Chand, New Delhi
2. S.N.Maheswari, An introduction to Accountancy, Sultan Chand & Sons, New Delhi
3. M.A.Arulanandam and K.S.Raman, Advanced Accountancy, Himalaya Publishing House,Mumbai
4. R.L.Gupta and M.Radhaswamy, Advanced Accountancy, Sultan Chand & Sons, New Delhi
5. S.P.Jain and Narang, Advanced Accountancy, Kalyani Publishers, Ludhiyana

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Define Partnership:-

According to Indian partnership Act of 1932, under section 4, Partnership is defined as "the relation between persons who have agreed to share profits of a business carried on by all or any of them acting for all".

meaning of Partnership

Partnership is the relationship created between persons who have agreed to share the profits of a business among them in the agreed profit sharing ratio and agreed to carry the business by all or any of them acting on behalf of all the partners

Essential elements / Features of Partnership:-

1) Existence of business:-

An person will become a Partnership only when it is meant to do some kind of business

ii) plurality of persons:-

At least two persons must join together for a partnership business.

iii) contractual relationship

There must be an agreement (Expressed or implied) between the person.

IV) Objective:-

The objective should be to a ~~rum~~ a lawful business.

V) profit motive:-

The purpose of partnership should be to earn profit and there must be an agreement to share them

VI Principal - Agent relationship

partnership business is carried on by all or any of them on behalf of all. Thus every partner is both an agent and principal of the other partners.

vii) Number of Persons:-

The minimum number of persons required to make a partner-ship is two. The maximum is twenty but in case banking business, the maximum is ten.

Characteristics of partnership:-

1) Unlimited liability:-

The liability of the partners is jointly and severally in respect of the firm debts.

2) Utmost good faith:-

A partnership agreement rests on utmost good faith. Hence, the partners should be honest to one another and they must disclose every information and present true accounts to one another.

iii) Implied Agency:-

Every partner has an implied authority to act on behalf of his fellow - partners and the firm in the ordinary course of business. Thus, he is an agency of the firm and the other partners

Profit & Loss Appropriation a/c

Date	Particular	Rs	Date	Particular	Rs
	To Net Loss	xxx		By Net profit	xxx
	To Interest on capital	xxx		By Interest on Drawings	xxx
	To Partner's Salary	xxx		By Net Loss (B·f)	xxx
	To Partner's Commission	xxx			
	To Net Profit (B·f)	xxx			
		xxxx			xxxx

2

1. Ravi draws Rs 700 in the beginning of every month regularly for 12 months. calculate the interest on his drawings for the year at 10% P.A.

Solution:-

monthly withdraw = Rs 700

Total amount withdrawn = 700×12 = Rs

= Rs 8,400

Interest on drawing:-

$= \text{Total Amount drawing} \times \frac{\text{Rate}}{100} \times \frac{1}{12} \times \frac{\text{No. of Months} + 1}{2}$

$= 8{,}400 \times \frac{10}{100} \times \frac{1}{12} \times \frac{12+1}{2}$

$= \cancel{8{,}400}^{7} \times \frac{\cancel{10}^{5}}{\cancel{100}} \times \frac{1}{\cancel{12}_{1}} \times \frac{13}{\cancel{2}_{1}} =$ Rs 455

Interest on drawing = Rs 455 // Ans.

2. X draws Rs 3,000 P.M. under the Partnership deed. Interest is to be charged at 12% P.a. what is the interest that should be charged to the partner. If the amount want was drawn in the middle of the month.

Solution:-

Calculate interest on drawing:-

X draw = Rs 3000 PM

∴ Total Amount withdraw = Rs 3000×12

= Rs 36,000

Interest on drawing:-

$= \text{Total Amount drawing} \times \frac{\text{Rate}}{100} \times \frac{1}{12} \times \frac{\text{No. of month}}{2}$

Interest drawing

$$= 36{,}000 \times \frac{\cancel{12}^{6}}{\cancel{144}_{1}} \times \frac{1}{\cancel{12}_{1}} \times \frac{\cancel{12}^{1}}{\cancel{2}_{1}}$$

Interest on drawing = Rs 2,160 // Ans

3 X is a partner in a firm, who withdraws the following sums during the year: 31.1.2006 Rs 6,000; 31.3.2006 Rs 4,000; 1.7.2006 Rs 8000; 30.9.2006 Rs 3,000; 31.10.2006 Rs 5000. The accounts of the firm are closed on 31.12.2006. Interest on drawing is charged @ 6% p.a. calculate Interest on drawing.

solution :-

Calculation of Interest on drawing :-

Date	Amount of withdrawals	Period	Product Rs
31.1.2006	6,000	11 months	66,000
31.3.2006	4,000	9 months	36,000
1.7.2006	8,000	6 months	48,000
30.9.2006	3,000	3 Months	9,000
31.10.2006	5,000	2 Months	10,000
	Total of Product		169,000

6 A and B were partners in a firm sharing profit and losses in the ratio 7 : 3. Their capital on 1.1.2006 were Rs 80,000 and Rs 60,000 respectively. Their partnership deed provided for the following:-

i) Interest on capital at 5% P.a

ii) Interest on drawings at 6% P.a

iii) A and B to get a salary of Rs 5,000 each per Annum.

iv) A to get a commission of 10% on the net profit after charging such commission

The Net profit of the firm for the year ended 31st Dec 2006 before making adjustments for the above items was Rs 30,000.

Drawing of the partners during the year were, "A" Rs 6000, "B" Rs 4,000

Show the profit and Loss appropriation a/c and capital and current a/cs of the partners.

solution:-

P&L Appropriation a/c:-

Dr Cr

Particular	Rs	Particular	Rs
To Interest on Capital:-		By Net Profit	30,000
A $80000 \times \frac{5}{100}$	4000	Interest on drawings:-	
B $60000 \times \frac{5}{100}$	3000		

6 Tom and Jerry share profit and Losses in the ratio of 3 : 2 and as from 1.1.2006. they admit Cherry, who is to have a tenth share of the profits with a guaranteed minimum of Rs 1500. Tom and Jerry continue to share profits as before but agreed to suffer suffer any excess over $\frac{1}{10}$ th going to Cherry in the ratio of 4 : 1 respectively. The profits of the firm in respect of the year are Rs 10,000. prepare profit and Loss appropriation a/c.

solution:-

Calculate P&L Appropriation a/c:-

minimum amount guaranteed to Cherry = Rs 1,500

Share of Cherry as per profit - sharing ratio $(10,000 \times \frac{1}{10})$ = Rs 1,000

500

4 : 1

Tom Total suffers $500 \times \frac{4}{5}$ = Rs 400

Jerry suffers $500 \times \frac{1}{5}$ = Rs 100

P&L Appropriation a/c :-

Particular	Rs	Particular	Rs
To Cherry capital a/c	1,500	By balance of Profit	10,000
To Balance c/d	8,500		
	10,000		10,000
To Profit:-		By Balance b/d	8,500
Tom $9000 \times 3/5$ = 5400		By Tom cap. a/c	400
Cherry $9000 \times 2/5$ = 3600	9000	By Cherry cap a/c	100
	9000		9,000

Admission of a Partner:-

Need for admission of a new partner:-

i) To Increase the capital
ii) To increase the managerial talents of the firm.
iii) To avail the teachnical skill of the newcomer.
iv) To avail the business reputation of a person.
v) To expand the business.
vi) To transmit the right of one partner to his legal heir.

Goodwill:-

Define:-

Goodwill is defined as, "the present value of a firm's anticipated excess earnings".

"The benefit and advantage of good name, reputation and connection of business. It is the attractive force which brings in more customers. It is one things which distinguishes an old established business from a new business at its first start. Goodwill is composed of a variety of elements. It differs in its composition in different trades and different business in the same trade"

Different methods of Valuation of Goodwill:-

a) Average profit method
b) Super profit method
c) capitalization method
d) Annuity method

a) Average Profit method:-

Under this method the Profits of the Past few years are arranged and adjusted for any change ~~exp~~ expected in the future. Then the average profit is multiplied by a certain number of purchase years as agreed.

