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UDHNA

FYBCOM SEM-I

FINANCIAL ACCOUNTING-I

2. Conversion or Sale of a Partnership Firm into a Company (30%)

Meaning: When the partners want to expand business or avail the benefits of limited liabilities, they would convert partnership business into a company; this process is known as Conversion or Sale of a Partnership Firm into a Company.

Purchase Consideration:

Meaning: Purchase consideration is the price that the purchasing company agrees to pay for taking over the business of the firm.

Methods of Purchase Consideration:

1. Net Assets Method:

The price at which various assets & liabilities are taken over by the purchasing company is known as Net Assets method.

Net Assets= Total Assets-Total liabilities

2. Consideration Method:

3. Purchase consideration can also be calculated by consideration method.

The total of certain number of shares, Debentures, Preference shares and a specific amount of cash is to be given in satisfaction of purchase consideration is known as consideration method.

Purchase Consideration=Equity Shares+ Preference Shares+ Debentures+ Cash

Entries in the books of the Firm:

| Sr. No. | Particulars | Debit | Credit |
|---------|--|--|--|
| 1. | Assets transfer to Realisation A/c | Realisation A/c | To Sundry Assets |
| 2. | Liabilities transfer to Realisation A/c | Sundry liabilities A/c | To Realisation |
| 3. | Reserves transfer to capital accounts | Reserve A/c | To Capital A/c |
| 4. | i) Purchase Consideration is Due | Purchasing Company A/c | To Realisation A/c |
| | ii) Purchase Consideration is received | Purchasing company's Shares A/c Debentures A/c Cash A/c | To Purchasing company's A/C |
| 5. | When Assets are not taken over by the company | Cash A/c | To Realisation A/c |
| 6. | When Liabilities are not taken over by the company | Realisation A/c | To Cash A/c |
| 7. | Dissolution Expenses Paid | Realisation A/c | To Cash A/c |
| 8 | Other Non Current Assets | Partner's Capital A/C | To Assets A/C |
| 9. | (i) Distribution of Realisation Profit (ii) Distribution of Realisation of Loss | Realisation A/c Partner's Capital A/C | To Partners' capital A/C Realisation A/C |
| 10. | Returning of capitals | Partners' capital A/c | Shares A/c Debentures A/c Cash A/c |

Exercise:

1. In the books of the firm, the assets and liabilities are as under:

| Particulars | Amount | particulars | Amount |
|---------------|--------|-------------|--------|
| Machinery | 35,000 | Cash | 10,000 |
| Stock | 10,000 | Debtors | 12,000 |
| Creditors | 15,000 | Furniture | 30,000 |
| Bills Payable | 10,000 | | |

The firm sells its business to Shyam Ltd. for purchase consideration, Shyam Ltd. pays: 4000 equity shares of Rs. 10 each, 8% 300 debentures of Rs.100 each and cash Rs.5000. Show the calculation of the goodwill.

2. A firm received 25,000 equity shares of Rs.10 each as a purchase consideration. Out of these $\frac{1}{5}$ shares were sold out at 10% discount. Pass journal entry in the books of firm for sale of shares.

3. A partnership firm has received equity shares of Rs.4,50,000 of Rs.100 each as purchase consideration from a company. From the shares received. $\frac{1}{5}$ th are given to a partner at 10% premium and 40% shares are sold at 10% discount. Pass journal entries in the books of the firm.

4. A firm is to be converted into a company. From the following balances and details calculate net assets: Capital: A-Rs.10,000, B-Rs.8,000; Reserve-Rs.2000; Creditors-Rs.6000; Overdraft-Rs.1000; Sundry assets-Rs.20,000; Debtors-Rs.5000; Cash-Rs.2000. The company does not take over creditors and debtors, sundry assets are to be valued at 10% above cost.

5. Hema, Rekha and Jaya has decided to convert firm into a company. The company allowed Rs. 90,000 as a goodwill. The company has taken over assets for Rs. 11,61,000 and liabilities for Rs. 2,51,001. Company gives 72,000 shares each of Rs.10 at a premium of 26% and remaining amount in cash towards purchase consideration. Write entries for the payment of purchase price in the books of the firm.

