PRACTICAL PROBLEMS

Q 1. Following is the Balance Sheet of Fast and Quick as at Dec. 31, 2005:-

Liability	Rs.	Assets	Rs.
Sundry Creditors	20,000	Plant and Machinery	40,000
Fast's Loan	10,000	Patents	6,000
General Reserve	10,000	Stock	25,000
Capitals :		Sundry Debtors	19,000
Fast 30,000		*Less :* Prov. for bad debts 1,000	18,000
Quick 25,000		Cash	6,000
	55,000		
	95,000		95,000

Fast and Quick shared profits in the ratio of 3:2. On 1st January, 2006 the firm was dissolved. Fast took over the patents at a valuation of Rs. 5,000. The other assets realised as under:

	Rs.
Goodwill	15,000
Plant and Machinery	30,000
Stock	22,000
Sundry Debtors	18,500
Total	85,500

The Sundry Creditors were paid off at a discount of 5%. The expense amounted to Rs. 3,500.

Required: show the necessary accounts for the dissolution of firm and also the capital account of the partners, assuming that all of them are solvent.

Q 2. X, Y and Z were in partnership sharing profit and losses in the ratio of 3:2:1. No interest was to be allowed on current or capital account of the partners but their loan accounts were to carry interest of 10% p.a. Due to persistent losses and the continued illness of X, the firm decided to get dissolved on 31st March, 20X6.its accounts were closed for the last time on 31st Dec, 20X5 on which date its balance sheet was as under;

	Rs.	Assets	Rs.
Capital account:		Plant and Machinery	60,000
X 48,000		Furniture	10,000
Y 33,000	81,000	Motor car	40,000
Loan from X	22,000	Stock	55,000
Trade creditor	80,000	Sundry debtor	40,000
Bank overdraft	30,000	Capital account Z	8,000
	2,13,000		2,13,000

Between 31st Dec, 20X5 and 31st March, 20X6, goods of the value of RS 30,000 were purchased for cash and cash sales amounted to RS 45,000. In addition to payment to trade creditor payment made were for salaries and wages RS 12,000 and for general and office expenses RS 6,000. Drawing of each partner were RS 800 p.m. on 31st March, 20X6, debtor, creditor and stock-in-trade were RS 60,000, RS 70,000 and 45,000 respectively.

In dissolution proceeding the partners agreed to transfer the entire business (with all assets and liabilities including partners loan) as a going concern to D for a consideration of RS 90,000. Cost of dissolution amounts to RS 2,800 which were met by X.

Required: show the necessary accounts for the dissolution of firm and also the capital account of the partners, assuming that all of them are solvent.

Q 3. A, B and C are partners in a firm, sharing Profits and Losses equally, whose Balance Sheet as at 30th Sep, 2006 was as under:

Liability		Rs.	Assets	Rs.
Capital account			Plant and Machinery(Less: depreciation)	23,760
A	20,000		Furniture and Fittings	4,240
B	25,000		Sundry Debtors	14,165
C	12,500	57,500	Joint life policy	12,105
Current account			Bills Receivable	8,610
A	18,600		Stock in trade	29,940
C	7,200	25,800	Current account: B	12,400
Sundry creditors		17,720	Cash at bank and in hand	4,200
Bill payable		8,400		
		1,09,420		1,09,420

The value of the joint life policy shown in the balance sheet represents the surrender value of the policy taken by the firm for RS 30,000 to enable the settlement of account with partners estate in case of death of a partner of a during the continuance of the firm. A died on 1st Oct 2006. The remaining partner could not arrive at any understanding with the legal representative of A with the result that it was decided that the firm would be dissolved, subject to the following adjustments:

The sum assured was realised from the insurance company ;
(a) Plant and machinery realised only 70% of the book value;
(b) Furniture and fittings were taken over by partner C, at a market value of RS 2,500.
(c) Bills receivable and sundry debtors had to be discounted by 4%;
(d) Stock in trade comprised—
(i) Easily marketable items—70% of the total inventory which realised in full value;
(ii) Obsolete item—10% of the total inventory which had to be discarded;
(iii) The rest of the items which realised 50% of their book value
(e) A liability for RS 1,500 which had not been recorded in the firm's books, had to be settled by the firm before its dissolution.
Draw up accounted showing interest settlement among the partner.

