SALE OF PARTNERSHIP TO A LIMITED COMPANY:

In a partnership firm, the partners may face difficulties in managing their business. Due to legal restriction on maximum number of members, they cannot raise huge amount of capital to run the business on a large scale basis. Due to unlimited liability, their personal properties are subject to court attachment when the firm is not in a position to pay off its debts. In case any partner dies, the operation of the firm may to suspended for some time. In some cases the firm may have to be closed down permanently. To get relief from all these difficulties, the partners may be forced to find alternative ways of running the business. One such alternative is "Sale to a company" or converting partnership firm into a limited liability company. Accordingly, the partnership firm may be converted into a Joint stock company or the same may be sold to an existing Joint stock company. In both cases, the existing partnership firm is going to be dissolvedand the business carried on by the firm is acquired by the company. The partners of the firm will become shareholders of the company as they are usually allotted shares by the company for taking over their business.

Meaning and Advantages :

Sale to a Company means the sale of a partnership business to an existing company or to a limited company newly formed to take over the business of the partnership firm. The practice of selling business to a company is mainly adopted by partnership firms :

- To have a separate entity different from its members which can enjoy perpetual succession.

- To get the advantage of limited liability.
- To take advantage of lower rate of income tax.
- To have access to huge capital.
- To obtain funds for expansion of business.
- To increase the availability of managerial skills.
- To get other sundry benefits of being a limited company.

Accounting Treatment

When a partnership firm is sold to an existing joint stock company or is converted into a joint stock company, the following accounting procedures are needed .
(l) Computation of purchase consideration.
(2) Closure of Firm's Books.
(3) Opening the books of the New Company / Purchasing company.

(1) Computation of purchase Consideration

A partnership firm is sold to the purchasing company for a price known as "purchase Consideration". In other words, the term "Purchase Consideration" indicates the amount payable by the purchasing company to the vendor firm for taking over its assets and liabilities. The company may take over all assets and liabilities or only part of them. The value of such assets taken over and liabilities assumed may be book values or current values depending on agreement between the firm and the company. The amount of purchase consideration may be paid in any form like shares, and debentures of the company and cash. The purchase consideration can be ascertained in any one of the following methods.

(a) Lump sum Consideration : A specific sum of money may be decided as the purchase consideration taking all the factors involved into account.

(b)Net Payment Method : Under this method, the amount of purchase consideration is found out by adding the various payments to be made by the company in the form of cash, shares or debentures. That is, the purchase price is the total of all payments to be made in cash, shares and debentures. It is calculated as under :

- Cash receivable
- Issue price of equity shares Issue price of preference shares
- Issue price of debentures
- Total payments being the amount of purchase consideration

(c) Net Assets Method : When the full details of purchase consideration are not given, as discussed above, the purchase consideration will have to be ascertained by adding agreed values of only those assets which have been agreed to be taken over by the company and deductingthere from the agreed value of only those liabilities which have been agreed to be taken over by the company. It is calculated as under :

Agreed values of Individual assets to be taken over	xxxxx
Less : Agreed value of Individual liabilities to be taken over	xxxxx
Value of Net Assets (purchase Consideration)	xxxxx

(2) Closure of Firm's Books : As the operation of the partnership firm comes to an end, the books of the partnership firm are to be closed. To close the books of the partnership firm, the following steps are required :

(**a)Transfer of all assets and liabilities to Realization A/c :** All assets and liabilities of the firm are to be transferred to realization account at their book values. Generally, the company takes over all assets including cash. But if it is specifically mentioned that the cash is not taken over, then cash balance should not be transferred to realization account. required entries are :

(i) For transfer of assets to realization a/c :

Realization A/c Dr.
To Sundry Assets A/c (With books value of individual assets)

(ii) For transfer of liabilities to realization/c :

Liabilities A/c Dr.
To Realization A/c (With the book value of liabilities)

(b) Assets and liabilities not taken over by the company : In case, the company does not want to take over certain assets of the firm, the same may be sold in the open market and the proceeds are to be credited to Realization Account. Similarly, the liabilities not taken over by the company may be paid off through the Realization Account. By this process, the profit or loss on realization of such assets and liabilities is automatically incorporated in the Realization Account. The entries are :

(i) For realizing assets not taken over :

Cash / Bank A/c Dr.
To Realization A/c

(ii) For payment of liabilities not taken over :

Realization A/c Dr.
To Bank / Cash A/c

(c) Purchase consideration received from the purchasing company : As stated earlier, the purchasing company pays purchase consideration for the assets and liabilities taken over from the firm. The purchase consideration received is credited to Realization Account. The purchase consideration may be received in the form of cash, shares and debentures of purchasing company which are all debited individually. Distribution of shares and Debentures received as part of purchase consideration. The relevant entries for purchase consideration are as under :

(i) For Purchase Consideration due :

Purchasing Company A/c Dr.
To Realization A/c

(ii) For receiving Purchase Consideration :

Bank A/c Dr.
Equity Shares in purchasing company A/c Dr.
Preference shares in purchasing company A/c Dr.
Debentures in purchasing company A/c Dr.
To Purchasing company A/c

(iii) For distribution of shares / debentures :

Partners' Capital A/c Dr.