6. Write journal entry in the books of firm in the following situation:
(MARCH 2024)

(1) Dissolution expenses Rs. 7500 paid by firm

(2) Dissolution expenses Rs. 7500 paid by purchase company.

7. Some Assets are shown in the balance sheet of partnership firm at the following cost. If the buying company does not declare the purchase value of these assets, what value will be given while calculating the purchase price. (MARCH 2024)

(1) Goodwill Rs. 30,000

(2) Machinery Rs.2,00,000, Depreciation fund of machine Rs. 30,000.

8. It is decided to convert firm of Bhavna, Manisha and Hiral into a KJV Ltd. The company has taken over assets for Rs. 14,90,000 and liabilities for Rs. 5,50,000. The company allowed Rs. 1,10,000 as a Goodwill. Company gives 90,000 equity shares each of Rs. 10 at a premium of 15% and Remaining amount in cash towards purchase price. Write journal entry for the payment of purchase price in the books of the firm. (VNSGU-2023)

9. MARCH-2023

Dipti, Sweety and Tejal were the partners of the firm. The profit sharing ratio was proportionately $\frac{1}{2} : \frac{1}{3} : \frac{1}{6}$ on 31st March 2022. They decided to sell the firm to Sohan Ltd. On date their balance sheet was as under.

Balance sheet

| Liabilities | | Rs. | Assets | | Rs. |
|------------------|----------|-----------------|---------------|--|-----------------|
| Capital : | | | Goodwill | | 50,000 |
| Dipti | 1,66000 | | Land Building | | 5,00,000 |
| Sweety | 1,77000 | | Machinery | | 1,36,000 |
| Tejal | 1,88,000 | 5,31,000 | Debtors | | 87,000 |
| Bank loan | | 1,19,000 | Stock | | 97,000 |
| Creditors | | 1,80,000 | Cash | | 20,000 |
| Bill payable | | 60,000 | | | |
| | | 8,90,000 | | | 8,90,000 |

Company took over all to the tangible and intangible assets except cash at 20% Premium & promised to pay bank loan. Dipti promised to pay Dissolution Expenses of Rs. 4000. Tejal promised to pay accidental expense of Rs. 20,000. Company paid 60,000 equity Shares Rs. 10 each at Rs. 5 premium and rest of the amount in cash.

Partners distributed the share according to their profit sharing ratio.

Prepare the accounts in the books of firm.

10. Akhand and Anand are partners sharing profit and loss equally. Their balance sheet as on date. 31/3/23 was as under.

| Liabilities | Rs. | Assets | Rs. |
|------------------|-----------------|--------------|-----------------|
| Akhand's capital | 97,500 | Fixed Assets | 1,62,500 |
| Anand's capital | 65,000 | Stock | 48,750 |
| General Reserve | 13,000 | Cash | 16,250 |
| Creditors | 52,000 | | |
| | 2,27,500 | | 2,27,500 |

They decided to sale the business on 31/3/2023 to Akhand Anand Ltd.

The purchasing company took over the whole concern except cash and agreed to pay the creditors in full.

The purchase consideration was agreed as Rs. 2,43,750 which could be discharged by the purchasing co. by issuing 20,800 shares of Rs. 10 each fully paid and balance amount cash.

Prepare Realization Account partner's capital account and cash A/C.

11. Teji and Mandi are partners of a firm sharing profit & loss in the ratio of 3:2. Their Balance sheet as on 31-3-2023 is as under:

| Liabilities | Amount | Assets | Amount |
|--------------------|----------|------------------|----------|
| Capital : | | Land & Building | 26,250 |
| Teji | 22,500 | Machineries | 22,500 |
| Mandi | 12,000 | Furniture | 7500 |
| General Reserve | 7500 | Stock | 15,000 |
| Loan of Mrs. Mandi | 22,500 | Debtors | 37,500 |
| Creditors | 41,250 | Bills Receivable | 7500 |
| Bills payable | 12,750 | Cash | 2250 |
| Total | 1,18,500 | Total | 1,18,500 |

The above firm was converted into Teji-mandi Ltd. on following conditions:

1. The company took over the assets except cash & stock at following values:

| | |
|------------------|-------|
| Goodwill | 45000 |
| Machinery | 15000 |
| Debtors | 33750 |
| Land & building | 52500 |
| Furniture | 2250 |
| Bills receivable | 6750 |

2. Company agreed to pay the liabilities except loan.

3. Teji took over stock at 10% less than book value.

4. Mandi agreed to repay the loan of Mrs. Mandi.

Tejimandi Ltd. issued 8250 equity shares of Rs.10 each and balance by cash towards purchase price. Partners distributed shares in profit sharing ratio.

