



RIZVI COLLEGE OF ARTS SCIENCE AND COMMERCE

**CONVERSION OR SALE OF PARTNERSHIP FIRM INTO
A LIMITED COMPANY**

ACCOUNTANCY AND FINANCIAL MANAGEMENT
SEM III. CLASS SY B.COM

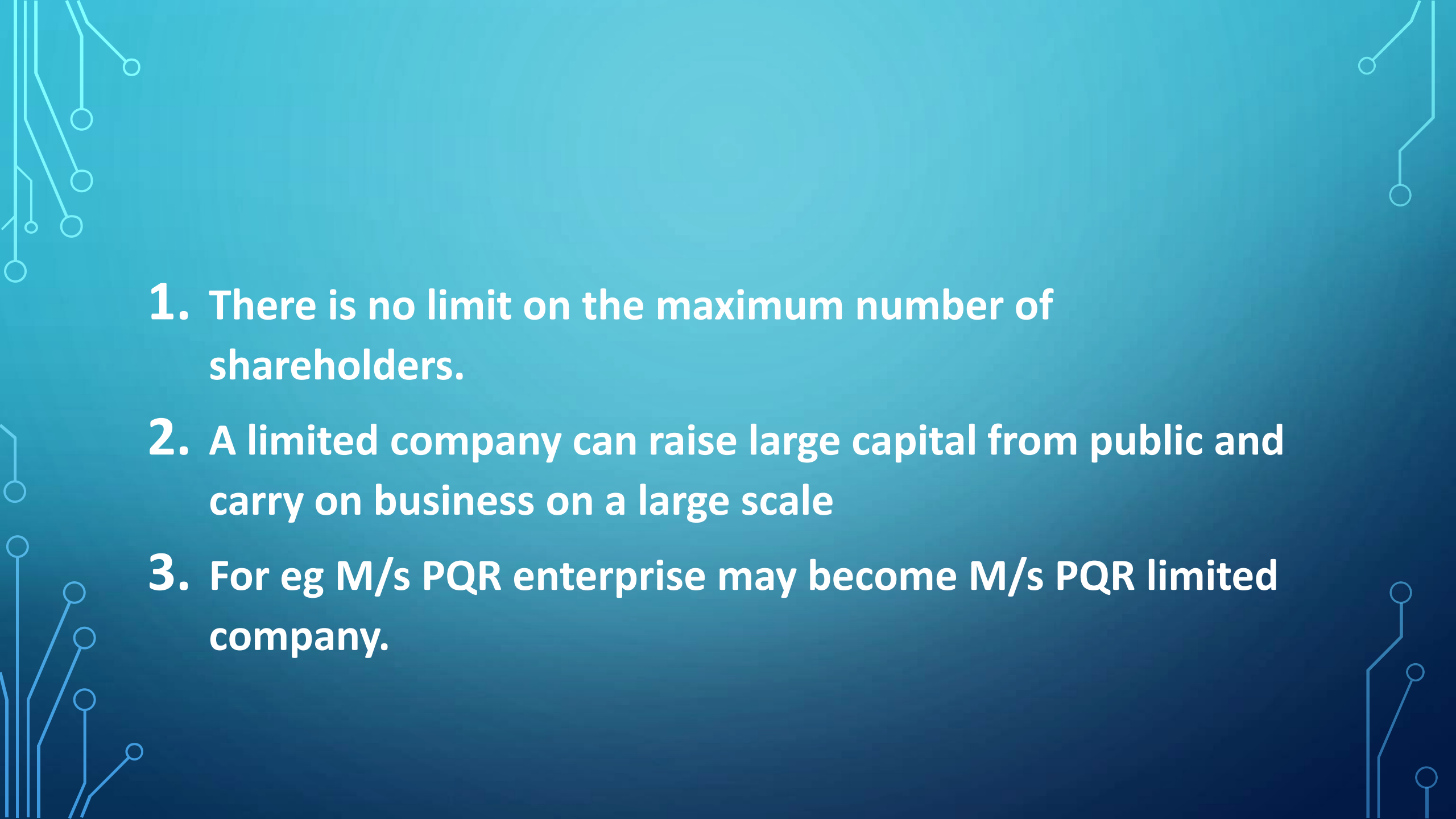
NADEEM PARVE

ASSISTANT PROFESSOR IN ACCOUNTANCY

DEPARTMENT OF ACCOUNTANCY

CONVERSION OR SALE OF PARTNERSHIP FIRM INTO A LIMITED COMPANY

- Meaning
- A firm may be converted by the Partner's into limited company.
- This is done to take the following advantages.
 1. A company is not affected by death or retirement of a member.
 2. The liability of shareholders is limited.

