

ACCOUNTING FOR BUSINESS

SYLLABUS

Course No. : MGT 311
Nature of the Course : Concentration Area (Account)

Full Marks: 100
Pass Marks: 35

Course Objectives

The objectives of the course are to provide the students with in depth knowledge of accounting required to handle accounting works in the various business situations independently. The course further aims at providing knowledge required by the students for advance studies in accounting subjects.

Contents

Accounting for Valuation of Goodwill and Shares LH 9

• **Goodwill:** Concept and need for valuation, Factor affecting the value of goodwill • **Methods of evaluating goodwill:** Average profit method, super profit method, capitalization method, annuity method and accounting treatment. • **Valuation of share:** Concept and need, Factors affecting the value of shares • **Methods of valuation of shares:** Net assets method, Yield method, Earning capacity method.

Accounting for Partnership LH 4

• General concept of partnership business, partnership agreement, Status of partners in the absence of partnership deed • **Accounting of partnership firm:** Partner's capital a/c, Fixed and fluctuating capital • Accounting treatment for partner's salary, interest on capital and drawing and commission to partners, Partner's loan account. • Profit and loss appropriation account

Admission of New Partner LH 7

• Concept and calculation of new profit sharing ratio and guarantee of profit, Revaluation of assets and liabilities • Different methods of treatment of goodwill on admission of a new partners: Goodwill brought in by the new partners and retained in the business; goodwill brought in by the new partners but not retained in the business; value of goodwill raised and shown in firm's books of account; cash not brought in for goodwill by new partners but no goodwill to appear in the books; share of goodwill brought in by partners but raised in the books of account; goodwill paid privately to old partners; share of profit acquired by a new partner in a specific portion from a one or more partners and goodwill adjusted amount them, Distribution of undistributed profit and losses, rearrangement of capital on the basis of new profit sharing ratio, opening balance sheet.

Retirement of Partner LH 6

• Calculation of new profit sharing ratio • Revolution

of assets and liabilities • Different method of treatment of goodwill: goodwill raised and written off immediately, only the share of retiring partner's goodwill is brought into account and written off immediately, goodwill is raised only by the retiring partner's share; when goodwill is shown in the last balance sheet; adjustment for value raised, adjustment for value decreased, Adjustment for undistributed profits • Mode of payment of retiring partner's capital, balance sheet of a new partnership firm.

Death of a Partner LH 5

• Calculation of new profit sharing ratio, Revaluation of assets and liabilities • Different method of treatment of goodwill • Adjustment for undistributed profit or losses • Adjustment of capital after death • Ascertainment of profit or loss at the time of death of a partner: past profit or average profit. • **Joint life policy:** concept, need and importance and accounting treatment at time of the death of a partner • Mode of payment of deceased partner's capital to his/her successor, Balance Sheet after the death of a partner.

Dissolution of a Firm LH 12

• Concept, consequences of dissolution by agreement or deed (Sec. 29), by written notice (Sec. 30), dissolution at any time (Sec. 31), dissolution after the expiry of time (Sec.32), dissolution at once (Sec.33) • Closing books of account and final settlement of accounts, Settlement of accounts when all partners are insolvent, Piecemeal distribution

Amalgamation of a Firm and Conversion into a Limited Company LH 8

• **Absorption of a partnership firm by another partnership firm:** determination of purchase price; closing of books of account of vendor firm; operating entries in the purchasing firm and opening balance sheet • Sale of business to a limited company and accounting treatment in vendor firm, apportionment of shares among the partners on the basis of final claim.

Accounting for failure of a company LH 10

• **Business failure:** Concept and reason for failure, procedure of winding up with reference to Company Act, 2053 • **Liquidator's statement of account:** Amount realized from assets, from called up capital and from calls in arrears; payment or distribution of surplus: 'secured creditors, preferential creditors, unsecured creditors, debentures, shareholders-calls in advance, preferences share, determination of parity in case of unequal calls, partly secured creditors.

Accounting for Consignment of goods LH 12

• Concept of difference between consignment and sales • Account and pro-forma invoice • Accounting for consignment transaction in the books of consigner and consignee • Valuation of consignment stock considering expense borne by consignor only, borne by consigner and consignee • Treatment of abnormal loss and normal loss • Concept and treatment of interest in consignment transaction.

Accounting for Joint Ventures LH 8

• Concept and characteristics, difference between joint venture and consignment, difference between joint venture and partnership, accounting records maintained by one co-ventures only each co-ventures, opening separate books of accounting for joint ventures (joint bank system)

Accounting for branch and department activity LH 16

• Concept of branches and Department • **Types of Branch:** Dependent and independent branches • **Dependent Branch:** Concept and types, accounting records in the books of head office, Accounting records for dependent branch, Goods sent at cost price and market price • Accounting records for independent branch in the books of head office and branch • Accounting entries for incorporation branch transaction in the books of Head Office and Consolidated Balance Sheet • Accounting treatment for inter branch transactions and in transit items • **Department:** Accounting for department, Department trading and profit and loss account, Allocation of common expenses, inter department transfer

Accounting for package or container LH 8

• Concept and accounting techniques, empties trading account, reflecting beginning and ending container, accounting for refundable package accounting for non-refundable package.

Accounting for professions LH 12

• Concept and techniques in general account, accounts for professional men (medical practitioners, lawyers, chartered accountant etc.) profit and loss account, income and expenditure account, receipt and payment account, balance sheet.

Accounting for Royalties LH 10

• Concept of royalty, minimum rent, short working and their account treatment in different cases in the books of leases and lesser, short working recouped, short working not recouped, accounting treatment for royalty for strike period.

Accounting for goods sold and purchased under Hire Purchase and Instalment LH 18

• Concept and differences between, hire purchase and instalment, calculation of interest, cash value and instalment • Accounting entries in the books of vendor and hire purchaser • Accounting entries in the books of vendor and buyer for instalment (with or without opening interest suspense account)

Basic Books

1. Mukherjee, Amitbha and Hanif Mohammed, *Modern Accounting*, Tata McGraw Hill Publishing Co., New Delhi.
2. Pillai, R.S.N. and Bagavathi, *Advance Accountancy*, Konark Publishers Pvt. Ltd., Delhi

References

1. Agrawal, A.N., *Higher Science of Accountancy*, Kitab Mahal, Allahabad
2. Battiboi, J.R., *Advanced Accounting*, Standard Accounting Publishing Pvt. Ltd., Bombay.
3. Dangol, R.M. and Prajapati, Keshab, *Byabshayik Lekhsbidhi*, Taleju Prakashan, Kathmandu.
4. Shukla, Grewal and Gupta, *Advanced Accounts*, S. Chanda and Co., New Delhi.
5. Wagle, K.N., *Byabshayik Lokha*, M.K. Publishers and Distributors, Kathmandu

Model Questions**Attempt ALL questions.**

1. Point out the different conditions under which a court can pass the orders for liquidation of a company. 5
2. In an about 7 to 10 sentences, write about the supper profit method of valuing goodwill. 5
3. A Co. Ltd. agreed to purchase a machine on hire purchase system for a sum of Rs. 60,000 payable Rs. 20,000 on delivery and the rest in four equal annual instalment of Rs. 10,000 each. The selling company charged interest at the rate of 10% per annum and the interest on 1st

instalment was Rs. 3,170. The company decided to write off the depreciation at the rate of 10% per annum on written down value.

Required:

- (a) Vendor company account in the books of A Co. Ltd. 4
 (b) Machine account in the books of A Co. Ltd. 4

Ans: (a) Cost of machine = Rs. 51,700 (b) Interest, Rs. 3,170; 2,487; 1,736 & 908

Or, Mr. Khanal runs a transport can pay and purchase a car on instalment system on 1st Baishakh 2051 paying cash Rs. 200,000 and agreeing to pay three further instalments of Rs. 200,000 each on last date of Chaitra of each year. The transport company written off 10% every year on the cash value of the car on diminishing balance method. The balancing figures of different year are given below:

01.01.51.....	545,000	31.12.51	372,250
31.12.52.....	190,863	31.12.53	Nil

Required:

- a. Truck account in the books of Mr. Khanal. 4
 b. Mr. Khanal's account in the books of Vendor. 4

Ans: (a) Total cash price = Rs. 74,500 (b) Interest Rs. 27,250; 18,613 & 9,137

4. The modern Store Ltd. is operating two departments. The workings during last year are given below:

	Department I (in Rs.)	Department II (in Rs.)
Stock (Beginning)	60,000	80,000
Direct purchases	90,000	130,000
Transfer of goods from Department I	-	20,000
Wages	25,000	30,000
Freight	5,000	7,000
Salaries	30,000	40,000
Advertising	2,000	5,000
Sales	190,000	322,000
Stock at cost to the Department (ending)	10,000	12,000

The ending stock of Department II was out of the transfer of goods received from Department I, at 20% above cost. Sundry expenses of Rs. 11,000 was allocated to Departments on the basis of direct purchases.

Required:

- a. Departmental Trading Account
 b. Departmental Profit and Loss Account
 c. Composite Profit and Loss Account 4+2+2

Ans: (a) Gross Profit: Dept. I = Rs. 40,000, Dept II = Rs. 67,000; (b) Departmental Net Profit: Dept. I = Rs. 3,500, Dept. II = Rs. 15,500 (c) Net Profit = Rs. 17,000

5. Write the methods of treatment followed in treatment of unrealised profit in Branch Accounting. 5

6. Mr. Sharma purchased a machine from Mr. Pokharel under Hire Purchase System over a term of 5 years on 1st Baishakh 2050. Pokharel charges interest at 4% per annum on yearly balance. Depreciation was written off at the rate of 10% per annum on the reducing instalment system, the present value of an annuity of Re. 1 per annum for five years at 4% is Rs. 4.4518. The cash price of the machine was Rs. 22,590.

