STUDY MATERIAL

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Syllabus: Amalgamation of firms - Sale to a company

Meaning of Amalgamation of firms

When two or more business firms are merged to form a new business firm, resulting in closure of the old firms and continuation of the new firm, it is known as amalgamation of firms. In other words, when two or more existing partnership firms amalgamate and in their place, a new partnership firm is formed to take over their businesses, the process is called amalgamation of firms.

The firms which are combined together are called "amalgamating firms" and the resulting new firm is called "amalgamated firm" . In short, old firms are amalgamating firms and the new firm is the amalgamated firm.

Objectives or benefits of Amalgamation

- The strategy of amalgamation of partnership firms is mainly adopted to achieve certain objectives and to reap certain benefits such as
- avoidance of unhealthy competition,
- Internal and external economies of large scale business,
- enlarged marketing network,
- efficiency of management personnel,
- technology,
- tax benefits,
- gaining monopoly or dominant position in the market
- reducing unnecessary expenses on advertising
- achieving mass production at minimum cost,
- better utilization of factors of production, and
- getting more capital for expansion of the business.

Forms of Amalgamation of Firms

The amalgamation of firms may take place in any one of the following ways:
(a) Merging of two or more sole traders to form a new partnership firm.

(b) An existing partnership firm taking over an existing sole trading concern.
Merging of two or more existing partnership firms, forming a new partnership firm.

(c) An existing partnership firm absorbing or taking over another existing partnership firm.

problems or Issues connected with Amalgamation of firms

When amalgamation of partnership firms takes place, partners of the combining firms become partners of the new firm. The following are the usual problems arising while existing partnership firms are merged into a new firm :

The assets and liabilities (partially or fully) of the existing firms may be taken over by the new firm either at book values or at revised values.

The amount paid towards goodwill to the existing firms by the new firm may be more or less than the value of goodwill, if any, already appearing in the balance sheets.

The new partners may be required to contribute capital to the new firm, having fixed amount of capital, as per agreed ratio.

Accounting Treatment in the Books of Amalgamating Firms

In case of amalgamation of partnership firms, the old firms transfer their entire or some of the assets and liabilities either at book values or at revised values to new firm. If the new firm does not take certain assets or liabilities of old firms, such assets or liabilities will have to be transferred to partners' capital accounts. By doing so, the books of the old firms are closed. The following steps are generally needed to close the books of old firms:

(i) Revaluation of Assets and Liabilities : All assets and liabilities taken over by the new firm should be revalued by preparing "Revaluation Account". Revaluation is necessary to reveal any appreciation or decline in the value of each asset or liability taken over by the new firm so that the effect of such change in values is transferred to the partners. The new firm need not be affected by the change in values. The profit or loss on revaluation will have to be transferred to the capital accounts of partners in their profit sharing ratio. The Journal entries for Revaluation of assets and liabilities are as follows :

(a) When the values of assets are increased.
Assets A/c Dr
To Revaluation A/c

(b)When the values of assets are reduced :
Revaluation A/c Dr
To Assets A/c

(c)When the values of liabilities are increased :
Revaluation A/c Dr
To Liabilities A/c

(d) When the values of liabilities are reduced :
Liabilities A/c Dr

To Revaluation A/c

(e) For recording Unrecorded Assets :
Concerned Asset A/c Dr
To Revaluation A/c (with realizable value of the asset)

(f) For recording unrecorded liabilities :
Revaluation A/c Dr (with agreed value of the liability)
To Concerned liability A/c
(g) For profit on Revaluation:
Revaluation A/c Dr
To partners' capital A/c.

