

CHAPTER 3: AMALGAMATION OF FIRMS

1. Following is the Balance Sheet of two firms as at 31st March, 2006:

Liabilities	Prem & Co. Rs.	Raj & Co. Rs.	Assets	Prem & Co. Rs.	Raj & Co. Rs.
Capital:			Premises	-	5,000
Prem	11,500	-	Computers	10,000	-
Anil	11,500	-	Furniture	5,000	7,000
Raj	-	18,000	Inventory	9,000	8,000
Shyam	-	12,000	Debtors	6,000	14,000
General Reserve	-	3,000	Bank	2,000	4,000
Creditors	5,000	4,000	Cash	1,000	2,000
Bills payable	5,000	3,000			
	33,000	40,000		33,000	40,000

It was mutually agreed to amalgamate the business from 1st April, 2006

Terms of amalgamation were as follows:

- Premises was valued at Rs. 10,000 and computers at Rs. 12,000
- Furniture was not taken over by new firm.
- A reserve of 5% is to be created on debtors.
- Goodwill was valued as M/s. Prem & Co. at Rs. 10,000 and that of M/s. Raj & co. at Rs. 15,000.
- the new firm also assumed other Assets and Liabilities of old firm at book value. Show necessary accounts in the books of old firm and the Balance Sheet of new firm M/s. Prem Raj & Co. After amalgamation.

Accountancy and Financial Management III, Semester III

2. AB & Co. and CD & Co. amalgamated with effect from 1-4-2003. their balance sheet as on 31-3-2003 was as under:-

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
A's Capital	1,00,000	-	Land and Building	2,80,000	-
B's Capital	2,00,000	-	Plant and Machinery	-	8,00,000
C's Capital	-	2,00,000	Stock	3,00,000	4,00,000
D's Capital	-	3,00,000	Debtors	2,00,000	4,00,000
General Reserve	1,00,000	2,00,000	Cash and Bank Balance	1,20,000	1,00,000
Creditors	7,50,000	13,40,000	Investments	3,00,000	4,00,000
Investment Fluctuation Reserve	50,000	60,000			
	12,00,000	21,00,000		12,00,000	21,00,000

Both the firms amalgamated subject to the following terms:

- 1) All the assets and all the liabilities of both the firm shall be taken over by new firm.
- 2) Land and Building shall be appreciated by 20%.
- 3) Plant and Machinery shall be depreciated by 10%.
- 4) Stock of AB & Co. shall be increased by Rs. 50,000.
- 5) Stock of CD & Co. Shall be taken at Rs. 4,50,000
- 6) Debtors of AB & Co. shall be decreased by Rs. 10,000
- 7) Debtors of CD & Co. shall be taken at Rs. 3,80,000
- 8) Goodwill of AB & Co. shall be valued at Rs. 1,00,000
- 9) Goodwill of CD & Co. shall be valued at Rs. 2,00,000
- 10) Investment of AB & Co. shall be taken over Rs. 2,80,000

11) Investment of CD & Co. shall be taken over Rs. 3,60,000

You are required to prepare:

- 1) Statement showing calculation of purchase consideration.
- 2) Realization A/c and Partner's Capital A/c in the books of AB & Co.
- 3) Realization A/c and Partner's Capital A/c in the books of CD & Co.

3. M/s. A & B as partners decided to amalgamation with M/s. C & Co. having C & D as partners on the following terms and conditions.

- i) The new firm M/s. AC & Co. to consider of both the firms at Rs. 12,000 each.
- ii) the new firm to take over investment at 10% depreciation. Debtors and furniture at book value; premises at Rs. 53,000; Land at Rs. 66,800; Machinery at Rs. 9,000 and Such cash which remained after discharge of partners loans by the respective old firms before amalgamation
- iii) The new firm also assumed other liabilities of old firms.

The following were the Balance Sheet of both the firms on the date of amalgamation.