Required: Machine account in the books of Mr. Sharma. 4

Ans: Balance c/d = Rs. 131,437.17

7. Justify in 7 to 10 sentences, how you would distinguish a Joint Venture from the partnership. 5

8. The abstract of the goods dispatched on consignment are mentioned below:

- i. 25 bags of rice was damaged in warehouse by fire out of 200 bags dispatched at the value of Rs. 60,000.
 ii. Expenses of consigner for freight and dispatch were Rs. 1,400 and Rs. 5,000 respectively.
 iii. Expenses incurred by consignee were
 Insurance in transit Rs. 4,000
 Unloading and receiving Rs. 1,000

Other expenses including rent..... Rs. 2,000

iv. Intimation admitted by insurance company was for Rs. 7,000

Required: (a) Necessary journal entries (b) Accidental loss account

2+3

Ans: (a) Abnormal loss Rs. 1,925

9. A company with the paid up capital of Rs. 500,000 went into voluntary liquidation. The various assets after settling secured creditors' claim realised Rs. 800,000. The other liabilities including preferential creditors of Rs. 50,000 amounted to Rs. 372,000.

The liquidator is entitled to the remuneration of 10% on assets realised and a commission of 5% on the amount distributed to the ordinary shareholders.

Required: Statement of affairs showing liquidators remuneration and commission.

3+2

Ans: Liquidators remuneration = Rs. 80,000, Commission = Rs. 15,572,
Amount to ordinary share = Rs. 331,428

10. Drafted joint venture account for joint venture business run by Mr. Take and Mr. Break is given below:

To Mr. Take's a/c (Purchase of rice)	50,000	By Joint Bank a/c (Sales of goods)	100,000
To Mr. Take's a/c (Freight loading etc)	15,000	By Mr. Break's a/c (Sale of goods)	200,000
To Mr. Take's a/c (Commission)	1,000	By Mr. Break's a/c (Unsold goods plus proportionate expenses)	13,000
To Break's a/c (Purchase of rice)	180,000		
To Mr. Break's a/c (Selling & distribution))	5,000		
To Mr. Break's a/c (Commission)	2,000		
To Profit and loss a/c			
To Mr. Take's a/c	24,000		
To Mr. Break's a/c	36,000		
	60,000		
	313,000		313,000

Required:

a. Prepare Mr. Take's and Mr. Break's a/c by incorporating that Rs. 50,000 was deposited in Joint Bank Account by co-venture Mr. Take.

2+2

b. Joint Bank Account

1

P1 Note: Joint venture business is closed by making necessary payment to co-ventures

Ans: Payment to Take Rs. 140,000 and Break Rs. 10,000

11. You are provided with the following information:

Average yield on capital employed = 20.75%

Average dividend = 16.25%

Normal rate of earning = 12%

Paid up value of share = Rs. 10 per share

Required: Value of share on the basis of (a) Yield on capital employed (b) Dividend

2.5+2.5

Ans: (a) Rs. 17.29 (b) Rs. 13.54

Or, The pre-tax profit for 5 years from 1993 to 1998

Average income tax rate

= Rs. 172,500

Normal return from the particular line of business is estimated at

= Rs. 40%

Capital of the proprietor

= 20%

= Rs. 65,000

Required:

a. The amount of super profit

3

b. The value of goodwill on the basis of past five year average annual super profit.

3

Ans: Super profit Rs. 7,700 (b) Rs. 38,500

12. A Colliery Company provided you the following table regarding the operation of the coalmine.

Year	Production tonnes	Royalty (Rs.)	Dead rent (Rs.)	Result		
				Short working	Recouped	Transferred
1	4,000	2,000	10,000	Rs. 8,000		
2	18,000	9,000	11,000	Rs. 2,000		
3	24,000	12,000	12,000			
4	30,000	15,000	13,000		Rs. 2,000	Rs. 6,000

Required: (a) Minimum rent account (b) Short working account

2+3

Ans: Recouped short working = Rs. 2,000, Unrecouped short working = Rs. 6,000;
Balance c/d = Rs. 2,000

- Or, In an about 7 to 10 sentence; write the meaning of short working and procedure of recovering it.

13. A and B are partners, sharing profit and loss in the ratio of 2:1. On 1 Baishakh 2055, they admitted C into partnership giving him one third share, which he acquired equally from A and B, C was also to bring his share of capital and goodwill in cash. The goodwill of the business for this purpose was valued at Rs. 18,000.

Required:

- a. Share of goodwill of each partners
b. New profit sharing ratio of partners.

2

1+1+1

Ans: (a) A = Rs. 9,000, B = Rs. 3,000, C = Rs. 6,000 (b) A:B:C = 3:1:2

14. A Company sells its product in bottle and charges for the same at the time of delivery and a refund is made at the rate of Rs. 6 per bottle of the customers return them in good condition within a period of 30 days. One bottle costs Rs. 5 to the company and its life is estimated at 5 years. At the end of which the scrap value will be Re. 1. The invoice price of the bottle is Rs 8 per unit.

The following additional particulars are supplied to you:

	Numbers
Bottles with customers	1,000
Bottles in stock at the premises	1,400
Bottles sent to customers	6,000
Bottles purchased during the year	200
Bottles sent but still returnable	1,100
Bottles returned by customers	5,800
Bottles condemned during the year, useful life being once	100
Amount realised from sale of condemned bottles	Rs. 120
Depreciation is to be provided on straight line basis.	

Required: (a) Bottle Trading Account (b) Bottle Reserve Account

4+3

Ans: (a) Net profit = Rs. 10,200 (b) Bottles retained = 100

15. Shakya & Shakya are in partnership as Chartered accountants under the name of Mrs. Shakya and Shakya Co., sharing profits or losses equally. They closed their accounts as on Chaitra 31, each year. The following was their Balance sheet as on Chaitra end, 2053.

Balance Sheet of Shakya & Shakya Co.

As on Chaitra end, 2053

Liabilities	Rs.	Assets	Rs.
Capital: Shakya	20,000	Computing machine	30,000
Shakya	20,000	Furniture	3,000
Advance audit fees	2,000	Outstanding audit fees	500
Clients account	4,000	Books for Library	5,000
Liabilities for expenses	1,000	Cash at bank	7,000
Provision for audit fees	500	Cash in hand	2,000
outstanding			
	47,500		47,500

The following is the summary of their cash transactions for the year ended Chaitra, 2054.

Receipts	Rs.	Payments	Rs.
To Balance c/d	9,000	General expenses	2,000
To Audit fees	50,000	Postage, Stationery and Printing	2,000
To consultancy fees	10,000	Books	3,000
To Other receipts	1,000	Travelling expenses	3,000
		Membership fees	200
		Drawing: Shakya	4,000
		Shakya	4,000
		Payment on clients a/c	3,000
		Cash in hand	8,000
		Cash in bank	40,000
	70,000		70,000

Following additional information are available:

Depreciation to be provided on:

(i) Computing machine @ 20% p.a.

(ii) Furniture @ 15% p.a.

Fees receivable amounted to Rs. 12,000

Outstanding liabilities for expenses are of Rs. 2,000.

Required:

a. Profit and loss account

b. Balance sheet for the year ending Chaitra, 2054

Ans: (a) Net Profit: Shakya = Rs. 48,350 (b) Total Balance Rs. 95,350

16. The Balance sheet of A, B & C who are in partnership sharing profit and loss in the ratio of 3:2:1 on Chaitra end 2055 is as under:

Balance Sheet

	Rs.	Payments	Rs.
Capital account:		Land & building	40,000
A	30,000	Plant & machinery	20,000
B	20,000	Accounts receivable	10,000
C	10,000	Inventory	20,000
Reserve	18,000	Cash at bank	10,000
Trade creditors	22,000		
	100,000		100,000

On Balance Sheet date B retired from the business. His share was equally acquired by the remaining partners. For the purpose of his retirement the following revaluation of assets are proposed:

- Land and building will be revalued by 10%.
- A further depreciation of 20% will be provided on plant and machinery
- Stock and account receivable will be written off by 20%.
- Goodwill of the firm will be raised by Rs. 18,000 and which will be written off against the capital account of the continuing partner.
- The balance due to B will be paid out in cash by bringing in necessary cash by the partners.

Required:

a. Journal entry to record the adjustments

b. Adjusted balance sheet of the new firm

c. New profit sharing ratio of partners.

Ans: (a) Loss on remuneration: Rs. 6,000; Capital: A's Rs. 48,000 and B's Rs. 24,000

(b) B/S Total = Rs. 94,000 (c) A:C = 2:1

Or, Fibre Glass Chair Emporium of Kathmandu consigned 500 pieces of fibre glass chair to Nepalgunj.

The other details are given below:

- i. Pro-forma price per piece was Rs. 840.
- ii. Pro-forma price was 20% on cost.
- iii. Expenses paid by the Emporium of Kathmandu for the consignment were Rs. 25,000.
- iv. The bill of three months of Rs. 250,000 was accepted by the consignee of Nepalgunj.
- v. The bill was discounted with the bank at 8% p.a.
- vi. The consignee's expenses for the consigned goods were:
Rs. 9,000 for clearing
Rs. 4,000 for warehousing and insurance
Rs. 2,000 for sales expenses
- vii. The consignee reported that 50 pieces were damaged in transit and 150 pieces were still in the stock of goods received on consignment.
- viii. Compensation received from insurance was Rs. 30,000.
- ix. Selling price per piece was Rs. 900 and consignee claimed the commission of 5% as pre-negotiated.

