

**B.Com. Part-I : Financial Accounting**  
**Sem.-I : Unit-2**  
**Amalgamation of Partnership Firms**

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**0. Objectives -**

After studying this unit, you will be able to :

1. Understand the concept of Amalgamation of Partnership Firms.
2. Know the accounting procedure for amalgamation of partnership firms.
3. Pass necessary journal entries in the books of amalgamating / old firms and also in the books of amalgamated / new firm.
4. Prepare necessary accounts in the books of both the firms.

**1. Introduction :**

You have studied in the XIIth standard the unit related to the Final Accounts of Partnership firm. These final accounts are similar to the final accounts of sole trader, with certain changes regarding the distribution of profit/loss in the partners in their profit sharing ratio. But there are different transactions in partnership regarding admission, retirement, death of a partner, amalgamation, dissolution, conversion of partnership firm etc. which affect on the accounting of partnership firm. In this unit you have to learn accounting for amalgamation of partnership firms.

**2. Amalgamation of Partnership Firms :**

The unit amalgamation of partnership firms covers meaning of amalgamation of partnership firms, objectives of amalgamation of partnership firms, the accounting procedure for amalgamation, the journal entries and ledger posting for amalgamation of partnership firms and the problems solved.

**2.1 Meaning of Amalgamation of Partnership Firms :**

Amalgamation means to merge or to combine two or more business units carrying on same type of business and form a new business unit.

Amalgamation of partnership firms means merger of two or more partnership firms with one another and form a new partnership firm. When two or more existing partnership firms,

carrying on same type of business, come together end their separate entity and form a new firm it is called as amalgamation of partnership firms.

Amalgamation may be formed with any one of the following ways :

i) Merging of two or more existing sole proprietors into each another and form a new partnership firm.

ii) Merging one existing partnership firm with one existing sole proprietor and form a new partnership firm.

iii) Absorbing one existing partnership firm by another existing partnership firm.

iv) Merging two or more existing partnership firms with one another and form a new partnership firm.

## **2.2 Objectives of Amalgamation of Partnership firms :**

Amalgamation of partnership firm is done to achive the following objectives :

i) To avoid the cut-throat competition.

ii) To minimize the common expenses of business.

iii) To get advantage of large scale business.

iv) To strengthen the capital position.

v) To get advantage of expertise of different people, etc.

## **2.3 Accounting Procedure for Amalgamation of Partnership Firms :**

Accounting for amalgamation of partnership firms includes closing the books of accounts of amalgamating / old firms and opening the books of accounts of amalgamated / new firm. There are two methods used for closing the books of accounts -

1. Revaluation Method, and 2. Realisation Method.

In Revaluation Method, a Revaluation or Profit & Loss Adjustment A/c is prepared to record the effect of increase or decrease in the value of assets and liabilities. In Realisation Method, the purchase price is calculated and all assets and outsider liabilities are transferred to Realisation A/c at book values. In this unit the Revaluation Method is followed. As per this method, for closing the books of accounts of old firms journal entries are to be passed taking into consideration the following points :

- i) Revaluation of Assets and liabilities.
- ii) Creation of Goodwill.
- iii) Close Reserves and other Profit Accounts.
- iv) Close Loss Account.
- v) Close Assets and Liabilities Accounts which are not taken over by the new firm.
- vi) Transfer / close Assets and Liabilities Accounts which are taken over by the new firm.
- vii) Close Capital Accounts of the partners.

To open the books of accounts of the New Firm the journal entries are to be passed taking into consideration the following points :

- i) Assets of the old firm taken over by the new firm.
- ii) Liabilities of the old firm taken over by the new firm.
- iii) Capitals of the partners of the old firm taken over by the new firm.
- iv) Adjustment of Goodwill.
- v) Adjustment of Capitals of the Partners.

## **2.4 Journal Entries and Ledger Accounts for Amalgamation of Partnership Firms :**

In the amalgamation of partnership firms closing entries and opening entries are to be passed. The closing entries are to be passed to close the books of accounts of amalgamating / old firms and the opening entries are to be passed to open the books of accounts of amalgamated/ new firm.

### **Journal Entries in the Books of Old Firms (Closing Entries) :**

**i) For Revaluation of Assets and Liabilities :** Assets and Liabilities of the old firms may be revalued at the time of amalgamation. There may be increase or decrease in the values of assets and liabilities which shows profit or loss. To record this profit or loss a Profit & Loss Adjustment A/c or Revaluation A/c is to be opened. The net profit or loss on this account is to be transferred to Partner's Capital A/c in the old profit sharing ratio. For this purpose following journal entries are to be passed.

a) For increase in the value of asset and decrease in the value of Liability, which shows revaluation profit.

Particular Asset / Liability A/c ..... Dr.

To Profit & Loss Adjustment A/c / Revaluation A/c

b) For decrease in the value of asset and increase in the value of liability which shows revaluation loss.

Profit & Loss Adjustment A/c / Revaluation A/c..... Dr.

Particular Asset / Liability A/c

c) For closing the Profit & Loss Adjustment A/c / Revaluation A/c and transferring profit.

Profit & Loss Adjustment A/c / Revaluation A/c..... Dr.

To Partner's Capital A/cs

(If there is a loss, a reverse entry will be passed)

**ii) For Creation of Goodwill :** If there is no goodwill account in the books of the old firm and if it is to be created the following entry will be passed,

Goodwill A/c ..... Dr.