To Shares in purchasing company A/c (Profit sharing/Final Claim Ratio)

To Debentures in purchasing company (Profit Claim Ratio)

(d) Realization Expenses : Expenses paid by the firm in the process of realization of assets and settlement of liabilities are charged to realization account as follows :

Realization/c Dr.

To Cash / Bank A/c

Sometimes, as per agreement a partner is required to bear realization expenses. If it is stated in the question that a particular partner is to bear the realization expenses, the entry passed for payment of realization expenses by the firm is under :

Partners' Capital A/c Dr

To Cash / Bank A/c

(e) Preparation of Realization Account : After having followed the above mentioned steps, the Realization Account is to be prepared. This account reveals profit or loss on realization of assets and settlement of liabilities

The profit or loss on realization will have to be transferred to the capital account of partners in their profit sharing ratio. The required entries are:

(i) For profit on realization :

Realization A/c Dr

To Partners' Capital A/cs (In profit Sharing ratio)

(ii) For loss on realization :

Partners' Capital A/cs

To Realizations A/c (In profit Sharing ratio)

(f) Transfer of Accumulated reserves, profits or losses : Accumulated reserves, profits or losses are to be transferred directly to the capital accounts of partners in their profit sharing ratio.The entries to be passed:

(i) For transfer of accumulated reserves and profits :

Reserves A/c Dr

Profit & Loss A/c Dr. (In profit sharing ratio)To

Partners' Capital A/cs.

(ii) For transfer of accumulated losses :

Partners' capital A/c Dr.

To Profit &.Loss A/c (In profit sharing ratio)

(g) Payment of Partner's Loan : After settlement of outside liabilities, loans from partners are paid and are recorded as follows :

Partner's Loan A/c Dr.

To Cash / Bank A/c

(h) Closing the Capital accounts of partners : At the end, the capital accounts of partners are to be prepared by incorporating the realization profit or loss and accumulated reserves, profits or losses. If the net balance shown by the capital account of a partner is debit (i.e., debits total is more than credits total), he brings in cash equal to debit balance in his account and his account is closed. Entry passed for cash brought in by a partner is as follows :

Cash / Bank A/c Dr. (With cash brought at the time of final settlement) To
Partner's capital A/c

. Entry passed for cash paid to a partner is as follows :

Partner's capital A/c Dr.
To Cash / Bank A/c (with cash paid to partner at the time of final settlement)

3. Opening the Books of New company or purchasing company

In order to open the books of new company, three entries are required to be passed. The first entry is passed to indicate the amount of purchase consideration agreed upon. The second entry reveals the assets and liabilities taken over from the vendor firm. The final entry is meant for the payment of the purchase consideration due to the vendor firm. After having passed all these three opening or 'incorporating' entries, the balance sheet of the new Or purchasing company will be prepared. The required journal entries to be passed are as under :

(i) For the purchase consideration agreed upon :

Business Purchase A/c Dr.
To Vendor Firm's A/c

(ii) For assets and liabilities taken over

Sundry Assets A/c Dr.
To Sundry Liabilities A/c
To Business Purchase A/c

(iii) For payment of purchase consideration:

Vendor firm's A/c Dr.
To Share Capital A/c
To Debentures A/c
T0 Cash/Bank A/c

Sum No. 1: Raman and Krishnan decided to dissolve their firm and convert it into a Limited Company. Their assets were Rs. 90,000 and Trade Liabilities Rs. 30,000. Purchase price is agreed at Rs. 78,000. Expenses amounted to Rs. 5,000, paid by the firm. Prepare Realization Account.

Sum No. 2: Konark Industries acquired the business of A and B for a purchase price of Rs. 8,00,000, payable, Rs. 2,00,000 in cash, Rs. 3,00,000 in equity shares of Rs. 10 each at an agreed price of Rs. 16 each and the balance in 12% debentures of Rs 100 each at par.

The assets taken over had a book value of Rs.12,00,000 but they are subject a discount of 20%. Liabilities taken over were Rs. 2,00,000.
Give Journal entries in the books of the company.