Liabilities	Rs.	Rs.	Assets	A & Co. Rs.	C & Co. Rs.
Creditors	20,000	10,000	Cash	15,000	12,000
Bills payable	5,000	-	Investments	10,000	8,000
Loans :A	8,000	-	Debtors	9,000	4,000
C	-	10,000	Furniture	12,000	6,000
Reserve	10,000	4,000	Premises	30,000	-
Capital: A	35,000	-	Land	-	50,000
B	22,000	-	Machinery	15,000	-
C	-	36,000	Goodwill	9,000	-
D	-	20,000			
	1,00,000	80,000		1,00,000	80,000

Prepare following Ledger Accounts in each case:-

- 1) Realization Accounts
- 2) Partner's Capital Accounts
- e) New Firm Accounts; and also prepare the Balance Sheet of the New Firm.

Accountancy and Financial Management III, Semester III

4. The Balance Sheet of M/s. M & N and R & S as on 31-12-2006 were as follows:

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital			Land	36,000	47,400
M	36,000	-	Machinery	25,200	28,800
N	36,000	-	Furniture	10,800	12,600
R	-	36,000	Debtors	21,600	30,600
S	-	36,000	Stock	28,800	32,400
Creditors	54,000	36,000	Cash	3,600	1,800
Loan	-	39,500	Bank	7,200	5,400
O/S Expenses	7,200	11,400			
	1,33,500	1,59,000		1,33,500	1,59,000

The two firms decided to amalgamate and form into M/s. MNRS with effect from 31-12-2006. Partners would share profits and losses equally between themselves as they were doing to amalgamation and they agreed to following revaluation of assets and liabilities:-

Particulars	M & N Rs.	R & S Rs.
Land	45,000	45,000
Machinery	30,000	32,000
Furniture	10,000	12,000
Debtors	21,000	30,000
Stock	29,000	34,000
Creditors	52,000	34,000
Loans	-----	38,000
O/s Expenses	7,200	11,400

In addition to the above it was decided:-

1. Goodwill of M & N and R & S was valued at Rs. 20,000 respectively and it should be written off the New Firm.

2. that the reconstructed capitals of the partners would be Rs. 37,500 each/ The difference, if any should be transferred to Current Account.

You are required to show-

- i) The accounts in the books of M/s. M & N and M/s. R & S and
- ii) The Opening Balance Sheet of the New firm.

5. Following is the Balance Sheet of M/s. L.B. & M/s. M.B. as at 31st march, 2004:

M/s. L.B.

Liabilities	Rs.	Assets	Rs.
Sundry Creditors	50,000	Cash-in-hand	12,000
Loan from Vijaya Bank	10,000	Stock-in-trade	58,000
Capitals:		Sundry Debtors	30,000
- Ajay	1,00,000	Furniture & fixtures	20,000
- Sujay	50,000	Office Premises	90,000
	2,10,000		2,10,000

M/s M.B.

Liabilities	Rs.	Assets	Rs.
Sundry Creditors	60,000	Cash-in-hand	16,000
Capitals:		Stock-in-trade	44,000
- Ankur	60,000	Sundry Debtors	50,000
- Ankit	40,000	Furniture & Fixtures	10,000
		5% in National Saving certificate	40,000
	1,60,000		1,60,000

They shared profits and losses in proportion to their capital.

They decided to amalgamate their business with effect from 1-4-2004 as per the following conditions

1. Name of new firm shall be Vanee Trading Corporation.
2. Vijaya Bank be repaid by M/s. L.B.
3. 5% N.S.C. no to be over by new firm.
4. Goodwill of M/s. L.B. and M/s. are fixed at Rs. 21,000 and Rs. 25,000 respectively
5. Office premises are revalued at Rs. 99,000
6. Stock in Trade of M/s. L.B. be reduced by Rs. 9,000 and that of M/s. M.B. be increased by Rs. 5,000
7. Reserve for Bad Debts be created @ 5% on debts of both firms.

8. Total capital of firm of Vane Trading Corporation will be Rs. 1,80,000 and the capital of each partner will be in his P.S.R. which will be as follows: Ajay 30% Sujay 20% Ankur 30% Ankit 20%.

9. The difference, if any should be transferred to Current Accounts.

10. Goodwill Account In new firm should be written off.

You are required to close the books of M/s. L.B. and M/s. M.B. to give effect to above arrangement also prepare Balance Sheet as on 1st April, 2004.