Required: Necessary journal entries in the book of Fibre Glass Emporium presuming that the consignee paid all dues

Ans: Profit = Rs. 19,500; Abnormal loss = Rs. 123,000; Amount remitted: Rs. 21,500

1. ACCOUNTING FOR VALUATION OF GOODWILL AND SHARES

THEORETICAL QUESTIONS

1. 2069 Q.No. 3
Define goodwill and point out major factors which affect the value of goodwill. [2+3]
2. 2068 Q.No. 1
Define Goodwill. Write in brief any one method of its valuation. [2+3]
3. 2066 Q.No. 2
Write the meaning of valuation of shares. Write any three factors that should be considered while valuing shares. [2+3]
4. 2066 Q.No. 2 OR
Define goodwill and justify the needs for valuation of goodwill. [2+3]
5. 2065 Q.No. 3
How is the valuation of share made under yield method? Write your answer with imaginary figures. [5]
6. 2064 Q.No. 3
Enumerate briefly the various factors that should be considered while valuing goodwill. [5]
7. 2063 Q. No. 4
What are the factors that influence valuation of shares? [5]
8. 2063 (Partial) Q. No. 4
What is assets valuation method of share? How does it differ from yield valuation method? [5]
9. 2062 (F) Q. No. 4
Write briefly any five factors that should be considered while valuing goodwill. [5]
10. 2061 (C) Q. No 3
Justify the needs for valuation of shares. [5]
11. 2061 (F) Q. No. 2
Define goodwill. Write in brief any one method of its valuation. [2+3]
12. 2061 (F) Q. No. 4 (OR)
How the valuation of share is made under Assets Valuation Method? Write your answer with suitable example. [2+3]
13. 2060 (F) Q. No. 2
Write about the factors affecting the valuation of goodwill. [5]
14. 2059 (F) Q. No. 2
Explain in brief the net assets value method of determining goodwill by giving a suitable example. [3+2]

15. 2059 (F) Q. No. 2 (OR)

Mention the different method of ascertaining share value and write the meaning of any one method. [2+3]

16. 2058 (C) Q. No. 2

What do you mean by valuation of share? Give any one method of share valuation with suitable example. [2+3]

17. 2058 (F) Q. No. 4

Write with suitable example, the intrinsic method of valuing shares. [5]

18. 2057 (C) Q. No. 1

Define goodwill. Write any prevailing method of goodwill valuation. [2+3]

19. 2057 (F) Q. No. 1

Define Shares. Explain briefly the yield method of valuing shares with suitable example. [5]

20. 2056 (C) Q. No. 2

Write in 5 to 10 effective sentences, the super profit method of valuation of shares. [5]

21. 2056 (C) Q. No. 2 (OR)

Write in 7 to 10 effective sentences, the factors affecting goodwill. [5]

22. 2056 (F) Q. No. 2

Write, with suitable example, the super yield method of valuing shares. [5]

23. 2056 (F) Q. No. 2 (OR)

Write, with suitable example, capitalization method of valuing goodwill. [5]

NUMERICAL PROBLEMS**24. 2069 Q.No. 5**

A company earned Rs. 150,000 net profit in the last year.

The total assets of the company valued of Rs. 1,300,000 and outstanding amount of liabilities was Rs. 400,000.

The expected rate of return of the company is 15%.

Required: The value of goodwill of the company at 2 years purchase of the super profit. [5]

Ans: Rs. 30,000

25. 2069 Q.No. 5 Or

An industry has debit balances of Rs. 650,000 in fixed assets accounts and Rs. 300,000 in current assets accounts. The equity share capital of the industry is Rs. 180,000 of Rs. 100 each, Rs 90 each fully paid.

Required: The value per equity share by using intrinsic value. [5]

Ans: Rs. 475

26. 2068 Q.No. 5

A trading Company provides the following information Issued and paid up capital:

6% preference shares of Rs. 100 each	Rs. 1,100,000
Equity shares of Rs. 100 each	Rs. 1,400,000
Total capital	Rs. 2,500,000

The company is within 50% tax bracket. The expected normal yield for equity shares is 12%, after tax net profit for last five years were given below:

Year	Net profit after tax
1	Rs. 150,000
2	Rs. 175,000
3	Rs. 225,000
4	Rs. 300,000
5	Rs. 350,000

Required: (a) Value of goodwill under capitalization of average profit (b) Value of shares on earning basis [2.5+2.5]

Ans: (a) Rs. 50,000 (b) Rs. 103.57

27. 2067 Q.No. 5 a)

The net profits of the company after tax for the past five years was Rs.50,000. The capital employed in the business was Rs.460,000 and the company's required rate of return was 10%.
Required: Value of goodwill capitalizing the average profit

[2.5]

Ans: Rs. 40,000

28. 2067 Q.No. 5 b)

A Company's balance sheet shows the total assets of Rs.610,000 with the liabilities of Rs. 150,000. The equity share capital of Rs.400,000 of Rs.100 each.
Required: Intrinsic value of a share

[2.5]

Ans: Rs. 115 per share

29. 2066 Q.No. 5)

A company has 1000; 15% preferences shares of Rs. 100 each and 20,000 equity shares of Rs. 10 each which are fully paid up. The average annual profit after tax and depreciation amounted to Rs. 65,000. The company considered necessary to transfer an amount of Rs. 13,000 to general reserve before declaring any dividend. The normal rate of return is expected on equity shares is 10%.
Required: Value of an equity share on yield method.

[5]

Ans: Value of equity shares Rs. 18.50

30. 2066 Q.No. 5 OR

The net profit of a firm for three years are as follows:

1st Year	2nd Year	3rd Year
20,000	30,000	40,000

The total investment of the firm is Rs. 80,000. A fair return on the capital is 12%.

Required: The value of goodwill on the basis of 5 years purchase of super profit taking average of 3 years.

[5]

Ans: Goodwill Rs. 102,000

31. 2065 Q.No. 12)

The profits of a business for the last five years were Rs. 21,000; Rs. 23,000; Rs. 24,000; Rs. 27,000 and Rs. 23,000 respectively. The executive manager, who, looks after the business could have engaged himself in the business. His remuneration from alternative employment would have been Rs. 4,000 per year.

Required: Value of goodwill on the basis of three years purchase of the average profits of the last five years.

[5]

Ans: Average profit = Rs. 19,600; Goodwill = Rs. 58,800

32. 2065 Q.No. 12 Or)

The average profit after tax earned by the company is Rs. 162,000. The capital structure of the company consisted of 9,000, 10% preference shares of Rs. 100 each, 9,000 equity shares of Rs. 100 each fully paid up. The normal return earned on market value of share is 8%.

Required: Value of shares

[5]

Ans: Profit for equity shares = Rs. 72,000; Earning per share = Rs. 0.08;
 Market value per share = Rs. 100

33. 2064 Q.No. 9)

A company is presently using capital received by issuing 3,000, Equity Shares of Rs. 100 each @ Rs. 90 each paid up and 1,000, 8% Redeemable Debentures of Rs. 1,000 each fully paid. The earnings before depreciation interest and tax of the current year is Rs. 232,500. The annual depreciation charged on the machine is Rs. 40,000. The annual transfer to general reserve is 20% and tax on profit applicable is 20%.

Required: Value of Equity Shares.

[5]

Ans: Value per equity share Rs. 240 (Assume normal rate 10%)

34. 2064 Q.No. 9 OR)

The total assets of Super Company at the end of the last year was Rs. 1,600,000 and total liabilities included Rs. 250,000 payable to creditors and 10% Mortgage Debentures of Rs. 100 each amounted to Rs. 350,000. The annual profit earned during that year was Rs. 240,000. The rate of return expected is 14%.

Required: The value of goodwill at two and half years' purchase of super profit.

[5]

Ans: Super profit = Rs. 51,000 and Value of goodwill = Rs. 127,500

35. 2064 (Old- C) Q.No. 9

The net worth of Multi Company is given below:

Fixed assets		Rs. 500,000
Current assets		Rs. 250,000
		Rs. 750,000
Liabilities:		
Long-term	200,000	
Current	150,000	Rs. 350,000
Net worth		Rs. 400,000

The normal rate of return on the capital employed expected is 12%. The profit of last three years were Rs. 110,000; Rs. 160,000 and Rs. 225,000.

Required: Value of goodwill based on one and half years' purchase of super profit. [5]

Ans: Rs. 190,500

36. 2064 (Old- C) Q.No. 9 OR

The balance sheet of Kwality Company as on 31.12.2001 is as follows:

Equities	Rs.	Assets	Rs.
Equity capital of Rs. 100 each	1,000,000	Cash at bank	40,000
General reserve	100,000	Account receivable	320,000
Profit and loss account	146,000	Plant and equipment	600,000
Current liabilities	354,000	Business premises	800,000
10% bank loan	160,000		
	1,760,000		1,760,000

Further information for incorporation:

- Net profit before interest and tax for last three years were Rs. 140,000; Rs. 220,000 and Rs. 240,000.
- 10% bank loan was taken 4 years ago would mature after two years.
- Goodwill should be valued at 2 years' purchase of average profit after tax.
- Tax discharged by the company is 50%.

Required: Value of equity shares.

[5]

Ans: Rs. 143

37. 2063 Q. No. 14

The following are the particulars in respect of a Ltd. Company.

Capital employed amounted Rs. 1,500,000

A reasonable rate of return expected is 8%

Net profit after taxation for the past five year were Rs. 125,000; Rs. 130,000; Rs. 160,000; Rs. 190,000 and Rs. 210,000

The valuation of goodwill should be based on two years' purchase of the annual super profit.