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- The background is a solid blue gradient. In the corners, there are decorative white line art elements resembling circuit boards or neural networks, with lines and small circles connecting them.
- 1. There is no limit on the maximum number of shareholders.**
 - 2. A limited company can raise large capital from public and carry on business on a large scale**
 - 3. For eg M/s PQR enterprise may become M/s PQR limited company.**

PURCHASE CONSIDERATION

- Meaning:
- On sale or conversion, the limited company takes over the business of the firm for an agreed price. this price is known as “Purchase consideration”



METHODS

1. Lumpsum method.

2. Net Asset method.

3. Payment method.



1. LUMP SUM METHODS

- Sometimes purchase consideration is given on lumpsum amount.
- For eg. ABC firm acquired by XYZ Ltd Co. For Rs 5 crore.

2.NET ASSETS METHOD

- In this method, the purchase consideration is equal to the agreed value of Assets taken over less the agreed value of the liabilities taken over.
- **Net Asset= Asset less outside liabilities.**

3. PAYMENT METHOD.

- In this method, purchase consideration is equal to the total of all the payment made by the company to the partners.
- The payment may be in the form of cash, shares, debentures.

ACCOUNTS TO BE OPENED

- 1. Realisation Account.**
- 2. Partners Capital Account.**
- 3. Cash & Bank Account.**
- 4. Account of ltd company.**
- 5. Account of each items received from Company.for eg
Equity share,A/c Preference shares Account,
Debentures Account.**

ENTRIES IN THE BOOKS OF OLD FIRM

1. Assets Transfer.

- Realisation Account.....Dr.
To Various Assets A/c.

2. Liabilities transfer.

- Various liabilities A/c.....Dr
To Realisation A/c.

3. Accumulated Reserve transfer

- Profit and loss A/c.....Dr.
General Reserve A/c.....Dr.
To Partners Capital A/c.

4. Purchase consideration due.

- New Company A/c.....Dr
To Realisation A/c.

5. Purchase consideration recd.

- Cash & Bank A/c.....Dr
Equity share A/cDr
Preference shares A/c..... Dr
To New Company A/c

6. Asset sold for cash

- Cash A/c..... Dr.
To Realisation A/c
- 7. Assets taken over by Partner.
Partners capital A/cDr.
To Realisation Account

• 8. liabilities paid in cash.

- Realisation Account A/c.. Dr
To Cash A/c.
- 9. Liabilities taken over by Partner.
- Realisation Account A/c... Dr
To. Partners capital A/c

• 10. Realisation expenses paid.
Realisation Account..... Dr.
To Cash A/c

• 11. Payment of Partner's Loan.
Partners Loan A/c.....Dr
To Cash A/c

• 12. Partners Loan Settle by
Shares or debentures.

• Partners Loan A/ c.....Dr.
To Equity share A/ c.
To Preference shares A/ c.
To Debentures A/c

- **Profit on Realisation.**

- Realisation Account..... Dr.
To Partner's Capital Account.

- **Loss on Realisation.**

- Partners capital accountDr
To Realisation Account

- **Distribution of shares.**

- Partners capital account..... Dr.
To equity share A/c.
To Preference shares A/c.
To Debentures A/c

THE COMPANY AGREED TO TAKE OVER THE FOLLOWING ASSETS AT THE VALUE STATED BELOW

- Freehold property ₹24,000, Stock. ₹13,000 Machinery. ₹14,000
- Debtors. ₹11,000 Goodwill ₹5,000
- The company also agree to pay ₹ 17,500 to sundry creditors in full settlement of their claim.
- Out of purchase price ₹ 35,000 was paid in fully paid shares ₹ 10 each and **balance** in cash. The Expenses amount ₹ 500 .Shares were distributed in the ratio of final capital balance.
- Prepare necessary ledger account in the books of the firm.

CALCULATION OF PURCHASE CONSIDERATION

• Particular's.	₹		
• A) <u>Asset taken over</u>		B) less: <u>Liabilities</u>	
• Freehold property.	24,000.		
• Stock	13,000	Creditors	17,500
• Machinery	14,000.	Purchase Con.	49,500
• Goodwill.	5,000		
• Debtors.	11,000		
• Total.	<u>67,000</u>		

DR.

REALISATION ACCOUNT.

CR.

• Particular's.	₹.	Particular's.	₹
• <u>To Sundry Assets.</u>		<u>By Sundry liabilities.</u>	
• Freehold property.	20,000	Mortgage loan.	8,000
• Machinery.	15,000.	Sundry Creditors.	18,000
• Debtors.	12,000.	By Ltd co ac.	49,500
• Stock.	14,000		
• To Cash Account.	8,000		
• To Cash Account.	500		

$$1 \times 4 / 2 \times 4 = 4/8$$

$$3/8.$$

$$1/8.$$

$$4:3:1$$

To Capital Account

A's. 3,000

B's. 2,250

C's 750

6,000

• Total

75,500.

