

IDEAL / e-LIVE / I.P.C.C. / ACCOUNTS / ABSORPTION OF FIRM

**In the books of Partners X & Y
Journal**

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
	Building A/c Dr. To Revaluation A/c (Being the increase in the value of building)	15,000	-- 15,000
	Revaluation A/c Dr. To Stock A/c To Provision for Bad Debt A/c (Being the decrease in the value of stock and increase in provision)	1,000	-- 800 200
	Revaluation A/c Dr. To X Capital A/c To Y Capital A/c (Being the profit on revaluation transferred to Revaluation A/c in the profit-sharing ratio of 3 : 1)	14,000	-- 10,500 3,500
	Goodwill A/c Dr. To X Capital A/c To Y Capital A/c (Being the goodwill raised in the books)	10,000	-- 7,500 2,500
	Goodwill A/c Dr. Stock A/c Dr. Bills Receivable A/c Dr. Debtors A/c Dr. To Loan A/c To Creditors A/c To Provision for Bad Debt A/c To Z Capital A/c (Being the assets and liabilities taken over)	1,500 16,800 5,000 6,000	-- -- -- -- 5,000 13,000 300 11,000

Balance Sheet of X, Y, Z (after absorption)

Liabilities	Rs.	Assets	Rs.
Capital Accounts		Goodwill (Rs. 10,000 + Rs.1,500)	11,500
X	33,000	Building	40,000
Y	11,000	Stock (Rs.16,800 + Rs.9,200)	26,000
Z	11,000	Bills Receivable (Rs.5000 + Rs.5,000)	10,000
Loan	5,000	Debtors (Rs.6,000 + Rs.4,000)	10,000
Creditors	39,000	Less: Provision (Rs.300 + Rs.200)	<u>500</u>
		Cash in hand	2,000
	99,000		99,000

Sol.2.Working Note : Calculation of purchase consideration

Assets taken over :	Rs.
Machinery	28,000
Furniture	5,400
Stock	22,000
Debtors	30,000
Cash (Rs.24,000 + Rs.2,000)	26,000
Goodwill	12,000
	<u>1,23,400</u>
Less: Liability taken over – Bills payable	40,000
Purchase consideration	83,400

IDEAL / e-LIVE / I.P.C.C. / ACCOUNTS / ABSORPTION OF FIRM

In the books of RS

Dr.			Cr.		
Realisation Account					
Date	Particulars	Rs.	Date	Particulars	Rs.
	To Machinery A/c	20,000		By Bills Payable A/c	40,000
	To Furniture A/c	6,000		By PQ A/c	83,400
	To Stock A/c	24,000			
	To Debtors A/c	30,000			
	To Cash A/c	26,000			
	To Partners' Cap. A/c				
	R 8,700				
	S 8,700	17,400			
		1,23,400			1,23,400

Dr.			Cr.		
PQ Account					
Date	Particulars	Rs.	Date	Particulars	Rs.
	To Realisation A/c	83,400		By Capital in PQ A/c	83,400
		83,400			83,400

Dr.			Cr.		
Cash Account					
Date	Particulars	Rs.	Date	Particulars	Rs.
	To Balance b/d	2,000		By Realisation A/c	26,000
	To Investment A/c	24,000			
		26,000			26,000

Dr.				Cr.			
Partners' Capital Accounts							
Date	Particulars		Rs.	Date	Particulars		Rs.
	To Cap. in PQ A/c	47,700	35,700		By Balance b/d	36,000	24,000
					By Profit on sale of Invest. A/c	3,000	3,000
					By Realisation A/c	8,700	8,700
		47,700	35,700			47,700	35,700

In the books of Partners PQ Journal

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
	Bank Loan A/c Dr. To Cash A/c (Being the bank repaid)	10,000	-- 10,000
	Goodwill A/c Dr. To P Capital A/c To Q Capital A/c (Being the goodwill raised at Rs.16,000)	16,000	-- 8,000 8,000
	Stock A/c Dr. Machinery A/c Dr. To Revaluation A/c (Being the increase in the value of assets)	8,000 24,000	-- -- 32,000
	Revaluation A/c Dr. To Furniture A/c (Being the decrease in the value of furniture)	800	-- 800

IDEAL / e-LIVE / I.P.C.C. / ACCOUNTS / ABSORPTION OF FIRM

Revaluation A/c	Dr.	31,200	--
To P Capital A/c			15,600
To Q Capital A/c			15,600
(Being the profit on revaluation transferred to Partners' capital A/cs in the profit-sharing ratio)			
Goodwill A/c	Dr.	12,000	
Machinery A/c	Dr.	28,000	
Furniture A/c	Dr.	5,400	
Stock A/c	Dr.	22,000	
Debtors A/c	Dr.	30,000	
Cash A/c	Dr.	26,000	
To Bills Payable A/c			40,000
To R Capital A/c			47,700
To S Capital A/c			35,700
(Being the introduction of capital by R & S)			

Dr. Partners' Capital Accounts Cr.

