

Fathima Zehra, Dept of Commerce & Management, Paper: Financial Accounting II, Class: II Sem B.Com, D Section

Problem No. 1:

The balance sheet of A,B & C stood as follows on 31st March 2014:

Liabilities	₹	Assets	₹
Creditors	34000	Cash at Bank	12400
Bills payable	2400	Debtors	40000
		Less: reserves	2000
Capitals:		Stock	44000
A	40000	Machinery and plant	30000
B	40000	Fixtures	3000
C	20000	Goodwill	9000
	1 36400		136400

It was decided to sell the business to a Limited company agreeing to allot 12000 fully paid shares of ₹10 each in full satisfaction of the Purchase consideration. The company assumed the liabilities except bills payable and took over all the assets excluding the Bank balance. The partners shared profits and losses in proportion of 1/2, 1/3 & 1/6 respectively.

Prepare accounts showing the final settlement as regards the partner assuming that the shares were duly allotted.

Solution:

Calculation of purchase consideration under net payment method and discharge of purchase consideration:

Equity shares (12000 shares of ₹10 each) =120000

In the books of the firm

Dr. Realisation account Cr.

Particulars	₹	Particulars	₹
To debtors	40000	By Reserves	2000
To stock	44000	By creditors	34000
To machinery and plant	30000	By bills payable	2400
To fixtures	3000	By purchasing co. Account (p/c)	120000
To goodwill	9000		
To cash A/c (B/P)	2400		
To profit on realisation transfer to capital account:	30000		
A=30000 ×1/2= 15000			

B=30000 ×1/3= 10,000			
C=30000 ×1/6= 5000			
	158400		158400

Dr. Purchasing company account

Particular	₹	Particulars	₹
To realisation account	120000	By equity shares in purchasing company account	120000
	120000		120000

Dr. Equity shares in purchasing company account.

Cr.

Particulars	₹	Particulars	₹
To purchasing company account	120000	By A's capital account	15770
		By B's capital account	46150
		By C's capital account	23080
	120000		120000

Dr. Cash Accounts		Cr.	
Particulars	₹	Particulars	₹
To balance b/d	12400	By realisation account	2400
		By A's capital account	4230
		By B's capital account	3850
		By C's capital account	1920
	12400		12400

Partners capital accounts

Particulars	A	B	C	Particulars	A	B	C
	₹	₹	₹		₹	₹	₹
To shares in purchasing company account	15770	46150	23080	By balance b/d	40000	40,000	20000
To cash account (b/f)	4230	3850	1920	By realisation account(profit)	15000	10,000	5000
	55000	50,000	25000		55000	50,000	25000

Working note: 1. calculation of final claim ratio: (India presence of any information in the problem)

55000: 50,000: 25000

11000: 10,000: 5000

11: 10: 5

1. Distribution of shares: (in the final claim ratio)

A= $12000 \times \frac{11}{26} = 5077$ shares of ₹ 10 each = ₹ 50770

B= $12000 \times \frac{10}{26} = 4615$ shares of ₹ 10 each = ₹ 46150

C= $12000 \times \frac{5}{26} = 2308$ shares of ₹ 10 each = ₹ 23080

Problem no.02:

X, Y and Z are equal partners in XYZ Company limited. The balance sheet of the firm as at 31st March 2014 was as follows:

Liabilities	₹	Assets	₹
Creditors	100000	Land and building	120000
Loan from Bank	500000	Debtors	100000
Capitals:		Stock	300000
X	50,000	Machinery and plant	200000
Y	100000	Z'S capital	30000
	750000		750000

On that date it was decided that the firm would be converted into a limited company on the following terms:

1. Land and building be valued at ₹ 200000.
2. Plant and machinery be valued at ₹ 250000.
3. 10% of book value to be written off for absolute stock.
4. A reserve for bad debts to be made at 10% of debtors.
5. A reserve for discount on creditors at 6% to be made.

6. The new company would issue 12000 equity shares of ₹ 10 each fully paid, such Shares to be valued at ₹ 150000 and 660, 8% debentures of ₹ 100.
7. Shares and debentures are to be distributed according to profit sharing ratio.
8. Additional and excess capital are to be adjusted accordingly by bringing cash or by paying off the same.

Close the books of the firm by preparing the necessary ledger accounts. In the books of the company pass incorporation entries and prepare vertical balance sheet.