To Partner's Capital A/cs

(Goodwill is to be transferred in the old profit sharing ratio)

**iii) For closing Reserves and Profit Accounts :** The balance on these accounts is to be transferred to Partner's Capital A/cs in the old profit sharing ratio.

Reserves A/c ..... Dr.

Profit & Loss A/c (Cr. Balance) .....Dr.

To Partner's Capital A/cs

**iv) For closing Loss Account :** The Profit & Loss A/c showing Dr. balance is a loss account It appears on the asset side of the Balance sheet. The balance on this account also transferred to Partner's Capital A/cs in the old profit sharing ratio.

Partner's Capital A/cs .....Dr.

To Profit & Loss A/cs

**v) For closing Assets and Liabilities A/cs which are not taken over by the New Firm :** Those assets and Liabilities which are not taken over by the new firm will be either sold

away / paid off by the old firm or transferred to Partner / Partner's Capital A/cs in the capital ratio. The profit or loss on such transaction will be transferred to P & L Adjustment A/c or directly to Partner's Capital A/cs in the old profit sharing ratio. For this purpose following journal entries are to be passed.

a) If an asset is sold away for cash

Cash / Bank A/c ..... Dr.  
To Particular Asset A/c

b) If an asset is taken over by the partner / partners

Partner/s Capital A/c ..... Dr.  
To Particular Asset A/c

c) If a liability is paid off

Particular Liability A/c ..... Dr.  
To Cash / Bank A/c

d) If a liability is taken over by the partner/ partners

Particular Liability A/c ..... Dr.  
To Partner/s Capital A/c

**vi) For closing Assets and Liabilities which are taken over by the New Firm :** The accounts of assets and liabilities which are taken over by the new firm will be closed by transferring them to the New Firm A/c at agreed values.

a) For closing Assets

New Firm A/c ..... Dr  
To Assets A/c

b) For closing Liabilities

Liabilities A/c ..... Dr  
To New Firm A/c

**vii) For closing Partner's Capital A/cs :** Partner's Capital A/cs of the old firm are to be closed with the net balance by transferring them to the New Firm A/c

Partner's Capital A/c ..... Dr  
To New Firm A/c

### **Ledger Accounts if the Books of the Old Firms :**

Form the above journal entries the following important ledger accounts will be prepared in the books of old firms.

- i) Profit & Loss Adjustment A/c / Revaluation A/c
- ii) Partner's Capital A/cs
- iii) New Firm A/c
- iv) Goodwill A/c
- v) Partner's Current A/c, etc.

### **Journal Entries in the Books of the New Firm (Opening Entries) :**

**i) For Assets, Liabilities and Capitals of the Partners of the old firm taken over by the New Firm :**

Assets A/c ..... Dr. (at agreed values)  
    To Liabilities A/c     (at agreed values)  
    To Partner's Capital A/cs (at transferred balance)

**ii) For Adjustment of Goodwill :** The goodwill transferred from the old firm to the new firm may be maintained as it is or may be written off or may be reduced by the New Firm. If the goodwill is written off or reduced the entry will be as follows :

All Partner's Capital A/cs ..... Dr.  
    To Goodwill A/c

(All partner's capital A/c are debited in the new profit sharing ratio)

**iii) For Adjustment of Capitals :** If the capitals of the partners in the new firm are changed as per the new profit sharing ratio or as per the agreement, there is a need to pass journal entries for the adjustment of capitals. The adjustments of capital may be made in cash or through current A/cs.

- a) For cash brought in or through current A/c for adjustment of shortage of capital

Cash / Bank A/c ..... Dr.  
    Particular Partner Current A/c..... Dr.  
    To Particular Partner Capital A/c

b) For cash paid or through current a/c for adjustment of excess capital

Particular Partner Capital A/c..... Dr.

To Cash / Bank A/c

To Particular Partner Current A/c

**Ledger Accounts in the Books of New Firm :** From the above journal entries the Opening Balance Sheet of the new firm is to be prepared. Also, the Partner's Capital A/s, Cash/Bank A/c may be prepared.

## 2.5 Check Your Progress :

### Objective Type Questions :

#### Choose the Correct alternative.

- The assets and liabilities not taken over by the new firm are transferred to Partner's Capital Accounts in their .....
  - Profit sharing ratio
  - Capital ratio
  - Equal ratio
  - None of above
- In the event of amalgamation, the goodwill of each firm is credited to the partners capitals of the respective firm in their .....
  - Old profit sharing ratio
  - New profit sharing ratio
  - Capital ratio
  - None of above
- Increase in the value of asset and decrease in the value of Liability shows .....
  - Revaluation Profit
  - Revaluation Loss
  - No Profit, No Loss
  - None of above
- Decrease in the value of asset and increase in the value of liability shows .....
  - Revaluation Profit
  - Revaluation Loss
  - No Profit, No Loss
  - None of above

## 2.6 Illustrations :

**Illustration 1 :** The following were the Balance Sheets of two firms M/s P and Q and M/s R and S.

**Balance Sheets as at 31/03/2012**

Liabilities	P & Q Rs.	R & S Rs.	Assets	P & Q Rs.	R & S Rs.
Sundry Creditors	20000	25000	Cash at Bank	5600	6700
Mrs. P's Loan	5000	-	Stock	20400	18300
Capitals - P	40000	-	Debtors	15000	20000
Q	20000	-	Furniture	4000	5000
R	-	24000	Premises	40000	-
S	-	16000	Investment	-	15000
	85000	65000		85000	65000

The two firms decided to amalgamate their business as from 1st January, 2013 under the name Bharat Traders. For this purpose, it was agreed that Mrs. P's Loan should be repaid and the Investment of M/s. R & S be not taken over by the new firm.