Goodwill = Average profit × No of Purchase Years.

b) Super profit method:-

Super profit is the excess of actual or adjusted or average profit over the normal profit. This super profit is multiplied by a certain number of Purchase years.

Goodwill = Super profit × No of Purchase Years the given rate of interest.

$\boxed{\text{Goodwill} = \text{Super profit} \times \text{Annuity}}$

Sacrificing ratio:-

Sacrificing ratio is one in which the old partners Lose a fraction of their Share of profit in favour of the new Partner on admission

$\boxed{\text{Sacrificing ratio} = \text{Old ratio} - \text{New ratio}}$

Format of Revaluation a/c :-

Dr | | | Cr

Particular	Rs	Particular	Rs.
To Decrease in Assets	xxx	By Increase in Asset	xxx
To Increase in liabilities	xxx	By Decrease in liabilities	xxx
To unrecorded liabilities	xxx	By unrecorded Asset	
To Profit (B/F)	xxx	By Loss	xxx
	xxxx		xxxx

Date	Particular	Debit Rs	Credit
	For Revaluation Profit:-		
	Revaluation a/c Dr	xxx	
	To Old Partners Cap a/c		xxx
	For Loss:-		
	Old Partners capital a/c Dr	xxx	
	To Revaluation a/c		xxx

Journal entries for transfer of accumulated reserve and undistributed profit or loss:

Date	Particulars	Debit Rs	Credit Rs
	Transfer of accumulated Profits:-		
	Profit and Loss a/c Dr	xxx	
	To Partner's cap a/c		xxx
	(being the profit transferred to partner's cap a/c)		
	Transfer of accumulated Loss:-		
	Partner's capital a/c Dr	xxx	
	To Profit and Loss a/c		xxx
	being the Loss transferred to Partner capital a/c)		

Transfer of General Reserve:-		
General reserve a/c Dr	xxx	
To Partner's capital a/c (being General reserve transferred to Partner cap a/c)		xxx

Solved Problems

1 x and y were the partners sharing profit in the ratio of 7:3. Z was admitted on 3/7 share in the profits. Calculate new profit sharing ratio of the partners.

Solution:- Calculate new profit sharing ratio

Let total profit be 1

Z was admitted on 3/7 of share

The remaining share

will be $= 1 - \frac{3}{7}$

$= \frac{1\times7-3}{7} = \frac{7-3}{7} = \frac{4}{7}$

∴ x new share will be $= \frac{4}{7} \times \frac{7}{10} = \frac{28}{70}$

∴ y new share will be $= \frac{4}{7} \times \frac{3}{10} = \frac{12}{70}$

Date	Particular	Debit Rs	Credit Rs
	Revaluation a/c Dr To machinery a/c To Furniture a/c To stock (being the decreased Value of assets recorded)	16,000	 8,000 2,000 6,000
	Revaluation a/c Dr To Provision for outstanding liab a/c (being provision for outstanding liab created	400	 400
	Revaluation a/c Dr To A's Capital a/c To B's capital a/c (being profit on revaluation shared by old partners)	14,000	 8,750 5,250

4) Raja and Rana are Partners Sharing profit and Loss in the ratio 3:2. Their Balance sheet as at 31st Dec 2006 is as follows

liabilities	Rs	Asset	Rs
Sundry creditors	18,000	Cash in hand and at bank	10,000
Bills payable	2,000	Sundry Debtor 45000 (-) Provision 1000	44000
General Reserve	5,000		

liabilities	Rs	Asset	Rs
Capitals:-		Stock	20,000
Raja - 30,000		furniture	6000
Rana - 25,000	55000		
	80,000		80,000

They agree to admit Rana into the partnership with effect from 1.1.2007 on the following terms:

i) That the provision for Doubtful debts be increased to Rs 1,800

ii) That the unrecorded Investments valued at Rs 4,000 be brought into the books.

iii) That the goodwill of the firm be valued at Rs 25,000.

iv) That the profit sharing ratio Raja, Rana and Rama be 5:3:2.

v) That Rama shall bring in Rs 25,000 on his capital.

Show the Journal entries to give effect to the above arrangement and prepare Balance sheet after admission of Rama. Show also the Revaluation a/c.

1) Revaluation method :-

Under this method, the value of goodwill is assessed at the time of retirement. If there is no goodwill appearing, then it is raised in the books at its full value. If the goodwill a/c is already appearing, the difference, increase or decrease is adjusted against the existing partner's capital a/cs.

Journal entry :-

Date	Particular	Debit Rs	Credit Rs
	Goodwill a/c Dr To All partners capital a/c (Being the value of goodwill raised in the old ratio)	xxx	xxx
	All partners capital a/c Dr To Goodwill a/c (Being the value of goodwill decreased)	xxx	xxx

ii) memorandum Revaluation method:-

Under this method, the Value of goodwill is raised for the purpose of retirement and after retirement the same is written off

Journal entry:-

	Goodwill a/c Dr To All Partner's capital a/c (being goodwill raised in the books in the old ratio)	xxx	xxx
	Remaining partner's Capital a/c Dr To Goodwill a/c (Being the goodwill written off in the new ratio)	xxx	xxx

iii) only the Share of goodwill of retiring Partner is credited to his Capital:-

Under this method, the share of goodwill of retiring partner is calculated and the same is credited to retiring Partner's capital a/c which is borne by the existing partners in their gaining

Journal entry:

Date	Particulars	Debit Rs	Credit Rs
	When the amount is paid entirely at once:-		
	Retiring Partner's Capital a/c Dr	xxx	
	To Cash/Bank a/c		xxx
	When the amount is not paid at once:-		
	Retiring partner's Capital a/c Dr	xxx	
	To Retiring Partner Loan a/c		xxx
	When the amount is paid partly at once:-		
	Retiring partner's Capital a/c Dr	xxx	
	To Bank a/c		xxx
	To Retiring Partner's Loan a/c		xxx

Solved Example:-

1 A, B and C are Partners Sharing Profits in the ratio of 4 : 3 : 2. B retires from the firm, A and C agree to Share future profits in the ratio of 5 : 3. find out the gaining ratio.

Solution:-

Calculation Gaining ratio

Old ratio among A, B and C

$= 4 : 3 : 2$

New ratio between A and C

$= 5 : 3$

Gaining ratio = New Ratio − Old Ratio

$$A = \frac{5}{8} - \frac{4}{9}$$

$$= \frac{5\times9 - 4\times8}{72}$$

$$= \frac{45 - 32}{72} = \frac{13}{72}$$

$$C = \frac{3}{8} - \frac{2}{9}$$

$$= \frac{3\times9 - 2\times8}{72}$$

3 Sankar a partner, retires from the firm on 1.1.2015 and the amount due to him is Rs 40,000. The retiring partner is paid Rs 10,000 immediately and the balance is to be paid in three equal annual instalment including interest @ 5% per annum. The annum table Shows that Rs 1.00 can buy an annuity of Rs. 0.367208 @ 5% for 3 years.

Solutions :- for Rs1 the annuity = 0.367208
for 30,000 the annuity = 30,000 x 0.367208
= 11,061.24

Dr Sankar Loan a/c :- Cr

Date	Particular	Rs	Date	Particular	Rs
Jan 1, 2015	To Cash	10,000	Jan 1.2015	By Sankar Capital a/c	40,000
Dec 31	To Cash	11061.24	31.Dec	By Interest $30,000 \times \frac{5}{100}$	1500
Dec 31	To Balance c/d	20483.76			
		41,500			41,500
31 Dec 2016	To Cash	11061.24	Jan 1, 2016	By Balance b/d	20483.76
31 Dec	To Balance c/d	10491.71		By Interest $20483.76 \times \frac{5}{100}$	1024.19
		21,507.95			21,507.95
Dec 31, 2017	To Cash	11,016.24	Jan 1, 2017	By Balance b/d	10491.71
				By Interest $10491.71 \times \frac{5}{100}$	524.53
		11,016.24			11016.24

Date	Particulars	Debit Rs.	Credit Rs.
Jan. 1, 200[illegible]	Reserve fund a/c Dr	20,000	
	To A's capital a/c		10000
	To B's capital a/c		6,000
	To C's capital a/c		4,000
	(Being Reserve fund transferred to old partners)		
	Building a/c Dr	8,000	
	To Revaluation a/c		8,000
	(Being the building raised (80,000 × $\frac{10}{100}$))		
	Revaluation a/c Dr	700	
	To Provision for bad debts a/c		700
	(Being provision for bad debts raised, Bad adjustment side 1200 - Balance sheet 500)		
	Goodwill a/c Dr	20,000	
	To A's capital a/c		10,000
	To B's capital a/c		6,000
	To C's capital a/c		4,000
	(Being G/will transfer to old partners)		

2012 – Rs 12,000 ; 2013 – Rs 13,500 ;
2014 – Rs 8,000 ; 2015 – Rs 10,000 ; 2016 – Rs 9,000 .

