

PARTNERSHIP A/C

PA-1

In absence of Partnership deed or info:-

P.S.R = equal.

int of cap = nil

int on draw = nil

int on part loan = 6% p.a.

GOODWILL:

(i) Average Profit:

$$G/W = \frac{\text{No. of yrs purchase} \times \text{Avg Profit (FMP)}}{\text{FMP}}$$

FMP is based on tend of Avg. P.

if there is part tend = Weighted Avg. (start from old yrs)

no tend = simple Avg.

$$\text{Avg Profit} - \downarrow \text{exp/income} = \text{FMP}$$

(ii) Super Profit

$$G/W = \text{Super Profit} \times \text{no. of yrs purchase}$$

$$\text{Super Profit} = \text{FMP} - \text{Normal Profit}$$

$$\text{Normal Profit} = \frac{\text{Capital employed} \times \text{Normal rate of return (NRR)}}{100}$$

$$\text{C.E (closing)} = \text{Assets} - \text{Outside Lab.}$$

$$\text{Avg C.E} = \frac{\text{Closing} + \text{Op}^n \text{ C.E}}{2}$$

(if opⁿ is not there consider closing CE)

(iii) Annuity method:

$$G/W = \frac{\text{Super Profit} \times \text{Ann. factor for no. of yrs purchase}}{\text{no. of yrs purchase}}$$

(iv) Capitalisation method

$$G/W = \frac{\text{Normal cap req} - \text{actual cap employ}}{\text{Avg CE}}$$

$$\text{Normal C.R} = \frac{\text{FMP}}{\text{NRR}}$$

ADMISSION OF PARTNER:-

$$\text{Sacrifice ratio} = \frac{\text{Old ratio}}{\text{New PSR}}$$

(reserves & surplus)
Accumulated Profit/loss : Old Partner OPSR

Revaluation P/L : Old Partner OPSR

any declaration: P&L Appo-riation A/c (by R&S)

GOODWILL:-

a) Raise G/W: $\frac{G/W}{\text{To Old Partner}}] \text{OPSR}$

b) Write off: $\frac{\text{All Partner}}{\text{To G/W}}] \text{NPSR}$

OR

$\frac{\text{New Partner}}{\text{To Old Partner}}] \text{his share of G/W sacrifice ratio}$

CAPITAL:

new partner: capital propⁿ to old part cap.
i.e. proportionate capital.

$$\text{Cash introduced} = \text{prop}^n \text{ cap} + G/W$$

(if amt brought is more than propⁿ capital)

ADMISSION OF PARTNER

- Open Cash A/c separately.
- int on capital = $\text{opn cap} + \text{q/w raised} - \text{q/w (w/o)} +/- \text{revaluation A/c}$
- raise a Joint life policy = revaluation A/c.
- Don't w/o purchased q/w
- Proportional capital must be before w/o of q/w
- * Premium = q/w
- * If g/w already exists then compare total q/w with existing q/w.
- w/o existing q/w.
- raise q/w o new q/w.

RETIREMENT OF PARTNER:

Gain Ratio = New PSR - Old PSR.

If new PSR is not given assume it is same as Old PSR.

Revaluation : All Partners OPR.

Reserves & surplus : All Partners OPR.

CAPITAL : settled in cash or partners loan A/c

No transfer to loan but delay in payment then - 6% int p.a or proportional share in profit in delayed period whichever is higher.

Sec 37 of 19A 1932.

If P&L App entries cont on cap/drawings :- P&L Appropriation A/c

If rectification entries (trading, RL) :- P&L Adjustment A/c.

share of profit = $\frac{\text{Profit in delayed period}}{\text{Total capital}} \times \frac{\text{retiring/deceased part cap}}{\text{Total capital}}$

GOODWILL:

(a) Raise : q/w To All Partners } OPR

(b) w/o : RP (Remaining) To q/w } NPSR.

OR.

Remaining Part To Retiring Partner

Gain Ratio his share of q/w.

DEATH OF PARTNER:

PSR: same as OPSR.

Reserves & surplus: OPSR old partners.

Revaluation: OPSR old partners.

G/W: same as settlement.
 Raise: OPSR: A/c P.
 W/O: NPSR: Rem. P.

Capital settlement:

- transfer to legal representative A/c.
- in cash or loan or as per sec 37 of IPA 1932.

• whenever there are adj do w/o of G/W at last.

PROFIT SHARE:

Profit/loss from: - Beginning of year - date of death.