Goodwill of P & Q was fixed at Rs. 8000 and that of R & S at Rs. 10000. Premises were revalued at Rs. 50000, but the stock of P & Q was found overvalued by Rs. 4000. The stock of R & S was undervalued by Rs. 2000. A reserve for bad debts was created at 5% of both firms.

The total capital of Bharat Traders was to be 80000 and it was shared by the P, Q, R & S in their new profit sharing ratio which was 3 : 2 : 3 : 2 respectively.

Pass necessary journal entries to close the books of M/s P & Q and M/s R & S also pass opening entries in the books of Bharat Traders. Prepare necessary accounts in the books of all the firms.

**Solution :**

Journal Entries in the Books of M/s P & Q (old Firm)

(Closing Entries)

Date	Particulars	L.F. No.	Dr. Rs.	Cr. Rs.
1-1-2013	Premises A/c	Dr.	10000	-
	To Profit & Loss Adjustment A/c		-	10000



	or		
	To Revaluation A/c		
	(Being increase in value of premises)		
	Profit & Loss Adjustment A/c	Dr.	4750
	or		
	Revaluation A/c	Dr.	
	To Stock A/c		4000
	To Provision for Bad Debts A/c		750
	(Being decrease in value of stock & debtors)		
	Goodwill A/c	Dr.	8000
	To P's Capital A/c		4000
	To Q's Capital A/c		4000
	(Being creation of goodwill)		
	Mrs. P's Loan A/c	Dr.	5000
	To Bank A/c		5000
	(Being Mrs. P's Loan A/c paid)		
	Profit & Loss Adjustment A/c	Dr.	5250
	or		
	Revaluation A/c	Dr.	
	To P's Capital A/c		2625
	To Q's Capital A/c		2625
	(Being revaluation profit transferred)		
	Bharat Traders A/c	Dr.	94000
	To Cash at bank A/c		600

	To stock A/c		16400
	To Debtors A/c		15000
	To Furniture A/c		4000
	To Premises A/c		50000
	To Goodwill A/c		8000
	(Being assets transferred to new firm)		
	Sundry Creditors A/c	Dr.	20000
	Provision for Bad Debts A/c	Dr.	750
	To Bharat Traders A/c		20750
	(Being Liabilities transferred to new firm)		
	P's Capital A/c	Dr.	46625
	Q's Capital A/c	Dr.	26625
	To Bharat Traders A/c		73250
	(Being partners capital a/cs closed)		

Ledger Accounts in the Books of M/s P & Q (old firm)

(Closing Accounts)

Profit & Loss Adjustment A/c

or

Dr.		Revaluation A/c		Cr.			
Date	Particulars	J.F. No.	Rs.	Date	Particulars	J.F. No.	Rs.
	To Stock A/c		4000		By Premises A/c		10,000
	To Provision for Bad Debts A/c		750				
	To P's Capital A/c		2625				
	To Q's Capital A/c		2625				
			10,000				10,000

Dr. Partner's Capital A/c Cr.

Particulars	P Rs.	Q Rs.	Particulars	P Rs.	Q Rs.
To Bharat Traders A/c	46625	26625	By Balance b/d	40000	20000
			By P & L Adjustment A/c	2625	2625
			By Goodwill A/c	4000	4000
	46625	26625		46625	26625

Dr. Bharat Traders A/c (New Firm) Cr.

Particulars	Rs.	Particulars	Rs.
To Cash at Bank A/c	600	By Sundry Creditors A/c	20000
To stock A/c	16400	By Provision for Bad Debts A/c	750
To Debtors A/c	15000	By P's Capital A/c	46625
To Furniture A/c	4000	By Q's Capital A/c	26625
To Premises A/c	50000		73250
To Goodwill A/c	8000		
	94000		94000

Dr. Cash at Bank A/c Cr.

Particulars	Rs.	Particulars	Rs.
To Balance bid	5600	By Mrs P's Loan A/c	5000
		By Bharat Traders A/c	600
	5600		5600

Dr. Mrs P's Loan A/c Cr.

Particulars	Rs.	Particulars	Rs.
To Cash at Bank A/c	5000	By Balance bld	5000
	5000		5000

Dr. Goodwill A/c Cr.

Particulars	Rs.	Particulars	Rs.
To P's Capital A/c	4000	By Bharat Traders A/c	8000
To Q's Capital A/c	4000		
	8000		8000

Journal Entries in the Books of M/s R & S (old firm)

(Closing Entries)

Date	Particulars	L.F. No.	Dr. Rs.	Cr. Rs.
	Stock A/c <span style="float: right;">Dr.</span>		2000	
	To Profit & Loss Adjustment A/c			2000
	(Being increase in value of stock)			
	Profit & Loss Adjustmennt A/c <span style="float: right;">Dr.</span>		1000	
	To Provision for Bad Debts A/c			1000
	(Being decrease in value of debtors)			
	Profit & Loss Adjustment A/c <span style="float: right;">Dr.</span>		1000	
	To R's Capital A/c			500
	To S's Capital A/c			500