75,500

DR. PARTNERS CAPITAL ACCOUNT. CR

• Particular	A.	B.	C.	Particular's.	A.	B.	C
• .				By bal b/d.	20,000	15,000.	10,000
• To share	15,780	11,840	7,380	By RealAc	3,000.	2,250.	750
• To Cash	7,220.	5,410.	3,370				
• Total.	<u>23,000.</u>	<u>17,250</u>	<u>10750.</u>	Total.	<u>23,000</u>	<u>17,250.</u>	<u>10750</u>

• **Capital bal.** 23,000. 17,250. 10,750

• **Ratio.** 2300:1725:1075= 5100

A's $35,000 \times 2300 / 5100 = 15,784.313 = 15,780$

• **B's.** $35,000 \times 1725 / 5100 = 11,838.235 = 11,840$

• **C's** $35,000 \times 1075 / 5100 = 7377.450 = 7,380$

DR.

CASH ACCOUNT.

CR

Particular's.	₹.	Particular's.	₹
• To Bal b/d.	10,000.	By Realisation A/c.	8,000
• To Ltd Co.	14,500	By Realisation A/c.	500
•		By Capital Account	
• .		A's.	7,220
• .		B's.	5,410
•		C's.	3,370
• Total.	<u>24,500.</u>	Total.	<u>24,500</u>

DR.

LIMITED COMPANY ACCOUNT.

CR


• Particular's.	₹.	Particular's.	₹
• To Realisation a/c.	49,500.	By Shares A/C	35,000
•		By CashA/C.	14,500
• Total.	<u>49,500</u>		<u>49,500</u>

Q NO: 2 .A B & C WERE PARTNERS SHARING PROFIT AND LOSSES IN THE RATIO 1:2:3. AS ON 31-03-2013 BALANCE SHEET WAS AS UNDER

• Liabilities.	₹.	₹.	Assets.	₹.	₹
• <u>Capital A/c.</u>			Investment.		1,000
• A	10,000.		Building.		20,000
• B.	20,000.		Machinery.		30,000
• C	<u>30,000.</u>	60,000.	Motor car.		5,000
• B's loan A/c		20,000.	Stock.		15,000
• Creditors		15,000.	Debtors.		20,000
• Bills payable.		5,000.	Cash.		9,000

- On the above date a private Ltd, company was incorporated to take over the above business on the following terms and conditions.

1. All assets (except cash and investment) and all Liabilities (except B's loan) to be taken over by Co.for which all assets are valued at par except building which is considered worth ₹ 27,000 and stock as worth ₹ 14,000.Further, Goodwill is valued at ₹ 30,000.
2. B's loan to be partly liquidated by his taking over the firm's cash and investment at par .For the balance he is given 8% Debentures received from the company in part discharge of purchase consideration.



3. The balance of purchase consideration is received in the form of equity shares of the Co. Which are appropriately distributed amongst the partners.

- **Prepare ledger account to close the books.**
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CALCULATION OF PURCHASE CONSIDERATION (NET ASSET METHOD)

• Particular's.	₹		
• A) <u>Asset taken over</u>			
• Building.	27,000.	Debtors.	20,000
• Stock.	14,000.	Total.	1,26,000
• Goodwill.	30,000.	B) <u>less outside liabilities</u>	
• Machinery.	30,000	Creditors	15,000
• Motor car.	5,000.	Bill's payable	5,000.
			(20,000)

PURCHASE CONSIDERATION ₹ 1,06,000

- B's loan $20,000 - 9,000 - 1,000 = 10,000$
- Balance Share. + 96,000
- Purchase consideration. 1,06,000

DR.		REALISATION ACCOUNT				CR.	
PARTICULAR'S.	₹.	₹.	PARTICULAR'S.	₹.	₹		
• <u>To Sundry Assets.</u>			<u>By Sundry liabilities</u>				
• Building.	20,000.		Creditors.	15,000			
• Machinery.	30,000.		Bill's payable.	5,000.	20,000		
• Motor car.	5,000.		<u>By Limited company</u>		1,06,000		
• Stock.	15,000						
• Debtors	20,000.	90,000					



• To Capital A/c

• A. **6,000**

• B,. **12,000**

• C. **18,000**

36,000

• TOTAL.

1,26,000

TOTAL.

