

Systematic Studies for Professionals
(Where your quest for quality education ends)

C.A. I.P.C.C
Time 2.0 Hrs.

Group II
Dissolution of Partnership

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Max.Marks:75

Q.1 Mahi Ltd was registered with a share capital of Rs.10,00,000 in equity shares of Rs.10 each to acquire the business of M/s Sitapur. The balance sheet of M/s Sitapur at the time of acquisition was as follows:

| Liabilities | Rs. | Assets | Rs. |
|-------------------|-----------------|---------------------|-----------------|
| Bills payable | 32,000 | Cash at Bank | 58,000 |
| Sundry creditors | 60,000 | Bills receivable | 26,000 |
| Reserve fund | 28,000 | Sundry debtors | 96,000 |
| Capital accounts: | | Stock | 36,000 |
| A – 1,40,000 | | Furniture | 4,000 |
| B – 1,10,000 | 2,50,000 | Plant and machinery | 80,000 |
| B's Loan | 30,000 | Land and buildings | 1,00,000 |
| | ----- | | ----- |
| | 4,00,000 | | 4,00,000 |

The assets were subject to the following revaluation:

- (a) Plant and machinery to be depreciated by 15%.
 - (b) Furniture to be depreciated by 10%.
 - (c) Land and buildings to be appreciated by 30%.
 - (d) A provision to be made for bad debts @ 5%.
 - (e) Goodwill of the firm was valued at Rs.48,000.
- The purchase consideration was to be discharged as follows:
- (i) Allotment of 20,000 equity shares of Rs.10 each at Rs.12 per share.
 - (ii) Allotment of 1,000 14% debentures of Rs.100 each at a discount of 10%.
 - (iii) Balance in cash.

The cost of acquisition of the company amounted to Rs.10,000 and was paid by Mahi Ltd.

The distribution is decided as:

- ❖ 15,000 equity shares @ Rs.20 each to B against loan.
- ❖ 5,000 equity shares @ Rs.18 each by A towards capital.
- ❖ Debentures to be distributed equally.

You are required to give necessary ledger accounts in the books of Sitapur and prepare the balance sheet of the company after the acquisition of business of M/s Sitapur.

[15]

Q.2 Ram, Shyam and Bharat are partners in RSB Associates sharing profits and losses in the ratio 5:4:3. They agree to dissolve the firm on 1.1.2000:

Balance Sheet as on 1st January, 2000

| Liabilities | Rs. | Assets | Rs. |
|------------------|------------------|-----------|------------------|
| Capital Account: | | | |
| Ram | 6,00,000 | Plant | 2,50,000 |
| Shyam | 4,50,000 | Furniture | 50,000 |
| Bharat | 3,00,000 | Stock | 7,50,000 |
| Loans from Shyam | 45,000 | Debtors | 6,35,000 |
| Sundry Creditors | 3,80,000 | P & L a/c | 90,000 |
| | ----- | | ----- |
| | 17,75,000 | | 17,75,000 |

The following realization were made:

| | Rs. |
|----------------------------|----------|
| 1 st Instalment | 2,50,000 |
| 2 nd Instalment | 1,50,000 |
| 3 rd Instalment | 1,05,000 |
| 4 th Instalment | 4,50,000 |
| 5 th Instalment | 4,20,000 |

Expenses of realization amounted to Rs.25,000 which was kept as reserve before distribution of proceeds until the 3rd instalment when the actual amount of Rs.20,000 was met. Stock of Rs.50,000 taken over by Bharat at Rs.60,000 at the time of 5th instalment.

Prepare a statement of distribution using Surplus Capital method.