(Being profit transferred)			
Goodwill A/c	Dr.	10000	
To R's Capital A/c			5000
To S's Capital A/c			5000
(Being goodwill created)			
Bank A/c	Dr.	15000	
To Investment A/c			15000
(Being investment sold)			
Bharat Traders A/c	Dr.	77000	
To Cash at Bank A/c			21700
To Stock A/c			20300
To Debtors A/c			20000
To Furniture A/c			5000
To Goodwill A/c			10000
(Being assets transferred)			
Sundry Creditors A/c	Dr.	25000	
Provision for Bad Debts A/c	Dr.	1000	
To Bharat Traders A/c			26000
(Being Liabilities transferred)			
R's Capital A/c	Dr.	29500	
S's Capital A/c	Dr.	21500	
To Bharat Traders A/c			51000
(Being Partners Capital A/cs closed)			

Ledger Accounts in the Books of M/s R & S (old firm)

(Closing Accounts)

Dr. Profit & Loss Adjustment A/c Cr.

Particulars	Rs.	Particulars	Rs.
To Provision for Bad Debts A/c	1000	By Stock A/c	2000
To R's Capital A/c	500		
To S's Capital A/c	500		
	2000		2000

Dr. Partner's Capital A/c Cr.

Particulars	R	S	Particulars	R	S
	Rs.	Rs.		Rs.	Rs.
To Bharat Traders A/c	29500	21500	By Balance bld	24000	16000
			By Profit & Loss Adjustment A/c	500	500
			By Goodwill A/c	5000	5000
	29500	21500		29500	21500

Dr. Bharat Traders A/c (New Firm) Cr.

Particulars	Rs.	Particulars	Rs.
To Cash at Bank A/c	21700	By Sundry Creditors A/c	25000
To Stock A/c	20300	By Provision for Bad Debts A/c	1000
To Debtors A/c	20000	By R's Capital A/c	29500
To Furniture A/c	5000	By S's Capital A/c	21500
To Goodwill A/c	10000		51000
	77000		77000

Dr. Cash at Bank A/c Cr.

Particulars	Rs.	Particulars	Rs.
To Balance bld	6700	By Bharat Traders A/c	21700
To Investment A/c	15000		
	21700		21700

Dr. Investment A/c Cr.

Particulars	Rs.	Particulars	Rs.
To Balance bld	15000	By Bank A/c	15000
	15000		15000

Dr. Goodwill A/c Cr.

Particulars	Rs.	Particulars	Rs.
To R's Capital A/c	5000	By Bharat Traders A/c	10000
To S's Capital A/c	5000		
	10000		10000

**Note :** Investment of M/s R & S is not taken over by the new firm. It is treated as sold by the old firm at book value.

Journal Entries in the Books of Bharat Traders (New Firm)

(Opening Entries)

Date	Particulars	L.F. No.	Dr. Rs.	Cr. Rs.
	Cash at Bank A/c	Dr.	600	
	Stock A/c	Dr.	16400	
	Debtors A/c	Dr.	15000	
	Furniture A/c	Dr.	4000	
	Premises A/c	Dr.	50000	
	Goodwill A/c	Dr.	8000	
	To Sundry Creditors A/c			20000
	To Provision for Bad Debts A/c			750
	To P's Capital A/c			46625
	To Q's Capital A/c			26625
	(Being assets, Liabilities & Partners Capitals of M/s P & Q taken over)			
	Cash at Bank A/c	Dr.	21700	
	Stock A/c	Dr.	20300	
	Debtors A/c	Dr.	20000	
	Furniture A/c	Dr.	5000	
	Goodwill A/c	Dr.	10000	
	To Sundry Creditors A/c			25000
	To Provision for Bad Debts A/c			1000
	To R's Capital A/c			29500
	To S's Capital A/c			21500



(Being assets, Liabilities & partners capitals of M/s R & S taken over)			
P's Capital A/c	Dr.	22625	
Q's Capital A/c	Dr.	10625	
R's Capital A/c	Dr.	5500	
S's Capital A/c	Dr.	5500	
To cash at Bank A/c			44250
(Being extra capital amount paid in cash)			

**Note :** The total capital of Bharat Traders (New Firm) is fixed at Rs. 80000 and shared by all partners in the ratio 3 : 2 : 3 : 2 . It is treated as the extra capital is paid in cash.

Ledger Posting in the Books of Bharat Traders (New Firm)

Balance Sheet of Bharat Traders

as on 1st January, 2013

(Opening Balance Sheet)

Liabilites	Rs.	Assets	Rs.
Capital A/cs		Stock A/c	36700
P	24000	Debtors A/c	35000
Q	16000	Less - Provision for Bad Debts	1750
R	24000	Furniture A/c	9000
S	16000	Premises A/c	50000
Sundry Creditors A/c	45000	Goodwill A/c	18000
Bank Loan A/c	21950		
(44250 - 600 + 21700)			
	146950		146950

Dr.

## Partner's Capital A/c

Cr.