5. The Balance Sheet of Messrs. A & B and Messrs. C & D as on 31-12-2003 were as follows:

Liabilities	A & B Rs.	C & D Rs.	Asset	A & B Rs.	C & D Rs.
Capitals:			Land	10,000	12,000
A	10,000		Machinery	7,000	8,000
B	10,000		Furniture	3,000	3,500
C		10,000	Debtors	6,000	8,500
D		10,000	Stock	8,000	10,000
Creditors	15,000	10,000	Cash and Bank	3,000	1,000
Loan		10,000			
Outstanding Expenses	2,000	3,000			
	37,000	43,000		37,000	43,000

The two firms decided to amalgamate and form into ABCD & Co. with effect from 31-12-2003. Partners would share profits and losses equally between themselves as they doing prior to amalgamation and they agreed to following revaluation of assets and liabilities.

Particular	A & B Rs.	C & D Rs.
Land	10,000	10,000
Machinery	7,000	8,000
Furniture	2,500	2,500
Debtors	5,500	7,000
Stock	8,000	8,000
Outstanding Expenses	2,000	3,500

In addition to the above it was decided:

1. That the new firm would not take over the loan of C & D

2. That the Goodwill of A & B and C & D were valued at Rs. 10,000 and Rs. 5,000 respectively in the first instance but for the purpose of the Balance Sheet of the new firm, the combined Goodwill would be valued at Rs. 12,000 and

3. that the reconstructed capitals of the partners would be Rs. 14,000 each, partners introducing cash, if necessary.

You are required to show:

- a. The accounts in the books of A & B and C & D
- b. The opening Balance Sheet of the new firm.

Accountancy and Financial Management III, Semester III

7. . In similar type business, Red and Yellow are in partnership as Orange Co. and Violet and Blue as Indigo Co. It was mutually agreed that as on January 1, 2004 the partnership be amalgamated into are firm, Rainbow Co. The profit sharing ratios in the various firms were and are to be as follows:

	Red	Yellow	violet	Blue
Old Firm	4	3	3	2
New Firm	6	5	4	3

As on December 31, 2003 the Balance Sheets of the firms were as follows:

Liabilities	Orange	Indigo	Assets	Orange	Indigo
Capital			Property	7,400	10,000
Accounts:					
Red	15,300	-	Fixture	1,800	1,400
Yellow	11,000	-	Vehicles	3,000	1,800
Violet	-	11,300	Stock	8,300	6,600
Blue	-	7,400	Investment	800	-
Creditors	5,200	6,000	Debtors	6,800	5,800
Bank Overdraft	-	900	Bank Balance	3,400	-
	31,500	25,600		31,500	25,600

The agreement to amalgamate contains the following provisions:

- a. Provision for doubtful debts at the rate of 5% be made in respect of debtors and a provision for discount receivable at the rate of 2.5% be made in respect of creditors.
- b. Rainbow Co. to take over the old partnership assets at the following values:

Assets	Orange Co. (Rs.)	Indigo (Rs.)
Stock	8,450	6,390
Vehicles	2,800	1,300
Fixtures	1,600	-
Property	10,000	-
Goodwill	6,300	4,500

c. The Property and fixtures of Indigo co. not to be taken over by Rainbow co. these assets were sold for Rs. 13,500 cash on January 1, 2004.

d. Yellow to take over his firm's investment at a value of Rs. 760

e. The capital of Rainbow co. to be Rs. 54,000 and to be contributed by the partners in profit sharing ratios, any adjustment to be made in cash.

You are required to give Journal Entries reflecting the closing of the old partnership and opening balance sheet of the new firm after into account the provision of the agreement.

8. . The Balance Sheet of two firms M/s. Good and Better and M/s. sloe and Fast as on January 1, 2004, were:

Balance Sheet

Liabilities	Good & Better Rs.	Slow & Fast Rs.	Assets	Good & Better Rs.	Slow & Fast Rs.
Creditors	12,500	10,000	Building	18,750	
Reserves	7,500		Plant	25,000	
Capital Accounts:			Stock	12,500	32,500
Good	25,000		Debtors	6,250	18,750
Better	18,750		Cash	1,250	8,750
Fast		12,500			
Slow		37,500			
	63,750	60,000		63,750	60,000