(h) For Revaluation Loss: Dr
Partners' capital A/c
To Revaluation A/c

(ii) Transfer of Accumulated profit and losses : All reserves, accumulated profits and losses should be transferred to the partners' capital accounts in their old profit sharing ratio. The required Journal entries are :

(a) For Accumulated Profits:
General Reserve A/c Dr
Profit & Loss A/c Dr
Any other accumulated profits A/c Dr
To partners' Capital A/c

(b) For Accumulated Losses:
Partners' capital A/c Dr
To profit & Loss A/c

(iii) Disposal of Assets and Liabilities not taken over : The assets and liabilities which are not taken over by the new firm should be transferred to the capital accounts of partners in the "ratio of capitals". Division Of assets and liabilities taken over by the partners is done in the ratio Of capitals because it amounts to return or addition of capital. The journal entries for transfer of assets and liabilities not taken over are as follows:
(a) For assets not taken over :
Partners' capital A/c Dr (In agreed ratio or capital ratio)
To concerned Asset A/c
(b) For Liabilities not taken over :
Concerned Liability A/c Dr
To Partners' capital A/c (In agreed ratio or capital ratio)

sometimes the assets not taken over by the new firm may be sold out in the open market. In such a situation, the following entries are warranted:
(a) For sale of assets not taken over, at par value:

Bank A/c Dr
To concerned Asset A/c

(b) For sale of asset, not taken over, at a price higher than book value:

Bank A/c Dr (sale value)
To concerned Asset A/c (Book value)
To partners' capital A/cs (Gain on sale, distributed in profit sharing ratio)

(c) For sale of asset, not taken over, at a price lesser than book value;

Bank A/c Dr (sale value)
Partners' capital A/c Dr (Loss on sale, distributed in profit sharing ratio)
To Concerned Asset A/c (Book value)

Similarly, the liabilities, not taken over by the new firm, can be paid off directly. The journal entries are:

(a) For discharge of liabilities not taken over at book value :

Concerned Liability A/c Dr
To Bank A/c

For discharge of liabilities not taken over at a value less than the book value :

Concerned Liability A/c Dr (Book value)
To Bank A/c (Discharge value)
To Partners' capital A/cs (Gain on discharge distributed in profit sharing ratio).

Raising or Creation of Goodwill: Goodwill, if valued, should be raised in the books of existing firms and credited to the partners' capital accounts in their old profit sharing ratio. The required journal entry is as follows:

Goodwill A/c Dr
To Partners' capital A/cs (In profit sharing ratio)

In case goodwill already appears in the Balance sheet, the same will have to be compared with revised value. Any increase or decrease in value of goodwill should be straightaway transferred to the capital accounts of all partners in their profit sharing ratio. The Journal entries are :

(a) For increased value of goodwill :

Goodwill A/c Dr
To partners' capital A/c (For increased value)

(b) For Decreased value of goodwill:

Partners' capital A/cs Dr
To Goodwill A/c (For decreased value)

Transfer of Assets and liabilities taken over : The new firm account should be debited with the difference between the value of assets and liabilities taken over by the new firm. The assets taken over should be credited and liabilities taken over should be debited. The required entry is:

Liabilities (taken over) A/c Dr
New Firm A/c (Bal. fig) Dr
To Assets (taken over) A/c.

Note: Assets and liabilities are taken at revised values for the purpose of the above entry.

Closing of partners' capital Accounts : The capital accounts of partners (i.e. final amount due) should be closed by debiting them and crediting the new firm. The required entries are:

(a) For transfer of debit balance in capital a/cs:

New Firm's A/c Dr

To Partners' Capital A/cs.

(b) For transfer of credit balance in capital a/cs

Partners' capital A/c Dr

To New Firm A/c

When one or all the amalgamating businesses are Sole Trading Concerns :

The following are the steps to close the books of the Sole Trader

Revaluation of Assets and Liabilities

Same steps and entries as given in (i) above except that the entire profit or loss on revaluation is credited or debited to the Capital Account of the owner.

Transfer of accumulated profits and losses : All accumulated profits or24.83 losses should be credited or debited fully to the proprietor's capital Account.

Disposal of assets and liabilities not taken over :

Any liabilities not taken over may be paid off in cash or transferred to the credit of capital Account, as per instruction in the problem.

Any assets not taken over may be realized in cash or transferred to the capital A/c of the owner as per instruction, in the problem. If there is no instruction, transferring assets and liabilities not taken over to the capital Account of owner is appropriate.

Creation of goodwill : Goodwill may be newly raised or existing value may be increased or decreased as per instruction. The full amount of resulting increase or decrease goes to the capital account of the sole trader.

Transfer of Assets and Liabilities taken over : All liabilities taken over should be debited at agreed values and assets taken over should be credited at agreed values. The difference is debited or credited to the new firm. (as shown in V above)

Closing of capital Account : Owners capital Account is debited and new firm's account credited to close the capital Account. If capital account has debit balance, new firm's account is debited and capital Account credited.