Q 4. PCT associates is a reputed firm. On account of certain misunderstanding between the partners, it was decided to dissolve the firm as on 31st March, 20X6 on which date their balance sheet was as follows;

Liability	Rs.	Assets	Rs.
A's capital	3,00,000	Fixed asset	10,00,000
B's capital	2,00,000	Goodwill	30,000
C's capital (Minor)	1,00,000	Bank	20,000
C's loan	2,00,000	Other current assets	7,50,000
Trade creditors	10,00,000		
	18,00,000		18,00,000

It was decided that Mr. A shall be in charge of realisation. He shall be paid a remuneration of 5% on the amount distributed to the partners towards their contributions other than loans. Assets realised were as under:

Fixed assets Rs. 12,50,000 other Current assets Rs. 5,40,000

The realisation expenses amounted to RS 20,000. The firm is solvent. The profit sharing ratio was as under:

	A	B	C
Profit	2	2	1
Losses	1	1	Nil

Required: Prepare a Realisation account, Bank account and Partners Capital account.

Q 5. P, Q and R were partners sharing profits and losses in the ratio of 3 : 2 : 1, no partnership salary or interest on capital being allowed. Their balance sheet on 30th June, 2006 is as follows:

Liability	Rs.	Assets	Rs.
Fixed Capital		Fixed assets :	
P		Goodwill	40,000
20,000			
Q		Freehold Property	8,000
20,000			
R	50,000	Plant and Equipment	12,800
10,000			
Current Accounts :		Motor Vehicle	700
P		Current Assets	
5,00			
Q	9,500	Stock	3,900
9,000			
Loan P	8,000	Trade Debtors	2,000
Trade Creditors	12,400	*Less :* Provision	100
			1,900
		Cash at Bank	200
		Misc. losses and Accounts	

		R's Current Account	**400**
		Profit and Loss Account	**12,000**
	79,900		**79,900**

On 1st July, 2006 the partnership was dissolved. Motor Vehicle was taken over by Q at a value of Rs. 500 but no cash passed specifically in respect of this transaction. Sale of other assets realised the following amounts:

	Rs.
Goodwill	**nil**
Freehold Property	**7,000**
Plant and Equipment	**5,000**
Stock	**3,000**
Trade Debtors	**1,600**

Trade Creditors were paid Rs. 11,700 in full settlement of their debts. The cost of dissolution amounted to Rs. 1,500. The loan from P was repaid, P and Q were both fully solvent and able to bring in any cash required but R was forced into bankruptcy and was only able to pay his creditors 1/3 of the amount due.

You are required to show:
(a) Cash and Bank Account,
(b) Realisation Account,
(c) Partners Fixed and Current Accounts.

Q 6. Ajay, Vijay, Raman and Shyam are partners in a firm sharing profits and losses in the ratio of 4:1:2:3. The following is their Balance Sheet as at 31st March, 1996:

Liability	**Rs.**	**Assets**	**Rs.**
Sundry Creditors	**3,00,000**	**Sundry Debtors**	**3,50,000**
Capital A/cs;		**Less; Doubtful Debts**	**50,000**
Ajay 7,00,000			**3,00,000**
Shyam 3,00,000	**10,00,000**	**Cash in hand**	**1,40,000**
		Stocks	**2,00,000**
		Other Assets	**3,10,000**
		Capital A/cs:	
		Vijay	**2,00,000**
		Ram	**1,50,000**
	13,00,000		**13,00,000**

On 31st March, 1996, the firm is dissolved and the following points are agreed upon:

- **Ajay is to take over sundry debtors at 80% of book value.**
- **Shyam is to take over the stocks at 95% of the value and**
- **Ram is to discharge sundry creditors.**

Other assets realised Rs. 3,00,000 and the expenses of realisation come to Rs. 30,000.
Vijay is found insolvent and Rs. 21,900 is realised from his estate.
Prepare Realisation Account Capital Accounts of the partners. Show also the Cash A/c.
The loss arising out of capital deficiency may be distributed folloing the decision in Garner vs Murray.