Required: (a) Amount of super profit (b) Value of goodwill

[2+3]

Ans: (a) Rs. 43,000 (b) 86,000

38. 2063 Q. No. 14 OR

A Co. Ltd., provides the following information:

Net fixed assets	Rs. 600,000
Current assets	Rs. 450,000
Current liabilities	Rs. 150,000
10% Debenture.....	Rs. 200,000
Intangible assets.....	Rs. 100,000

Equity share capital:

Share of Rs. 100 each fully paid

Expected normal rate of return on capital employed

Profits for last three years were: Rs. 105,000; Rs. 115,000 and Rs. 125,000 respectively

Required: Value per share under: (a) Net assets basis, and (b) Super profit basis [2.5 + 2.5]

Ans: (a) Rs. 167

39. 2063 (Partial) Q. No. 13

A company supplied the following information extracted from its financial statements and other related reports:

Total tangible assets.....	Rs. 950,000
Current liabilities.....	Rs. 150,000
Long-term debts- 5% debentures.....	Rs. 200,000

Equity share capital:

Shares of Rs. 100 each fully paidRs. 400,000

Expected normal rate of return on capital employed is 10%

Profits for last four years were:

Rs. 80,000; Rs. 95,000; Rs. 100,000 and Rs. 125,000 respectively.

Required: Value per share under: (a) Net assets basis and (b) Super profit basis. [2.5 × 2]

Ans: (a) Rs. 150 (b) Rs. 250

40. 2063 (Partial) Q. No. 13 Or

The following particulars of a company are supplied to you:

Company's capital employed amounted to Rs. 1,400,000. The normal rate of return on capital employed in a similar business firm is 12.5%.

The company earned net profits for the past five years are as follows:

Year 10	Year 11	Year 12	Year 13	Year 14
Rs. 100,000	Rs. 120,000	Rs. 230,000	Rs. 250,000	Rs. 300,000

The value of the goodwill should be computed at three year's purchase of the average super profit for five years.

Required: (a) Amount of average annual super profit (b) Value of goodwill [2+3]

Ans: (a) Rs. 25,000 (b) Rs. 75,000

41. 2062 (C) Q. No. 11

The issued & paid up capital of a Company Ltd. Was Rs. 400,000 dividend into shares of Rs. 100 par value.

The net profits for the three years were:

Year 10	Rs. 51,600
Year 11	Rs. 52,000
Year 12	Rs. 51,650

20% of the profits were transferred to general reserve each year. The fair investment return may be taken at 10 percent.

Required: ① Average available profits for distribution as dividend

② Capital yielding available profit at 10% return

③ Value of shares under yield method

Ans: (a) Rs. 41,400 (b) Rs. 414,000 (c) Rs. 103.50 [2+1+2]

42. 2062 (F) Q. No. 11

The paid up share capital of a Company Ltd, was Rs. 500,000 dividend into shares of Rs. 10 legal value.

Company's net fixed assets valued at	Rs. 600,000
Current assets	Rs. 250,000
Goodwill valued at	Rs. 50,000

Outsiders' Liabilities of the company consists of:

Current liabilities	Rs. 100,000
8% Debentures	Rs. 150,000

Required: ① Net value of assets ② Value of shares under assets method of valuation [2+3]

Ans: (a) Rs. 650,000 (b) Rs. 13

43. 2062 (C) Q. No. 12

A and B are partners sharing profits and losses in the ratio of 3:2. They decided to admit C into the firm giving him $\frac{1}{4}$ shares in future profits and losses. The following relevant information were supplied to you.

- Average capital employed in the firm Rs. 600,000.
- Net trading profits of the firm for the past three year were: Rs. 95,600; Rs. 78,700 and Rs. 100,500.

- Return expected from capital invested is 12%
- Total assets of the firm amounts to Rs. 754,750
- Total liabilities of the firm amounts to Rs. 32,000

Required: ① Value of goodwill for admitting C into partnership firm based on three years' purchase of the annual average super profits. ② Value of C's share of goodwill. [3+2=5]

Ans: (a) Rs. 58,800 (b) Rs. 14,700

44. 2062 (F) Q. No. 12

X, Y and Z are partners sharing profits and losses in the ratio of 2/5, 2/5 and 1/5 respectively. As per partnership deeds, on the death or retirement of partner, goodwill of the firm should be calculated on the basis of three year's purchase of the average net profits for the proceeding five years. B retires on December 31, year 5, The net profits for the five years ended December 31, year 5 were Rs. 90,000; Rs. 80,000; Rs. 40,000; Rs. 100,000 and Rs. 90,000.

Required: ① Value of goodwill of the firm on the retirement of B

② B's share of goodwill

[3+2]

Ans: (a) Rs. 240,000 (b) Rs. 96,000

45. 2061 (C) Q. No. 14

A Banking firm started its operation in the beginning of 2055 with a paid up capital of Rs. 1,300,000.

Balance Sheet as on Chaitra 30, 2058

Liabilities		Rs.	Assets		Rs.
Paid up capital		1,300,000	Goodwill		200,000
Bank borrowing		200,000	Premises		1,000,000
Account payable		300,000	Plant and equipment (book value)		800,000
Profit & Loss a/c (after tax)			Furniture (book value)		200,000
1.1.2058 -	150,000		Inventory		100,000
2058-	500,000	650,000	Account receivable		100,000
			Advertisement		50,000
		2,450,000			2,450,000

The firm has been paying 20% dividend and is expected to remain same for the future also.

The profits of the firm before deducting tax of 50% were Rs. 600,000 for 2057 Rs. 700,000 for 2056 and Rs. 600,000 for 2055.

Required: Goodwill under capitalization of average profit method.

5

Ans: Rs. 112,500

46. 2061 (C) Q. No. 14 (OR)

The firm expecting 12% rate of return on investment has the following financial position.

Balance Sheet as on Chaitra 30, 2058

Liabilities		Rs.	Assets		Rs.
Share capital (Rs. 100 each fully paid)		500,000	Current assets		400,000
Reserve		250,000	Fixed assets		900,000
15% Debentures		200,000	Capitalization-expenses		50,000
Current liabilities		400,000			
		1,350,000			1,350,000

The company has earned Rs. 180,000 profit before interest and tax but after depreciation.

The tax rate payable is 50%.

Required: The value of equity shares.

5

Ans: Rs. 125

47. 2061 (F) Q. No. 14

The balance sheet of a public limited company as on Chaitra 30, 2058 is given below:

	Rs.		Rs.
Paid up capital (Rs. 100 each fully paid)	1,000,000	Bank	50,000
Reserve	100,000	Book debts	
Profit and loss account	400,000	Inventory	250,000
Liabilities	500,000	Fixed assets	400,000
	2,000,000		1,300,000
			2,000,000

The after tax profit of the company for the last 3 years were Rs. 150,000; Rs. 200,000 and Rs. 250,000.

Goodwill of the company is valued on the basis of purchase of average of 3 years profit.

Required: Value of shares by using intrinsic value.

5

Ans: Rs. 210 per share

48. 2061 (F) Q. No. 14 (OR)

The total amount of share capital employed in a company is Rs. 1,000,000. the dividend rate last 5 years was 24% on the shares of Rs. 100 each fully paid.

The rate of dividend will remain same for the future also.

The shares in the current market realises Rs. 120 each

The after tax profit for the last 5 years were Rs. 150,000; Rs. 200,000; Rs. 250,000; Rs. 300,000 and Rs. 350,000.

Required: Valuation of goodwill for 3 year's purchase of super profits calculated on the average profits of the last 5 years taking into consideration the current market rate of the shares.

5

Ans: Rs. 150,000

49. 2060 (C) Q. No. 8

The reporting of the available information of a limited company are as follows:

Total assets (excluding goodwill)	Rs. 700,000
Current liabilities	Rs. 200,000
The company has issued 4,000 equity shares of Rs. 100 each fully paid.	
Expected normal rate of return on the capital employed is 10%	
Profits of the last three years were Rs. 80,000; Rs. 110,000 and Rs. 140,000 respectively	

Required:

(a) Value per share under Assets Backing Method (super profit method) (b) Working note [3+2]

Ans: (a) Rs. 170 per share (b) Goodwill Rs. 180,000

50. 2060 (C) Q. No. 8 (OR)

The following particulars of a company are made available:

- Fixed assets Rs. 200,000
- Current assets Rs. 150,000
- Current liabilities Rs. 50,000
- Estimated rate of return on the capital employed is 10%
- Last four years' profit were Rs. 70,000; Rs. 90,000; Rs. 120,000 and Rs. 140,000

Required: (a) Necessary working sheet (b) Goodwill under super profit method [2+3]

Ans: Super profit Rs. 75,000 goodwill Rs. 225,000

51. 2060 (F) Q. No. 14

The sales figures and unit sales price for the last 3 years are given:

Years	Sales figures	Unit sales price
1	50,000 units	Rs. 10
2	60,000 units	Rs. 12
3	80,000 units	Rs. 14

The net profit before tax was 20% of sales revenues. The tax rate paid was 40%.

Required: Goodwill value on the basis 2 years' purchase of the average profits of the last three years showing each step separately.

[5]

Ans: Rs. 187,200

52. 2060 (F) Q. No. 14 (OR)

A company possessed fully paid 5,000, 10% Redeemable Preference shares of Rs. 50 each and 10,000 Equity shares of Rs. 50 each.

The company has earned profit of Rs. 150,000 in the last year and tax payable on profit is 40%. The company used to set aside 10% of the profit as reserve before the declaration of any dividend. The expected normal rate of return is 14%.

Required: Equity shares' value.

[5]

Ans: Rs. 40 per share

53. 2059 (C) Q. No. 8

The balance sheet of an undertaking is given below:

Capital and liabilities	Rs.	Assets	Rs.
Capital	200,000	Fixed assets	190,000
Current year's profit (after tax)	75,000	Current assets (excluding bank)	75,000
Current liabilities	35,000	Cash at bank	45,000
	310,000		310,000

Before tax net profits of the last two years were Rs. 120,000 and Rs. 150,000 respectively. Tax of 40 percent was paid by the undertaking on all profits.

Required: Goodwill on the basis of two year's purchase of the average profit of the last three years.

[5]

Ans: Rs. 158,000

54. 2059 (C) Q. No. 8 (OR)

A company reported the sales and operating expenses for the last three years.