Accounting Treatment in the Books of the Amalgamated Firm (i.e., the New Firm)

In the books of new firm, opening entries are made for recording the assets and liabilities taken over from the old firms. The partners of the old firms will become the partners of the new firm. The new firm may have some fixed amount of capitals, which may be contributed by the new partners in the given ratio. After carrying out other adjustments, the new firm's balance sheet will be prepared. All these adjustments made in the books of new firm are presented in the following steps

(i) Recording of Assets and liabilities taken over : In the books of the new firm, assets taken over are to be debited, liabilities taken over are to be credited and capital accounts of the partners are to be credited or debited with the difference, The journal entry is :

Assets (taken over) A/c Dr
To liabilities (taken over) A/c
To Capital Accounts of partners A/c

Note: It is advisable to pass separate entry for assets, liabilities, and capital accounts balance taken over from each old firm, though combined entry can be written.

Sum No.1: ABCD is the new firm which acquired the running business of A & Band C & D whose adjusted capitals are Rs. 90,000, Rs. 86,000, Rs. 70,000 and Rs. 60,000 respectively. They share profits & losses equally. Among the assets and liabilities taken over are good will of A & B Rs. 30,000 and that of C & D Rs. 50,000. It is decided to write it off. The new firm's capital should be Rs. 2,40,000 which must be in profit sharing ratio. Calculate the amount to be transferred to current accounts of the partners.

Sum No. 2: Raja and Bhoja, partners in Raja & Co., decided to amalgamate their business with Vazir & Co. to form a new partnership firm Empire & Co. Raja's capital was Rs.80,000 and Bhoja's capital Rs. 60,000. Reserve fund balance is Rs. 16,000 and P & LA/c debit balance is Rs. 24,000. Good will stood in the books at Rs 30,000 but it is now revalued at Rs. 46,000. Revaluation profit is arrived at Rs. 8,000. If they share profit and losses in 3 : 2 ratio, compute their adjusted capitals for the purpose of amalgamation with Vazir & Co.

Sum No.3 The Balance sheet of Amir and Sudhir as on 31.3.2018

Liabilities	**Amir (Rs.)**	**Sudhir (Rs.)**	**Assets**	**Amir (Rs.)**	**Sudhir (Rs.)**
Creditors	10,000	8,000	Machinery	7,500	10,000
Bank loan	5,000	-	Stock	10,000	5,000
Capital	15,000	20,000	Debtors	12,500	11,000
			Bank	-	2,000
	30,000	28,000		30,000	28,000

They decided to amalgamate their businesses. The following revaluations were agreed.
(a) Machinery to be reduced by 10%
(b) Stock of Amir to be reduced by 20% and that of Sudhir by 10%
(c) A provision of5% is to be made against debtors of both.
(d) Each proprietor is to be credited with Goodwill of Rs. 5,000.
(e) Bank loan of Amir is to be paid by him.
Pass journal entries in the books of the new firm and prepare the amalgamated balance sheet as on 31.3.2018..

Sum No.4. The following are the Balance Sheets of two like businesses owned by Raju and Logu respectively, who decided to amalgamate the businesses under the name of Raju & Logu :

Liabilities	Raju (Rs.)	Logu (Rs.)	Assets	Raju (Rs.)	Logu (Rs.)
Capital	60,000	36,000	Buildings	18,000	-
Reserve	9,000	-	Machinery	39,000	13,200
Creditors	18,000	27,000	Stock	24,000	18,000
Bills payable	14,580	-	Debtors	17,400	28,200
Bank overdraft	6,000	-	Investments	9,000	-
			Cash	180	3,600
	1,075580	63,000		1,075580	63,000

It was mutually decided that the partnership should take over all the assets and liabilities, subject to the following :

Raju's building, Investments and debtors are to be valued at Rs. 30,000, Rs. 6,000 and Rs. 16,530 Logu's stock was to be valued at Rs. 21,000 whereas it was considered necessary to create a provision on debtors to the extent of Rs. 2,820. Logu's business also had Goodwill ofRs. I ,000, which was not shown in the Balance Sheet.