Particulars	P Rs.	Q Rs.	R Rs.	S Rs.	Particulars	P Rs.	Q Rs.	R Rs.	S Rs.
To Cash at Bank A/c (Bank Loan)	22625	10625	5500	5500	By M/s P & Q	46625	26625	-	-
To Balance cld (New Capital)	24000	16000	24000	16000	By M/s R & S	-	-	29500	21500
	44625	26625	29500	21500		46625	26625	29500	21500
					By Balance bld	24000	16000	24000	16000

OR

Capital Adjustment through working note :

Partners	Capital Transferred Rs.	Capital Required Rs.	Amount Paid Rs.
P	46625	24000	22625
Q	26625	16000	10625
R	29500	24000	5500
S	21500	16000	5500
	124250	80000	44250

**Illustration 2 :** The Balance Sheets of M/s A & B and M/s C & D as on 31st December, 2012 were as follows :

Liabilities	A & B Rs.	C & D Rs.	Assets	A & B Rs.	C & D Rs.
Capital A/cs			Land & Building	10000	12000
A	10000	-	Machinery	7000	8000
B	10000	-	Furniture	3000	3500

(P.T.O.)

C	-	10000	Debtors	6000	8500
D	-	10000	Stock	8000	10000
Creditors	15000	10000	Cash & Bank	3000	1000
Loan	-	10000			
Outstanding Expenses	2000	3000			
	37000	43000		37000	43000

The two firms decided to amalgamate and form into A B & Co. with effect from 1st January, 2013. Partners would share profit and losses equally between themselves as they were doing prior to amalgamation and they agreed to following revaluation of assets and Liabilities.

Particulars	A & B Rs.	C & D Rs.
Land & Building	10000	10000
Machinery	7000	8000
Furniture	2500	2500
Debtors	5500	7000
Stock	8000	8000
Outstanding Expenses	2000	3500

In addition to above it was decided :

a) That the new firm would not take over the loan of C and D.

b) That the goodwill of A and B and C and D were valued at Rs. 10000 and Rs. 5000 respectively in the first instant but for the purpose of the Balance Sheet of the new firm, the combined goodwill would be valued at Rs. 12000, and

c) The reconstructed capitals of partners should be Rs. 14000 each, partners introducing cash if necessary.

You are required to prepare :

i) Journal entries in the books of A & B

ii) Profit & Loss Adjustment A/c, Partners Capital A/c and A B & Co. A/c in the books of C & D.

iii) Journal entries and Opening Balance Sheet in the books of A B & Co.

**Solution :**

Journal Entries in the Books of A & B (Old Firm)  
(Closing Entries)

	Particulars	Debit Rs.	Credit Rs.
1.	Profit & Loss Adjustment A/c      Dr. To Furniture A/c To Debtors A/c (Being decrease in value of assets)	1000	500 500
2.	A's Capital A/c      Dr. B's Capital A/c      Dr. To Profit & Loss Adjustment A/c (Being loss transferred)	500 500	1000
3.	Goodwill A/c      Dr. To A's Capital A/c To B's Capital A/c (Being goodwill created)	10000	5000 5000
4.	A B & Co. A/c      Dr. To Land & Building A/c To Machinery A/c To Furniture A/c To Debtors A/c To Stock A/c To Cash & Bank A/c To Goodwill A/c (Being assets transferred)	46000	1000 7000 2500 5500 8000 3000 10000

5.	Creditors A/c	Dr.	15000	
	Outstanding Expenses A/c	Dr.	2000	
	To A B & Co. A/c			17000
	(Being Liabilities transferred)			
6.	A's Capital A/c	Dr.	14500	
	B's Capital A/c	Dr.	14500	
	To A B & Co. A/c			29000
	(Being Partner's Capital A/cs closed)			

Ledger Accounts in the Books of C & D (Old Firm)  
(Closing Accounts)

Dr. Profit & Loss Adjustment A/c Cr.

Particulars	Rs.	Particulars	Rs.	Rs.
To Land & Building A/c	2000	By C's Capital A/c	3500	
To Furniture A/c	1000	By D's Capital A/c	3500	7000
To Debtors A/c	1500			
To Stock A/c	2000			
To Outstanding Expenses A/c	500			
	7000			7000

Dr. Partner's Capital A/c Cr.

Particulars	C Rs.	D Rs.	Particulars	C Rs.	D Rs.
To Profit & Loss Adjustment A/c	3500	3500	By Balance bld	10000	10000
			By Goodwill A/c	2500	2500
			By Loan A/c	5000	5000
To A B & A/c	14000	14000			
	17500	17500		17500	17500

Dr. A B & Co. A/c (New Firm) Cr.

Particulars	Rs.	Particulars	Rs.
To Land & Building A/c	10000	By Creditors A/c	10000
To Machinery A/c	8000	By Outstanding Expenses A/c	3500
To Furniture A/c	2500	By C's Capital A/c	14000
To Debtors A/c	7000	By D's Capital A/c	14000
To Stock A/c	8000		
To Cash & Bank A/c	1000		
To Goodwill A/c	5000		
	41500		41500

**Note :** Loan of the C & D is not taken over by the new firm. It is treated as taken over by partners in the old firm.

Journal Entries in the Books of A B & Co. (New Firm)  
(Opening Entries)

	Particulars		Debit Rs.	Credit Rs.
1.	Land & Building A/c	Dr.	10000	
	Machinery A/c	Dr.	7000	
	Furniture A/c	Dr.	2500	
	Debtors A/c	Dr.	5500	
	Stock A/c	Dr.	8000	
	Cash & Bank A/c	Dr.	3000	
	Goodwill A/c	Dr.	10000	
	To Creditors A/c			15000