(a) distribute - actual profit/loss = all partners (OPSR)

∴ no adj at year end.

(b) Estimate profit on avg profit of past year

$$\text{Deceased Partner's share} = \text{Avg profit} \times \frac{n}{12} \times \text{OPSR. (of death partner)}$$

n: period of months upto date of death.

Entry: (i) P&L Suspense To Deceased Partner Cap A/c. [on death]

(ii) P&L Appropriation To P&L suspense A/c. [at year end]

DISSOLUTION OF PARTNERSHIP FIRM

1) Transfer all assets (except cash & bank) and all outside liabilities to Realisation A/c:

Realisation A/c To Individual Assets

outside individual liabilities To Realisation A/c.

2) Cash & Bank - opening balances in individual A/c.

Don't transfer or w/o goodwill to realisation A/c but if t/o then transfer.

3) Accumulated losses/Reserves & surplus - distribute to partners in PSR.

4) Partners Capital A/c - opening balance.

5) Partners loan A/c - separate A/c and paid after paying o/s liability.

* Transfer debtor and RDD separately and not the net amt.

* Entry unrecorded → P&L Adj then distribute to Part. Cap in PSR.

* After transfer of loss/profit on realization transfer current A/c balance to Capital A/c.

* In end "CASH" A/c should Tally.

DISSOLUTION ENTRIES

(a) Disposal of asset:

Cash
To Realisation A/c

(b) Pay of o/s liability

Realisation
To Cash A/c

(c) Unrecorded asset disposed

Cash
To Realisation
(Joint life policy)

(d) Asset taken over by partner

Partners Capital
To Realisation A/c

(e) Asset Ho by creditor

No entry
[Realisation
To Realisation]

i.e setting a liability
by asset

(f) Paying of Partner loan

Partners loan
To Cash

any balance left transfer to
Realisation A/c

(g) Paying partners capital

Transfer Realisation
Profit or loss in
PSR

Settlement of Partners Capital

Cash
Surplus

distribute in PSR

Cash deficiency

All Partner
Solvent

One or more but
not all partner
insolvent

All Partners
Insolvent

Partners Being
cash required

Apply Garner v/s
Murray rule

Deficiency A/c

Fixed Capital

Fluctuating Capital

Cap bal

+ Reserve & Surplus

- Acc. loss

+ Rectification
of previous
profit

= Adjusted
Capital

The loss of insolvent part
is borne by solvent part
in FCR

Solvent Part Cap A/c
To insolvent Part Cap A/c

→ All solvent partner will bring the
realisation loss in Cash debited to their A/c

Cash
To Partner Cap A/c

→ Insolvent partners deficiency is borne
by solvent partners having
credit balance in adjusted capital
ratio

Any settlement diff:- divide other partners in PSR

DISSOLUTION: ALL PARTNERS INSOLVENT: DEFICIENCY A/c.

PA-3

- 1] Transfer all assets - Realisation A/c - dispose all assets (except 9/10 $\rightarrow$ w/o]
 - 2] Open each liability A/c - as you may or may not repay.
 - 3] Close Realisation A/c - transfer P/L to Partners in PSR.
 - 4] Find Cash Balance also include amt realisable from partners' part asset.
 - 5] With available cash pay of liability in order -
 - (i) Realisation expenses
 - (ii) Govt dues if any [ratio of amt o/s]
 - (iii) all other o/s liab. [ratio of o/s bal]
 - 6] Still cash remaining: (i) Repay Partners Loan. (ii) Distribute to capital.
 - 7] Close all unpaid liabilities and transfer to deficiency A/c.
 - 8] Transfer capital balance to deficiency A/c.
- The deficiency A/c should Tally.

PIECEMEAL DISTRIBUTION.

- A statement to keep a track of money distributed towards various liabilities.
- Cash is realised and liability is paid in full order:-
 - (i) Realisation exps (ii) Govt dues (iii) o/s liab. (iv) Partners loan (v) Partners capital
- Secured liabilities:- ^{unthru} asset which is pledged as when it is sold treat it as unsec. liab.

- (i) amt recd - sec liab - 1st pay other sec liab - then if not sufficient treat as unsec liab -
- (ii) excess amt - other liab.

- Partners Capital - (a) Relative highest capital method / Excess capital method OR (b) minimum loss method.
- paymt in ratio.