Q 7. The firm of Kapil and Dev has four partners and as on 31st March, 1995, its Balance Sheet stood as follows;

Balance Sheet as on 31st March, 1995

Liability	Rs.	Assets	Rs.
Capital A/cs:		Land	50,000
F. Kapil	2,00,000	Building	2,50,000
S. Kapil	2,00,000	Office equipment	1,25,000
R. Dev	1,00,000	Compute	70,000
Current A/cs:		Debtors	4,00,000
F. Kapil	50,000	Stocks	3,00,000
S. Kapil	1,50,000	Cash at Bank	75,000
R .Dev	1,10,000	Other Current Assets	22,600
Loan from NBFC	5,00,000	Current A/c:	
Current liabilities	70,000	B. Dev	87,400
	13,80,000		13,80,000

(a) The partners have been sharing profit and losses in the ratio of 4:4:1:1 It has been agreed to dissolve the firm on 1.4.1995 on the basis of the following understand

(a) The following assets are to be adjusted to the extent indicated with respect to the book value:

Land	200%	Debtors	95%
Building	120%	Stocks	90%
Computers	70%		

(b) In the case of the loan, the lenders are to be paid at their insistence a prepayment premium of 1%.

(b)B. Dev is insolvent and no amount is receivable from him. His father, R. Dev however, agrees to bear 50% of his deficiency. The balance of the deficiency is agreed to be apportioned according to law. Assuming that Account and the Partner's Accounts.

Q 8. A, V, R and S are partners in a firm sharing profit and losses in the ratio 4:1:2:3. The following is their balance sheet on 31st March, 2002:

Liabilities	Rs.	Assets	Rs.
Sundry creditor	3,00,000	Sundry debtor	3,50,000
Capital A/cs		Less: Doubtful Debt	50,000
A			3,00,000
7,00,000			
S		Cash in hand	1,40,000
3,00,000			
	10,00,000	Stock	2,00,000
		Other assets	3,10,000
		Capital A/cs	
		V	2,00,000
		R	1,50,000
	13,00,000		13,00,000

On 31st March,2002 the firm is dissolved and the following points are agreed upon :

A is to take over sundry debtor at 80% of book value. S is to take over the stock at 95% of the value and R is to discharge sundry creditors. Other assets realise RS 3,00,000 and expenses of realisation come to RS 30,000. V is found insolvent and RS 21,900 is realised from his estate.

Prepare realisation account and capital account of the partner. Show also the cash A/c. The loss arising out of Capital deficiency may be distributed following the decision in Garner vs. Murray.

Q 9. Amal and Bimal are in equal partnership. Their Balance Sheet stood as under on 31st March, 2006 when the firm was dissolved:

Liabilities	Rs.	Assets	Rs.
Creditors A/c	4,800	Plant & Machinery	2,500
Amal's Capital A/c	750	Furniture	500
		Debtors	1000
		Stock	800
		Cash	200
		Bimal's drawings	550
	5,550		5,550

The assets realised as under:

	Rs.
Plant & Machinery	1,250
Furniture	150
Debtors	400
Stock	500

The expenses of realisation amounted to Rs. 175. Amal's private estate is not sufficient even to pay his private debts, whereas Bimal's private estate has a surplus of Rs. 200 only.
Show necessary ledger accounts to close the books of the firm.