Pass Journal entries, give partners capital a/c and the revised balance sheet.

Solution :-

Journal Entries :-

Date	Particular	Debit Rs	Credit Rs
	Revaluation a/c Dr To stock a/c (being value of stock decrease (12,000-11000)	1,000	1,000
	Building a/c Dr To Revaluation a/c (Being Building value increase)	10,000	10,000
	Investment fluctuation fund a/c Dr To Revaluation a/c (being value increase Balance sheet 2000 – Adjustment side 1,100)	900	900
	provision for Baddebts a/c Dr To Revaluation a/c (Being provision for Bad debts increase)	1,000	1,000

Date	Particulars	Debit Rs	Credit Rs
	Contingency Reserve a/c Dr	6,000	
	To P's capital a/c		2,000
	To Q's capital a/c		2,000
	To R's capital a/c		2,000
	(Being Reserve transferred to all Partner's)		
	P's capital a/c Dr	1,333	
	Q's capital a/c Dr	1,333	
	R's capital a/c Dr	1334	
	To Goodwill a/c		4,000
	Revaluation a/c Dr	10,900	
	To P's capital a/c		3633
	To Q's capital a/c		3633
	To R's capital a/c		3634
	(being profit transferred to old partners)		
	Profit and Loss a/c Dr	750	
	To R's capital a/c		750
	(Being R's Share of Profit credited)		
	R's capital a/c Dr	35,050	
	To R's Loan a/c		35050
	(Being R's capital transferred to capital)		

Working Notes:-

i) Calculation of Goodwill:-

$$\text{Average Profit} = \frac{2012 + 2013 + 2014 + 2015 + 2016}{5}$$

$$= \frac{12{,}000 + 13{,}500 + 8{,}000 + 10{,}000 + 9000}{5}$$

$$= \frac{52{,}500}{5} = 10{,}500$$

Goodwill = Average profit × No of Purchase
= 10,500 × 2 = 21,000

Good will = Balance sheet − Calculated Value
= 25,000 − 21,000

Goodwill = 4,000 (reduced)

ii) Calculation of Share of Profit:-

31 Dec 2006 to Retired 31.3.2007
Jan, Feb, March = 3 Month

$$\text{Average Profit for the Past 3 year} = \frac{2014 + 2015 + 2016}{3}$$

$$= \frac{8{,}000 + 10{,}000 + 9{,}000}{3}$$

$$= \frac{27{,}000}{3} = 9{,}000$$

R's share for 3 Months

$$= 9{,}000 \times \frac{3}{12} \times \frac{1}{3} = \text{Rs } 750$$

Revaluation Account :-

Dr | | | Cr

Particulars	Rs	Particulars	Rs
To Stock	7,000	By provision for Bad debts	1,000
To Profit :-		By Investment fluctuation fund	900
P 3633		By Building	10,000
Q 3633			
R 3634	10,900		
	11,900		11,900

Capital

Particulars	P	Q	R
To Goodwill	1,333	1,333	1,334
To R's Loan a/c	—	—	35050
To Balance c/d	54,300	34,300	—
	55,633	35,633	36,384

It was further decided as follows:-

i) The Goodwill should be raised Rs 40,000

ii) The motor car would be taken over by Neena at its book value.

iii) The value of Land and Building would be increased by Rs 16,560.

iv) Meena and Reena would introduce sufficient capital to pay off Neena to leave, thereafter a sum of Rs 14,700 as working capital in a manner that the capitals of the new partners will be in proportion to their profit-sharing ratio.

v) The new partners decided to show the goodwill as an asset.

The Partners introduced the capital on Jan, 10, 2007. Show the accounts of the Partners and Bank a/c with necessary journal entries.

Solution:-

Journal entries:-

Date	Particulars	Debit Rs	Credit Rs
	Good will a/c Dr To Revaluation a/c (being Goodwill transferred to Revaluation)	10,000	10,000
	Neena's capital a/c Dr To motor car (being motor car taken by Neena's)	24,000	24,000

Date	Particular	Debit Rs	Credit Rs
	Land and Building a/c Dr To Revaluation a/c (Being value of Land Building increase)	16,560	16,560
	Bank a/c Dr To Reena's cap a/c (Bank to make capital)	62,953	62,953
	Bank a/c Dr To meen capital a/c (Being cash to Make capital)	16,627	16,627
	Revaluation a/c Dr To Neena's capital a/c To meena's capital a/c (being Revaluation Profit transfer to Partner's)	26,560	13,280 13,280
	Neena's capital a/c Dr To Bank a/c (Being the balance paid in cash)	97,880	97,880

Working Note :

Ascertainment of capital of Meena and Reena :

Particular		Rs
Good will		40,000
Land and Building	80,100	
(+) Increase	16,560	96,660
furniture		18,600
Sundry debtor		48,300
cash at bank		14,700
		2,18,260
(–) creditors		29,400
Capital of New firm		1,88,860

Reena's Share(1/3) = 1,88,860 × $\frac{1}{3}$ = 62,963

meena's " 2/3 = 188860 × 2/3 = 1,25,907

Cash to be brought in by meena :-

Particular's		Rs
meena's Share		1,25,907
(–) Capital in the old firm:-		
Capital	96,000	
(+) Revaluation Profit	13,280	1,09,280
		16,627

Dr Revaluation a/c

Particulars	Rs	Particulars	Rs
To Profit Neena's Capital a/c 26,560 × 1/2 13280 Meena's capital 26,560 × 1/2 = 13280	26,560	By Goodwill a/c By Land & Building	10,000 16560
	26,560		26,560

Capital

Particulars	Neena Rs	Meena Rs	Reena Rs
To motor car	24,000	—	—
To Bank	97,880	—	—
To Balance c/d	—	125,907	65,953
	1,21,880	1,25,907	65953

Revaluation a/c :-

Dr Particulars	Rs	Particulars	Rs Cr
To Profit Neena's Capital a/c 26,560 × ½ 13280 Meena's Capital 26,560 × ½ = 13280	26,560	By Goodwill a/c	10,000
		By Land & Building	16560
	26,560		26,560

Bank Account :-

Particulars	Rs	Particulars	Rs
To Balance b/d	33,000	By Neena's Capital a/c	97,880
To Meena's Capital a/c	16,627	By Balance c/d	14,700
To Reena's Capital a/c	62,953		
	112,500		1,12,500
To Balance b/d	14,700		

Capital Accounts :-

Particulars	Neena Rs	Meena Rs	Reena Rs	Particulars	Neena Rs	Meena Rs	Reena Rs
To Motor Car	24,000	—	—	By Balance b/d	1,08,600	96,000	—
To Bank	97,880	—	—	By Bank	—	16,637	62,953
To Balance c/d	—	125907	65,953	By Revaluation a/c (Profit)	13,280	13,280	—
	121880	125907	65953		1,21,880	1,25,907	65,953

Note:- These two entries are to be passed every year.

In case of death of a partner the insurance company will pay the money to the firm and this will be transferred to partner's capital account.