The Capitals of Raju and Logu should be Rs. 72,000 and Rs. 48,000 respectively and the profits and losses are to be shared in the same proportion.

Prepare the partnership balance sheet after giving effect to the foregoing transacti0nS by means of journal entries.

Sum No..5. Sugumar and Sreedar have each been carrying on business as general merchants. They decided to amalgamate and hence forth, trade under the name of Sugumar and Sreedar on the following terms :

(i) Each partner shall have a fixed capital of Rs. 20,000.

(ii) Sugumar's stock is to be brought in at Rs. 6,400 and Sreedar's at Rs. 5,400.

(iii) Provision for bad debts is to be increased to 6% on the debtors.

(iv) Sreedar's furniture is not to be taken over, while Sugumar's furniture is to be taken over at Rs. 900.

(v) Sugumar is to pay the loan from his son before amalgamation.

(vi) Any deficiency in the net assets brought in is to be paid into the firm's bankers while any excess is to be withdrawn.

The Balance Sheet as on 31.12.2019 were as follows

Liabilities	Sugumar (Rs.)	Sreedar (Rs.)	Assets	Sugumar (Rs.)	Sreedar (Rs.)
Capital	21,270	20,200	Furniture	700	400
Creditors	2400	4,200	Machinery	10,000	11,000
Loan from			Stock	6,800	5,600
his son	1,200	-	Debtors 5,500 6,050		
			Less: 240 250	5,260	5,800
			Cash	2,110	1,600
	24,870	24,400		24,870	24,400

Give Journal entries necessary to adjust each trader's books prior to amalgamation and the opening Balance Sheet of Sugumar & Sreedar,

Amalgamation of a Partnership Firm with Sole Trading Concern

Sum No.6. The following are the balance sheets of A&B and Mr. C who were carrying on similar businesses. Balance Sheet as on 1.1.2018.

Liabilities	A&B (Rs.)	Mr.C (Rs.)	Assets	A&B (Rs.)	Mr.C (Rs.)
Capital			Investment	-	27,000
A	20,000	-	C's Capital	-	4,000
B	15,000	-	Stock	21,200	26,300
Creditors	15,000	37,500	Debtors 35,000		
Loan	-	10,500	Less: Reserve 1,500	33,500	25,000
Bank O/D	5,000	32,000	Cash	300	700
B/P	-	3,000			
	55,000	83,000		55,000	83,000

They agreed to amalgamate. It was decided that:
(a) Provision of 10% is to be made on debtors of both the businesses.
(b) Stocks should be reduced by 5%.
(c) Investments of C should be valued at Rs. 35,000,
(d) The total capital of the firrn should be Rs. 60,000 and each partner shall introduce such sum as would make his capital equal to % of the firm's capital.

Pass the Journal entries in the books of the new firm and the amalgamated balance sheet on l. I .2018.

SALE OF PARTNERSHIP TO A LIMITED COMPANY:

In a partnership firm, the partners may face difficulties in managing their business. Due to legal restriction on maximum number of members, they cannot raise huge amount of capital to run the business on a large scale basis. Due to unlimited liability, their personal properties are subject to court attachment when the firm is not in a position to pay off its debts. In case any partner dies, the operation of the firm may to suspended for some time. In some cases the firm may have to be closed down permanently. To get relief from all these difficulties, the partners may be forced to find alternative ways of running the business. One such alternative is "Sale to a company" or converting partnership firm into a limited liability company. Accordingly, the partnership firm may be converted into a Joint stock company or the same may be sold to an existing Joint stock company. In both cases, the existing partnership firm is going to be dissolved and the business carried on by the firm is acquired by the company. The partners of the firm will become shareholders of the company as they are usually allotted shares by the company for taking over their business.

Meaning and Advantages :

Sale to a Company means the sale of a partnership business to an existing company or to a limited company newly formed to take over the business of the partnership firm. The practice of selling business to a company is mainly adopted by partnership firms :

- To have a separate entity different from its members which can enjoy perpetual succession.
- To get the advantage of limited liability.
- To take advantage of lower rate of income tax.
- To have access to huge capital.
- To obtain funds for expansion of business.
- To increase the availability of managerial skills.
- To get other sundry benefits of being a limited company.