	To Outstanding Expenses A/c		2000
	To A's Capital A/c		14500
	To B's Capital A/c		14500
	(Being assets, liabilities and Capitals taken over)		
2.	Land & Building A/c	Dr.	10000
	Machinery A/c	Dr.	8000
	Furniture A/c	Dr.	2500
	Debtors A/c	Dr.	7000
	Stock A/c	Dr.	8000
	Cash & Bank A/c	Dr.	1000
	Goodwill A/c	Dr.	5000
	To Creditors A/c		10000
	To Outstanding Expenses A/c		3500
	To C's Capital A/c		14000
	To D's Capital A/c		14000
	(Being assets, liabilities & Capitals taken over)		
3.	A's Capital A/c	Dr.	750
	B's Capital A/c	Dr.	750
	C's Capital A/c	Dr.	750
	D's Capital A/c	Dr.	750
	To Goodwill A/c		3000
	(Being goodwill reduced)		
4.	Cash & Bank A/c	Dr.	2000
	To A's Capital A/c		250
	To B's Capital A/c		250
	To C's Capital A/c		750
	To D's Capital A/c		750
	(Being Cash brought in by partners)		

Dr.

## Balance Sheet of AB &amp; Co.

Cr.

Liabilities	Rs.	Assets	Rs.
Capitals - A	14000	Land & Building	20000
B	14000	Machinery	15000
C	14000	Furniture	5000
D	14000	Debtors	12500
Creditors	25000	Stock	16000
Outstanding Expenses	5500	Cash & Bank	6000
		Goodwill	12000
	86500		86500

**Illustration 3 :** Ajay and Vijay were in partnership sharing profits & losses in the ratio 3 : 2. They agreed to amalgamate their business with that of Sanjay and form a new firm on March 31, 2011. As on that date their Balance Sheets were as follows :

Liabilities	Ajay & Vijay Rs.	Sanjay Rs.	Assets	Ajay & Vijay Rs.	Sanjay Rs.
Capitals - Ajay	100000	-	Freehold Premises	80000	-
Vijay	80000	-	Furniture	24000	15000
Sanjay	-	60000	Investments	-	30000
Current A/cs			Stock	60000	45000
Ajay	34000	-	Debtors 24000		
Vijay	28000	-	Provision 2000	22000	18000
Sanjay	-	8000	Bank	82000	-
Loan from Mahesh	-	20000			
Creditors	26000	16000			
Bank Overdraft	-	4000			
	268000	108000		268000	108000



The two firms were amalgamated on the following terms :

i) Profits & losses were to be shared : Ajay 2/5, Vijay 2/5 & Sanjay 1/5.

ii) An account for goodwill is to be maintained in the books of new firm, agreed values of goodwill of each firm being : Ajay & Vijay Rs. 120000 and Sanjay Rs. 40000.

iii) Assets of Ajay & Vijay were valued as Freehold Premises Rs. 110000, Furniture Rs.21000, Stock Rs. 69000, Debtors Rs. 23200.

iv) Investment of Sanjay was sold by him for Rs. 46000 and out of this sum he discharged the loan to Mahesh and bank overdraft, the balance being taken over by the new firm.

You are required to prepare important accounts in the books of Ajay & Vijay and also in the books of Sanjay and prepare Balance Sheet in the books of New Firm assuming that capital of new firm was to be Rs. 400000 contributed in their new ratio and any difference being adjusted through their current accounts.

**Solution :** Ledger Accounts in the Books of Ajay & Vijay.

Dr. Profit & Loss Adjustment A/c Cr.

Particulars	Rs.	Particulars	Rs.
To Furniture	3000	By Freehold Bemises A/c	30000
To Ajay's Capital A/c 22320		By Stock A/c	9000
To Vijay's Capital A/c 14880		By Debtors A/c	1200
	37,200		
	40,200		40,200

Dr. Partner's Current A/c Cr.

Particulars	Ajay Rs.	Vijay Rs.	Particulars	Ajay Rs.	Vijay Rs.
To Partner's Capital A/c	128320	90880	By Balance bld	34000	28000
			By P & L Adjustment A/c	22320	14880
			By Goodwill A/c	72000	48000
	128320	90880		128320	90880

Dr. New Firm A/c Cr.

Particulars	Rs.	Particulars	Rs.
To Freehold Premises A/c	110000	By Creditors A/c	26000
To Furniture A/c	21000	By Ajay's Capital A/c	228320
To Stock A/c	69000	By Vijay's Capital A/c	170880
To Debtors A/c	23200		
To Bank A/c	82000		
To Goodwill A/c	120000		
	425200		425200

Dr. Partner's Capital A/c Cr.

Particulars	Ajay	Vijay	Particulars	Ajay	Vijay
	Rs.	Rs.		Rs.	Rs.
To New Firm A/c	228320	170880	By Balance bld	100000	80000
			By Partner's Current A/c	128320	90880
	228320	170880		228320	170880

Ledger Accounts in the Books of Sanjay

Dr. Profit & Loss Adjustment A/c Cr.

Particulars	Rs.	Particulars	Rs.
To Sanjay's Current A/c	16000	By Investment A/c	16000
	16000		16000

Dr. Sanjay's Capital A/c Cr.

Particulars	Rs.	Particulars	Rs.
To New Firm A/c	124000	By Balance bld	60000
		By Sanjay's Current A/c	64000
	124000		124000

Dr. Sanjay's Current A/c Cr.

Particulars	Rs.	Particulars	Rs.
To Sanjay's Capital A/c	64000	By Balance bld	8000
		By P & L Adjustment A/c	16000
		By Goodwill A/c	40000
	64000		64000

Dr. New Firm A/c Cr.