Journal entry:-

Date	Particulars	Debit Rs	Credit Rs
	Bank a/c Dr To Joint life policy a/c (Being cash received from the insurance company)	xxx	xxx
	Joint life policy a/c Dr To partner's capital a/c (Being the policy amount transferred)	xxx	xxx

ii) Premium paid is treated as an asset:-

This type of treatment is preferred because, the policy gets as surrender value after paying the premium continuously for few years. Hence, under this method, the premium paid is treated as an asset and debited to Joint life Policy a/c. The claim received due to the death of a partner is treated as if an asset is sold

Date	Particulars	Debit Rs	Credit Rs
	Joint life Policy a/c Dr To Bank a/c (Being the JLP premium paid)	xxx	xxx
	Profit & Loss a/c Dr To Joint life Policy a/c (Being the JLPP transferred)	xxx	xxx

Note: These two entries are to be passed every year.

On the death of a partner money is received by the firm and transferred to partner's capital a/c.

Journal entries:-

Date	Particulars	Debit Rs	Credit Rs
	Bank a/c Dr To Joint life policy a/c (being the money received from the insurer)	xxx	xxx
	Joint life Policy a/c Dr To partner's capital a/c (Being amount received transferred to the partners)	xxx	xxx

iii) premium is treated as an asset and reserve is maintained:-

Journal entries:-

Date	Particular's	Debit Rs	Credit Rs
	Joint life policy a/c Dr To Bank (Being the JLP premium paid)	xxx	xxx
	Profit and Loss Appropriation a/c Dr To joint life policy Reserve a/c (Being the premium transferred)	xxx	xxx
	Joint life policy Reserve a/c Dr To joint life policy a/c (Being the surrender value transferred	xxx	xxx

In the event of death:-

Date	Particular's	Debit Rs	Credit Rs
	Bank a/c Dr To Joint life policy a/c (Being amount received from the insurance co)	xxx	xxx
	Joint life policy Reserve a/c Dr	xxx	

2010 - Rs 11,500; 2011 - Rs 14,000;
2012 - Rs 9,000; 2013 - Rs 8,000; 2014 - Rs 10,000.

Prepare Raja's a/c and Show the new Balance sheet.

Solution:-

Revaluation Account:-

Dr | | | Cr

Particulars	Rs	Particulars	Rs
To Investment	300	By property	18,000
To Stock	600		
To Profit:-			
Prince - 7329			
Queen - 4885			
Raja - 4886	17,100		
	18,000		18,000

Capital Account :-

Liabilities	Prince	Queen	Raja
To Goodwill	3,600	2,400	2,400
To Balance c/d	35,957	23,971	—
To Rajah Executor's a/c	—	—	24,829
	39,557	26,371	27,229

Assets	Prince	Queen	Raja
By Balance b/d	30,000	20,000	20,000
By General Reserve	2,228	1486	1486
By Revaluation (Profit)	7329	4885	4886
By Profit and Loss Suspense	—	—	857
	39,557	26,371	27,229

Balance Sheet :-

Liabilities	Rs	Assets	Rs
Creditors	12,900	Cash and Bank	5000
Reserve for doubtful debts	800	Debtor	10,000
		Stock 10,000 (-) reduced - 600	9,400
Capital :- Prince - 35,957 Queen - 23,971	59,928	Investment 5000 (-) reduced 300	4,700
Rajah Executors	24,829	Property 40,000 (+) Increase 18,000	58,000
		Goodwill	10,500
		P&L Suspense	857
	98,457		98,457

Working Notes :-

Calculation of Goodwill :-

$$\text{Average profit} = \frac{2010 + 2011 + 2012 + 2013 + 2014}{5}$$

$$= \frac{Rs\ 11,500 + 14000 + 9000 + 8000 + 10,000}{5}$$

$$= \frac{52500}{5} = 10,500$$

Goodwill = Average profit × No of Purchase

= 10500 × 1 = 10,500

Goodwill as per Balance Sheet	18,900
(-) Calculated Goodwill	10,500
	8400

Goodwill 3 : 2 : 2

Raja's Share of profit to the date of death

31.12.2014 to Death 30 April 2015
(Jan, Feb, march, April) = 4 months

$$\text{Average Profit} = \frac{2012 + 2013 + 2014}{3}$$

$$= \frac{9000 + 8000 + 10,000}{3}$$

$$= \frac{27,000}{3} = \text{Rs } 9000$$

Raja's share of Profit :-

$$= 9000 \times \frac{4}{12} \times \frac{2}{7} = \text{Rs } 825$$

Unit III

Amalagamation of partnership – Creation of new firm – Dissolution of Partnership – Sales to a Company

Amalagamation of Partnership:-

mean:-

when two (or) more independent partnership firm carring on similar businesses join togather to combine their activities into a new firm, it is known as amalgamation of firm.

Reasons for amalgamation:-

i) To achieve internal and external economies of production in order to maximise profits.

ii) To gain monopoly in the particular trade.

iii) To avoid cut-throat competition.

IV) To achieve large operations by expension of business.

v) To achieve efficient work by combination of men with different qualities.

vi) To reduce unnecessary expense on advertising.

vii) To take all avantage by becoming a big business unit by increasing capitals

viii) To achieve mass production on minimum cost.

Journal entries in the books of old firm:-

Date	Particular	Debit Rs	Credit Rs
	For assets taken over by the new firm:-		
	New firm a/c Dr	xxx	
	To Various asset a/c		xxx
	(Being the asset taken over by the new firm)		

Date	Particulars	Debit Rs	Credit Rs
	For liabilities taken over by the new firm:-		
	Liabilities a/c Dr	xxx	
	To New firm a/c		xxx
	(Being the liabilities taken over by the new firm)		
	For assets and liabilities if any not taken over by the new firm:-		
	a) Partner's capital a/c Dr	xxx	
	To Asset a/c (in capital ratio)		xxx
	b) Liabilities a/c Dr	xxx	
	To partner's capital a/c		xxx
	Entry to close partner's capital a/c:-		
	Partner's capital a/c Dr	xxx	
	To New firm a/c		xxx
	(Being partner capital transfer to new firm)		

Date	Particulars	Debit Rs	Credit Rs
	(For assets and liabilities taken over (at revised value))		
	Various Assets a/c Dr	xxx	
	To Various liabilities a/c		xxx
	To Partner's capital a/c		xxx

Solved Problems:-

(1) The following are the Balance Sheet of two firms & M/s L & M and N & O as on 31st March 2007

liabilities	L & M	N & O	Assets	L & M	N & O
Bill payable	30,000	—	Cash	2,00,000	2,00,000
Trade creditors	15,000	1,25,000	Bank	50,000	75,000
			Debtors	1,00,000	1,50,000
			Stock	1,50,000	1,75,000
Bank overdraft	—	51,500	Building	25,000	1,00,000

Liabilities	L & M	N & O	Assets	L & M	N & O
Capital:-			Furniture	10,000	1,500
L	2,50,000	-	Investment	10,000	-
M	2,50,000	-			
N	-	2,62,500			
O	-	2,62,500			
	5,45,000	7,01,500		5,45,000	7,01,500

The partners of both the firms have decided to amalgamate their business into a new firm, named as LMNO & Co. The following terms were agreed upon.

i) The buildings of both firms are to be taken over at 20% above their book value.

ii) M/s N & O Co should be credited with Rs 100,000 for some valuable copy right possessed by them, but not shown in their books.

iii) All other assets were taken over at book values except in the investment of M/s L & M

iv) Both firms to discharge their own liabilities.

Pass necessary Journal entries to
Close the books of old firm.