Year	Sales	Operating expenses
I	Rs. 800,000	Rs. 500,000
II	Rs. 1,200,000	Rs. 820,000
III	Rs. 1,300,000	Rs. 900,000

Tax at the rate of 40% was paid out of the profits. The company has 8000 equity share of Rs. 100 each as issued capital. Estimated rate of normal earning is 15%.

Required: Value per equity share under capitalization value of the business.

[3+2]

Ans: Rs. 180

55. 2059 (F) Q. No. 8

A recently completed balance sheet of a firm is given below:

Capital & Liabilities	Rs.	Assets	Rs.
Capital	350,000	Goodwill	40,000
Reserve	50,000	Fixed assets	300,000
Bills payable	50,000	Current assets	180,000
Sundry creditors	70,000		
	520,000		520,000

The expected rate of return was 15%. Current year's profit before tax was Rs. 90,000 and that of the last two years were Rs. 145,000 and Rs. 170,000. The firm paid 50% tax out of profits.

Required: Goodwill of the firm under average capitalization method.

[4]

Ans: Rs. 90,000

56. 2059 (F) Q. No. 8 (OR)

The necessary particulars of a joint stock company are given below:

- Capital: 5,000 Equity shares of Rs. 100 each fully paid;
5,000, 10% Preference shares of Rs. 100 each fully paid
- Net profit after tax but before preference dividend is Rs. 200,000
- Similar types of company earned normal profit of 20% on the market value of fully paid equity shares.

Required: Value per equity share under Dividend yield Method giving working sheet separately.

[2+2]

Ans: Rs. 150

57. 2058 (C) Q. No. 14

A Ltd. Co. with issued capital in Rs. 10 shares of Rs. 400,000 provided you the following information:

		Rs.
Fixed assets valued at		500,000
Current assets		200,000
Goodwill		50,000
Less current liabilities	130,000	750,000
5% Debentures	110,000	240,000
Net value of assets		510,000

Average annual net profits amount to Rs. 54,000 of which 20% was transferred to reserve. Take a fair return of 10%.

Required: (a) Value of company's shares by assets method. [2.5]

(b) Value of company's shares by yield method. [2.5]

Ans: (a) Rs. 12.75 per share (b) Rs. 10.80 per share

58. 2058 (C) Q. No. 14 (OR)

Following information are extracted from the analysis of books of account:

- That the average net profits of a business over the agreed past periods amounted to Rs. 17,000 p.a.
- That the normal commercial yield on capital invested is 8% p.a.
- That the net tangible assets employed in the business are valued at Rs. 100,000.

Required: (a) Amount of super profits (b) Value of goodwill on the basis of capitalised value. [2+3]

Ans: (a) Rs. 9,000 (b) Rs. 112,500

59. 2058 (F) Q. No. 12

A Ltd Co. with 6,000 equity share of Rs. 100 each provides you the following information:

Net assets valued at Rs. 1,340,000

6% Debentures of Rs. 500,000

Average annual net profit of Rs. 88,000

Transferred 20% of net profit to reserve.

Rate of return on investment is to be taken at 10%.

Required: (a) Value of equity shares on the basis of Assets valuation method [2.5]

(b) Value of equity shares on the basis of Yield valuation method [2.5]

Ans: (a) Rs. 140 (b) Rs. 117.33

60. 2058 (F) Q. No. 12 (OR)

The annual average profit before charging remuneration for services of the proprietor amounts to Rs. 48,000. The annual management remuneration amounts to Rs. 6,000. Capital employed in the business amounts to Rs. 150,000. A rate of return of 15% p.a. is expected on capital invested in the business.

Required: (a) Average annual super profit

(b) Value of goodwill on the basis of capitalized value [2+3]

Ans: (a) Rs. 19,500 (b) Rs. 130,000

61. 2057 (C) Q. No. 6

The assets and liabilities extracted from the books of a company are as under.

	Book Value (Rs.)	After Revaluation Value (Rs.)
Current assets	500,000	480,000
Fixed assets	600,000	720,000
Preliminary expenses	20,000	20,000
Current liabilities	200,000	200,000
Equity share capital of Rs. 100 each	500,000	500,000

Required: The value of equity share using intrinsic value per share. [5]

Ans: Rs. 200 per share

62. 2057 (C) Q. No. 6 (OR)

The annual profit of a business for the last year was Rs. 146,000. The total assets of the firm were Rs. 1,000,000 and creditors Rs. 200,000. The reasonable rate of return of 12% is expected. [5]
Required: The value of goodwill of the business at two years purchase of the average super profits.

Ans: Rs. 100,000

63. 2057 (F) Q. No. 6

A company has 10,000 equity shares of Rs. 100 each, Rs. 80 paid up. The profit before tax expected by the company is Rs. 300,000. The company has a practice of transferring 20% of profit to general reserve every year. The market rate of dividend is 20% and the corporate tax rate is 50%.

Required: The value of equity share using earning capacity method of valuation. [5]

Ans: Rs. 600,000

64. 2057 (F) Q. No. 6 (OR)

The net profit of a firm for the past 3 years are:

Years	2054	2055	2056
Net profit (Rs.)	100,000	150,000	140,000

Additional information:

- Capital invested Rs. 200,000
- Market rate of return on investment 10%
- Remuneration from alternative employment of the proprietor if not engaged in the business - Rs. 3,600 p.a.

Required: Value of goodwill on the basis of 2 year purchase of super profit taking average of last 3 years. [5]

Ans: Rs. 212,800

65. 2056 (C) Q. No. 8

The following information are extracted from the books of account of a company.

- Value of Net tangible assets Rs. 300,000
- Annual average super profits Rs. 40,000
- Goodwill is calculated at two years' purchase of super profit.
- Paid up share capital of Rs. 200 per share Rs. 2000,000

Required: (a) Value of goodwill (b) Value of shares under assets method [2+3]

Ans: (a) Rs. 80,000 (b) Rs. 380 per share

66. 2056 (F) Q. No. 10

Following information is extracted from the company books of account.

Average net profit of the company amounted to Rs. 21,000

Normal rate of return on capital invested is 9% p.a.

Net tangible assets employed are valued at Rs. 80,000

Required: (a) Amount of Super profit (b) Value of goodwill on the basis of capitalized value. [2+3]

Ans: (a) Rs. 13,800 (b) Rs. 153,333.33

67. 2056 (F) Q. No. 10 (OR)

You are provided with the following information:

[2.5+2.5]

Total of assets of Balance sheet Rs. 400,000

Outsiders claim in the liability side of Balance sheet Rs. 120,000

Average annual net profit amounted to Rs. 38,000 of which 10% was transferred to reserve.

Expected rate of return on capital employed is 10%

Required: (a) Value of shares by assets method (b) Value of shares by yield method

Ans: (a) Rs. 280,000 (b) Rs. 342,000

2. ACCOUNTING FOR PARTNERSHIP**THEORETICAL QUESTIONS****1. 2068 Q.No. 3**

Distinguish between sacrificing ratios and gaining ratio in partnership. [5]

2. 2061 (C) Q. No. 4

With suitable examples give the treatment of goodwill on partner admission or retirement. [5]

3. 2058 (C) Q. No. 8

Write any five rights of a partner in the absence of partnership agreement.

[1×5]

3. ADMISSION OF NEW PARTNER

THEORETICAL QUESTIONS

1. 2067 Q.No. 4

Why and how goodwill is valued on admission of partner?

[2.5+2.5]

2. 2059 (C) Q. No. 1

Why and how goodwill is valued whenever a new partner is admitted in partnership form?

[5]

NUMERICAL PROBLEMS

3. 2069 Q.No. 13

The following is the Balance Sheet of A and B, are sharing profit and losses in the ratio of 3:2. C is admitted as a partner with effect from 1st Jan. 2064. The new profit sharing ratio being 2:2:1. The following information has been given.

Balance Sheet as on 31st Chaitra 2063

Liabilities		Amount (Rs.)	Assets		Amount (Rs.)
Capital:			Building		20,000
A	20,000		Plant and Machinery		5,000
B	10,000	30,000	Sundry debtors		10,000
Sundry Creditors		10,000	Cash		5,000
		40,000			40,000

Other information:

- C will bring Rs. 10,000 as capital.
- The value of the firm's goodwill is Rs. 5,000.
- An amount of Rs. 2,000 owing to a supplier of goods has been omitted from the list of sundry creditors.
- Building to be revalued at Rs. 30,000 and plant at Rs. 7,000.

Required: Necessary Journal Entries

[5]

4. 2068 Q.No. 5 Or

A and B were partners sharing profit and losses in 3: 2 ratio. They plan to admit C with capital Rs. 30,000 into partnership with 1/4th sharing on future profit and losses. Their balance sheet prior to C's admission is as follows:

Balance sheet of A and B

A's capital	Rs. 50,000	Land & building	Rs. 15,000
B's capital	40,000	Machine	20,000
Creditors	20,000	Stock	30,000
		Debtors	40,000
		Cash at bank	5,000
	Rs. 110,000		Rs. 110,000

Land & building were valued at Rs 25,000; machine was valued 10% more than book value, stock at 5% less than book value, debtors at 7.5% less than book value, creditors worth Rs. 1000 are not expected to rank.

Required: Journal Entries

[2+2+1]

Ans: Gain on revaluation A = Rs. 5100; B = Rs. 3,400

5. 2067 Q.No. 13

A and B are partners who are sharing profits and losses in the ratio of 2:1, decided to admit C as a partner with one-fourth share in profits on the following terms:

- C should bring in Rs. 60,000 capital and Rs. 24,000 goodwill.
- Fixed assets value appreciated by Rs. 14,500 and investment depreciated by Rs. 13,000.

Required: Journal entries to record above transactions.