Solution:

1. Calculation of purchase consideration under net payment method:

Particulars	₹
Equity shares (at market value)	150000
8% debentures (660 × ₹100)	66000
Total purchase consideration	216000

In the books of xyz firm

Dr. Realisation account Cr.

Particulars	₹	Particulars	₹
To land and building	120000	By loan from Bank	500000
To stock	300000	By creditors	100000
To machinery and plant	200000		
To debtors	100000	By purchasing co. Account (p/c)	216000
To goodwill	9000		
To profit on realisation transfer to capital account:	96000		
X's capital account. 32000			
Y's capital account. 32000			
X's capital account. 32000			
	816000		816000

Dr. Purchasing company account. Cr.

Particular	₹	Particulars	₹
To realisation account	216000	By equity shares in purchasing company account	150000

		By 8% debentures in purchasing company account	66000
	216000		216000

Dr. Equity shares in purchasing company account. Cr.

Particulars	₹	Particulars	₹
To purchasing company account	150000	By X's capital account (1/3)	50,000
		By Y's capital account (1/3)	50,000
		By Z's capital account (1/3)	50,000
	150000		150000

Dr. 8% debentures in purchasing company account. Cr.

Particulars	₹	Particulars	₹
To purchasing company account	66000	By X's capital account (1/3)	22,000
		By Y's capital account (1/3)	22,000
		By Z's capital account (1/3)	22,000
	66000		66000

Dr. Partners' capital account. Cr.

Particulars	X ₹	Y ₹	Z ₹	Particulars	X ₹	Y ₹	Z ₹
To balance b/d	-	-	30000	By balance b/d	50,000	100000	-
To shares in purchasing company account	50,000	50,000	50,000	By realisation account (profit)	32000	32000	32000
To 8% debentures in purchasing company account	22,000	22,000	22,000	By bank account(B/F)	-	-	70000
To Bank account (b/f)	10,000	60000	-				
	82000	132000	102000		82000	132000	102000

Dr. Bank Accounts Cr.

Particulars	₹	Particulars	₹
To Z's capital account	70000	By X's capital account	10,000
		By Y's capital account	60000
	70000		70000

Journal entries in the books of purchasing company

Serial No.	Particulars	Debit	Credit
1.	Business purchase account. Dr To vendor firm account (Being purchase consideration due)	216000	216000
2.	Land and building account. Dr. Plant and machinery account. Dr.	200000 250000	
	Stock account. Dr.	270000	
	Debtors account. Dr.	100000	
	To loan from bank account		500000
	To creditors account		94000
	To provision for bad debts account		10,000
	To business purchase account		216000
	(Being assets and liabilities taken over)		
3.	Vendor firm account. Dr.	216000	
	To equity share capital account		120000
	To security premium account		30000
	To 8% debentures account		66000
	(being discharge of purchase consideration)		

Vertical balance sheet of purchasing company as on 31st March 2014

Equity and liabilities	Notes	₹	₹
Share capital:			120000
Reserves and surplus:			
Security premium			30000
Non current liabilities:			
Secured loans:			
8% debentures			66000
Unsecured loans:			
Bank loan			500000
Current liabilities:			
Creditors			94000
Total			810000

Assets			
Non current assets:			
Fixed assets:			
Land and building		200000	
Plant and machinery		250000	450000
Investments			-
Current assets:			
Stock			270000
Debtors (100000 -10000)		90000	360000
Total			810000

Problem no.03:

X and Y are partners sharing profit and loss in the ratio 2:1 and their balance sheet on 31st March 2014 was as follows:

Liabilities	₹	Assets	₹
Creditors	20000	Cash in hand	150
Bills payable	5000	Debtors	30000
X's loan	10,000	Less: reserves for doubtful debts	1500
Capitals:		Stock	28500
X	15000	Machinery	10000
Y	10,000	Bills receivable	2500
Reserve fund	3000		
	63000		63000

They agreed to sell the business to a limited company and the company to take over the assets including cash and liabilities as follows:

Machinery at ₹ 8000, stock at ₹ 17500, debtors 25350, bills receivable at ₹ 2500 Goodwill at ₹ 3000.

The company agreed to take over creditors at ₹ 19500. The expenses of realisation amounted to ₹150.

The firm received ₹ 20000 of the purchase price in ₹ 10 fully paid equity shares and the balance in cash. Prepare necessary ledger accounts in the books of the firm.