Solution:

Journal entries in the books of M/S L & M:

Date	Particulars	Debit Rs	Credit Rs
31.3.07	Building a/c Dr	5,000	
	To Revaluation a/c		5,000
	(Being increase in Value of assets)		
	Revaluation a/c Dr	5,000	
	To L's capital a/c		2,500
	To M's capital a/c		2500
	(Being Revaluation Profit transfer to Partner's capital a/c)		
	Bill payable a/c Dr	30,000	
	Trade creditor a/c Dr	15,000	
	To L's capital a/c		22,500
	To M's capital a/c		22,500
	(Being liabilities not taken transferred in capital ratio)		
	L's capital a/c Dr	5,000	
	M's capital a/c Dr	5,000	
	To Investment a/c		10,000
	(Being transfer asset not taken over in capital ratio)		

Date	Particulars	Debit Rs	Credit Rs
	LMNO & Co a/c Dr	5,40,000	
	To Cash a/c		200,000
	To Bank a/c		50,000
	To Debtor a/c		1,00,000
	To Stock a/c		1,50,000
	To Buildings a/c		30,000
	To furniture a/c		10,000
	(Being asset transfer to new firm)		
	L's capital a/c Dr	270000	
	M's capital a/c Dr	270,000	
	To LMNO & Co a/c		540,000
	(Being partner's Capital transfer to new firm)		

Capital Accounts :-

Liabilities	L	M	Asset	L	M
To Investment	5,000	5000	By Balance b/d	250,000	2,50,000
To LMNO & Co (B/f)	270,000	270,000	By Revaluation a/c	2,500	2,500
			By Bills Payments and creditors	22,500	22,500

Journal entries in the books
of m/s N & O

Date	Particulars	Debit Rs	Credit Rs
31.3.2007	Building a/c Dr	20,000	
	Copyrights a/c Dr	1,00,000	
	To Revaluation a/c		1,20,000
	(Being Building value increase and copy right not shown in their books record)		
	Revaluation a/c Dr	1,20,000	
	To N's capital a/c		60,000
	To O's capital a/c		60,000
	(Being Revaluation profit transfer to Partner's)		
	Trade creditors a/c Dr	1,25,000	
	Bank overdraft a/c Dr	51,500	
	To N's capital a/c		88,250
	To O's capital a/c		88,250
	(Being liabilities not taken trans-ferred to partner's capital ratio)		

Date	Particulars	Debit Rs	Credit Rs
	LMNO & Co a/c Dr	8,21,500	
	To cash a/c		200000
	To Bank a/c		75,000
	To Debtors a/c		150,000
	To Stock a/c		175,000
	To Buildings a/c		120,000
	To furniture a/c		1500
	To copy right a/c		100,000
	(Being transfer of assets taken over to the new firm)		
	N's Capital a/c Dr	4,10,750	
	O's capital a/c Dr	4,10,750	
	To LMNO & Co a/c		8,21,500
	Being transfer to partners capital to new firm)		

Capital Accounts

Liabilities	N	O	Assets	N	O
To LMNO & Co (B/F)	4,10,750	4,10,750	By Balance b/d	2,62,500	2,62,500
			By Revaluation a/c	60,000	60,000
			By Trade creditors Bank O/D	88,250	88,250
	4,10,750	4,10,750		4,10,750	4,10,750

(2) Two firms A and B & x and y agree to amalgamate their business on 31st December 2000. Their Balance Sheet was:

Liabilities	A and B	x and y	Assets	A and B	x and y
Creditors	1,04,000	52,000	Bank	156,000	65,000
Capital:-			Debtors	130,000	104,000
A	182,000		Stock	42,000	26,000
B	130,000		Furniture	10,000	13,000
x		91,000	Building	78,000	—
y		65,000			
	4,16,000	208000		4,16,000	208,000

Debtors and creditors were not taken over by the new firm. Buildings were retained by A and B. The capital of new firm Rs 2,60,000 is to be brought in by partners in the ratio of 3:3:2:2. Close the books of the old firms and give the balance sheet of the new firm.

Solution:

Journal entries in the books of A and B:-

Date	Particulars	Debit	Credit
	Creditors a/c Dr	104,000	
	To A's capital a/c		60,667
	To B's capital a/c		43,333
	(Being creditors not taken over transfer partners capital ratio 182:130)		
	A's capital a/c Dr	121,333	
	B's capital a/c Dr	86,667	
	To Debtors a/c		130,000
	To Building a/c		78,000
	(Being Asset transfer to partner capital ratio 182:130)		
	The new firm a/c Dr	2,08,000	
	To Bank a/c		156,000
	To Stock a/c		42,000
	To Furniture a/c		10,000
	(Being asset transfer to new firm)		
	A's capital a/c Dr	121,334	
	B's capital a/c Dr	86666	
	To New firm a/c		208,000

liabilities	A Rs	B Rs
To Debtors and Building	1,21,333	86,667
To New firm (B/f)	1,21,333	86,667
	2,42,667	1,73,333

Journal entries in the Books of x and y :-

Date	Particulars	Debit Rs	Credit Rs
	Creditor a/c Dr	52,000	
	To x's capital a/c		30,333
	To y's capital a/c		21,667
	(Being the creditor not taken over transferred in capital ratio 91:65)		
	X's capital a/c Dr	60,667	
	y's capital a/c Dr	43,333	
	To Debtor's a/c		1,04,000
	(Being debtors not taken over transferred)		

Assets	A Rs	B Rs
By Balance b/d	182,000	130,000
By creditors	60,667	43,373
	242,667	173,333

Date	Particulars	Debit Rs	Credit Rs
	New firm a/c Dr	104,000	
	To Bank a/c		65,000
	To stock a/c		26,000
	To furniture a/c		13,000
	(Being Assets transferred to the new firm)		
	x's capital a/c Dr	60,666	
	y's capital a/c Dr	43,334	104,000
	To New firm a/c		
	(Being capital transfer to new firm)		

Assets	x Rs	y Rs
By Balance b/d	91,000	65,000
By creditors	30,333	21,667
	121,333	86,667

Date	Particulars	Debit Rs	Credit Rs
	Bank a/c Dr	8,666	
	To y's Capital a/c		8,666
	(Being the amount brought by "y" towards capital)		
	A's capital a/c Dr	43,334	
	B's capital a/c Dr	8666	
	C's capital a/c Dr	8666	
	To Bank a/c		60,666
	Being the surplus capital paid		

Balance Sheet of New Firm:

Liabilities	Rs	Asset	Rs
Capital A/Cs:-		Bank	1,69,000
A - 78000		Stock:-	
B - 78,000		A & B 42,000	
x - 52,000		x & y 26,000	68,000
y - 52,000	260,000	furniture	
		A & B - 10,000	
		x & y - 13,000	26,000
	260,000		260,000

Working Notes
~~New~~ Calculation of capital in New firm:-

New capital = 260,000

A's capital = $260,000 \times \frac{3}{10} = 78,000$

B's capital = $2,60,000 \times \frac{3}{10} = 78,000$

x's capital = $260,000 \times \frac{2}{10} = 52,000$

y's capital = $260,000 \times \frac{2}{10} = 52,000$

Capital to be brought in / refunded:

partner	old Capital	New capital	Deficit	surplus
A	121,334	78,000	—	43,334
B	86,666	78,000	—	8,666
x	60,666	52000	—	8,666
y	43,334	52,000	8,666	—

Bank Balance

A & B + x & y + y's capital - A + B + y

= 156000 + 65000 + 8666 - (43,334 + 8,666 + 8666)

= 156,000 + 65,000 + 8,666 - 60666

= 229,666 - 60,666

Bank = 169000

Dissolution of Partnership firms:-

meaning:

Dissolution of partnership means the change in partnership relation or re constitution of the firm due to the retirement or death or insolvency of a partner but the firm continues its business.

Define :-

Dissolution of a firm:-

According to sec 39 of the Partnership Act, 1932, dissolution of a firm is defined as, "the dissolution of partnership among all the partners of a firm is called the dissolution of the firm.

meaning:-

Dissolution means complete breakdown of the relation of partnership among all the partners and termination of the firm.

circumstances is a partnership dissolved?-

i) when a new partner is admitted
ii) when a partner retires or dies or becomes insolvent.
iii) when there is amalgamation of firm.
iv) on the removal of a partner.
v) when there is change in the profit sharing ratio.

Distinguish between dissolution of partnership and dissolution of a firm.