[5]

Ans: Gain on revaluation Rs. 1,500; Goodwill transfer: A = Rs. 16,000; B = Rs. 8,000

6. 2065 Q.No. 16 Or

X and Y were in partnership business, sharing profit and loss in the ratio of 3:2. The Balance Sheet of the firm on 31st December appeared as under:

Liabilities		Amount	Assets		Amount
Partner's Capital:			Land and building		20,000
X	Rs. 30,000		Plant and machinery		30,000
Y.	Rs. 30,000	60,000	Inventory		20,000
Contingencies reserve		10,000	Accounts receivable		25,000
Accounts payable		20,000	Cash at bank		5,000
Profit and Loss		10,000			
		100,000			100,000

They decided to admit Z into partnership under the following terms and conditions:

- Z was to receive one fourth share in the business.
- Z was to bring Rs. 25,000 as his capital and Rs. 10,000 in cash for his shares of goodwill.
- The land and buildings were to be revalued at Rs. 28,000.
- The plant and machinery, and inventory were to be written off by 20%.
- A provision of 10% was to be made for doubtful debts on accounts receivable.
- The capital accounts of the old partners were to be readjusted in accordance with an amount of capital brought in by new partner.

Required: (i) Journal for adjustments (ii) Partners capital accounts (iii) Balance sheet of X, Y and Z

[7 + 5 + 3]

Ans: (ii) Rs. 45,000; Rs. 30,000; Rs. 25,000 (iii) Rs. 120,000

7. 2064 (Old-C) Q.No. 16 OR

A and B were in partnership, sharing profit and loss in the ratio of 5:3. Their balance sheet on last day of Chaitra 2061 has been presented below:

Partners capital:			Land and building	30,000
A	Rs. 60,000		Plant and machinery	50,000
B	Rs. 40,000	100,000	Investment	20,000
Accounts payable		30,000	Inventory	20,000
Profit and loss account		20,000	Accounts receivable	25,000
		150,000	Cash at bank	5,000
				150,000

On Baishakh 1st 2062, they decided to admit C into partnership business giving him one-fifth share. For the purpose of his admission the following agreements have been proposed:

- The goodwill of the business was to be valued at Rs. 20,000 and C was to bring his share of goodwill and Rs. 30,000 in cash as his capital.
- The land and building was to be revalued at Rs. 45,000.
- Plant and machinery; investment and inventory were to be depreciated by 10%.
- A provision of 8% was to be made for the bad and doubtful debts on account receivable.
- The capital accounts of other partners were to be adjusted in the light of the cash brought in by C.

Required: (a) Adjustment entries (b) Partners' capital account (c) Bank account (d) Balance sheet of A, B and C.

[6+4+2+3]

Ans: (a) Profit on revaluation = Rs. 6,000 (b) Partners' capital: A = Rs. 75,000; B = Rs. 45,000; C = Rs. 30,000 (c) Bank balance: Rs. 31,000; Total B/S = Rs. 180,000

8. 2063 Q. No. 16

Mohan, Gopal and Shyam were in partnership, sharing profits and losses in the ratio of 4:2:2. Their balance sheet as on last day of Chaitra 2061 stood as:

Liabilities		Rs.	Assets		Rs.
Capital accounts:			Goodwill		20,000
Mohan	Rs. 100,000		Land and building		100,000
Gopal	Rs. 60,000		Plant and machinery		150,000
Shyam	Rs. 40,000	200,000	Inventories		30,000
Reserves		40,000	Accounts receivable		40,000

Accounts payable	70,000	Cash at bank	10,000
Profit and loss	40,000		
	350,000		350,000

On the same day, they decided to admit Hari in partnership business giving him one-fifth share. For the purpose of this admission they passed the following resolutions:

The goodwill of the business was to be valued at Rs. 50,000. The land and building to be appreciated by 20% and plant and machinery was to be depreciated by 10%.

A provision of 10% on account receivable was to be created for doubtful debts and 10% of the inventory was to be written off for inventory losses.

Hari was to bring proportionate capital for his fifth share.

Required: (a) Journal entries for adjustments. [7]

(b) Partners capital accounts [5]

(c) Balance sheets after Hari's admission [3]

Ans: (a) Loss on revaluation Rs. 2,000 (b) Capital: Rs. 154,000, 87,000, 67,000
(c) B/S Total Rs. 455,000

9. 2061 (C) Q. No. 16

A, B, and C are in partnership sharing profit and loss in the ratio of 5:3 and 2. Their Balance Sheet on 31st December 2002 stood as following:

Share capital: A	80,000		Goodwill	30,000
B	70,000		Land and building	100,000
C	50,000	200,000	Plant and machinery	100,000
Reserve fund		40,000	Inventory	70,000
Accounts payable		60,000	Account receivable	80,000
Profit and loss		100,000	Cash at bank	20,000
		400,000		400,000

On this day they decided to admit D into partnership under following terms and conditions:

- Goodwill of the firm was to be revalued at Rs. 80,000 for the purpose of admission of D.
- D was to bring sufficient capital in cash for the fifth share in the business.
- Land and building was to be appreciated by 20%.
- Plant and machinery was to be depreciated by 10%.
- A reserve of 10% was to be made for inventory loss and a provision of 5% was to make for doubtful debts.

Required: (i) Entries for adjustment (ii) Partners capital account (iii) Balance sheet after D's Admission. 5+7+3

Ans: (ii) Capital: A = Rs. 174,500; B = Rs. 126,700, C = Rs. 87,500, D = Rs. 87,250
(iii) Total = Rs. 546,250

10. 2060 (C) Q. No. 16 (OR)

A and B are partners sharing profit and loss in the ratio of 3:2. Their Balance Sheet on 30th Chaitra last year were as follows:

Balance Sheet

Liabilities	Rs.	Assets	Rs.
Capital: A	80,000	Plant and machinery	200,000
B	70,000	Furniture and fixture	50,000
Reserve Fund	50,000	Inventory	80,000
Profit and loss	50,000	Account receivable	50,000
Accounts payable	150,000	Cash at bank	20,000
	400,000		400,000

On 1st Baishakh they decided to admit C into partnership giving him $\frac{1}{4}$ th share. For the purpose of his admission the following adjustment were agreed:

- C was to bring Rs. 60,000 as his capital and Rs. 20,000 for his share of goodwill.
- Plant and machinery, furniture were to be depreciated by 10% and 20% respectively.
- Provisions of 20% on inventory were to be made for inventory loss and a provision of 10% for doubtful debts was to be created on accounts receivable.

- Company partnership (firm) recovered an amount of Rs. 5,000 written off as bade debts last year.
- The capital accounts of other partners were also to be adjusted on the basis of capital contributed by C.

Required: (a) Entries for adjustment (b) Partners capital Account (c) Balance Sheet of New Company partnership firm

Ans: (b) Balance a = Rs. 108,000, b = Rs. 72,000 & C = Rs. 60,000 (c) BS = Rs. 390,000 [6+(2+2+1)+4]

11. 2057 (C) Q. No. 16

A and B are partners sharing profit and loss in the ratio of 3:2. Their balance sheet as on 30th Chaitra, 2056 has been given below:

Liabilities		Rs.	Assets		Rs.
Partners Capital:			Land and Building		80,000
A	60,000		Plant and Machinery		60,000
B	40,000	100,000	Inventory		30,000
Reserve Fund		30,000	Account receivable		25,000
Profit & Loss a/c		30,000	Cash at bank		5,000
Accounts payable		40,000			
		200,000			200,000

On 1st Baishakh, they decided to admit C into partnership under the following terms and conditions:

- C was to receive one-fourth share in the business.
- Land and building was to be appreciated by Rs. 10,000.
- Plant and machinery was to be depreciated by 10%
- Inventory was to be revalued at Rs. 24,000 and provision of doubtful debts of 4% was to be created in Accounts Receivable.
- C was to bring in cash Rs. 10,000 as his forth share of goodwill and also to bring his share of capital in cash.

Required: (a) Adjustment entries (b) Partners Capital a/c (c) Opening balance sheet after admission of C (d) Cash a/c

Ans: (b) Rs. 100,200, Rs. 66,800 & Rs. 55,667 (c) Rs. 262,667 (d) Rs. 70,667 [3+(5+1)+4+2]

12. 2056 (C) Q. No. 16

A and B are partners, sharing profit and loss in the ratio of 3:2. Their balance sheet of 1st of Baishakh this year stood as:

Assets		Rs.	Liabilities		Rs.
Capital Account	A	60,000	Land & building		100,000
	B	40,000	Plant and Machinery		40,000
Reserve Fund		20,000	Inventory		20,000
Accounts Payable		60,000	Account Receivable		30,000
Profit and Loss A/c		20,000	Cash at Bank		10,000
		200,000			200,000

On that day they decided to admit C into partnership giving him fourth share, and which he acquired equally from A and B. Besides the following other adjustments were proposed.

- The goodwill of business was to be valued at Rs. 30,000 and C was to bring his share of goodwill in cash.
- Land and Building was to be appreciated by 10%
- A depreciation of 10% on plant and machinery and a reserve of 5% each for inventory loss and reserve for doubtful debts were to be maintained on inventory and account receivable respectively.
- C was to bring his share of capital in cash to make his capital equal to his profit sharing ratio.

Required: (a) Profit and Loss Adjustment A/c

(b) Partners Capital A/c

(c) Bank A/c

(d) Opening Balance Sheet of the new firm.