Solution:

Calculation of purchase consideration under net asset method:

Assets taken over value:	₹	₹
Machinery		8000

Cash	150	
Bills receivable	2500	
Debtors	25350	
Stock	17500	
Goodwill	3000	56500
Less: liabilities taken over values:		
Creditors	19500	
Bills payable	5000	24500
Total purchase consideration		32000

Discharge of purchase consideration:

1. By equity shares.	20000
2. By cash (bal. fig).	12000
Total	32000

Dr. Realisation account. Cr

Particulars	₹	Particulars	₹
To debtors	30000	By provision	1500
To stock	21850	By creditors	20000
To machinery	10,000	By bills payable	5000
To bills receivable	2500	By purchasing co. Account (p/c)	32000
To cash	150	By loss on realisation transferred to capital account:	6150
		$X = 6150 \times 2/3 = 4100$	
		$Y = 6150 \times 1/3 = 2050$	
To cash A/c (exp)	150		
	64650		64650

Dr. Purchasing company account. Cr.

Particular	₹	Particulars	₹
To realisation account	32000	By equity shares in purchasing company account	20000
		By cash	12000
	32000		32000

Dr. Equity shares in purchasing company account. Cr.

Particulars	₹	Particulars	₹
To purchasing company account	20000	By X's capital account	11810

		By Y's capital account	8190
	20000		20000

Dr. Partners' capital account Cr.

Particulars	X ₹	Y ₹	Particulars	X ₹	Y ₹
To realisation account	4100	2050	By balance b/d	15000	10,000
To equity shares in purchasing company account	8190	11810	By reserve fund(2:1)	2000	1000
To cash account (b/f)	1090	760			
	17000	11000		17000	11000

Dr. Cash Accounts		Cr.	
Particulars	₹	Particulars	₹
To balance b/d	150	By realisation account	150
To purchasing company account	12000	By realisation account(exp)	150
		By X's capital account	1092
		By Y's capital account	758
		By X's loan	10,000
	12150		12150

Dr. X's loan account. Cr.

Particular	₹	Particulars	₹
To cash account	10,000	By balance b/d	10,000
	10,000		10,000

Working note:

1. Calculation of final claim ratio:

	X.	Y
Total credit balance.	17000.	11000
Less Debit balance.	4100.	2050
Remaining balance.	12900.	8950

1290 : 895

258 : 179

2. Calculation of distribution of shares:

$$X = 2000 \times \frac{258}{437} = 1181 \text{ shares of } 10 \text{ each} = 11810$$

$$Y = 2000 \times \frac{179}{438} = 819 \text{ shares of rupees } 10 \text{ each} = 8190$$

- All assets including cash is taken over by the purchasing company.
- Partners loan must be discharged directly by cash.

Problem No.4:

X and Y carrying on business in partnership decided to dissolve the firm and sells off the business to C Company Limited on 31st March 2014 when the firm position is as under:

Liabilities	₹	Assets	₹
Creditors	22250	Land	40000
		Debtors	8430
Capitals:		Stock	15380
X	33000	Furniture	3320
Y	17000	Cash	5120
	72250		72250

The arrangements with the company is as follows:

- Land purchased at ₹ 50000.
- Furniture and stock are taken at 10% below the book values.
- Goodwill of the firm is valued at ₹ 7500.
- Debtors are taken at ₹ 8000 but the creditors at the balance sheet figure.
- The Purchase consideration is to be discharged by the purchasing company in fully paid equity shares of ₹ 10 each. Show necessary ledger accounts in the books of the firm.

Solution :

Calculation of purchase consideration under Net Asset method :

Assets taken over value:	₹	₹
Land	50,000	
Furniture (3320- 332)	2988	

Debtors	8000	
Stock (15380- 1538)	13842	
Goodwill	7500	
Cash	5120	80 7450
Less: liabilities taken over values:		
Creditors	22250	22250
Total purchase consideration		65200

Discharge of purchase consideration:

By issue of 6520 Shares of rupees 10 each = rupees 65200

In the books of the firm

Dr		Realisation account		Cr.	
Particulars	₹	Particulars		₹	
To debtors	8430				
To stock	15380				
To land	40000	By creditors		22250	
To furniture	3320	By purchasing co. Account (p/c)		65200	
To cash	5120				
To profit on realisation transfer to capital account:	15200				
X = 15200 × 1/2 = 7600					
Y = 15200 × 1/2 = 7600					
	87450			87450	

Dr. C's company account Cr.