Prepare: 1. Realisation A/c 2. Partners' capital Account 3. Cash Account

12. Ronak, Monak and Sonak are partners sharing profit and losses in the ratio of 2:3:5. The balance sheet as on 31-03-2023 was as under:

| Liabilities | Amount | Assets | Amount |
|-------------------------------------|---------------|---------------|---------------|
| Capital : Ronak | 4,37,500 | Goodwill | 1,87,500 |
| Monak | 3,43,750 | Building | 6,25,000 |
| Sonak | 2,50,000 | Machineries | 5,00,000 |
| Profit & Loss A/c | 1,00,000 | Stock | 4,12,500 |
| Workers' Accident Compensation Fund | 2,50,000 | Debtors | 2,81,250 |
| Provident Fund | 1,12,500 | Bank balance | 62,500 |
| Taral's loan | 2,00,000 | | |
| Creditors | 2,37,500 | | |
| Outstanding expenses | 1,37,500 | | |
| Total | 20,68,750 | Total | 20,68,750 |

The firm was converted into Rocky Ltd. under the following conditions:

1. The company takes over all the tangible assets except bank balance.
2. The firm paid Taral's loan at 10% premium and creditors are paid at 80% of their claim for the full settlement.
3. Rocky Ltd. took over 80% of the building at 25% premium. Whereas remaining of the buildings at 20% discount. Machinery at 20% more, Stock at Rs. 37,500 less than its book value and Debtors at 31,250 discount.
4. Remaining liabilities of the firm were taken by company. Dissolution expenses amounted to Rs. 21,250.
5. Goodwill of the firm is valued at double than the average profit of the last three years after taking Rs.20,000 to General Reserve was 2,05,000, Rs.2,92,500 and 2,67,500 respectively.
6. Against purchase price, the company has to give 15,000 equity shares of Rs.100 each at 10% premium and Rs.2,25,000 in cash

and balance amount in Rocky Ltd.'s Debentures and Preference shares in the ratio of 2:1.

- Out of shares received from company, 5000 equity shares were sold at a loss of Rs.1,00,000 and remaining equity shares, debentures and preference shares were shared by them in their profit-loss sharing ratio.

Prepare: 1. Realisation A/c 2. Partners' capital Account 3. Cash Account

13. Jaitra and Maitra are partners in a firm sharing profit & loss in the ratio of 3: 2. The balance of the firm as on 31/03/2023 is as under:

| Liabilities | Amount | Assets | Amount |
|------------------------|----------|---|----------|
| Capital : | | Machineries | 170,000 |
| Jaitra | 3,00,000 | Furniture | 1,50,000 |
| Maitra | 2,20,000 | Investment (market price) | 1,20,000 |
| General Reserve | 80,000 | Stock | 2,40,000 |
| Provident Fund | 80,000 | Customers- 1,65,000 - Bad Debts- 5,000 | 1,60,000 |
| Worker's Accident Fund | 40,000 | HDFC Bank account | 40,000 |
| Traders | 1,80,000 | Advertisement Suspense A/c | 20,000 |
| Total | 9,00,000 | Total | 9,00,000 |

On 1-04-2024 the firm was converted into Jainam Ltd. under the following conditions:

- The company took all assets except furniture and bank balance.
- Machinery shown in the balance-sheet is 15% less than market price and stock shown in the balance sheet is 20% more than market price.
- Provide 10% reserve for bad debts on debtors.
- Company agree to pay Rs.1,00,000 for Goodwill.

5. Against purchase price, the company has to give Rs.2,80,000 in cash and balance in equity shares of Rs.10 each at 10% premium.
6. Furniture realized Rs.1,16,000 and dissolution expenses were Rs.11,000 which was paid by the company.
7. Out of shares received from the company, 14,000 shares were sold at Rs. 12 per share and remaining shares were shared by them in their profit-sharing ratio.