Dissolution of Partner-ship	Dissolution of a firm
i) It means the change in partnership relation or reconstitution of the firm	It means a complete break down of partnership
ii) The business of the firm is continued	The business of the firm ceases to exist.
iii) Partnership among partners does exist.	Partnership among partners does not exist.
iv) It arises due to retirement or death of a partner	It arises due to contin-uous loss, expiry of the firm, completion

Provisions of settlement of a/c's of Partners in case of dissolution:-

The act specified two Important Points:-

a) Treatment of Losses
b) Application of assets

a) Treatment of Losses:-

i) out of Profit
ii) out of capital
iii) Partners individually in their Profit Sharing ratio

b) Applications of Asset:-

i) In paying firm's debts to third parties.
ii) In paying to each Partner what is due.
iii) In paying to each partner which is due to him on a/c of capital.
v) The residue, if any, shall be divided among the Partners in their Profit Sharing ratio

Format of a realisation account in case of dissolution of a firm:-

Dr **Realisation a/c :-** Cr

Particulars	Rs	Particulars	Rs
To Sundry Assets (Except cash)	xxx	By Sundry liabilities	xxx
To Cash/Bank (payment of liabilities)	xxx	By cash/Bank (asset realised)	xxx
To cash/Bank (expense)	xxx	By partners capital a/c (Assets taken over)	xxx
To Partner's capital a/c (liabilities taken)		By Partner's capital a/c (Loss)	xxx
To Partner's capital a/c (Profit)	xxx		
	xxxx		xxxx

Journal entries:-

Date	Particulars	Debit Rs	Credit Rs
	Transfer all assets except cash and bank to realisation a/c at its book value:-		
	Realisation a/c Dr	xxx	
	To Various asset a/c		xxx
	(Being assets transferred)		

Date	Particulars	Debit	Credit
	For cash brought by any Partner:-		
	Cash a/c Dr	xxx	
	To Partner's cap a/c		xxx
	For Partner's capital a/c settled:-		
	Partner's capital a/c Dr	xxx	
	To cash a/c		xxx

Solved problems:-

1 The following was the Balance sheet of Radha, Krishna and Sankar as on 31.12.2003.

Liabilities	Rs	Assets	Rs
Creditors	12,000	Machinery	25,000
General Reserve	3,000	Stock	11,000
Capital:-		Debtors	9,500
Radha	20,000	Goodwill	13,000
Krishna	15,000	Cash	1,500
Sankar	10,000		
	60,000		60,000

On the above date the firm was dissolved. The assets realised Rs 50,000. The creditors were settled at Rs 11,500. Dissolution expenses amounted to Rs 1000. The partners had 3:2:1 as their profit sharing ratio.

Give the necessary journal entries and ledger a/c's to close the books.

Solution:-

Journal entries:-

Date	Particulars	Debit	Credit
	Realisation a/c Dr To Machinery a/c To Stock a/c To Debtors a/c To Goodwill a/c (Being assets transferred)		
	Creditors a/c Dr To Realisation a/c (Being creditors transferred)	12000	12,000
	Cash a/c Dr To Realisation a/c (Being asset realisation)	50,000	50,000

Realisation a/c Dr	11,500	
To cash a/c		11,500
(Being creditor paid)		
Realisation a/c Dr	1,000	
To cash a/c		1,000
(Being realisation expenses paid)		
Radha's capital a/c Dr	4,500	
Krishna's capital a/c Dr	3,000	
Sankar capital a/c Dr	1,500	
To Realisation		9,000
(Being Loss transferred)		
General reserve a/c Dr	3,000	
To Radha's capital a/c		1500
To Krishna's capital a/c		1,000
To Sankar capital a/c		500
(Being General Reserve transferred)		
Radha's capital a/c Dr	17,000	
Krishna's capital a/c Dr	13,000	
Sankar capital a/c Dr	9,000	
To cash a/c		39,000
(Being cash paid to Partner's)		

Cash Account

Dr Particulars	Rs	Particulars	Cr Rs
To Balance b/d	1,500	By Realisation – creditor	11,500
To Realisation (Assets)	50,000	By Realisation – Expense	1,000
		By Radha	17,000
		By Krishna	13,000
		By Sankar	9,000
	51,500		51,500

2) A, B and C are partners in a firm sharing profits and losses in the proportion of 3 : 3 : 2. Their Balance sheet on 31.12.1997 was as follows :-

liabilities		Rs	Assets	Rs
Sundry creditor		47,500	Bank	55,000
Partner's capital :-			Stock	69,000
A	75,000		Investment	6,000
B	75,000		Debtors	70,000
C	100,000	250,000	Land & Buildings	125,000
Partner's current a/c :-				
A	15,000			
B	25,000		Goodwill	25,000
C	12,500	52,500		
		350,000		350,000

Current Accounts:-

Dr Particulars	A Rs	B Rs	C Rs	Particulars	A Rs	B Rs	C Rs Cr
To Realisation a/c	24,750	24,750	16,500	By Balance b/d	15,000	25,000	12,500
To capital (B/F)	—	250	—	By Capital a/c (B/F)	9750	—	4000
	24,750	25,000	16,500		24,750	25000	16500

Capital Accounts:-

Dr Particulars	A	B	C	Particulars	A	B	C Cr
To current a/c	9,750	—	4,000	By Balance b/d	75000	75000	100000
To Bank a/c (B/F)	65,250	75,250	96,000	By current a/c	—	250	—
	75000	75250	100000		75000	75,250	1,00,000

Bank Accounts:-

Dr Particulars	Rs	Particulars	Rs Cr
To Balance b/d	55,00	By Realisation (Expense)	2000
To Realisation a/c (asset realised)	231,000	By Realisation (Creditors)	47,500
		By A's capital	65250
		By B's capital	75,250
		By C's capital	96,000
	236,000		[illegible]

Sale to a company :-

meaning :-

A partnership firm may be converted into a limited company or the business may be sold to an existing company. In both cases, the firm is dissolved and its books are closed. conversion of firm into a company takes the advantage of the principle of limited liability. When a business is sold, the seller and the purchase may agree as to the amount termed as purchase consideration.

Purchase consideration :-

The purchase price paid by the purchasing company to the vendor firm for the purpose of purchasing the asset and liabilities is called purchase consideration.

Different methods adopted to calculate purchase consideration:-

i) Net Asset method:-

Under this method all the payments to be made by purchasing company are added to get the purchase consideration.

It is important to remember that while calculating purchase consideration as per this method nothing is to be deducted under any circumstances.

ii) Net payment method:-

If the full details of purchase consideration are not given then this method is applied. Under this method the purchase consideration is arrived at by adding the agreed value of only those assets which have been taken over by the purchase company and deducting there from the agreed value of only those liabilities which have been taken over by the purchasing company.

Journal Entries:-

Date	Particulars	Debit	Credit
	Transfer all assets at book value (whether taken by purchasing company or not) except cash. If the cash is taken over, it should be transferred.		
	Realisation a/c Dr	xxx	
	To Various Assets a/c		xxx
	(Being the asset transferred)		
	Transfer all liabilities (whether taken by the purchasing company or not) at book values		
	Various liabilities a/c Dr	xxx	
	To Realisation a/c		xx
	(Being liabilities transferred)		
	For Purchase consideration due:-		
	Purchase Company a/c Dr	xxx	
	To Realisation a/c		xx
	(Being the Purchase consideration due)		

For purchase consideration received:-

Date	Particulars	Debit Rs	Credit Rs
	For purchase consideration received:-		
	Cash a/c Dr	xxx	
	Share in purchasing company a/c Dr	xxx	
	Debentures in purchasing company a/c Dr	xxx	
	To purchasing company a/c		xxx
	(Being purchase consideration received)		
	For transfer of accumulated reserves / profit and loss a/c to partners capital a/c:-		
	Profit and Loss a/c Dr	xxx	
	To partner's capital a/c		xxx
	(Being accumulated profit transferred)		
	For Loss:-		
	Partner's capital a/c Dr	xxx	
	To Loss a/c		xxx
	(Being the accumulated Loss transferred)		
	For realisation of assets not taken over by the		

Date	Particulars	Debit	Credit
	Purchasing Company :-		
	Cash a/c Dr	xxx	
	To Realisation a/c		xxx
	(Being asset sold in the Market)		
	For assets taken over by the Partners :-		
	Partner's capital a/c Dr	xxx	
	To Realisation a/c		xxx
	(Being the asset taken over by the partner)		
	For payment of liabilities not taken over by the purchasing Company :-		
	Realisation a/c Dr	xxx	
	To Cash a/c		xxx
	(Being liabilities paid)		
	For liability taken over by the partner :-		
	Realisation a/c Dr	xxx	
	To Partner's Capital a/c		xxx
	(Being liability taken over by the partner)		

Date	Particulars	Debit	Credit
	For distribution of Purchase Consideration on the basis of final claim ratio:-		
	Partner's capital a/c Dr	xxx	
	To Cash a/c		xx
	To Share in purchasing Company a/c		xx
	To Debenture in purchasing company a/c.		xx
	(Being the final settlement made)		

Solved Problems:-

1 A, B and C share profits in the ratio of 4:3:2. They have decided to sell their firm to a limited Company on June 30, 2007. Their Balance sheet on that date was as under:-

Balance Sheet:-

Liabilities		Rs	Assets	Rs
Creditors		17,000	Land & Building	19,000
Capital			Machinery	13,000
A	- 20,000		Debtors	12,000
B	- 15,000		Stock	17,000
C	- 11,000	46,000	Cash	2000
		63,000		63,000

Purchase consideration agreed upon was Rs 55,000. of this the company has paid Rs 41,250 in its own shares and balance in cash.