1,26,000



DR. PARTNERS CAPITAL ACCOUNT. CR

• Particular's	A.	B.	C.	Particular's.	A.	B.	C
• .				By Bal b/d.	10,000.	20,000.	30,000
•				By Real A/c.	6,000.	12,000.	18,000
• To shares.	16,000.	32,000.	48,000				
• Total.	<u>16,000.</u>	<u>32,000.</u>	<u>48,000.</u>	Total.	<u>16,000.</u>	<u>32,000.</u>	<u>48,000</u>

DR. PURCHASING COMPANY ACCOUNT. CR

• Particular's.	₹.	₹.	Particular's.	₹.	₹
• To Realisation A/c.	1,06,000.		By shares.		
•			A. 16,000		
•			B. 32,000		
•			C. 48,000.	96,000	
•			By 8% Deb. (Bal)	10,000	
• TOTAL.	<u>1,06,000.</u>		TOTAL.		<u>1,06,000</u>

- A. B. & C carry on business in partnership sharing profits and losses in the proportion of $\frac{1}{2}$, $\frac{3}{8}$ and $\frac{1}{8}$ respectively. On 31st March 2018. They agree to sell their business to a limited co. their position on date was as follows.

• Liabilities.	₹.	Assets.	₹
• A's Capital	40,000.	Machinery.	48,000
• B's Capital.	30,000.	Furniture.	42,000
• C's Capital.	26,000.	Stock.	23,000
• Loan mortgage.	16,000.	Book Debts.	15,000
• Sundry Creditors	18,000.	Cash.	2,000

CALCULATION OF PURCHASE CONSIDERATION

• Particular's.	₹.		
• Assets taken over.		TOTAL.	1,38,800
• Machinery.	61,000.	Less outside liabilities	
• Furniture.	31,800.	Creditors.	(<u>17,700</u>)
• Stock.	22,000.	Purchase consideration	<u>1,21,100</u>
• Books debts.	14,000.	Shares.	(<u>67,000</u>)
• Goodwill.	10,000.	Cash.	54,100

DR. PARTICULARS.	REALISATION ACCOUNT		CR	₹
	₹.	₹.	PARTICULAR'S.	₹.
• To sundry Assets.			By Sundry liabilities	
• Machinery	48,000.		Loan on mortgage.	16,000
• Furniture.	42,000.		Creditors.	18,000. 34,000
• Stock.	23,000.		By Ltd company A/c.	1,21,100
• Book debts.	15,000.	1,28,000		
• To Cash Account.		1,500		
• To Cash Account.		16,000		

• To Capital Account

• A Capital 4,800

• B Capital. 3,600

• C. Capital. 1,200 9,600

• Total. 1,55,100. Total. 1,55,100

• Profit sharing ratio. $1 \times 4 / 4 \times 2 = 4/8$ $3/8.$ $1/8$

• Final PSR. 4:3:1

DR.

PARTNERS CAPITAL ACCOUNT.

CR

Particular's.	A.	B.	C.	Particular's.	A.	B.	C.
.				By balance b/d	40,000.	30,000.	26,000
				By Realisation.	4,800.	3,600.	1,200
To shares.	28,420.	21,320.	17,260				
To. Cash A/c	16,380.	12,280.	9,940				
Total.	<u>44,800.</u>	<u>33,600.</u>	<u>27,200.</u>	Total.	<u>44,800.</u>	<u>33,600.</u>	<u>27,200</u>

HOW TO CALCULATE SHARES AMT GIVEN TO PARTNER'S

- Capital balance. 44,800. 33,600. 27,200
- Reduce by 100. 448:336:272=1056
- A 's. Share. $67,000 \times 448 \div 1056 = 28,424.2424 = 28,420$
- B's . Share. $67,000 \times 336 \div 1056 = 21,318.1818 = 21,320$
- C's. Share. $67,000 \times 272 \div 1056 = 17,257.5757 = 17,260$

DR.

LIMITED COMPANY ACCOUNT.

CR

• Particular's.	₹.	Particular's.	₹
• To Realisation A/c.	1,21,100.	By Shares A/c.	67,000
•		BY. Cash A/c. (Bal)	54,100
• Total.	1,21,100.	Total.	1,21,100

DR.

CASH ACCOUNT.

CR

PARTICULAR'S.

₹.

₹.

PARTICULAR'S.

₹.

₹

- To balance b/d. 2,000.
- To Limited com Account. 54,100
-
-
- .
- .
-
- **Total.** **56,100.**

By Realisation A/c

Expense. 1,500

Loan. 16,000. 17,500

By Capital Account

A's capital. 16,380

B's Capital. 12,280

C's. Capital. 9,940. 38,600

Total. **56,100**

NAVIN AND SUNIL WERE PARTNERS SHARING PROFIT AND LOSSES IN THE RATIO OF 2:1. BALANCE SHEET AS ON 31-03-2013.

