

Hire Purchase

10)

HIRE PURCHASER DEBTORS A/C (1994)

To Bal b/d	75375	By Cash (Down payment)	19000
To Sales	76000	By Cash(installment)	79875
To Interest Suspense (57000x20%)	<u>11400</u>	By Bal c/d(B.G.)	<u>63900</u>

Installments falling due in various years:

Quarter of Sale	Due 1 st year	Due 2 nd year	Due 3 rd year
1 st	4	4	0
2 nd	3	4	1
3 rd	2	4	2
4 th	<u>1</u>	<u>4</u>	<u>3</u>
	10(31.25%)	16(50%)	6(18.75%)

INTEREST SUSPENSE A/C

To (W.B.2)	12600	By Bal b/d (W.N.3)	9900
To Bal. c/d	<u>8700</u>	By H.P. Debtor a/c (Balancing Figure)	<u>11400</u>

AMOUNT ON INSTALLMENT RECEIVABLE

	92	93	94
Sales	80000	100000	76000
Less: Down payment@25%	<u>20000</u>	<u>25000</u>	<u>19000</u>
	60000	75000	57000
Add: Interest 20%	<u>12000</u>	<u>15000</u>	<u>11400</u>
	<u>72000</u>	<u>90000</u>	<u>45600</u>

Proof of Opening interest : (9900)

Of 92	= 12000 x 20%	= 2400
Of 93	= 15000 x 50%	= <u>7500</u>
		<u>9900</u>

Proof of closing interest suspense (8700)

Of 93	= 15000 x 20%	= 3000
Of 94	= 11400 x 50%	= <u>5700</u>
		<u>8700</u>

INSTALLMENT COLLECTED –94

OF 92	= 72000X18.75%	= 13500
OF 93	= 90000 X 50%	= 45000
OF 94	= 68400x31.25%	= <u>21375</u>
		<u>79875</u>

Pre & Post incorporation profits

3)

Time ratio = 2 : 10 (1:5)
Purchase consideration (P.C.) = 20,000 + 1,40,000 = 1,60,000

The balance in Nigam's Capital on the opening date was Rs.1,30,000 capital at the end was Rs. 25000 Dr. This means that he has been paid Rs. 155000. This consists of cash payment of Rs.140000 and preliminary expenses of Rs.15000.

Proprietor Balance Sheet as on 1.4.92

Proprietors Capital	<u>130000</u>	Net Assets	<u>130000</u>
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NATO at fair value = 130000 + 10000 – 4000 = 136000
Goodwill = (16000-136000) = 24000

Journal:

1) Changing the asset and liabilities:

Goodwill A/c	Dr.	24000	
To Building			10000
To PFBD			4000
To Proprietor Capital			30000
2) Proprietor Capital a/c	Dr.	20000	
To Equity Share capital			20000
3) Preliminary expenses a/c	Dr.	15000	
To Proprietor Capital			15000
4) Provision for bad debts a/c	Dr.	2000	
To Bad debt			2000
5) Provision for bad debts a/c	Dr.	2000	
To Goodwill			2000

PBDD is written back by crediting Goodwill because when it was created we debited goodwill.

TRADING A/C

To Opening Stock	18000	By Sales	600000
To Purchase	440000	By Closing stock	8000
To Gross Profit brought down	<u>150000</u>		
	<u>608000</u>		<u>608000</u>

PROFIT AND LOSS ACCOUNT

	<u>Pre</u>	<u>Post</u>		<u>Pre</u>	<u>Post</u>
To Salaries	9167	45833	By Gross Profit c/d	25000	125000
To Administration Expenses.	7333	36667			
To Selling expenses	1000	5000			
To Bad Debts (3500-2000)	250	1250			
To Director Remuneration	-	10000			
To Preliminary Expenses written off	-	15000			
To Net Profit (Capital Reserve)	7250	-			
To Net Profit transfer to Balance Sheet	<u>-</u>	<u>11250</u>		<u>25,000</u>	<u>125000</u>
	<u>25,000</u>	<u>125000</u>			

BALANCE SHEET

	<u>Rs.</u>		<u>Rs.</u>
Equity Share Capital	200000	<u>Fixed Assets:</u>	
Reserve & Surplus:		Goodwill	14750
Profit & Loss A/c	11250	Building	130000
<u>Current Liabilities:</u>		<u>Current Asset:</u>	
Creditors	66500	Stock	8000
Outstanding Directors Remuneration	10000	Debtors	100000
	<u>287750</u>	Bank	<u>35000</u>
			<u>287750</u>