Accounting Treatment

When a partnership firm is sold to an existing joint stock company or is converted into a joint stock company, the following accounting procedures are needed .
(l) Computation of purchase consideration.
(2) Closure of Firm's Books.
(3) Opening the books of the New Company / Purchasing company.

(1) Computation of purchase Consideration

A partnership firm is sold to the purchasing company for a price known as "purchase Consideration". In other words, the term "Purchase Consideration" indicates the amount payable by the purchasing company to the vendor firm for taking over its assets and liabilities. The company may take over all assets and liabilities or only part of them. The value of such assets taken over and liabilities assumed may be book values or current values depending on agreement between the firm and the company. The amount of purchase consideration may be paid in any form like shares, and debentures of the company and cash. The purchase consideration can be ascertained in any one of the following methods.

(a) Lump sum Consideration : A specific sum of money may be decided as the purchase consideration taking all the factors involved into account.

(b)Net Payment Method : Under this method, the amount of purchase consideration is found out by adding the various payments to be made by the company in the form of cash, shares or debentures. That is, the purchase price is the total of all payments to be made in cash, shares and debentures. It is calculated as under :

- Cash receivable
- Issue price of equity shares Issue price of preference shares
- Issue price of debentures
- Total payments being the amount of purchase consideration

(c) Net Assets Method : When the full details of purchase consideration are not given, as discussed above, the purchase consideration will have to be ascertained by adding agreed values of only those assets which have been agreed to be taken over by the company and deducting there from the agreed value of only those liabilities which have been agreed to be taken over by the company. It is calculated as under :

Agreed values of Individual assets to be taken over	xxxxx
Less : Agreed value of Individual liabilities to be taken over	xxxxx
Value of Net Assets (purchase Consideration)	xxxxx

(2) Closure of Firm's Books : As the operation of the partnership firm comes to an end, the books of the partnership firm are to be closed. To close the books of the partnership firm, the following steps are required :

(**a)Transfer of all assets and liabilities to Realization A/c :** All assets and liabilities of the firm are to be transferred to realization account at their book values. Generally, the company takes over all assets including cash. But if it is specifically mentioned that the cash is not taken over, then cash balance should not be transferred to realization account. required entries are :

(i) For transfer of assets to realization a/c :

Realization A/c Dr.
To Sundry Assets A/c (With books value of individual assets)

(ii) For transfer of liabilities to realization/c :

Liabilities A/c Dr.
To Realization A/c (With the book value of liabilities)

(b) Assets and liabilities not taken over by the company : In case, the company does not want to take over certain assets of the firm, the same may be sold in the open market and the proceeds are to be credited to Realization Account. Similarly, the liabilities not taken over by the company may be paid off through the Realization Account. By this process, the profit or loss on realization of such assets and liabilities is automatically incorporated in the Realization Account. The entries are :

(i) For realizing assets not taken over :

Cash / Bank A/c Dr.
To Realization A/c

(ii) For payment of liabilities not taken over :

Realization A/c Dr.
To Bank / Cash A/c

(c) Purchase consideration received from the purchasing company : As stated earlier, the purchasing company pays purchase consideration for the assets and liabilities taken over from the firm. The purchase consideration received is credited to Realization Account. The purchase consideration may be received in the form of cash, shares and debentures of purchasing company which are all debited individually. Distribution of shares and Debentures received as part of purchase consideration. The relevant entries for purchase consideration are as under :

(i) For Purchase Consideration due :

Purchasing Company A/c Dr.
To Realization A/c

(ii) For receiving Purchase Consideration :

Bank A/c Dr.
Equity Shares in purchasing company A/c Dr.
Preference shares in purchasing company A/c Dr.