Good and Better shared profits in the ratio of 3: 2 and Slow and Fast in the ratio of 5:3 the two firms decided to amalgamate and the new profit sharing ratio among Good, Better, Slow and Fast was to be 3:2:3:2. The other terms were:

1. Goodwill of M/s. Good and Better was valued at Rs. 25,000 and that of M/s. slow and Fast 18,750 The new firm was not retain goodwill in the books.
2. Stock of M/s. slow and Fast was valued at Rs. 31,250 and a provision of 5% was required against the debtors.
3. In the case of m/s. Good and Better Rs. 750 of the debtors was to be written off. Buildings were valued at Rs. 25,000 and the plant at Rs. 22,500.
4. The total capital of the firm fixed at Rs. 1,00,000 to be contributed by partners in their profit sharing ratio necessary adjustments were to be made in cash. Show the incorporating entries and the balance Sheet of the new firm called M/s Good and Fast.

Accountancy and Financial Management III, Semester III

9. Mr. Bill and Mr. Will are partners in BW & co. In a similar type of business Mr. Mill & Mr. Gil are partners in MG & Co. It was agreed that on 1st April, 2014 the old firms be amalgamated into one new firm BMW Group.

The respective Balance sheets of the Old firms as on 31st March, 2014 as follows:

Liabilities	BW & Co. Rs.	MG & Co. Rs.	Assets	BW & Co. Rs.	MG & Co. Rs.
Capitals			Land & Building	29,600	40,000
- Bill	61,200	-	Furniture	7,200	5,600
- Will	44,000	-	Vehicles	12,000	7,200
- Mill	-	45,200	Stock	33,200	26,400
- Gill	-	29,600	Investment	3,200	-
Creditors	20,800	24,000	Debtors	27,200	23,200
Bank Overdraft	-	3,600	Bank	13,600	-
	1,26,000	1,02,400		1,26,000	1,02,400

Profit Sharing Ratio:

	Bill	Will	Mill	Gill
Old Firms	4	3	3	2
New Firm	6	5	4	3

Terms and Conditions of amalgamation:

1. Provision for doubtful debts @ 5% to be made on Debtors.
2. Rebate on the liabilities of creditors to be provided on Debtors
3. New firm to take over the assets of old firms as under:

Assets	BW & CO.	MG & CO.
Stock	33,800	25,560
Vehicles	11,200	5,200
Furniture	6,400	
Land and Building	40,000	
Goodwill	25,200	18,000

4. Furniture and Land and building not taken over by new firm were sold for Rs54,000 on 1st April 2014 by MG & CO.
5. Mr. Bill to take over Investment for Rs. 3040.
6. The Capitals of the Partners in the new firm were to be Rs2,16,000 to be contributed in profit sharing ratio; any adjustment to be made in cash.

You are required to close the books of the Old firm and Prepare the Opening Balance sheet of the new Firm.

10. X and Y are two sole traders. Their balance sheet as on 1st January 2004 are given below:

X's Balance Sheet as at 1st January 2004

Liabilities	Rs.	Assets	Rs.
Sundry Creditors	10,000	Plant & Machinery	7,500
Das Bank Ltd.	5,000	Stock in Trade	10,000
Capital Account	15,000	Sundry Debtors	12,500
	30,000		30,000

Y's Balance Sheet as at 1st January, 2004

Liabilities	Rs.	Assets	Rs.
Sundry Creditors	8,500	Plant & Machinery	10,500
Capital Account	20,000	Stock in Trade	5,000
		Sundry Debtors	11,000
		Cash at bank	2,000
	28,500		28,500

They agree to amalgamate their business as on 1st January, 2004. The following revaluations were to be made:

1. Plant & Machinery were to be reduced by 10%.
2. Stock in Trade was to be reduced in case of X by 20% and in case of Y by 10%.
3. A reserve of 2 ½% is to be raised against Sundry Debtors.
4. Each partners is to be credited with Goodwill of Rs. 5,000.
5. the bank overdraft of X is to be paid off by him.

You are required to give the journal entries for recording the above transactions in the books of X and Y. give also the amalgamate balance sheet of the New firm as on 1st January, 2004.

11. Vijay and Sanjay were carrying on business of supply of hardware as sole traders. Their balance sheets as on 31st March, 2004 are given below.