Sum No. 3: M/s Khan and Jain had on 31-3-99 capitals standing at Rs. 1,50,000 and Rs. 1,00,000; Sundry creditors on that date were Rs. 30,000. Goodwill stood in the books at Rs. 20,000. The partners sold their business to an existing company for 25,000 shares of Rs. 10 each issued at a premium of Rs. 2 per share. At what value should the company record the goodwill on purchase and at what figure will it appear in the company's balance sheet?

Sum No. 4 : Padma Co. Ltd. was formed for taking over the business of Mr. Ganapatt purchase consideration was Rs. which will be settled by issue shares of Rs. 100 each at a discount of 5% and balance in cash. Assets take were Rs. and Liabilities taken over were Rs. 28,000. Give journal the books of Padma Co. Ltd.

Sum No. 5 : 'A' and 'B' who were equal partners in a business firm sold it to X Ltd payable Rs.5,00,000, payable Rs.2,00,000 in cash and Rs.3,00,000 in equity shares of the company. Their final claim before distribution of cash and shares was A Rs.3,50,000 and 'B' Rs.1,50,000Show the distribution of cash and shares if the basis is
Profit sharing Ratio (b) Final claim Ratio

Sum No.6 :. Geetha and Sheetal were partners sharing profits and losses in the ratio of3 ..2 1.7.2018, their Balance Sheet was as under :

Liabilities	(Rs.)	Assets		(Rs.)
Capital:		Plant		50,000
Geethu	40,000	Stock		20,000
Sheethal	30,000	Debtors	18,000	
Creditors	20,000	Less: RBD	900	17,100
Reserves	15,000	Cash at bank		17,900
	1,05,000			1,05,000

It was found that the Liabilities contained Rs. 1,600 which are not payable.
The firm was taken over by a company and the purchase consideration consisted of 250 shares of Rs. 10 each fully paid and balance in cash.
Pass Journal entries to close the books of the firm. Assume that the shares are distributed in the profit sharing ratio.

Sum No.7:. . Sarasu, Mangai and Mekala share profits in the ratio of 4: 3:2. They have decided to sell their firm to a Limited company on June 30, 2018. Their Balance Sheet on that date was as under :

Liabilities	(Rs.)	Assets	(Rs.)
Capital:		Land and Building	18,000
Sarasu	20,000	Stock	13,000
Mangai	15,000	Debtors	15,000
Mekala	13,000	Machinery	12,000
Creditors	12,000	Cash	2,000
	60,000		60,000

Purchase consideration agreed upon was Rs. 50,000. Of this the company has paidRs. 32,000 in its own shares and the balance in cash. Dissolution expenses of the firm 'Rs. 600 was paid by the company. Give the journal entries.

Sum No.8.: Following was the Balance Sheet of M/s A and B as on 31.3.2018

Liabilities	**(Rs.)**	**Assets**	**(Rs.)**
Capital:		Fixed assets	1,00,000
A	1,00,000	Stock	60,000
B	64,000	Debtors 25,000	
Current Liabilities	30,000	(-) RBD 1,000	24,000
General Reserve	36,000	B/R	20,000
		Bank	26,000
	2,30,000		2,30,000

'P' Ltd acquired this business on the above date and the terms were :

(a) Fixed assets to be valued at 20% more than the book value.

(b) Stock to be valued at 90% of book value.

(c) RBD to be 10% on debtors.

(d) The purchase consideration was to be settled by the issue of 20 000 equity shares ofRs. 10each valued at Rs. 12 each. Pass Journal entries in the books of P Ltd.

Sum No.9.: Asha and Usha were partners sharing profits and losses equally. Their B/S on31.3.2018 was as follows :

Liabilities	**(Rs.)**	**Assets**	**(Rs.)**
Creditors	12,000	Land & Buildings	50,000
B/P	3,000	Plant & Machinery	20,000
Reserves	15,000	Stock	15,000
Capitals:		Debtors 20,000	
Asha	50,000	(-)Provision 1,000	19,000
Usha	35,000	B/R	6,000
		Cash at Bank	5,000
	1, 15,000		1, 15,000

They decided to sell their business to Latha Co. Ltd on the following terms .

(i) The purchase consideration was to be settled by issuing 4,000 Equity Shares of Rs. 20 each, valued at Rs. 25 each and by issuing 2,000, 5% preference stores at Rs. 10 each valued at Rs. 12 each.

(ii) The Company valued land and buildings at 1 10% of book value, plant & Machinery at 90%of book value and Stock at Rs. 25,000.

Pass acquisition entries in the books of Latha Co. Ltd.