Format:-

Date	Part	Cash	Real exp	govt dues	sec liab	unsec liab	P. loan	P. Cap.
	Balance.	xx	xx	xx	xx	xx	xx	xx
	(-) Realisation exp	(xx)						
		xx						
	(-) paid	xx		xx				
	Balance	xx		xx				

will be realization loss Profit

RELATIVELY HIGHEST CAPITAL

METHOD :-

Part	A	B	C
a) Bal.	.	.	.
b) PSR	.	.	.
c) Unit cap (A/B)	0	0	0
d) Take A's cap base	1	2	3
$d = A's cap \times b$	1	2	3

Excess cap (a-d)	0	10K	5K
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continue

a)			
b)			
c)			
d)	0	0	2K

(i) Pay C (X) 2K

(ii) Pay B & C → 10+5=15 in PSR.

(iii) Then ABC in PSR.

MAXIMUM LOSS METHOD

Part	Total	A	B	C
① Capital (a)	x	x ⁰	x	x
Cash bal (b)	x			
max loss (a-b)	x	x	x	x
distribute max loss in PSR				
Balance of Capital		x	(x)	x (0-)
if any cap become -ve i.e. insolvency loss apply gaince v/s Murray and distribute				
		(x)	x	(x)
Balance Pymt x		x	0	x
Pay 'x' 'x' to A & C ± cash bal				
② Capital				
(1st ka max loss)	x	x	x	x
(2) Cash bal	x			
max loss	x			
Bal Pymt				
③				

• If current A/c + cap A/c is there - net off current with capital A/c - piecemeal.

AMALGAMATION of PARTNERSHIP FIRM

- 2 or more firms amalgamate together to form a new partnership firm.
- old firm = amalgamating firm new firm = amalgamated firm.
- Process of amalgamation:-

I] Closing the books of old firm:

1] Revaluation of all asset & liab by - evaluation A/c

2] Revalued assets & lia are :-

- taken over by new firm :- New firm To Asset OR liab To New firm
- taken over by specific partner.
- disposed off :- by cash.

If no specific treatment then assume that they are distributed to Partners in PSR. CSR (capital sharing ratio)

3] Goodwill :-

g/w appears in B/s.

g/w doesn't appear in B/s.

Taken over by new firm.

whether to by new film

Yes

No.

Yes

No.

New film
To 9/w

W/O.
Part. Cap
To G/W

- (ii) Raise
- (iii) New firm
- To 9/w

no effect.

4] Close evaluation A/c:

Transfer Profit or Loss to Partners in PSR.

5] Transfer capital A/c : continuing partners $\rightarrow$ new firm. $\Rightarrow$ Part. Cap. To New firm.

Any Partner retiring will be settled as specified.

If there is cash remaining: Transfer to New Firm.

The "NEW FIRM" A/c should Tally.

II] Opening books of A/c's in new firm :-

① Take over: Asset t/o
G/L t/o
Liab t/o] Agreed value.

To Liab t/o

To Liab. A/c - 1
To Part. Cap A/c - transfer amt.

② g/w Adj as specified.

② Capital Adj as specified.

④ Interfilm / common third party transaction:-
 (lower of the 2 amts)
 Credit to Debtor A/c

SALE/CONVERSION OF PARTNERSHIP FIRM

sale - existing or new co.

conversion - new co.

sale - existing or new

I] A/c in the books of selling firm / vendor firm.

① Purchase consideration:-

is given in lumpsum OR.

(ii) Net assets method

PC = All asset t/o (agreed value) - all liab t/o (agreed value)

② Nullify the balance sheet.

Nullify the Balance sheet
- All assets & Liab are transferred to Realisation A/c at Book Value

Sale / Conversion

- 1b) Separate A/c for remaining asset & lia. not $\frac{1}{2}$ o.
- ③ Open Partners Cap & Current A/c and distribute reserve, surplus, accumulated losses.
- ④ Adj for remaining asset & lia are done and any balance remaining transfer to Realisation A/c.
- ⑤ Purchase consideration due : $\begin{matrix} \text{New Co} \\ \text{To Realisation} \end{matrix}$
- ⑥ Received PC : $\begin{matrix} \text{Cash} \\ \text{Equity share} \\ \text{Pref share} \\ \text{Debentures} \end{matrix} \left. \begin{matrix} \\ \\ \\ \end{matrix} \right\} \begin{matrix} \text{all in} \\ \text{new co.} \end{matrix}$
To New Co.
- ⑦ Distribute PC among partners - equity sh on no. of shares not on value
- ⑧ Close Realisation A/c $\rightarrow$ transfer to Partners Cap A/c.
* Partners Capital A/c should Tally.