Debentures in purchasing company A/c Dr.
To Purchasing company A/c

(iii) For distribution of shares / debentures :
Partners' Capital A/c Dr.
To Shares in purchasing company A/c (Profit sharing/Final Claim Ratio)
To Debentures in purchasing company (Profit Claim Ratio)

(d) Realization Expenses : Expenses paid by the firm in the process of realization of assets and settlement of liabilities are charged to realization account as follows :
Realization/c Dr.
To Cash / Bank A/c

Sometimes, as per agreement a partner is required to bear realization expenses. If it is stated in the question that a particular partner is to bear the realization expenses, the entry passed for payment of realization expenses by the firm is under :
Partners' Capital A/c Dr
To Cash / Bank A/c

(e) Preparation of Realization Account : After having followed the above mentioned steps, the Realization Account is to be prepared. This account reveals profit or loss on realization of assets and settlement of liabilities

The profit or loss on realization will have to be transferred to the capital account of partners in their profit sharing ratio. The required entries are:
(i) For profit on realization :
Realization A/c Dr
To Partners' Capital A/cs (In profit Sharing ratio)
(ii) For loss on realization :
Partners' Capital A/cs
To Realizations A/c (In profit Sharing ratio)

(f) Transfer of Accumulated reserves, profits or losses : Accumulated reserves, profits or losses are to be transferred directly to the capital accounts of partners in their profit sharing ratio. The entries to be passed:
(i) For transfer of accumulated reserves and profits :
Reserves A/c Dr
Profit & Loss A/c Dr. (In profit sharing ratio)
To Partners' Capital A/cs.

(ii) For transfer of accumulated losses :
Partners' capital A/c Dr.
To Profit &.Loss A/c (In profit sharing ratio)

(g) Payment of Partner's Loan : After settlement of outside liabilities, loans from partners are paid and are recorded as follows :

Partner's Loan A/c Dr.
To Cash / Bank A/c

(h) Closing the Capital accounts of partners : At the end, the capital accounts of partners are to be prepared by incorporating the realization profit or loss and accumulated reserves, profits or losses. If the net balance shown by the capital account of a partner is debit (i.e., debits total is more than credits total), he brings in cash equal to debit balance in his account and his account is closed. Entry passed for cash brought in by a partner is as follows :

Cash / Bank A/c Dr. (With cash brought at the time of final settlement)
To Partner's capital A/c

. Entry passed for cash paid to a partner is as follows :

Partner's capital A/c Dr.
To Cash / Bank A/c (with cash paid to partner at the time of final settlement)

3. Opening the Books of New company or purchasing company

In order to open the books of new company, three entries are required to be passed. The first entry is passed to indicate the amount of purchase consideration agreed upon. The second entry reveals the assets and liabilities taken over from the vendor firm. The final entry is meant for the payment of the purchase consideration due to the vendor firm. After having passed all these three opening or 'incorporating' entries, the balance sheet of the new Or purchasing company will be prepared. The required journal entries to be passed are as under :

(i) For the purchase consideration agreed upon :

Business Purchase A/c Dr.
To Vendor Firm's A/c

(ii) For assets and liabilities taken over

Sundry Assets A/c Dr.
To Sundry Liabilities A/c
To Business Purchase A/c

(iii) For payment of purchase consideration:

Vendor firm's A/c Dr.
To Share Capital A/c
To Debentures A/c
T0 Cash/Bank A/c

Sum No. 1: Raman and Krishnan decided to dissolve their firm and convert it into a Limited Company. Their assets were Rs. 90,000 and Trade Liabilities Rs. 30,000. Purchase price is agreed at Rs. 78,000. Expenses amounted to Rs. 5,000, paid by the firm. Prepare Realization Account.

Sum No. 2: Konark Industries acquired the business of A and B for a purchase price of Rs. 8,00,000, payable, Rs. 2,00,000 in cash, Rs. 3,00,000 in equity shares of Rs. 10 each at an agreed price of Rs. 16 each and the balance in 12% debentures of Rs 100 each at par.

The assets taken over had a book value of Rs.12,00,000 but they are subject a discount of 20%. Liabilities taken over were Rs. 2,00,000.

Give Journal entries in the books of the company.

Sum No. 3: M/s Khan and Jain had on 31-3-99 capitals standing at Rs. 1,50,000 and Rs. 1,00,000; Sundry creditors on that date were Rs. 30,000. Goodwill stood in the books at Rs. 20,000. The partners sold their business to an existing company for 25,000 shares of Rs. 10 each issued at a premium of Rs. 2 per share. At what value should the company record the goodwill on purchase and at what figure will it appear in the company's balance sheet?