Give the journal entries.

Solution:-

Journal entries:-

Date	Particulars	Debit	Credit
	Realisation a/c Dr	63,000	
	To Land and Building a/c		19,000
	To machinery a/c		13,000
	To Debtor a/c		12,000
	To Stock a/c		17,000
	To cash a/c		2,000
	(Being the assets transferred)		

Date	Particulars	Debit	Credit
	Creditors a/c Dr	17,000	
	To Realisation a/c		17,000
	(Being the creditor's transferred)		
	Purchasing Company a/c Dr	55,000	
	To Realisation a/c		55,000
	(Being the purchase consideration due)		
	Realisation a/c Dr	9,000	
	To A's capital a/c		4,000
	To B's capital a/c		3,000
	To C's capital a/c		2,000
	(Being profit transferred)		
	Shares in Purchasing company a/c Dr	41,250	
	Cash a/c Dr	13,750	
	To Purchasing Company a/c		55,000
	(being purchase consideration received)		
	A's Capital a/c Dr	18,330	
	B's Capital a/c Dr	13,750	
	C's Capital a/c Dr	9170	
	To Shares in Purchasing Company a/c		41,250
	(Being shares distributed)		

Date	Particulars		Dr	Cr
	A's Capital	a/c Dr	5,670	
	B's Capital	a/c Dr	4250	
	C's Capital	a/c Dr	3830	
	To Cash a/c			13750
	(Being the cash distributed to Partner's capital a/c)			

Realisation

Dr | | | | Cr

Particulars	Rs	Particulars	Rs
To Land & Building	19,000	By creditors	17,000
To machinery	13,000	By Purchasing Campany a/c	55,000
To Debtors	12,000		
To stock	17,000		
To cash	2000		
To profit			
A's capital a/c $\cancel{9000}^{1000} \times \frac{4}{\cancel{9}} = 4000$			
B's capital a/c $9000 \times 3/9 = 3,000$			
C's capital a/c $9000 \times 2/9 = 2000$	9,000		
	72,000		72,000

2 I, J and K share profits in the ratio of 3 : 2 : 1. They have decided to sell their firm to IJK., as from 31.12.2003, on which date their balance sheet was:-

Dr Cr

Particulars	Rs	Particulars	Rs
Creditors	12,000	Properties	15,000
Capitals:		Machinery	12,000
I - 20,000		Debtors	15,000
J - 15,000		Stock	13,000
K - 13,000	48,000	Cash	2,000
	60,000		60,000

Company takes over the assets at the following valuation.
Properties Rs 22,000; Machinery Rs 11,000
Debtors Rs 14,000; Stock Rs 12,000;
Goodwill Rs 4,000.

Company's settlement is as follows:-

Rs 33,000 in shares of each Rs 10 face value and the balance is paid in cash.

Give the necessary Ledger accounts in the books of the firm.

Solution:-

In the books of I, J and K

Realisation account:-

Dr | | | Cr

Particulars	Rs	Particulars	Rs
To properties	18,000	By creditors	12,000
To Machinery	12,000	By I J K Ltd	53,000
To Debtors	15,000		
To stock	13,000		
To Cash	2,000		
To profit:- I - 2500, J - 1667, K - 833	5,000		
	65000		65000

Calculation of purchase consideration:-

Properties — 22,000
Machinery — 11,000
Debtors — 14,000
stock — 12,000
Cash — 2,000
Goodwill — 4,000

65,000

(-) creditor 12,000

Total purchase consideration 53,000

Unit IV

Insolvency of partners – Garner Vs murray case – Two or more partners becoming insolvent – All partners becoming insolvent.

Insolvency of a partner:-

meanings:-

when all partner's are unable to pay their liabilities, they are said to be insolvent.

Garner Vs murray case Law:-

An insolvent loses his contractual capacity when he is declared insolvent. An important decision was given in the case of Garner Vs Murray on this point.

1) There were three equal Partners

N is insolvent and his estate pays Rs 1,800 to the firm. The partnership dissolved and debtors, stock and furniture realise Rs 23,600. Sundry creditors were settled at Rs 8,000.

You are required to prepare the necessary Ledger accounts to close the books of the firm as per Garner Vs Murray decisions.

solution :-

Realisation Account :-

Dr Particular's	Rs	Particulars	Cr Rs
To furniture	2100	By creditors	10,000
To cash - B/P	2,000	By Reserve for D. D	900
To stock.	15,400	By Bills Payable	2,000
To Debtors	18,000	By cash	23,600
To cash - creditors	8,000	By Loss a/c:- L - 3000, M - 3000, N - 3000	9,000
	45,500		45,500

Working Notes :-

N's Deficiency Rs 4,200 Shared by L and M in their capital ratio of 12 : 9

current A/c + capital — = 6000 = 4200

$L = 4,200 \times \frac{12}{21} = Rs\ 2,400$

$M = 4200 \times 9/21 = Rs\ 1800$

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2 Mani, Pandi and Raj are Partners Sharing Profits and Losses as 5 : 3 : 2 The business is dissolved on 31st December 2006 when the Balance Sheet Stands as below.

Liabilities	Rs	Assets	Rs
Capital a/c's:-		Machinery	50,000
Mani - 10,000		Motor Bike	10,000
Pandi - 40,000		Stock	60,000
Raj - 20,000		Debtor	45,000
	70,000	Cash at bank	5000
creditors	100,000		
	170,000		170,000

Machinery and stock are sold for Rs 25,000 and Rs 18000 respectively. Motor Bike is taken by Pandi for Rs 12,000 Debtor's realise Rs 20,000.

According to Partnership deed, the deficiency of Partner in Capital account is to be met by other Partners

Loss sharing ratio:-
Mani is insolvent and Raj can bring in Rs 5000 only.
Prepare the accounts in the books of the firm.

solution:-

Realisation Account:-

Dr			Cr
Particulars	Rs	Particulars	Rs
To Machinery	50,000	By Bank - Assets (25000+18000+20,000)	63,000
To Motor Bike	10,000	By Pandi capital a/c - motor Bike	12,000
To stock	60,000	By Loss a/c:-	
To Debtors	45,000	Mani - 45,000	
		Pandi - 27,000	
		Raj - 18,000	90,000
	165000		165000

Bank Account:-

Particulars	Rs	Particulars	Rs
To Balance b/d	5,000	By creditors	100000
To Realisation - Asset	63,000		
To Pandi's capital	5,000		
To Raj's capital	27,000		
	100,000		100,000

3 The Balance Sheet of M, G, R as on 31.12.2000.

Liabilities	Rs	Assets	Rs
Creditors	80,000	Bank	2000
M's Loan	20,000	Stock	48,000
Capital A/c :-		Debtors	40,000
M	10,000	Furniture	6,000
G	6,000	R's capital	20,000
	1,16,000		1,16,000

The firm is dissolved. G and R can not pay anything. M can contribute only Rs 3,000 from his private estate. Stock realises Rs 30,000. Debtor Rs 32,000 and furniture is sold for Rs 2,000. Expenses amounted to Rs 6000.

Prepare accounts to close the books of the firm.