[15]

Q.3 X, Y and Z are partners sharing profits and losses as 2:1:1. Their Balance Sheet as on 31st March, 1992 is as below:

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| | Rs. | | Rs. |
|--------------------|-----------------|----------------|-----------------|
| Liabilities | | Assets | |
| Partner's Capital: | | Goodwill | 15,000 |
| X | 90,000 | Machineries | 75,000 |
| Y | 60,000 | Investments | 5,000 |
| Z | 10,000 | Current Assets | |
| Bills payable | 30,000 | Cash at bank | 5,000 |
| Sundry Creditors | 50,000 | Debtors | 80,000 |
| | ----- | Stock | 60,000 |
| | <u>2,40,000</u> | | ----- |
| | | | <u>2,40,000</u> |

Repairs Rs.30,000 incurred three years ago was treated as capital expenditure and debited to machinery account. Depreciation at 20% p.a. was charged on machinery on diminishing balance. Rs.15,000 collected from debtors was not recorded in books but taken by Z. The accounts are rectified and then XY Ltd. is formed to take over the business. Y is to take the investments at Rs.6,000. X will pay the creditors. Bills payable would be paid by X and Y in their profit sharing ratio.

Goodwill and stocks are valued at Rs.15,000 and Rs.42,580 respectively. Debtors are taken at 10% below book value, whereas other assets except cash at bank to be considered at their book values. XY Ltd. is to pay the firm by issue of equity shares of Rs.10 each. Z is insolvent. Y agreed to take 6,000 shares and balance taken over by X. **Show** profit and loss adjustment account, realization account and partners' capital accounts in the books of the firm. [15]

Q.4 A, B and C sharing profits as 3:1:1 decided to dissolve their firm on 31st Dec., 1992 when their position was as under :

| | Rs. | | Rs. |
|------------------|-----------------|---------------------|-----------------|
| Liabilities | | Assets | |
| Capital: | | Sundry Assets | 31,000 |
| A | 32,500 | Stock | 23,400 |
| C | 21,000 | Furniture | 3,000 |
| | 53,500 | Debtor | 72,600 |
| Sundry Creditors | 98,000 | Less: Provision for | |
| Loan | 4,500 | doubtful debts | <u>3,600</u> |
| | ----- | B's Capital | 20,000 |
| | <u>1,56,000</u> | Cash in hand | 9,600 |
| | | | ----- |
| | | | <u>1,56,000</u> |

It was agreed that: --

- (i) X, a creditor is to take over furniture at Rs.3,500.
 - (ii) Debtors realized at 80% of the book value. Sundry Assets and stocks were sold for Rs.15,000 only.
 - (iii) Loan is to be discharged in full.
 - (iv) All partners are insolvent, B could contribute only Rs.3,000, whereas nothing could be recovered from A & C.
 - (v) Dissolution expenses amounted to Rs.810.
- Close the book of the firm. [15]

Q.5 Rahim, Zaidi and Tahir shared profits and losses in the ratio of 5: 3: 2 respectively on 31st December 1999. Their balance sheet was as follows:

| | Rs. | | Rs. |
|--------------------|-----------------|-------------------------|-----------------|
| Liabilities | | Assets | |
| Trade Creditors | 30,000 | Furniture | 11,000 |
| Bank Loan | 10,000 | Stock | 40,000 |
| Capital Accounts: | | Cash | 1,000 |
| Rahim | 30,000 | Profit and Loss Account | 48,000 |
| Zaidi | 20,000 | | |
| Tahir | <u>10,000</u> | | |
| | 60,000 | | |
| | ----- | | |
| | <u>1,00,000</u> | | ----- |
| | | | <u>1,00,000</u> |

The bank had a charge on all the assets. Furniture realized Rs.5,000 while the entire stock was sold for Rs.28,000, Zaidi's private estate realized Rs.6,000, his private creditors were Rs.4,500. Tahir was unable to contribute anything. Rahim paid one-third of what was finally due from him (taking the payment also into account) except on account of other partners.

Prepare Realization Account, Cash Account and Partner's Capital Accounts, passing all matters relating to realization of assets and payment of liabilities through the Realization Account. Clearly show your calculation regarding cash brought in by Rahim. [15]