From the above information, prepare in the books of firm-- 1. Realisation A/c 2. Partners' capital Account 3. Cash Account

14. R, P and D are partners sharing profit & loss in the ratio of 3:1:1 respectively. Their balance sheet for the year ending on 31-12-2023 was as under:

| Liabilities | Amount | Assets | |
|-------------------|-----------|-------------------------------------|-----------|
| Capital : R | 2,88,750 | Goodwill | 77,000 |
| P | 2,31,000 | Land & Building | 3,27,250 |
| D | 1,92,500 | Machineries | 3,46,500 |
| General Reserve | 1,75,230 | Investments | 1,34,750 |
| 12% Loan of Vijay | 2,50,250 | Stock | 2,11,750 |
| Bank overdraft | 96,250 | Debtors-2,50,250 -BDR---- 19,250 | 2,31,000 |
| Creditors | 1,69,400 | Bills receivable | 1,73,250 |
| Bills payable | 1,13,520 | Cash balance | 15,400 |
| Total | 15,16,900 | Total | 15,16,900 |

Partnership firm converted into Jainam Ltd. Conditions were as under:

1. Goodwill of the firm is valued at twice the average profit of the last three years. The profit of last three years was Rs.1,15,500, Rs.1,73,260 and Rs.1,05,500 respectively.
2. The company took over all the assets except cash & stock at following values:

| Assets | Amount |
|-----------------|----------|
| Land & Building | 4,23,500 |
| Machineries | 3,27,250 |
| Investments | 1,61,700 |

Provide bad debts reserve for Rs.25,080 on debtors. Other assets taken over at book value.

3. Company took all liabilities except 12% Vijay loan. Vijay accepted stock and Rs. 15,400 cash against his loan.
4. Company paid 72,000 equity shares of Rs.10 each at Rs.12 and rest of the amount in cash. Partners distributed shares in their profit-sharing ratio.

Prepare necessary accounts in the books of partnership firm.

15. Ragini and Dharini are partners sharing profit and loss in the ratio of 3:2. Their balance sheet as on 31-12-2023 was as under:

| Liabilities | Amount | Assets | Amount |
|------------------------|-----------|---------------------------|-----------|
| Capital : | | Building | 2,80,000 |
| Ragini | 4,20,000 | Land(50% of Market price) | 1,33,200 |
| Dharini | 2,80,000 | Machinery | 3,33,000 |
| P & L Account | 60,000 | Stock | 1,32,000 |
| Worker's Accident Fund | 80,000 | Debtors | 98,000 |
| Creditors | 1,30,000 | Cash | 55,800 |
| Outstanding Expenses | 15,000 | | |
| Provident Fund | 47,000 | | |
| Total | 10,32,000 | Total | 10,32,000 |

The firm is converted into Varini Ltd. under following conditions:

1. The company took over all the assets except cash & debtors at following prices:
 - (a) Goodwill was valued at Rs.48,000
 - (b) Out of stock 1/11 part of stock valued at zero, whereas remaining of the stock at 10% more.
 - (c) Provide 20% depreciation on machinery.
 - (d) Decrease the value of building upto Rs. 2,50,000

- (e) Company will take over land at market price.
- (f) A claim of compensation for an accident to worker is now accepted by firm and paid for Rs.20,000.
- (g) Debtors realised at Rs.93,800
- (h) Realisation expenses amounted to Rs.3400
2. 60,000 equity shares of Varini Ltd. of Rs. 10 each were issued at 10% premium and remaining amount was paid in cash by the company. The creditors accepted 11% debentures of Rs.100 each in full settlement of 90% of their claims from the company.

Prepare: 1. Realisation Account 2. Partners' Capital Account 3. Cash Account.