• Liabilities.	₹.	Assets.	₹
• Navin capital A/c.	50,000.	Freehold	62,000
• Sunil Capital A/c.	40,000.	Plant and machinery	18,000
• Navin Current A/c.	26,000.	Stock.	32,000
• Sunil current A/c.	18,000.	Book debts.	41,000
• Navin loan A/c.	40,000.	U.T.I. Bank.	45,000
• Accounts Payable.	24,000		

Accounts Payable	24,000	
	<u>1,98,000</u>	<u>1,98,000</u>

The partners wishing to dissolve the firm, accepted the offer of Chhaya Ltd. to acquire the stock and fixed assets at an inclusive price of ₹ 1,40,000.

The purchase consideration was to be satisfied by (a) a cash payment of ₹ 35,000 (b) allotment to the partners 6,000 6% Preference Shares of ₹ 10 each, valued at ₹ 8 per share (c) 57,000 Ordinary Shares of ₹ One each.

The Book debts realised ₹ 38,000 and Accounts payable were settled by ₹ 22,000.

The Partners agreed that the following should be the basis of distribution on dissolution of the partnership.

(i) Navin to be allotted Preference shares in settlement of his loan, the remaining Preference Shares being allotted equally to them.

(ii) The Ordinary Shares to be allotted in the ratio of profit sharing.

(iii) The Balance to be paid in Cash.

You are required to prepare (i) Realisation Account (ii) Partners' Capital and Current accounts separately (iii) Chhaya Ltd. account (iv) Cash account.

Solution :

In the Books of Navin & Sunil

Realisation Account

Cr.

CALCULATION OF PURCHASE CONSIDERATION

• Lumpsum amount.	<u>1,40,000.</u>	Navin loan 40,000
1. Cash.	35,000.	Pref shares. 48000
2. 6%Pref shares.	48,000. (6000×8).	Extra. 8,000
3. Ordinary shares.	<u>57,000.</u> (57,000×1).	Navin. 4,000
4. Purchase consideration.	1,40,000.	Sunil. 4,000

DR.

REALISATION ACCOUNT

CR

PARTICULAR'S.

₹.

₹.

PARTICULAR'S.

₹.

₹

- To Sundry Assets.

- Freehold property. 62,000.

- Plant and machinery 18,000.

- Stock. 32,000.

- Book debts. 41,000. 1,53,000

- To cash A/c(Account payable). 22,000

By Sundry liabilities

Account's payable. 24,000

By Chayya ltd. 1,40,000

By Cash A/c (book debt). 38,000

PROFIT SHARING RATIO 2:1

To Current Account

Navin current A/c. **18,000**

Sunil current A/c. **9,000** **27,000**

• Total. **2,02,000.**

Total. **2,02,000**

DR.

PARTNERS CURRENT ACCOUNT

CR

Particular's.	Navin.	Sunil.	Particular's.	Navin.	Sunil
• .			By Bal b/d.	26,000.	18,000
•			By Realisation.	18,000.	9,000
• To capital account	44,000.	27,000			
• TOTAL.	<u>44,000.</u>	<u>27,000.</u>	Total.	<u>44,000.</u>	<u>27,000</u>

DR.

PARTNERS CAPITAL ACCOUNT.

CR

• Particular's.	Navin.	Sunil.	Particular's.	Navin.	Sunil
• .			By Balance b/d.	50,000.	40,000
•			By current A/c.	44,000.	27,000
• To Shares A/c.	38,000.	19,000			
• To pref shares.	4,000.	4,000			
• To cash A/c.	52,000.	44,,000			
• Total.	94,000.	67,000.	Total.	94,000.	67,000

DR. PARTICULARS	₹.	BANK ACCOUNT. ₹.	PARTICULAR'S.	₹.	CR ₹
• To balance b/d.		45,000	By Realisation Account.		22,000
• To Realisation A/c.		38,000.	By Navin Capital.		52,000
• To Chayya ltd.		35,000.	By Sunil Capital.		44,000
Total.		<u>1,18,000.</u>	Total.		<u>1,18,000</u>

DR.		CHAYYA LIMITED ACCOUNT.		CR	
PARTICULARS.	₹.	₹.	PARTICULAR'S.	₹.	₹
• To Realisation A/c.	1,40,000.		By Cash Account.	35,000	
•			By 6% Pref shares.	48,000	
•			By Ordinary shares.	57,000	
• Total.	1,40,000.		Total.	1,40,000	

Illustration 8 : (Realisation Expenses; O/S Expenses; Creditors Paid)

A, B and C were partners sharing Profits and Losses in the ratio of 3 : 2 : 1. Their Balance Sheet as on 31-3-2010 was as follows :

Balance Sheet as on 31-3-2010

Liabilities	₹	Assets	₹
Capital A/cs :		Land and Building	42,000
A	50,000	Plant and Machinery	30,000
B	20,000	Sundry Debtors	44,000
C	30,000	Stock	26,000
General Reserve	24,000	Furniture	10,000
Creditors	20,000	Cash	6,000
Bills Payable	12,000		
Outstanding Expenses	2,000		
	<u>1,58,000</u>		<u>1,58,000</u>