Ans: (a) Profit: A = Rs. 2,100 B = Rs. 1,400 (b) A = Rs. 89,850, B = Rs. 61,150 & Rs. 50,333 (c) Rs. 67,833 (d) Total Rs. 261,333 [4]
[2+2+1]
[2]
[4]

4. RETIREMENT OF PARTNER

THEORETICAL QUESTIONS

1. 2062 (F) Q. No. 3

Distinguish between sacrificing ratio and gaining ratio. [5]

2. 2061 (C) Q. No. 4

With suitable examples give the treatment of goodwill on partner admission or retirement. [5]

3. 2060 (C) Q. No. 1

How is goodwill valued when a partner retires? [5]

4. 2056 (F) Q. No. 3

Write the different technique available for treating the goodwill of outgoing partners with suitable example. [5]

NUMERICAL PROBLEMS

5. 2069 Q.No. 16

X, Y and Z were carrying a business in partnership sharing profit and loss in the ratio of 3 : 2 : 1 respectively. On 31st Chaitra 2064 Balance Sheet of the firm stood as under:

Liabilities		Amount (Rs.)	Assets		Amount (Rs.)
Capital:			Land & building		230,000
X	150,000		Stock		116,900
Y	100,000		Debtors		80,000
Z	100,000	350,000	Cash		59,000
Sundry Creditors		135,900			
		485,900			485,900

Y retired on the date with following terms and conditions:

- Appreciate the building by Rs. 70,000.
- 5% provision is to be created on debtors for Bad debts.
- Rs. 50,000 is to be paid to Y immediately and the balance is to be treated as a loan including interest.

Required: ① Journal entries ② Capital accounts ③ Balance Sheet of the firm after Y's retirement [7+5+3=15]

Ans: ① Balance Rs. X = Rs. 183,000; Y = 0; Z = Rs. 111,000 ② Total Rs. 501,900

6. 2068 Q.No. 16

The Balance Sheet of a partnership firm on 30th Chaitra 2064 of partners A, B and C, who are sharing profit and losses in the ratio of 5: 3: 2 is as follows:

Liabilities & capital		Amount	Assets		Amount
Payables		30,000	Cash		50,000
Overdraft		10,000	Receivable		50,000
Capital account:			Stock		50,000
A	80,000		Furniture		10,000
B	60,000		Plant		20,000
C	40,000	180,000	Building		50,000
Profit & loss account		10,000			
		230,000			230,000

A retires from the business from 1st Baisakh 2065. His share in the firm is to be ascertained on the following terms and conditions:

- Building was valued at Rs. 60,000.
- Stock was revalued at Rs. 45,000 and furniture was valued at Rs. 8,000.
- Provision for doubtful debt credited at 4% on receivable and plant depreciated by 10%.
- The goodwill of the firm agreed to be valued at Rs. 20,000.
- A is to be paid Rs. 20,000 in cash and balance to be transferred to the loan temporarily.

Required: (a) Journals for adjustments (b) Partner's capital account, and (c) New Balance Sheet of B and C.

[7+5+3=15]

Ans: (a) Realization loss = Rs. 1,000 (b) A's loan = Rs. 74,500; Balance c/d: B = Rs. 68,700; C = Rs. 45,800 (c) B/S = Rs. 229,000

7. 2066 Q.No. 16

Following is the Balance Sheet of a partnership firm for the year of ending Chaitra 31st 2065, having partners A, B and C sharing profits and losses in the ratio of 5:3:2 respectively.

Liabilities	Rs.	Assets	Rs.
Partners' capital:		Land and building	30,000
A	45,000	Plant and machinery	35,000
B	35,000	Debtors	16,000
C	25,000	Less: Provision	
Sundry creditors	15,600	for bad debts	800
		Stock	12,800
		Cash at bank	27,600
	120,600		120,600

On Chaitra 31st, 2065 B retires from the firm and A and C decide to continue the business and to share future profits and losses in the ratio of 3:2 respectively. The following adjustments were agreed upon:

- that an amount of Rs. 1,100 included in sundry debtors has been written off as no longer receivable and provision for doubtful debts be maintained at an existing rate;
- that stock be written down by Rs. 1,500 and land and building be appreciated by Rs. 12,000
- Plant and machinery be reduced by Rs. 34,000 and provision of Rs. 600 be made for an outstanding repairs bill.
- that Rs. 700 included in sundry creditors be written back as no longer payable
- that B's capital a/c is to be transferred to his loan a/c

Required: (a) Necessary journal entries (b) Partner's capital account (c) Balance sheet after retirement of B

[6+3+6]

Ans: (b) Revaluation profit: A = Rs. 3,277.50; B = Rs. 27,666.50 (c) B/S total = Rs. 96,055

8. 2064 Q.No. 16 OR

A, B and C were in partnership business sharing profit and loss in the ratio of 5:3:2. The balance sheet of the firm on 31st December 2005 has been presented below:

Balance Sheet

Liabilities	Rs.	Assets	Rs.
Partners' Capital Account		Goodwill	10,000
A	Rs. 40,000	Land and building	40,000
B	Rs. 30,000	Plant and machinery	60,000
C	Rs. 20,000	Inventories	30,000
Accounts payable	40,000	Account receivable	20,000
Profit and loss A/c	30,000		
	160,000		160,000

On balance sheet date B gave his intention of retirement from the business. For his retirement the partners agreed the following terms and conditions:

- The goodwill of the business was to be valued at Rs. 25,000 for his retirement purpose. But A and C agreed to keep the goodwill at the original value.
- Land and building was to be appreciated by 20% and all other assets including accounts receivable were to be written off by 10%.
- A further provision of Rs. 4,000 was to be made for bills receivable discounted but dishonoured.
- A and C were to introduce necessary fresh capital to paid out B.

Required:

- (a) Journal entries for adjustments. (b) Partners capital accounts.

(c) Balance sheets of A and C

(d) Their profit sharing ratio in future. [5+5+4+1]

Ans: Realisation loss Rs. 7,000; cash brought by A and C = Rs. 32,428 and Rs. 8,972; Balance sheet total Rs. 157,000; New profit sharing ratio of A and C = 5:2

9. 2063 (Partial) Q. No. 16

A, B and C were in partnership sharing profits and losses in the ratio of 5:3 and 2. Their balance sheet on last day of December 2004 stood as following:

Balance Sheet

Liabilities		Rs.	Assets		Rs.
Partner's capital:			Plant and machinery		60,000
A	40,000		Inventory		40,000
B	20,000		Accounts receivable		40,000
C	<u>20,000</u>	80,000	Cash at bank		10,000
General reserve		20,000			
Accounts payable		40,000			
Profit and loss a/c		10,000			
		<u>150,000</u>			<u>150,000</u>

On the Balance sheet date B gave his intention of retirement. For his retirement the partners agreed the following terms:

- The goodwill of the business was to be valued at Rs. 14,000 for the retirement of B, but A and C agreed not to show any goodwill in the business.
- Plant and machinery and inventory were to be written off by 10% and a provision of 5% was to be made for doubtful debts.
- A and C were to introduce proportionate capital to pay out B.

Required: (a) Journal entries for adjustments

(b) Partner's capital account

(c) Balance sheets

[6+6+3]

Ans: (a) loss on revaluation = Rs. 8,000 (b) Capital balance c/d: A = Rs. 65,714 and B = Rs. 26,686

10. 2062 (F) Q. No. 16 (OR)

The Balance Sheet of A, B and C who were sharing profit and losses in the ratio of 3:3:2 has been provided below:

Capital accounts			Goodwill	20,000
A	60,000		Land & building	100,000
B	50,000		Plant & machinery	80,000
C	<u>30,000</u>	140,000	Furniture & fittings	40,000
Accounts payable		120,000	Inventory	30,000
Profit and loss		40,000	Accounts receivable	20,000
		<u>300,000</u>	Cash at bank	10,000
				<u>300,000</u>

B gave his intention of retirement on this date. The partners agreed the following terms and conditions for this retirement.

- The goodwill business of the company was to be valued at Rs. 40,000 and continuing partners decided to write off goodwill entirely.
 - Land and building was to be appreciated by 20%.
 - Plant and machinery, furniture and fixtures and inventory were to be depreciated by 10%.
 - A provision of 10% on Account Receivables was to be made for provision for doubtful debts.
 - The remaining partners were to introduce necessary additional capitals to pay out B.
- The firm realised Rs. 4,000 the amount written off previously as bad and doubtfully debts.

Required: ① Entries for adjustment ② Profit and Loss Adjustment a/c ③ Partner's Capital a/c

④ The Balance Sheet

[5+2+6+2]

Ans: (b) Rs. 24,000 (c) Total: A = Rs. 115,800 B = Rs. 75,125 C = Rs. 77,200 (d) Total Rs. 273,000

11. 2060 (F) Q. No. 16

X, Y and Z are in partnership sharing profit and loss in the ratio of 3:1:1. Their balance sheet on last day of December this year stood as under:

Capital: A	80,000	Goodwill	20,000
B	60,000	Land and building	80,000

C	40,000	180,000	Plant & machinery	100,000
Reserve fund		30,000	Inventory accounts	60,000
Account payable		80,000	Accounts receivable	80,000
Profit and loss		60,000	Cash at bank	10,000
		350,000		350,000

On balance sheet date C gave his notice of retirement for the purpose of his retirement the following adjustments were agreed upon:

- The goodwill of the business was to be valued at Rs. 50,000; but the continuing partners decided to write off the goodwill account entirely.
- Land and building was to be revalued at Rs. 100,000
- Plant and machinery and inventory were to be written off by 10%
- A provision of 5% for doubtful debts was to be made on accounts receivable and further provision of Rs. 6,000 was to be made for outstanding liabilities.
- A and B were to introduce fresh capital sufficient to pay out C in proportion to their profit sharing ratio.