Particulars	Rs.	Particulars	Rs.
To Furniture A/c	15000	By Creditors A/c	16000
To Stock A/c	45000	By Sanjay's Capital A/c	124000
To Debtors A/c	18000		
To Bank A/c	22000		
To Goodwill A/c	40000		
	140000		140000

Dr. Bank A/c Cr.

Particulars	Rs.	Particulars	Rs.
To Investment A/c	46000	By Loan From Mahesh A/c	20000
		By Bank Overdraft A/c	4000
		By New Firm A/c	22000
	46000		46000

Dr. Investment A/c Cr.

Particulars	Rs.	Particulars	Rs.
To Balance bld	30000	By Bank A/c	46000
To P & L Adjustment A/c	16000		
	46000		46000

In the Books of New Firm  
Balance Sheet

Liabilities	Rs.	Assets	Rs.
Capital A/cs		Freehold Premises	1,10,000
Ajay	160000	Furniture	36000
Vijay	160000	Stock	114000
Sanjay	80000	Debtors	41200
Current A/cs		Bank	104000
Ajay	68320	Goodwill	160000
Vijay	10880		
Sanjay	44000		
Creditors	42000		
	565200		565200

**Illustration 4 :** Two firms P & Q and R & S agreed to amalgamate their businesses. Their positions as on 31st December 2012 were as follows :

Liabilities	P & Q Rs.	R & S Rs.	Assets	P & Q Rs.	R & S Rs.
Creditors	104000	52000	Bank	156000	65000
General Reserve	62000	6000	Debtors	130000	104000
Capitals			stock	42000	26000
P / R	150000	90000	Office Building	78000	-
Q / S	100000	60000	Furniture	10000	13000
	416000	208000		416000	208000

Creditors and Debtors of both the firms were not taken over by the new firm P Q R S. Office Building was taken over by P & Q. Goodwill created Rs. 40000 and Rs. 20000 respectively of P & Q and R & S.

Prepare necessary accounts to close the books of P & Q and R & S and open Balance Sheet in the books of P Q R S.

**Solution :** In the Books of P & Q.

Dr.		Partner's Capital A/c		Cr.	
Particulars	P Rs.	Q Rs.	Particulars	P Rs.	Q Rs.
To Office Building A/c	46800	31200	By Balance bld	150000	100000
To PQRS A/c (New Firm)	154200	119800	By General Reserve	31000	31000
			By Goodwill A/c	20000	20000
	201000	151000		201000	151000

Dr. P Q R S A/c (New Firm) Cr.

Particulars	Rs.	Particulars	Rs.
To Stock A/c	42000	By P's Capital A/c	154200
To Furniture A/c	10000	By Q's Capital A/c	119800
To Goodwill A/c	40000		
To Bank A/c	182000		
	274000		274000

Dr. Bank A/c Cr.

Particulars	Rs.	Particulars	Rs.
To Balance bld	156000	By Creditors A/c	104000
To Debtors A/c	130000	By PQRS A/c	182000
	286000		286000

**Notes :**

1. There is no need to prepare P & L Adjustment A/c because no change in the values of assets & liabilities.

2. Office Building is taken over by P & Q. It is in the capital ratio.

3. Creditors and Debtors are not taken over by the new firm. It is treated that these transactions are made in cash.

In the Books of R & S

Dr. Partner's Capital A/c Cr.

Particulars	P	Q	Particulars	P	Q
	Rs.	Rs.		Rs.	Rs.
To P Q R S A/c (New Firm)	103000	73000	By Balance bld	90000	60000
			By General Reserve bld	3000	3000
			By Goodwill A/c	10000	10000
	103000	73000		103000	73000

Dr. Bank A/c Cr.

Particulars	Rs.	Particulars	Rs.
To Balance bld	65000	By Creditors A/c	52000
To Debtors A/c	104000	By PQRS A/c	117000
	169000		169000

Dr. P Q R S A/c (New Firm) Cr.

Particulars	Rs.	Particulars	Rs.
To Stock A/c	26000	By R's Capital A/c	103000
To Furniture A/c	13000	By S's Capital A/c	73000
To Goodwill A/c	20000		
To Bank A/c	117000		
	176000		176000

In the Books of P Q R S (New Firm)

Balance Sheet

Liabilities	Rs.	Assets	Rs.
Capital A/cs		Stock	68000
P	154200	Furniture	23000
Q	119800	Bank	299000
R	103000	Goodwill	60000
S	73000		
	450000		450000

### 3. Summary :

Amalgamation of partnership firms means merger of two or more partnership firms with one another and formation of a new firm. The firm carrying on same type of business merge into each other. There are different ways of amalgamation of partnership firms. The amalgamation is made for the purpose to avoid cut-throat competition, to minimize common expenses, to get advantage of large scale business, to strengthen the capital position etc. Accounting for amalgamation of partnership firms includes closing entries in the books of old firms and opening entries in the books of the new firm.

### 4. Terms to Remember :

**1) Amalgamation :** When two or more partnership firms merge with one another and form a new firm it is called as amalgamation.