The partners agreed to sell their business to a limited company. The company to take over the assets at the valuation shown below :

Land and Building	₹ 45,000
Plant and Machinery	₹ 25,000
Sundry Debtors	₹ 40,000
Stock	₹ 20,000
Furniture	₹ 12,000
Goodwill	₹ 20,000

The company also agreed to pay the Bills Payable which were agreed at ₹ 10,000. The Limited Company paid ₹ 46,000 in cash and the balance in Equity shares @ ₹ 1 each. The Creditors were paid by the firm at a discount of 2½% and Outstanding expenses were paid in full. The Realisation expenses amounted to ₹ 3,500.

Prepare Realisation A/c, Partner's Capital A/c, Cash A/c, Limited Company A/c, Shares in Limited Company A/c and show calculation of Purchase Consideration.

Particulars	A	B	C	By B	By C	By P
To Shares in Ltd. Co. A/c	53,000	23,935	29,065			
To Cash A/c	13,500	7,065	6,435			
	<u>66,500</u>	<u>31,000</u>	<u>35,500</u>			

Particulars	₹	By
To Realisation A/c	1,52,000	
	<u>1,52,000</u>	

Particulars	₹	By
To Realisation A/c	1,06,000	
	<u>1,06,000</u>	

Particulars	₹	By
To Balance b/d	4,000	
To Realisation A/c	40,000	

CALCULATION OF PURCHASE CONSIDERATION

• Particular's.	₹	• Goodwill.	20,000
• <u>Assets taken over</u>		• Total.	1,62,000
• Land & building.	45,000	• Less: outside liabilities	
• Plant and machinery.	25,000	• Bills payable.	(10,000)
• Sundry Debtors.	40,000	• Purchase Cons.	1,52,000
• Stock.	20,000	• Cash	46,000
• Furniture.	12,000	• Equity shares. Bal	1,06,000

DR.

REALISATION ACCOUNT.

CR

PARTICULAR'S.

₹.

₹.

PARTICULAR'S.

₹.

₹

• To Sundry Assets.

- Land & Building 42,000.
- Plant & machin. 30,000.
- Sundry Debtors. 44,000.
- Stock. 26,000.
- Furniture. 10,000

By Sundry liabilities

- Creditors. 20,000
- Bills payable. 12,000
- O/s expenses. 2,000. 34,000
- By limited Co A/c. 1,52,000

PROFIT SHARING RATIO = 3:2:1

A- $9,000 \times 3/6 = 4,500$. B- $9,000 \times 2/6 = 3,000$.

C- $9,000 \times 1/6 = 1,500$

- To Cash Account

- Creditors. 19,500

- O/s expenses 2,000

- Expense. 3,500. 25,000

- To Cap A/c A **4,500**

- B **3,000**

- C. **1,500.** **9,000**

- Total. **1,86,000.** Total. **1,86,000**

DR.

PARTNERS CAPITAL ACCOUNT.

CR

PARTICULAR'S.

A.

B.

C.

PARTICULAR'S.

A.

B.

C

- By Balance b/d 50,000. 20,000. 30,000
- By Gen Reserve. 12,000. 8,000. 4,000
- By Realisation A/c 4,500. 3,000. 1,500
- To shares 53,000. 24,707. 28,293
- To Cash A/c 13,500. 6,293. 7,207
- Total. 66,500. 31,000. 35,500. Total. 66,500. 31,000. 35,500

DR.

LIMITED COMPANY ACCOUNT.

CR

Particular's.	₹.	₹.	Particular's.	₹.	₹
• To Realisation Account.		1,52,000	By shares A/c.		1,06,000
•			By cash A/c.		46,000
• Total.		<u>1,52,000</u>	Total.		<u>1,52,000</u>

HOW TO DISTRIBUTE SHARES AMONG THE PARTNERS

CAPITAL BALANCE. **66,500 : 31,000 :35,500**

- **Reduce by 100.** **665 :310 : 355 =1330**
- **A's Share.** **$1,06,000 \times 665 \div 1330 = 53,000$**
- **B's. Share.** **$1,06,000 \times 310 \div 1330 = 24,707$**
- **C's share** **$1,06,000 \times 355 \div 1330 = 28,293.$**

DR.

CASH ACCOUNT.