[6+6+3]

Required: ① Journal entries for adjustment ② Partners' capital ③ Balance Sheet of A & B

Ans: (b) Rs. 158,000 & B = Rs. 86,000 (c) B/S Rs. 330,000

12. 2059 (C) Q. No. 16

The balance sheet of A, B and C, who are partners, on 31st Chaitra 2057 stood as follows:

Liabilities		Rs.	Assets		Rs.
Capital:			Land and building		150,000
A	100,000		Plant and machinery		150,000
B	80,000		Furniture		60,000
C	<u>60,000</u>	240,000	Inventory		40,000
Reserve fund		60,000	Accounts receivable		40,000
Profit & loss a/c		150,000	Cash at bank		10,000
		450,000			450,000

On Balance Sheet data C gave notice of his retirement. The goodwill of the business for the purpose was valued at Rs. 45,000 and the partners decided not to raise any goodwill account in the books of firm. The other resolutions agreed were

- Land and building was to be appreciated by 20%
- Plant and machinery, and furniture were to be depreciated by 10% and 20% respectively.
- A provision of 5% was to be made for doubtful debts
- A liability of Rs. 10,000 was to be created to meet the contractual liability of the firm.
- A and B are to introduce fresh capital according to their proportion of profit sharing ratio to payout C on his retirement.

Required:

(a) Entries for Adjustment (b) Partners capital Account (c) Balance Sheet of the firm [7+5+3]

Ans: (b) A = Rs. 230,500 & B = Rs. 210,500 (c) B/S = Rs. 451,000

13. 2058 (F) Q. No. 16

A, B and C are in partnership business, sharing profit and loss account in the ratio of 3:2:1. Their balance sheet on Chaitra end 2057 of stood as:

Balance Sheet

		Rs.			Rs.
Partners' Capital account			Cash at bank		20,000
	A	30,000	Account Receivable		60,000
	B	20,000	Inventory merchandise		30,000
	C	10,000	Furniture		10,000
Undistributed profit & reserve		30,000	Office equipment		30,000
Bills payable		20,000			
Accounts payable		40,000			
		150,000			150,000

On 1st Baishakh, 2057 B retired from the business. The goodwill of the business was valued at Rs. 45,000; for his retirement and partners decided not to show goodwill account in the book of partnership business. The other resolution proposed were:

- A provision of 5% was to be made on account receivables.
- Merchandise inventory were to be depreciated by 10%
- A further depreciation of 15% each were to be provided on furniture and office equipment.
- Amount due to C was to paid in cash, by bringing in necessary amount of cash to make the capitals of the remaining partner equal to new profit sharing ratio.

Required: (a) Entries of necessary adjustment proposed (b) Partners capital account (c) New profit sharing ratio of partners (d) Balance sheet of the new firm. [4+6+1+4]

Ans: (b) A = Rs. 58,500 & B = Rs. 12,500 (c) 3:1, (d) B/S = Rs. 138,000

14. 2058 (C) Q. No. 8 (OR)

A partnership company with A, B, and C as partners sharing profit and loss in the ratio of 2:2:1, decided to value its goodwill of the business at Rs. 30,000, on the date of retirement of C.

Required:

- Entry when company decided to raise goodwill. [1]
- Entries when company decided to raise and write off the goodwill from the capital of the remaining partners. [2]
- Entries when company decided to credit out going partner's capital and write off it in the remaining partners Capital Account [2]

5. DEATH OF A PARTNER

THEORETICAL QUESTIONS

1. 2062 (C) Q. No. 4

Define joint life policy. Write any two objectives of joint life policy. [3+2]

2. 2056 (C) Q. No. 3

Write the methods of valuation of interim profit on death of a partner. [2.5+2.5]

NUMERICAL PROBLEMS

3. 2061 (F) Q. No. 13

The balance sheet of A, B and C who were sharing profit and loss equally has been given below:

Balance Sheet as at 31st December, 2002

		Rs.		Rs.
Capital account: A	100,000	250,000	Sundry assets	380,000
B	80,000		Cash at bank	10,000
C	<u>70,000</u>			
Reserve fund		30,000		
Account payable		50,000		
Profit and loss		60,000		
		<u>390,000</u>		<u>390,000</u>

On March 31st 2003 C dies and partners (surviving) decided to determine the amounts due to deceased partner as under:

- Goodwill of the firm was to be valued at Rs. 30,000.
- Profit for the interim period was to taken on the basis of profit of the last year and which amounted to Rs. 48,000.

Required: (i) Decreased Partner's Capital Account (ii) Balance sheet of the firm. 2+3

Ans: (i) Capital of A = Rs. 140,000 and B = Rs. 120,000 (ii) Balance sheet = Rs. 390,000

4. 2058 (C) Q. No. 16

A, B and C are on partnership sharing profit and loss in the ratio of $\frac{2}{4}$, $\frac{1}{4}$, and $\frac{1}{4}$. Their balance sheet on the end of Chaitra 2058 showed the following assets and liabilities:

Capital Account:		Goodwill	5,000
A	40,000	Land and Building	60,000
B	20,000	Plant and Machinery	30,000

C	20,000	80,000	Accounts Receivable	20,000
Reserve		20,000	Inventory	20,000
Account payable		50,000	Cash at bank	15,000
		150,000		150,000

On 1st Kartik 2057 B died, and for this purpose the following revaluation of assets and the profits were agreed:

- Goodwill of the firm was to be raised by three years purchase price of last 5 years average profit.
 - Land and Building was to be appreciated by 10% of its value.
 - Plant and machinery was to be depreciated by 10% and a provision of 4,000 was to be made on Account Receivables.
 - Profit for the interim periods were to be valued on the basis of average profit of the last five years.
 - The balance due to deceased partner was to be transferred to the loan account of the successor of the deceased partner, after making payment of Rs. 10,000 in cash.
- The average profit of the firm for the past five years were Rs. 10,000, Rs. 15,000, Rs. 20,000, Rs. 20,000 and Rs. 25,000.

Required:

- (a) Journal entries (b) Deceased Partners Loan Account (c) The Balance Sheet of A and C [8+2+5]
- Ans: (b) B's executor's loan = Rs. 29,250 (c) B/S = Rs. 190,250

6. DISSOLUTION OF A FIRM

THEORETICAL QUESTIONS

1. 2064 Q.No. 4 OR

What is Piecemeal distribution? Write the order of distribution under it.

[2+3]

2. 2064 (Old- C) Q.No. 4 OR

Write a short note on proportionate capital method and maximum loss method of piecemeal distribution.

[5]

3. 2063 Q. No. 1

Briefly explain the Garner Vs. Murray decision and the consequent treatment of accounts in the books.

[2+3]

4. 2063 (Partial) Q. No. 3

Define 'Realisation account.' How is it prepared?

5. 2060 (F) Q. No. 4

Write what do you know about the philosophy of Garner Vs. Murray?

[5]

6. 2059 (F) Q. No. 3

Write how cash is distributed to partners under piece meal distribution?

[5]

7. 2058 (F) Q. No. 7 (OR)

Write the method followed in piecemeal distribution of assets realized dissolution of partnership firm.

[3]

NUMERICAL PROBLEMS

1. 2068 Q.No. 13

The Balance Sheet of X, Y and Z is as follows:

Liabilities & capital	Amount (Rs.)	Assets	Amount (Rs.)
Creditors & payables	15,000	Fixed assets	30,000
Capital account:		Current assets	25,000
X 20,000			
Y 15,000			
Z 5,000	40,000		
	55,000		55,000

The partners decided to dissolve the firm. The realization loss after realization of assets and paying the liabilities amounted to Rs. 30,000. Z was declared insolvent and nothing could recover from him.

Required: Partners capital account showing final settlement applying ruling of Garner vs. Murray [5]

Ans: Bank X = Rs. 17,143 and Y = Rs. 12,857

9. 2067 Q.No. 5 OR

The partner's capital accounts sharing profit and losses in the ratio of 5 : 3 : 2 are given below:

A's capital	Rs. 100,000
B's capital	Rs. 80,000
C's capital	Rs. 30,000

The assets realised in four installments as follows:

1st installment	Rs. 20,000 (after paying creditors)
2nd installment	Rs. 40,000
3rd installment	Rs. 40,000, and
4th installment	Rs. 60,000

Required: Distribution of cash among the partners showing piece meal distribution. [5]

Ans: Loss on realization: A = Rs. 25,000; B = Rs. 15,000 & C = Rs. 10,000

10. 2067 Q.No. 16

X, Y and Z are in partnership sharing profit and losses in the ratio of 3:2:1. They decided to dissolve partnership on 31st Chaitra, 2065, on which date the Balance sheet of the firm was as follows:

Balance Sheet as on 31-12-2065

Liabilities		Rs.,	Assets	Rs.
Capital account			Cash at bank	33,000
X	90,000		Stock	77,000
Y	45,000	135,000	Accounts receivable	160,000
Account payable		205,000	Furniture	25,000
Reserve fund		60,000	Plant and machinery	105,000
Profit and loss a/c		30,000	Z's capital account /	30,000
		430,000		430,000

The assets realized as under:

Stock	Rs. 62,000
Accounts receivable	Rs. 150,000
Furniture	Rs. 21,000
Plant and machinery	Rs. 95,000

Realization expenses amounted to Rs. 3,000. Z is declared insolvent and realized from his estate Rs. 8,000.

Required: By applying Garner Vs. Murray and assuming capitals are fluctuating; prepare:
(a) Realization account (b) Capital accounts (c) Bank account. [6+6+3=15]

Ans: (a) Realisation loss transfer: X's capital Rs. 21,000; Y's capital Rs. 14,000 and Z's capital Rs. 7,000 (b) Total: X = Rs. 156,000; Y = Rs. 89,000; Z = 37,000
(c) Total Rs. 404,000; X = Rs. 125,667; Y = Rs. 70,333

11. 2066 Q.No. 13

The balances of the capital accounts of A, B, and C partners sharing profit and loss equally and cash account after payments of liabilities are as follows:

Cr.		Rs.	Dr.		Rs.
Capital	A	50,000	C's capital		60,000
	B	40,000	Cash at bank		30,000
		90,000			90,000

C went into insolvent and only 40 paise in a rupee was realized as dividend from his estate.