**2) Partnership :** The relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all.

**3) Goodwill :** It is an intangible asset arising from business connections or reputation of an enterprise.

### 5. Answers to Check Your Progress :

1 - b, 2 - a, 3 - a, 4 - b

### 6. Exercise :

#### Essay Type -

1. Explain the term amalgamation of partnership firms. What are the objectives of amalgamation of partnership firms?

2. State the journal entries necessary for accounting of amalgamation in the books of old firms.

3. Give the journal entries for amalgamation in the books of new firm.

#### Practical Problems -

(1) Firms M & N and O & P decided to amalgamate as on 1st January, 2013 under the name Maharashtra Trading Co. Their Balance Sheets were as follows on 31st December, 2012.



Liabilities	M & N Rs.	O & P Rs.	Assets	M & N Rs.	O & P Rs.
Creditors	10000	22000	Building	18000	-
Bank Loan	-	8000	Goodwill	-	10000
Reserve	20000	-	Stock	30000	26000
Capitals			Debtors	12000	24000
M	30000	-	Investment	20000	-
N	20000	-			
O	-	15000			
P	-	15000			
	80000	60000		80000	60000

M & N shared profits in proportion to their capitals, while O & P shared profits equally. The terms of amalgamation were :

i) The building owned by M & N to be taken over by the new firm at Rs. 23000. However, the new firm does not take over their investment.

ii) The goodwill appearing in the books of O & P was worthless.

iii) After the above adjustments have been made, O & P each to bring in Rs. 5000 as additional capitals.

Give necessary journal entries in the books of M & N, show necessary accounts in the books of O & P and the Balance sheet in the books of Maharashtra Trading Co.

(2) M/s A & Co. having A and B as equal partners, decided to amalgamate with C & Co. having C and D as equal partners on the following terms and conditions :

a) The new firm A C and Co. to pay Rs. 12000 to each firm for goodwill.

b) The new firm to take over investment at 10% depreciation, land at Rs. 66800, premises at Rs. 53000, machinery at Rs. 9000 and only the trade liabilities of both the firms. The debtors being taken over at given value.

c) The capital of new firm was fixed at Rs. 160000 and shared equally by all partners.

The following were the Balance Sheets of both the firms on the date of amalgamation :

Liabilities	A & Co Rs.	C & Co Rs.	Assets	A & Co Rs.	C & Co Rs.
Trade Liabilities	25000	10000	Cash	15000	12000
Bank overdraft	2000	10000	Investments	10000	8000
A's loan	6000	-	Debtors 10000		
General Reserve	10000	4000	- Provision 1000	9000	4000
Capitals :			Furniture	12000	6000
A	35000	-	Premises	30000	-
B	22000	-	Land	-	50000
C	-	36000	Machinery	15000	-
D	-	20000	Goodwill	9000	-
	100000	80000		100000	80000

Assuming immediate discharge of bank overdraft, prepare necessary accounts in the books of A & Co. and C & Co. and also prepare the Balance sheet of the new firm.

(3) Two partnership firms carrying on business under the style of Black & Co. and White & Co. respectively, decided to amalgamate into Grey & Co. with effect from 1st January, 2013. Their Balance Sheets as on 31st December, 2012 were as follows :

Liabilities	Black & Co. Rs.	White & Co. Rs.	Assets	Black & Co. Rs.	White & Co. Rs.
Sundry Creditors	10000	9500	Plant & Machinery	10000	-
Bank overdraft	15000	-	Goodwill	-	5000
Capitals - B	19000	-	Stock	20000	5000
X	-	10000	Debtors	10000	10000
Y	-	2000	Cash	-	1500
			Capitals - A	4000	-
	44000	21500		44000	21500

The following further information is given :

- i) A and B share profit & losses in the ratio 1 : 2 and X and Y share profit & losses equally.
- ii) All fixed assets are to be devalued by 20%.
- iii) All stock is to be appreciated by 50%.
- iv) Goodwill is to be ignored for the purpose of amalgamation.
- v) The fixed capital accounts in the new firm are to be : A - Rs. 2000, B - Rs. 3000, X - Rs. 1000 and Y - Rs. 4000. The necessary adjustments are made in cash.

Pass necessary journal entries in the books of Black & Co. Prepare necessary accounts in the books of White & Co. and prepare Balance sheet in the books of Grey & Co.

(4) Two firms Rsm & Co. and Bharat & Co. decided to amalgamate on 1st January, 2013 and form a new firm Dasharath & Co. The Balance Sheets of the two firms on 31st Decemebr 2012 were as follows :

Liabilities	Ram & Co. Rs.	Bharat & Co. Rs.	Assets	Ram & Co. Rs.	Bharat & Co. Rs.
Creditors	25000	15000	Building	40000	-
Bills Payable	5000	-	Plant & Machinery	30000	25000
Bank Loan	-	10000	Dead Stock	5000	-
Capitals :			Furniture	-	8000
Ram	60000	-	Debtors	28000	25000
Laxman	30000	-	Stock in trade	10000	35000
Bharat	-	50000	Bills Receivables	-	6000
Shatrughna	-	25000	Bank	7000	1000
	120000	100000		120000	100000

The following arrangements were agreed upon :

- i) Buildings were appreciated by 20% and Dead Stock was subjected to 5% depreciation.

ii) Plant & machinery were taken at 10% less.

iii) Provision for Doubtful Debts was made at 3% on debtors of both the firms.

iv) Provision for Discount on Creditors of both the firms was also made at 2%.

Write up necessary ledger accounts in the books of Ram & Co., Pass necessary journal entries in the books of Bharat & Co. and prepare a Balance Sheet in the books of Dasharath & Co.

#### **7. References for further study :**

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