CR

• Particular's.	₹	₹.	Particular's.	₹.	₹
• To balance b/d.	6,000.		By Realisation A/c		25,000
• To Limited Co.Account	46,000.		<u>By capital A/c</u>		
•			A	13,500	
• .			B	6,293	
• .			C.	<u>7,207</u>	27,000
• Total.	<u>52,000.</u>		Total.		<u>52,000</u>

Illustration 7 : (Investment and Loan Not T/O by Company)

AB Ltd. was formed to acquire the business A and B who share profits in the ratio of 3 : 2 respectively. The Balance Sheet of A and B on 31st December, 2014 was as under :

Balance Sheet as on 31st December 2014

Liabilities	₹	Assets	₹
Capital Account :		Land and Building	40,000
A	64,000	Machinery	20,000
B	40,000	Stock	24,000
A's Loan	3,200	Debtors	23,200
Bills Payable	7,200	Bills Receivable	6,400
Sundry Creditors	21,600	Investments	4,800
		Cash at Bank	9,600
		Goodwill	8,000
	<u>1,36,000</u>		<u>1,36,000</u>

It was agreed by the company to take over the assets at book value with the exception of land and building, stock and goodwill which are taken over at ₹ 45,000, ₹ 20,000 and ₹ 28,800 respectively. The investments were retained by the firm and sold for ₹ 4,000. The firm discharged the loan of Mrs. A. The company took over the remaining liabilities. The purchase consideration was discharged by

SEM-III) Conversion / Sale of a Partnership Firm into a Limited Company

277

Cr.

ing 10,000 Equity shares of ₹ 10 each in AB Ltd. and the balance was paid in cash. Prepare the
 ger Accounts of the firm assuming the shares are distributed amongst partners in their profit
 ing ratio.

ution :

1,00,000 24,200

In the Books of A and B

Realisation Account

Cr.

Cr.	Particulars	₹	Particulars	₹
	Land and Building	40,000	By Bills Payable	7,200
	Machinery	20,000	By Creditors	21,600
48,000	Stock	24,000	By AB Ltd. (P.C.)	1,24,200
57,000	Debtors	23,200	By Bank (Investment)	4,000
35,000	Bills Receivable	6,400		
	Investments	4,800		
1,40,000	Bank	9,600		
	Goodwill	8,000		
Cr.	Profit transferred to :			
	A's Capital A/c	12,600		
40,000	B's Capital A/c	8,400		
		<u>1,57,000</u>		<u>1,57,000</u>

AB Ltd.'s Account

Cr.

CALCULATION OF PURCHASE CONSIDERATION

• Asset taken over		• Total.	1,53,000
• Land & building.	45,000	• Less: Outside liabilities	
• Stock.	20,000	• Bill's payable.	7,200
• Machinery.	20,000	• Creditors.	21,600. (28,800)
• Debtors.	23,200	• Purchase consideration.	1,24,200
• Bills receivable.	6,400	• Share $10,000 \times 10 =$	1,00,000
• Bank.	9,600	• Cash (bal).	=. 24,200
• Goodwill.	28,800		

DR.

REALISATION ACCOUNT.

CR

PARTICULARS.

₹.

₹.

PARTICULAR'S.

₹.

₹

• To Sundry Assets.

By Sundry liabilities

• Land & building. 40,000.

Creditors. 21,600

• Machinery. 20,000.

Bills payable. 7,200. 28,800

• Stock. 24,000

• Debtors. 23,200.

By AB Ltd Co A /c. 1,24,200

• Bill receivable. 6,400.

By cash A/c (invnt). 4,000

• Goodwill. 8,000.

• Investment. 4,800 1,26,400

PROFIT SHARING RATIO 3:2

- **To Capital Account**

- **A. 18,360**

- **B. 12,240. 30,600**

- **Total. 1,57,000. Total. 1,57,000**

DR.

PARTNERS CAPITAL ACCOUNT

CR

PARTICULAR'S.

A.

B.

PARTICULAR'S.

A.

B

- By Balance b/d. 64,000. 40,000
- By Realisation A/c. 18,360. 12,240
- To shares a/c. 60,000. 40,000
- To Cash Account. 22,360 12,240

• **Total. 82,360. 52,240.**

By Balance b/d. 64,000. 40,000

By Realisation A/c. 18,360. 12,240

Total. 82,360. 52,240

DR.	AB LTD CO.		CR
PARTICULARS ₹.	₹.	PARTICULAR'S ₹.	₹

• To Realisation Account.	1,24,200.	By Shares Account.	1,00,000
•		By Cash Account.	24,200

• Total.	1,24,200.	Total.	1,24,200
----------	-----------	--------	----------

DR.

MRS A'S LOAN.

CR

• Particular's.

₹.

Particular's.

₹

•

By balance b/d.

3,200

• To cash Account.

3,200

• Total.

3,200.

Total.

3,200

DR.

CASH & BANK ACCOUNT.