Particular	₹	Particulars	₹
To realisation account	65200	By equity shares in purchasing company account	65200
	65200		65200

Dr Equity shares in purchasing company account. Cr.

Particulars	₹	Particulars	₹
To C company account	65200	By X's capital account	40600
		By Y's capital account	24600
	120000		65200

Dr. Partners capital account. Cr.

Particulars	X ₹	Y ₹	Particulars	X ₹	Y ₹
To equity shares in purchasing company account	40600	24600	By balance b/d	33000	17000
			By realisation account	7600	7600
	40600	24600		40600	24600

Problem No.5:

X ,Y and Z are in partnership sharing profits and losses in the ratio of 4:3:1 respectively. On 31st March 2012 they agreed to sell their business to a limited company. The position on the date was follows:

Liabilities	₹	Assets	₹
Sundry creditors	16000	Freehold property	36000
Loan from Bank	8000	Machinery	24000
Capitals:		Stock	26000
X	40000	Book debts	30000
Y	30000	Cash	4000
Z	26000		
	120000		120000

The company took the following assets except cash at the valuation shown below:

Freehold property ₹ 44000, Machinery ₹ 22,000 Book debts. ₹ 28000, stock ₹ 24000, goodwill ₹ 8000.

The company also agreed to pay the creditors which was agreed at ₹ 15400. The company paid 3300 shares of rupees 10 each fully paid and the balance in cash. The expenses amounted to ₹ 1000.

Prepare the necessary ledger accounts in the books of the firm.

Solution:

Calculation of purchase consideration under Net Asset method:

Assets taken over value:	₹	₹
Machinery	22,000	
Freehold property	44000	
Book debts	28000	
Stock	24000	
Goodwill	8000	126000
Less: liabilities taken over values:		
Sundry creditors	15400	15400
Total purchase consideration		110600

Discharge of purchase consideration:	₹
1. By equity shares (3300 of rupees 10 each)	33000
2. By cash (bal. fig).	<u>77600</u>
Total	<u>11060</u>

Dr. Realisation account. Cr.

Particulars	₹	Particulars	₹
To freehold property	36000	By loan from Bank	8000
To machinery	24000	By S. creditors	16000
To book debts	30000	By purchasing company account(p/c)	110600
To stock	26000		
To cash (exp)	1000		
To cash A/c (loan from Bank)	8000		
To profit on realisation transferred to capital account: X= 9600 × 4/8 =4800 Y= 9600 × 3/8 = 3600 Z=9600 × 1/8 = 1200	9600		
	134600		134600

Dr. Purchasing company account. Cr.

Particular	₹	Particulars	₹
To realisation account	110600	By equity shares in purchasing company account	33000
		By cash	77600
	110600		110600

Dr Equity shares in purchasing company account. Cr.

Particulars	₹	Particulars	₹
To purchasing company account	33000	By X's capital account	14000
		By Y's capital account	10500
		By Z's capital account	8500
	33000		33000

Dr. Partners capital account.

Cr.

Particulars	X ₹	Y ₹	Z ₹	Particulars	X ₹	Y ₹	Z ₹
To shares in purchasing company account	14000	10500	8500	By balance b/d	40000	30000	26000
To cash account (b/f)	30800	23100	18700	By realisation account (profit)	4800	3600	1200
	44800	33600	27200		44800	33600	27200

Dr. Cash Accounts Cr.			
Particulars	₹	Particulars	₹
To balance b/d	4000	By realisation account (expenses)	1000
		By realisation account	8000
To purchasing company account	77600	By X's capital account	30800
		By Y's capital account	23100
		By Z's capital account	18700
	81600		81600

Working note: 1. calculation of final claim ratio: (In the presence of any information in the problem)

$$44800 : 33600 : 27200$$

$$448 : 336 : 272$$

2. Distribution of shares to partners:

$$X = 3300 \times 448 / 1056 = 1400 \text{ shares of ₹ 10 each} = ₹ 14000$$

$$Y = 3300 \times 336 / 1056 = 1050 \text{ shares of ₹ 10 each} = ₹ 10500$$

$$Z = 3300 \times 272 / 1056 = \text{shares of ₹ 10 each} = \underline{₹ 8500}$$

$$\text{Total.} \quad \underline{33000}$$

3. The purchasing company takes over all assets excluding cash. Therefore, cash account shows an opening balance of ₹ 4000 is not transferred to realisation account.