16. Heny, Sheetal and Mukti are partners sharing profit and losses in the ratio of 2:3:5. The balance sheet as on 31-03-2023 was as under

| Liabilities | Amount | Assets | Amount |
|-------------------------------------|-----------|--------------|-----------|
| Capital: Heny | 3,50,000 | Goodwill | 1,50,000 |
| Sheetal | 2,75,000 | Building | 4,95,000 |
| Mukti | 2,00,000 | Machineries | 4,00,000 |
| Profit & Loss A/c | 60,000 | Stock | 3,30,000 |
| Workers' Accident Compensation Fund | 2,20,000 | Debtors | 2,25,000 |
| Provident Fund | 85,000 | Bank balance | 50,000 |
| Nidhi's loan | 1,60,000 | | |
| Creditors | 1,90,000 | | |
| Outstanding expenses | 1,10,000 | | |
| Total | 16,50,000 | Total | 16,50,000 |

The firm was converted into Shivani Ltd. under the following conditions:

1. The company takes over all the tangible assets except bank balance.
2. To pay Nidhi's loan at 10% premium, 12% Preference shares of Shivani ltd. of the face value of Rs. 10 each are given.

3. 12,000 equity shares of Rs. 100 each at 5 % premium and the remaining amount is given in cash to firm.
4. Creditors accepted 8% debentures of Rs. 100 each for full settlement of 80% of their claim.
5. Shivani Ltd. took over the building at Rs. 1,05,000 more. Machinery at 10% more, Stock at Rs. 30,000 less and Debtors at 10% bad debts reserve.
6. Remaining liabilities of the firm were taken by company.
7. Goodwill of the firm is valued at double than the average profit of the last three years after taking Rs.20,000 to General Reserve was Rs.70,000, Rs1,00,000 and Rs.1,30,000 respectively.
8. Out of shares received from company, 2000 equity shares were sold out at 15% discount and remaining equity shares were shared by them in their profit sharing ratio.

Prepare : 1. Realisation A/c 2. Partners' capital Account 3. Cash Account

17. Dimple and Hema are partners sharing profit and loss in the ratio of 3:2. Their balance sheet as on 31-03-2023 was as under (HW)

| Liabilities | Amount | Assets | Amount |
|-----------------------------|----------|--|----------|
| Capital : | | Machinery | 2,00,000 |
| Dimpal | 2,40,000 | Furniture | 1,70,000 |
| Hema | 2,31,000 | Investment(Market Value Rs.1,20,000) | 1,40,000 |
| General Reserve | 80,000 | Stock | 2,40,000 |
| Worker's Accident Fund | 50,000 | Current Account of Hema | 11,000 |
| Investment fluctuation Fund | 20,000 | ICICI bank | 40,000 |
| Current account of Dimple | 60,000 | Debtors- 1,80,000 Less:Badebt- 10,000 | 1,70,000 |
| Creditors | 1,80,000 | Advertisement Suspense A/c | 20,000 |
| Provident Fund | 80,000 | | |
| Depreciation fund | | | |

| | | | |
|------------------|----------|-------|----------|
| Machinery 30,000 | | | |
| Furniture-20,000 | 50,000 | | |
| Total | 9,91,000 | Total | 9,91,000 |

The firm is converted into Bina Ltd. under following conditions:

1. The company took over all the assets except Rs.20,000 of bank balance.
2. Machinery shown in the books of firm is 15% less and stock 20% more than market price.
3. Goodwill of the firm is valued at double than the average profit of the last three years. profit for the last three years before taking Rs.5,000 to General Reserve. Last three years' profit is Rs.75,000.
4. The company will discharge the claim of Rs.10,000 in future, which was accepted by the firm formerly against the worker's compensation act.
5. Against purchase price company has to give Rs.1,80,000 in cash and balance in equity shares of Rs.10 each at 20% premium.
6. Dissolution expenses Rs.11000 paid by company.
7. Shares received from the company out of 1/5 shares were sold at Rs.2 profit on cost and remaining shares were distributed in profit sharing ratio between partners.

Prepare necessary accounts in the books of the firm.