Q 12. The firm of Rich persons presented you drawn as on 31st March 2001: with the following Balance Sheet

Liabilities		Rs.	Assets	Rs.
Sundry creditors		37,000	Cash in hand	3,000
Capital Accounts:			Sundry debtors	34,000
A	40,000		Stock in trade	39,000
B	30,000		Plant and Machinery	51,000
C	27,000	97,000	Current Accounts:	
			B 4,000	
			C 3,000	7,000
		1,34,000		1,34,000

Partners shared profits and losses in the ratio of 4: 3: 3. Due to differences among the partners, it was decided to wind up the firm, realise the assets and distribute cash among the partners at the end of each month.
The fallowing realisations were made:

(i) May Rs 15,000 from debtors and Rs, 20,000 by sale of stock. Expenses on realisation were Rs 500.
(ii) June Balance of debtors realised Rs 10,000. Balance of stock fetched Rs 24,000.
(iii) August Part of machinery was sold for Rs 18,000. Expenses incidental to sale were Rs 600.
(iv) September Part of machinery valued in the books at Rs 5,000 was taken be B, in part discharge at an agreed value o f Rs 10,000. Balance of machinery was sold for Rs 30,000 (net).

Partners decided to keep minimum cash balance of Rs 2,000 in the first 3 months and Rs 1,000 thereafter.

Required: Show how the amounts due to partners will be settled.

Q 13. A partnership firm was dissolved on 30th June, 2001. Its Balance Sheet on the date of dissolution was as follows:

Liabilities		Rs.	Assets	Rs.
Capitals:			Cash	5,400
Ram	38,000		Sundry assets	94,600
Shyam	24,000			
Mohan	18,000	80,000		
Loan a/c-Shyam		5,000		
Sundry Creditors		15,000		
		1,00,000		1,00,000

The assets were realised in instalments and the payments were made on the proportionate capital basis. Creditors were paid Rs 14,500 in full settlement of their account. Expenses of realisation were estimated to be Rs 2,700 but actual amount spent on this account was Rs 2,000.

This amount was paid on 15th September. Draw up a Memorandum of distribution of Cash, which was realised as follows:

On 5th July	**Rs 12,600**
On 30th August	**Rs 30,000**
On 15th September	**Rs 40,000**

The partners shared profits and losses in the ratio of 2: 2: 1. Give working notes.

Q 14. A, B and C were in partnership sharing profit and losses in the ratio of 3:2:1. The partnership firm was dissolved on 30.11.2001 when the position was as following:

Liabilities		Rs.	Assets	Rs.
Sundry creditors		3,15,000	Cash in hand	50,000
Capital			Stock in trade	1,60,000
A	2,10,000		Sundry debtor	4,40,000
B	1,05,000			
C	20,000			
		3,35,000		
		6,50,000		6,50,000

The partners desired that the net realisation should be distributed according to rule at the end of each Month. The realisation and expenses were as under:-

	Expenses (Rs.)	Stock + Debtors(Rs.)
31.12.2001	10,000	1,25,000
31.01.2002	9,000	1,88,600
31.03.2002	7,000	1,04,650
31.08.2002	6,000	1,14,750
30.11.2002	4,000	52,000

The stock was disposed off and debtors were all realised. Set out cash and capital account showing monthly distribution of cash realised, applying maximum loss basis.

Q 18. M, A and D are three partners of the firm variety stores sharing profit and losses in the ratio of 1:2:3. On 30th June, 2003 the partnership was dissolved. The balance sheet of the firm on the date of dissolution was as following:

Liabilities		Rs.	Assets	Rs.
Capital			Cash	6,000
M	RS 8,000		Debtors	16,000
A	RS 12,000		Stock	25,000
D current		20,000	Furniture & fittings	15,000
A	RS 6,000		Bill Receivable	2,000
B	RS 10,000			
Sundry creditors		18,000		
Loan from Mrs. D		6,000		
		64,000		64,000

The partners decide that payment should be made as and when the amount were realised. D would supervise all realisation and for this he would be entitled to commission @ 5% on all gross realisation. But his claim would not have priority over the claims of outsiders. The realisation and expense on various dates were as following:

	Debtors (Rs.)	Stock (Rs.)	Furniture (Rs.)	Expenses (Rs.)
July	3,000	5,500	4,500	1,000
August	5,000	4,000	6,000	500
September	5,500	4,000	3,900	1,400
October	2,000	4,000	300	-----

The bill receivable were drawn in May, 2003 and were payable after three month. These were duly received you are required to prepare a statement showing distribution Cash.