Liabilities	Vijay Rs.	Sanjay Rs.	Assets	Vijay Rs.	Sanjay Rs.
Ills payable	50,000	40,000	Fixed Asset	40,000	50,000
Bank Overdraft	25,000	-	Stock	50,000	25,000
Capital A/c	75,000	1,00,000	Book Debts	60,000	55,000
			Cash balance	-	10,000
	1,50,000	1,40,000		1,50,000	1,40,000

Both the pairs decided to amalgamated their business and form a new partnership firm under the name of M/s Jay on 1st April 2004. The terms of amalgamation were as follows:

1. Fixed assets were to be reduced by 10%.
2. Stock of Mr. Vijay to be reduced by 20% and that of Sanjay increased by 105.
3. A reserve for 2.5% to be created against book debt.
4. Both the parties to be credited with goodwill of Rs. 25,000 each.
5. The bank overdraft of Mr. Vijay is to be paid by him.

You are required to prepare necessary Ledger Accounts in the books of Vijay and Sanjay

12. A and B who are in partnership sharing profits and losses in the proportion of 3/5 and 2/5 respectively decided to admit C into partnership who was trading alone in the same line and form a new firm ABC & Co. balance sheets on 31st December, 2003 are as follows:

A & B

Liabilities	Rs.	Assets	Rs.
A's Capital Account	1,05,000	Cash	20,000
B's Capital Account	70,000	Book debts	65,000
Creditors	15,000	Machinery	35,000
Reserve	10,000	Land & Building	10,000
		Stock	70,000
	2,00,000		2,00,000

C

Liabilities	Rs.	Assets	Rs.
C's Capital	20,000	Stock	15,000
Creditors	7,500	Book Debts	2,500
		Cash	10,000
	27,500		27,500

It is decided that C should be given a quarter share in the new fir, A and B sharing the balance in the old proportion. It is also agreed that C's assets and liabilities were to be taken over as per his balance sheer, but the following adjustment were to be made in A & B balance sheet:-

- i) Debtors to be written ff by Rs. 15,000
- ii) Stocks to be written off by Rs. 15,000
- iii) Machinery to be written off Rs. 5,000

C also agrees to pay privately to A and B by way of goodwill quarter share of A and B profits for the last two years which were 2001 Rs. 27,000 and 2002 Rs. 33,000. It was also decided that the partners capitals in the new business shall be in the same proportion as they share profits.

Draw up 1) The necessary accounts in the books of A & B 2) The Journal and the new firm's Balance Sheet at as 1st January 2003 and state a) the total cost to C for his share in the business, b) how much A and B will each received for goodwill.

13. . A and B carry on independent business in provisions and their positions on 31-12-2003 are reflected in the balance Sheet given below:

Liabilities	A	B	Assets	A	B
Sundry Creditors for Purchases	1,10,000	47,000	Stock in Trade	1,70,000	98,000
Sundry Creditors for Expenses	750	2,000	Sundry Debtors	89,000	37,000
Bills Payable	12,500	-	Cash at Bank	13,000	7,500
Capital A/c	1,53,000	95,500	Cash In Hand	987	234
			Furniture and Fixture	2,750	1,766
			Investments	513	-
	2,76,250	1,44,500		2,76,250	1,44,500

Both of them want to form 1-1-2004 on the following understanding:

a) The capital of the partnership firm would be Rs. 3,00,000 which would be contributed by them in the ratio of 2:1

b) The assets of the individual business would be evaluated by C at which values the firm will take them over and the value would be adjusted against the contribution due by A and B.

c) C gave his valuation report as follows:

Assets of A: Stock-in-trade written down by 15% and a portion of the sundry debtors amounting to Rs. 9,000 estimated unrealizable not to be assumed by the firm, furniture and fixtures to be valued at Rs. 2,000 and investment to be taken at market value of Rs. 1,000.

Assets of B: Stocks to be written up by 10% and sundry debtors to be admitted at 85% of their value, rest of the assets to be assumed at their book values.

d) The firm is not to assume any creditors other than the dues on accounts of purchases made. You are required to pass necessary Journal Entries in the books of A and B. also prepare the opening Balance sheet of the firm as on 1-1-2004.