Partnership Accounts

6)

STATEMENT SHOWING THE PARTNERS' SHARES

	Avinash	Basuda	Chinmoy	Ghanashyam
		Ltd.	Ltd.	
Ratio before retirement of Basuda Ltd.	9/15	4/16	2/15	
Adjustment on retirement	<u>(+) 1/15</u>	=	<u>3/15</u>	
New ratio before admission of Ghanashyam	10/15		5/15	
On admission of Ghanashyam				
Gift Avinash (12.5/100)	(-)1/8			1/8
Purchase from Avinash & Chinmoy Ltd.*	<u>(-)2/24</u>		<u>(-)1/24</u>	<u>(+)3/24</u>
New Ratio	11/24		7/24	6/24

- Purchase from Avinash = $\frac{2}{3} \times \frac{1}{8} = \frac{2}{24}$
- Purchase from Chinmoy Ltd. = $\frac{1}{3} \times \frac{1}{8} = \frac{1}{24}$

Journal Entries

(ii)		Rs.	Dr. Rs.	Cr.
1.	Avinash's Capital A/c.	Dr.	1,00,000	
	Chinmoy Ltd.'s Capital A/c.	Dr.	3,00,000	
	To Basuda Ltd.'s Capital A/c.			4,00,000
	(Being purchase by Avniash and Chinmoy Ltd. Of goodwill from Basuda Ltd.)			
2.	Avinash's Capital A/c.	Dr.	7,50,000	
	To Ghanashyam's Capital A/c.			7,50,000
	(Being gift made by Avninash to Ghanashyam)			
3.	Bank A/c.	Dr.	31,00,000	
	To Avniash's Capital A/c.			7,75,000
	To Chinmoy Ltd.'s Capital A/c.			13,87,500
	To Ghanashyam's Capital A/c.			9,37,500
	(Being capital brought in by the partner's)			
4.	Basuda Ltd.'s Capital A/c.	Dr.	16,00,000	
	To Bank A/c.			16,00,000
	(Being final payment made to Basuda Ltd. on retirement)			
5.	Ghanashyam's Capital A/c.	Dr.	1,87,500	
	To Avinash's Capital A/c.			1,25,000
	To Chinmoy Ltd.'s Capital A/c.			62,500
	(Being goodwill adjusted on admission)			

(iii)

Balance Sheet as on 1st April, 1998

Liabilities	Amount	Assets	Amount
Sundry creditors	6,00,000	Cash & Bank	17,84,000
Capital accounts :		Sundry debtors	4,00,000
Avinash	27,50,000	Stock	8,00,000
Chinmoy Ltd.	17,50,000	Furniture	2,66,000
Ghanashyam	15,00,000	Plant	8,50,000
		Land & Building	<u>25,00,000</u>
	<u>66,00,000</u>		<u>66,00,000</u>

Working Note :

- Adjustment of goodwill on Retirement
Value of Goodwill = $(450+250+600+700) \times \frac{3}{4} = 15000$
Shares of Basuda Ltd. = $1500 \times \frac{4}{15} = 400$

Adjustment through partner's capital accounts

Avinash = $\frac{1}{4} \times 400 = 100$ (Dr.)

Basuda Ltd. = $\frac{4}{15} \times 1500 = 400$ (Cr.)

Chinmoy Ltd. = $\frac{3}{4} \times 400 = 300$ (Dr.)

2. Closing Balances of Capital Accounts

Basuda Ltd.'s share of capital and

goodwill = $1,200 + 400 = 1600$

This represents $\frac{4}{15}$ th share of Capital and goodwill requirement of the firm.

Thus, total capital and goodwill requirement = $1600 \times \frac{15}{4} = 6000$

Hence, closing capital balances (in new profit sharing ratio of 11:7:6) should be

Avinash – $\frac{11}{24} \times 6000 = 2,750$

Chinmoy Ltd. – $\frac{7}{24} \times 6,000 = 1750$

Ghanashyam – $\frac{6}{24} \times 6000 = 1500$

Gift by Avinash to Ghanashyam – $\frac{1}{2} \times 1500 = 750$

(Debit to Avniash's Capital A/c. and credit to Ghanashyam's Capital A/c.)