MEANING OF CONVERSION OR SALE OF A PARTNERSHIP FIRM INTO A COMPANY:

When the partners want to expand business or avail of the benefit of limited liability, they would convert the partnership into a company. Sometimes, the business may be sold to an existing limited company. In such a case, the books of the firm are closed as the firm is dissolved. Realisation Account is prepared and all assets and liabilities are transferred to it at book values. The only difference between ordinary dissolution and sale or conversion is that the sale of individual assets or payment of individual liabilities are not to be recorded in the Realisation Account. As the whole of the business is taken over by the company, only the total sale price is credited to Realisation Account. In consideration of sale price,

the purchasing company will pay its own shares, debentures or cash.

CALCULATING THE PURCHASE CONSIDERATION:

The purchase consideration is the price that the purchasing company agrees to pay for taking over the business of the firm. (Even when a firm is converted into a limited company, legally it amounts to selling business by the firm to a company and the purchase consideration has to be determined.) Purchase consideration is found out by any one of the following two methods:

(A) Net Assets Method: The price at which various assets and liabilities are taken over are given in the problem. The amount to be paid for goodwill of the firm, if any, is also given. In such a case, the Net Asset is ascertained by deducting total liabilities taken over from total assets taken over at new values. The Net Asset thus arrived at is the purchase consideration.

(B) Consideration Method Purchase consideration can also be determined by 'Consideration Method'. When the problem clearly states that certain number of shares, debentures and a specific amount of cash is to be given in satisfaction of purchase consideration, the total of these shares, debenture and cash would give us the purchase price.

1: The following assets and liabilities appear in the books of a firm; Land and Building Rs. 30,000; Stock Rs. 20,000; Debtors Rs.15,000; Creditors Rs. 18,000; Advertisement Suspense A/c Rs.1,000; General Reserve Rs. 5,000.

The business is sold to company which agrees to pay Rs. 35,000 for Land and Building; Rs. 18,000 for Stock and Rs.1,000 was to be provided for doubtful debts. Goodwill was fixed up at Rs.10,000. The purchase price was to be discharged by issue of 3,000 Equity Shares of Rs. 10 each and the balance in cash. Calculate the purchase consideration.

2. In the books of the firm, the assets and liabilities are as under:

Machinery 70,000

Furniture 60,000
Stock 20,000
Debtors 24,000
Creditors 30,000
Bills payable 20,000
Cash 20,000

The firm sells its business to Shyam Ltd. For purchase consideration, Shyam Ltd. pays: 8,000 equity shares of Rs. 10 each, 8% 600 Debentures of Rs. 100 each and cash Rs. 10,000. Show the calculation of the goodwill

3. A firm received 50,000 equity shares of Rs. 10 each as a purchase consideration. Out of these 1/5 shares were sold out at 10% discount.
Pass journal entry in the books of firm for sale of shares.
[South Guj. Uni., F.Y., 2008; Nov. 2011]

4. A partnership firm has received equity shares of Rs. 9,00,000 of Rs. 100 each as purchase consideration from a company. From the shares received, 1/5th are given to a partner at 10% premium and 40% shares are sold at 10% discount.
Pass journal entries in the books of the firm.
[South Guj. Uni., F.Y., Nov. 2012]

5. Hema, Rekha and Jaya has decided to convert firm into a Company. The company allowed Rs. 180,000 as a goodwill.

The company has taken over assets for Rs. 23,22,000 and liabilities for Rs. 5,02,002.

Company gives 1,44,000 shares each Rs. 10 at a premium of 26% and remaining amount in cash towards purchase price.

Write journal entries for the payment of purchase price in the books of the firm. [South Guj. Uni., F.Y., Nov. 2013]

6) Anil and Vipul are partners of a firm sharing profit & loss in the ratio of 3:2. Their Balance sheet as on 31-3-2024 is as under:

Liabilities	Amount	Assets	Amount
Capital :		Land & Building	70,000
Anil	60,000	Machineries	60,000
Vipul	32,000	Furniture	20,000
General Reserve	20,000	Stock	40,000
Loan of Mrs. Vipul	60,000	Debtors	1,00,000
Creditors	1,10,000	Bills Receivable	20,000
Bills payable	34,000	Cash	6,000

Total	3,16,000	Total	3,16,000

The above firm was converted into Sameer Ltd. on following conditions

1.The company took over the assets except cash & stock at following values:

Goodwill-1,20,000, Machinery-40,000, Debtors-90,000, Land & building-1,40,000, Furniture-6,000 and Bills receivable-18,000.