Sum No. 4 : Padma Co. Ltd. was formed for taking over the business of Mr. Ganapatt purchase consideration was Rs. which will be settled by issue shares of Rs. 100 each at a discount of 5% and balance in cash. Assets take were Rs. and Liabilities taken over were Rs. 28,000. Give journal the books of Padma Co. Ltd.

Sum No. 5 : 'A' and 'B' who were equal partners in a business firm sold it to X Ltd payable Rs.5,00,000, payable Rs.2,00,000 in cash and Rs.3,00,000 in equity shares of the company. Their final claim before distribution of cash and shares was A Rs.3,50,000 and 'B' Rs.1,50,000 Show the distribution of cash and shares if the basis is
Profit sharing Ratio (b) Final claim Ratio

Sum No.6 :. Geetha and Sheetal were partners sharing profits and losses in the ratio of3 ..2 1.7.2018, their Balance Sheet was as under :

Liabilities	(Rs.)	Assets	(Rs.)
Capital:		Plant	50,000
Geethu	40,000	Stock	20,000
Sheethal	30,000	Debtors 18,000	
Creditors	20,000	Less: RBD 900	17,100
Reserves	15,000	Cash at bank	17,900
	1,05,000		1,05,000

It was found that the Liabilities contained Rs. 1,600 which are not payable.

The firm was taken over by a company and the purchase consideration consisted of 250 shares of Rs. 10 each fully paid and balance in cash.

Pass Journal entries to close the books of the firm. Assume that the shares are distributed in the profit sharing ratio.

Sum No.7:. . Sarasu, Mangai and Mekala share profits in the ratio of 4: 3:2. They have decided to sell their firm to a Limited company on June 30, 2018. Their Balance Sheet on that date was as under :

Liabilities	(Rs.)	Assets	(Rs.)
Capital:		Land and Building	18,000
Sarasu	20,000	Stock	13,000
Mangai	15,000	Debtors	15,000
Mekala	13,000	Machinery	12,000
Creditors	12,000	Cash	2,000
	60,000		60,000

Purchase consideration agreed upon was Rs. 50,000. Of this the company has paidRs. 32,000 in its own shares and the balance in cash. Dissolution expenses of the firm 'Rs. 600 was paid by the company. Give the journal entries.

Sum No.8.: Following was the Balance Sheet of M/s A and B as on 31.3.2018

Liabilities	(Rs.)	Assets	(Rs.)
Capital:		Fixed assets	1,00,000
A	1,00,000	Stock	60,000
B	64,000	Debtors 25,000	
Current Liabilities	30,000	(-) RBD 1,000	24,000
General Reserve	36,000	B/R	20,000
		Bank	26,000
	2,30,000		2,30,000

'P' Ltd acquired this business on the above date and the terms were :
(a)Fixed assets to be valued at 20% more than the book value.
(b) Stock to be valued at 90% of book value.
(c) RBD to be 10% on debtors.
(d) The purchase consideration was to be settled by the issue of 20 000 equity shares ofRs. 10 each valued at Rs. 12 each. Pass Journal entries in the books of P Ltd.

Sum No.9.: Asha and Usha were partners sharing profits and losses equally. Their B/S on 31.3.2018 was as follows :

Liabilities	(Rs.)	Assets	(Rs.)
Creditors	12,000	Land & Buildings	50,000
B/P	3,000	Plant & Machinery	20,000
Reserves	15,000	Stock	15,000
Capitals:		Debtors 20,000	
Asha	50,000	(-)Provision 1,000	19,000
Usha	35,000	B/R	6,000
		Cash at Bank	5,000
	1, 15,000		1, 15,000

They decided to sell their business to Latha Co. Ltd on the following terms .
(i) The purchase consideration was to be settled by issuing 4,000 Equity Shares of Rs. 20 each, valued at Rs. 25 each and by issuing 2,000, 5% preference stores at Rs. 10 each valued at Rs. 12 each.
(ii) The Company valued land and buildings at 1 10% of book value, plant & Machinery at 90% of book value and Stock at Rs. 25,000.
Pass acquisition entries in the books of Latha Co. Ltd.

BOOK REFFERED : FINANCIAL ACCOUNTING BY T.S.REDDY AND MOORTHI