CR

• Particular's.	₹.	₹.	Particular's.	₹.	₹
• To balance b/d.		9,600.	By Mrs A's Loan A/c.		3,200
• To AB Ltd Co Account.		24,200.	<u>By Partner's Cap A/c</u>		
• To Realisation Account.		4,000.	A	22,360	
•			B.	12,240.	34,600
• Total.		37,800.	Total.		37,800

A and B were in partnership sharing profits and losses in the ratio of 2 : 1 respectively. Their Balance Sheet as on 31-3-2015 was as follows :

Balance Sheet as on 31-3-2015

Liabilities	₹	Assets	₹
Creditors <i>R/L</i>	40,000	Plant and Machinery	20,000
Bills Payable <i>R/L</i>	10,000	Bills Receivable	5,000
Mrs. A's Loan <i>R/L</i>	20,000	Stock	43,700
Capital A/cs :		Sundry Debtors <i>R/D</i>	60,000
A <i>3 P.C</i>	30,000	Less : R.D.D. <u>3,000</u>	57,000
B	20,000	Cash on Hand <i>P/C</i>	300
Reserve Fund <i>P.C</i>	6,000		
	<u>1,26,000</u>		<u>1,26,000</u>

On that date they agreed to sell their business to 'C' Ltd. The company was to take over assets valuation shown below :

	₹
Plant and Machinery	16,000
Stock	39,000
Sundry Debtors	46,700
Bills Receivable	5,000
Goodwill	6,000

Handwritten calculations:
 112700
 - 39000

 73700 *P.C*
 36000 37700 *Cash*

The company also agreed to pay the Creditors which was agreed at ₹ 39,000. The expenses of realisation amounted to ₹ 300. Bills Payable and Mrs. A's loan were paid by the firm in full. The company paid for 3,600 Equity shares of ₹ 10 each and ₹ 37,700 in cash as purchase consideration. The shares were to be distributed in profit sharing ratio to the partners.

Prepare necessary ledger accounts in the books of M/s. A and B.

Solution :

Particulars
Equity Shares in C Co. Ltd. A/c
Realisation A/c (Loss)
Cash A/c (Bal. Fig.)
Particulars
Balance b/d
C Co. Ltd. A/c
Illustration 10 : (Realisation)
Set out below is the Balance Sheet of the firm.
Liabilities
Capitals :
X
Y
Creditors

CALCULATION OF PURCHASE CONSIDERATION

By Net payment method

Equity shares. $3600 \times 10 = 36,000$

Cash. $= . \underline{37,700}$

Purchase consideration. $= 73,700$

DR. REALISATION ACCOUNT. CR

PARTICULARS. ₹. ₹. PARTICULAR'S. ₹. ₹

<u>To Sundry Assets.</u>		<u>By Sundry liabilities</u>	
• Plant and machinery	20,000.	Creditors.	40,000
• Bill Receivable.	5,000.	Bills payable.	10,000
• Stock.	43,700.	Mrs.Loan.	<u>20,000</u> 70,000
• Sundry Debtors.	<u>57,000.</u> 1,25,700.	By "C" Ltd.	73,700
• <u>To cash A/c</u>			
• Bill payable	10,000		
• Mrs A'sloan.	20,000.		
• Expenses.	<u>300</u> . 30,300		

DR 156,000 LESS CR 1,43,700 = 12,300
PROFIT SHARING RATIO 2: 1

• By Partner's Capital Account			
•		A	8,200
•		B.	<u>4,100.</u>
•			<u>12,300</u>
• Total.	<u>1,56,000.</u>	Total.	<u>1,56,000</u>

DR.

PARTNERS CAPITAL ACCOUNT.

CR

Particular's.	A.	B.	Particular's.	A.	B
.			By Balance b/d.	30,000.	20,000
			By Reserve. Fund.	4,000.	2,000
To Equity share.	24,000.	12,000			
To Realisation A/c	8,200.	4,100			
To cash A/c.	<u>1,800.</u>	<u>5,900</u>			
Total.	<u>34,000.</u>	<u>22,000.</u>	Total.	<u>34,000.</u>	<u>22,000</u>

DR. "C" LIMITED COMPANY ACCOUNT. CR

Particular's.	₹.	₹.	Particular's.	₹	₹
• To Realisation Account.	73,700.		By Equity share.	36,000	
•			By Cash Account.	<u>37,700.</u>	73,700
• Total.	<u>73,700.</u>		Total.		<u>73,700</u>

DR.

CASH ACCOUNT.

CR

• Particular's.	₹.	₹.	Particular's.	₹.	₹
• To balance b/d.		300	By Realisation Account		30,300
• To C ltd Co Account.		37,700.	By A'Capital A/c.	1800	
•			By B's Capital A/c.	<u>5,900.</u>	7,700
• Total.		<u>38,000.</u>	Total.		<u>38,000</u>

The background is a blue gradient. In the corners, there are white line-art patterns resembling circuit boards or neural networks, with lines and small circles connecting them.

THANK YOU