Date	Particulars	P	Q	Date	Particulars	P	Q
	To Balance c/d	83,600	53,600		By Balance b/d	60,000	30,000
					By Goodwill A/c	8,000	8,000
					By Revaluation A/c	15,600	15,600
		83,600	53,600			83,600	53,600

Balance Sheet as on 01.01.1991

Liabilities	Rs.	Assets	Rs.
Capital Accounts		Goodwill	28,000
P	83,600	Machinery	1,12,000
Q	53,600	Furniture	12,600
R	47,700	Stock	62,000
S	35,700	Debtors	48,000
Bills Payable	70,000	Cash	28,000
	2,90,600		2,90,600

Sol.3.Working Note :

**In the books of Black & Company
Journal**

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
1991 Dec.31	Realisation A/c	Dr. 40,000	--
	To Plant & Machinery A/c		10,000
	To Stock-in-trade A/c		20,000
	To Sundry Debtors A/c		10,000
	(Being the different assets transferred to Realisation A/c)		
	Sundry Creditors A/c	Dr. 10,000	--
	To Realisation A/c		10,000
	(Being sundry creditors transferred to Realisation A/c)		
	Bank Overdraft A/c	Dr. 15,000	--
	To B Capital A/c		15,000
	(Being overdraft taken over by B)		
	Grey & Co. A/c (Note 1)	Dr. 41,000	41,000
	To Realisation A/c		
	(Being purchase consideration due from Grey)		

IDEAL / e-LIVE / I.P.C.C. / ACCOUNTS / ABSORPTION OF FIRM

Realisation A/c (Note 2) Dr.	11,000	--
To A Capital A/c		3,667
To B Capital A/c		7,333
(Being profit on realization transferred to partners capital in the ratio of 1 : 2)		
B's Capital A/c Dr.	2,333	
To A Capital A/c		2,333
(Being deficit in A's capital made good by B)		
A Capital A/c Dr.	2,000	
B Capital A/c Dr.	39,000	
To Grey & Co. A/c		41,000
(Being the capital accounts of the partners closed by transfer to Grey & Co.)		

Tutorial Note : It should be noted that the credit balance in B's capital account is Rs.39,000. His agreed capital in Grey & Co. is Rs.3,000 only. Since there is no liquid asset in Black & Co. from which B can be repaid, the excess amount of Rs.36,000 should be taken over by Grey & Co. as loan from B.

**In the books of White & Company
Journal**

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
1991 Dec.31	Realisation A/c Dr.	20,000	--
	To Goodwill A/c		5,000
	To Stock-in-trade A/c		5,000
	To Sundry Debtors A/c		10,000
	(Being the different assets transferred to Realisation A/c)		
	Sundry Creditors A/c Dr.	9,500	--
	To Realisation A/c		9,500
	(Being sundry creditors transferred to Realisation A/c)		
	Grey & Co. A/c (Note 1) Dr.	5,000	--
	To Realisation A/c		5,000
	(Being purchase consideration due from Grey & Co.)		
	X Capital A/c Dr.	2,750	
	Y Capital A/c Dr.	2,750	
	To Realisation A/c (Note 2)		5,500
	(Being loss on realization transferred to Partners' Capital Accounts equally)		
	Bank A/c Dr.	4,750	--
	To Y Capital A/c		4,750
	(Being the necessary amount brought in by Y to make up his required capital contribution)		
	X's Capital A/c Dr.	7,250	
	Y Capital A/c Dr.	4,000	
	To Grey & Co. A/c		5,000
	To Bank A/c		6,250
	(Being the capital accounts of the partners closed by transfer to Grey & Co. and balance paid by cash)		

IDEAL / e-LIVE / I.P.C.C. / ACCOUNTS / ABSORPTION OF FIRM

Working Note :

(1) Calculation of purchase consideration

Assets taken over :		Rs.	
Plant & Machinery		8,000	--
Stock-in-trade		30,000	7,500
Sundry Debtors			
[(*After adjustment of Rs.3,000(Rs.5,000-Rs.2,000))]		10,000	*7,000
	(A)	48,000	14,500
Liability taken over :			
Sundry Creditors	(B)	7,000	9,500
Purchase consideration	(A-B)	41,000	5,000

Dr. Realisation Account Cr.

Date	Particulars	Black & Co.	White & Co.	Date	Particulars	Black & Co.	White & Co.
	To Goodwill A/c		5,000		By Sundry Creditors A/c	10,000	9,500
	To P & M. A/c	10,000	--		By Grey & Co. A/c	41,000	5,000
	To Stock-in-trade A/c	20,000	5,000		By X Cap. A/c (loss)	--	2,750
	To Sundry Debtors. A/c	10,000	10,000		By Y Cap. A/c (Loss)	--	2,750
	To A Capital A/c (Profit)	3,667	--				
	To B Capital A/c (Profit)	7,333	--				
		51,000	20,000			51,000	20,000

Dr. Partners' Capital Accounts Cr.

Date	Particulars	A	B	Date	Particulars	A	B
	To Balance b/d	4,000	--		By Balance b/d	--	19,000
	To A Cap. A/c	--	2,333		By Realisation A/c (profit)	3,667	7,333
	To Grey & Co. A/c	2,000	39,000		By B Capital A/c	2,333	--
					By Bank Overdraft A/c	--	15,000
		6,000	41,333			6,000	41,333

Dr. Partners' Capital Accounts Cr.

Date	Particulars	X	Y	Date	Particulars	X	Y
	To Realisation A/c	2,750	2,750		By Balance b/d	10,000	2,000
	To Grey & Co. A/c	1,000	4,000		By Bank A/c	--	4,750
	To Bank A/c	6,250	--				
		10,000	6,750			10,000	6,750