2. Company agreed to pay the liabilities except loan.,. Anil took over stock at 10% less than book value.,Vipul agreed to repay the loan of Mrs. Vipul.

Sameer Ltd. issued 22000 equity shares of Rs.10 each and balance by cash towards purchase price. Partners distributed shares in profit sharing ratio.

Prepare in the books of the firm : 1. Realisation A/c 2. Partners' capital Account 3.Cash Account

7. Bhavesh, Mayank and Birbal are partners of a firm sharing profit & loss in the ratio of 5:3:2. Their Balance sheet as on 31-3-2024 is as under:

Liabilities	Amount	Assets	Amount
Capital :		Land & Building	2,56,000
Bhavesh	1,50,000	Machinery	1,20,000
Mayank	90,000	Investments	24,000
Birbal	1,30,000	Bills Receivable	10,400
Creditors	90,000	Stock	18,000
Bills payable	13,000	Cash	25,600
Unpaid Expense	1,000	Advertisements Campaign	30,000
Reserve Fund	10,000		
Total	4,84,000	Total	4,84,000

The Business of firm is sold to Ronak Limited on following conditions:

(1) Revaluated assets are Machinery Rs. 1,60,000, Stock Rs. 24,000, Land and Building R. 1,25,600.

(2) Other assets (Except cash and Investments) and liabilities to be considered as on book-value.

(3) Company agreed to pay Rs. 80,000 as Goodwill.

4) Company paid 20,000 Equity shares each of Rs. 10 for purchase price & remaining amount paid in cash. Partners sold investments at Rs. 20,000, and sold 14000 equity shares at Rs. 12 and remaining shares, they took away at their profit and loss ratio.

Prepare in the books of the firm : 1. Realisation A/c 2. Partners' capital Account 3.Cash Account

8) Hiral and Nairuti are partners of a firm sharing profit & loss in the ratio of 2:1. Their Balance sheet as on 31-3-2023 is as under:

Liabilities	Amount	Assets	Amount
Capital :		Land & Building	1,59,600
Hiral	2,52,000	Machineries	79,800
Nairuti	84,000	Stock	1,05,000
General Reserve	1,38,600	Debtors 1,47,000	
Creditors	1,21,800	-B. D. Res 21,000	1,26,000
Bills payable	42,000	Investments	1,65,000
Provident Fund	80,000	Bills Receivable	50,400
		Prepaid Insurance	20,000
		Cash	12,600
Total	7,18,400	Total	7,18,400

Hetal Ltd. was incorporated to purchase business of the firm. The conditions were as under:

(1) Goodwill of the firm to be valued at Rs. 84,000.

(2) The company took the assets except cash at the values given below:
Land and Building Rs. 2,01,600, Stock Rs. 84,000, Debtors Rs. 1,05,000
Machineries Rs. 75,600

(3) Other real assets are to be taken over at book values.

(4) Dissolution expenses of the firm were Rs. 4,200.

(5) The company accepted to pay all the liabilities.

(6) The company agreed to pay 25,200 equity shares of Rs. 10 each at 20% premium. 12% Debentures of Rs. 1,63,800 and the balance in cash.

(7) The shares and debentures of the company to be distributed among the partners in the profit sharing ratio, difference to be adjusted in cash.

Prepare in the books of the firm :
(1) Realisation Account (2) Partners' Capital Accounts (3) Cash Account

9) Abhi and Viru are partners of a firm sharing profit & loss in the ratio of 3:2. Their Balance sheet as on 31-3-2023 is as under:

Liabilities	Amount	Assets	Amount
Capital :		Land & Building	1,40,000
Abhi	1,20,000	Machineries	1,20,000
Viru	64,000	Furniture	40,000
General Reserve	40,000	Stock	80,000
Loan of Mrs. Viru	1,20,000	Debtors	2,00,000
Creditors	2,20,000	Bills Receivable	40,000
Bills payable	68,000	Cash	12,000
Total	6,32,000	Total	6,32,000

The above firm was converted into Sam Ltd. on following conditions

1. The company took over the assets except cash & stock at following values:

Goodwill-2,40,000, Machinery-80,000, Debtors-1,80,000, Land & building-2,80,000, Furniture-12,000 and Bills receivable-36,000.

2. Company agreed to pay the liabilities except loan.,. Abhi took over stock at 10% less than book value.,Viru agreed to repay the loan of Mrs. Viru

Sam Ltd. issued 44000 equity shares of Rs.10 each and balance by cash towards purchase price. Partners distributed shares in profit sharing ratio.

Prepare in the books of the firm : 1. Realisation A/c 2. Partners' capital Account 3.Cash Account