Solution :-

Dr Realisation Accounts:- Cr

Particular	Rs	Particular	Rs
To Stock	48,000	By Bank	
To Debtors	40,000	Stock + Debtor + furniture	
To furniture		30,000 + 32000 + 2000)	64,000
To Bank - expense	6000	Loss :-	
		M 12,000	

Dr **Bank Account :-** Cr

Particulars	Rs	Particulars	Rs
To Balance b/d	2000	By Realisation - expense	6,000
To Realisation - Asset	64,000	By creditors (B/F)	63,000
To M's Capital	3000		
	69,000		69,000

Dr **Creditors Account :-** Cr

Particulars	Rs	Particulars	Rs
To Bank	63,000	By Balance b/d	80,000
To Deficiency (B/F)	17,000		
	80,000		80,000

Dr **Deficiency Account :-** Cr

Particulars	Rs	Particulars	Rs
		By Creditors	17,000
To G's capital	6,000	By M's capital	21,000
To R's capital	32,000		
	38,000		38,000

Unit - V

Piece-meal distribution - proportionate capital method - maximum Loss method.

Piece - meal Distribution:-

meaning:-

Piece-meal distribution means distribution of available cash immediately on realisation; as and when cash is received, without waiting for the realisation of entire assets.

Rank the order of Payment in the Settlement of liabilities under piece-meal distribution:-

1) first the realisation expense are paid.

ii) If a liability is having any charge over any assets, then the cash realised through the sale of such asset is first used for paying of the liability (secured creditor)

iii) Thirdly the unsecured creditors are paid in the ratio of amount outstanding.

iv) Fourthly the internal loans are paid in the ratio of amount outstanding

v) Finally, if there is any balance that will be distributed among partner capital a/c under:

a) proportionate capital method

b) maximum loss method.

Proportionate capital method of distribution of cash:-

It is one of the methods for settlement of partner's capital. Under this method the capitals of the partners will be compared with their respective. profit - sharing ratio. Any partner who has contributed in excess of his profit - sharing proportion will be paid first. So that capitals are brought in the profit - sharing ratio. finally the balance outstanding will be loss to partners which will be in the profit - sharing ratio.

Maximum Loss method of distribution of cash:-

It is one of the methods for settle-ment of partner's capital. Under this method the cash available for distribution among the partners capital is deducted from the total capital. The balance will be maximum loss which will be distributed in the Profit Sharing ratio.

The amount due minus the maximum Loss will be the Amount Paid to the partners. The Same procedure will be continued every time when a realisation is made. If the balance for a partner is found to be negative then the other partners should bear this negative balance in the capital ratio on the basis of the Garner Vs Murray principle.

The final balance will be the Loss to the partners, which will be in the profit - sharing ratio.

Working Notes :-

Profit Sharing ratio

Particulars	3 A	2 B
Capital	20,000	10,000
For one Share		
A $\frac{20,000 \cancel{\times 3/5}}{3}$	6,666	Base
B $\frac{10,000}{2}$		5000
	20,000	10,000
Base capital × Per share ratio		
A 5000 × 3	15,000	10,000
B 5000 × 2		
Absolute surplus	5000	—

2 P, Q and R were partners sharing Profits and Losses in the ratio of 2:2:1. The Partnership was dissolved on December 31, 2006 and their Balance Sheet on that date was as follows:—

Liabilities	Rs	Assets	Rs
Sundry creditors	6000	Cash in hand	2,000
Capital A/cs:-		Other assets	38,000
P - 16,000			
Q - 10,000			
R - 3,000	29,000		
Profit and Loss a/c	5000.		
	40,000		[illegible]

The assets were realised gradually. Rs 10,000 was received in the first instalment, Rs 10,000 the second time and Rs 13,000 finally. Show how the cash was distributed under proportionate capital method.

Solution:-

	P	Q	R
Profit sharing ratio	2	2	1
Capital a/c	18,000	12,000	4,000
For one share	9000	6000	4000
P $\frac{18000}{2}$			
Q $\frac{12000}{2}$			
R $\frac{4000}{1}$			
	18,000	12,000	4,000
(-) Base capital x PS ratio	8,000	8,000	4,000
	10,000	4,000	—
For one share	5000	2000	Base
	10,000	4,000	—
Base capital x P.S. ratio	4000	4,000	—
Absolute Surplus (1st P — is paid [illegible])	6,000	—	—

	P	Q	R
Capital a/c	16,000	10,000	3000
+ Share of P&L	2000	2000	2000
Balance as on 31.12.2006	18000	12,000	4000

Distribution of cash under proportionate capital method :-

Particulars	creditor Rs	Capital P Rs	Capital Q Rs	Capital R Rs
Balance due	6000	18,000	12,000	4,000
(–) cash in hand	2,000	—	—	—
	4000	18,000	12,000	4,000
(–) Ist instalment (10,000) – 4000 = 6000	4000	—	—	—
	—	18,000	12,000	4,000
(–) Ist instalment Rs 6000 (P)	—	6000	—	—
	—	12,000	12,000	4,000
(–) IInd Instalment (Rs 10000) 10000 – 4000 – 4000 = 2000)	—	4,000	4,000	—
		8,000	8,000	4,000
(–) IInd Instalment Rs 2000 2:2:1 (P, Q and R)		800	800	400
		7,200	7,200	3,600
(–) 3rd Instalment Rs 13,000 distributed to P, Q, R 2:2:1		5,200	5,200	2,600
Balance unpaid (or) Loss left unpaid		2,000	2,000	1,000

From the following distribute cash under maximum Loss method:-

Capital :-

A - Rs 10,000; B - Rs 10,000; C - Rs 6,000

Profit Sharing ratio = $\frac{1}{2} : \frac{1}{4} : \frac{1}{4}$

Ist Instalment (cash) Rs 8,000

2nd " (cash) Rs 12,000.

Solution:-

Distribution of cash under maximum Loss method :-

Particulars	Capital A	Capital B	Capital C
Balance due	10,000	10,000	6,000
(-) Ist Instalment Rs 8,000 maximum-Loss (10,000 + 10,000 + 6000) 26000 - 8000 = Rs 18000 (2:1:1)	9000	4,500	4500
Cash paid	1000	5,500	1500
Balance due	9000	4,500	4500
(-) 2nd Instalment Rs 12,000 (9000 + 4500 + 4500). maximum Loss 18,000 - 12,000 = Rs 6000 (2:1:1)	3000	1500	1500
Cash paid	6000	3000	3000
Loss left unpaid	3000	1500	1500

4 The following is the Balance Sheet of Red, White and Blue as at 31.12.2006

Liabilities		Rs	Assets	Rs
Capitals:-			Plant & Machinery	50,000
Red -	75,000			
White -	22,500		Land & Buildings	100,000
Blue -	67,500	165,000		
White's Loan		13,000	Stock	20,000
Creditors		62,000	Debtors	70,000
		240,000		240,000

On the above date, they decided to dissolve the firm and to repay the amounts due to Partners as and when the assets were realised namely:-

I Realisation Rs 45,000

II Realisation Rs 109,500

III Realisation Rs 70,500

Prepare the statement showing how the distribution should be made.

Solution:-

Distribution of cash under maximum Loss method:-

Particular's	Creditor Rs	White Loan Rs	Capitals Red Rs	White Rs	Blue Rs
Balance due	62,000	13,000	75,000	22,500	67,500
I Realisation Rs 45000 Paid to creditor	45,000	—	—	—	—
	17000	13,000	75,000	22,500	67,500
(−) II Realisation Rs 109,500 Rs 17,000 creditor, white Loan Rs 13,000 = 79500	17000	13,000	—	—	—
	—	—	75,000	22,500	67,500
(−) maximum Loss Rs 85,500 165,000 − 79500 (equal)	—	—	28500	28,500	28,500
	—	—	46,500	−6000	39000
white deficiency shared by Red & Blue in capital ratio 750 : 675	—	—	−3158	+6000	−2842
Cash Paid	—	—	43342	—	36,158
Balance due = Previous balance − cash paid Red = 75,000 − 43,342	—	—	31658	22500	31,342
(−) III Realisation Rs 70,500 (−) maximum Loss Rs 15,000 (85,500 − 70,500) (equal)	—	—	5000	5000	5000
Cash paid	—	—	26658	17,500	26,342
Loss left unpaid			5000	5000	5000