18.VNSGU-2024

Ravi and Kavi are partners sharing profit and loss equally. On 31/03/2023 they decided to convert their business into newly established Ravina Ltd. Balance sheet on That Date was as under.:

| :Balance Sheet: | | | | | |
|--|-----------------|-----------|---------------------|---------------|-----------|
| Liabilities | | | Assets | | |
| Capital: | | Rs | Land- Building | | 5,50,000 |
| Ravi | 5,50,000 | | Plant- machinery | | 5,00,000 |
| Kavi | <u>5,50,000</u> | 11,00,000 | Furniture | | 1,00,000 |
| Creditors | | 5,00,000 | Vehicles | | 3,50,000 |
| Bills Payable | | 1,00,000 | Stock | | 90,000 |
| Depreciation Fund (On plant and machinery) | | 1,00,000 | Debtors | 63,000 | |
| | | | Less: bad debts | 3,000 | |
| | | | Less: B.D.R. | <u>10,000</u> | 50,000 |
| | | | Cash | | 1,60,000 |
| | | 18,00,000 | | | 18,00,000 |

Other Information:

(1) The Company Purchased assets at following prices:

| | Rs. |
|----------------------|----------|
| (A) Land & Building- | 5,00,000 |
| (B) Furniture - | 80,000 |
| (C) Vehicles- | 3,00,000 |
| (D) Stock- | 70,000 |

(E) Goodwill- 2,80,000

- 2) The Company issued 1,00,000 equity shares each of Rs.10 and paid balance in cash towards.
- 3) The Firm settled the accounts of creditors and bills payable by paying their dues.
- 4) The equity Shares of the Company Were distributed between Ravi and Kavi equally and balance amount was paid in cash.

Prepare in the books of the firm:

- 1) Realisation a/c
- 2) Partners capital a/c
- 3) Cash a/c

Q19.VNSGU2023

The Balance Sheet on 31/03/2023 of A and B who were sharing profit and losses equally was as under

| Liabilities | Rs. | Assets | Rs. |
|---------------------------------------|---------------|-------------------|-----------------|
| Capital: A- 15,000 B- <u>8,000</u> | 23,000 | Building Stock | 15,000 5,000 |
| Creditors | <u>5,000</u> | Debtors | <u>8,000</u> |
| | <u>28,000</u> | | <u>28,000</u> |

On 01/04/2023 AB Company Ltd. Purchases the above business and at that time the goodwill of the firm valued at Rs. 5,000. The company values building at 20% more than the book value and stock at 20% less than the book value and provides for bad debts reserve at 10% on debtors. For the purchase consideration the company gives 2500 fully paid shares each of Rs.10 and the remaining in cash. If the partners divide the shares received from the company in profit sharing ratio

20.VNSGU2023

Dipti, Sweety and Siddhi are the partners sharing profit and loss in the proportion of 3:2:1. The balance sheet as on 31/03/2023 is as follows.:

| Liabilities | Rs. | Assets | Rs. |
|-------------------------------|-----------------|--------------------------|-----------------|
| Capital A/C | | Land and Building | 1,10,000 |
| Dipti -1,77,000 | | Machinery | 3,10,000 |
| Sweety -1,88,000 | | Patent | 21,000 |
| Siddhi -1,99,000 | 5,64,000 | Investment | 39,000 |
| General Reserve | 80,000 | Debtors -1,37,000 | |
| Workmen's profit sharing fund | 35,500 | - B.D.R. - <u>12,000</u> | 1,25,000 |
| Creditors | 86,000 | Stock (Market Price) | 90,000 |
| Bills Payable | 30,000 | Bills Receivable | 35,000 |
| Outstanding Exp. | 14,500 | Cash | 1,55,000 |
| Depreciation Fund (Machinery) | <u>90,000</u> | Advt. Suspense A/C | <u>15,000</u> |
| | <u>9,00,000</u> | | <u>9,00,000</u> |

The firm is converted into Sister's Ltd. under following condition.

(1) Sister's Ltd. Took over the assets (except investments) at the following price.:

(i) Increase the value of land and building up to Rs.1,50,000.

(ii) The company will take the stock at cost price.

(iii) Provide 10% bed debt reserve on debtors.

(iii) Goodwill of the firm is valued at twice of the average profit of the last three years.

| Year | Profit (Rs.) | |
|---------|--------------|--|
| 2020-21 | 90,000 | |
| 2021-22 | 72,000 | |
| 2022-23 | 1,08,000 | |

2. The company takes over all debts except bills payable. The partnership firm pays bills payable.

Calculate the purchase price and Write Journal entry in the books of partnership firm.

3. The Partners Hiva and Hiyan distribute the equity share of company in ratio 3:2

4. Hiyan Purchase the debenture at 10% Discount

UDHNA COLLEGE