

CHAPTER – 4

RECONSTITUTION – RETIREMENT/DEATH OF A PARTNER

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Question 1: What are the different ways in which a partner can retire from the firm?

ANSWER:

The following are the different ways in which a partner can retire from a firm.

- i. With the consent of all other partners: A partner must take the consent of all the co-partners of the firm before his/her retirement. Thereafter, the partner can retire from the firm if and only if all the partners agree on the decision of his/her retirement.
- ii) With an express agreement by all the partners: In case of written agreement among the partners a partner may retire from the firm by expressing his/her intention of leaving the firm though a notice to the other partners of the firm.
- iii) By giving a written notice: If partnership among the partners is at will then a partner may retire by giving notice in writing to all the other partners informing them about his/her intention to retire.

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Question 2: Write the various matters that need adjustments at the time of retirement of partner/partners.

ANSWER:

The following are the various matters that need to be adjusted at the time of retirement of partners/partner.

1. Calculation of new gaining ratio of all the remaining partners of the firm.
2. Calculation of new ratio of the remaining partners of the firm.
3. Calculation of goodwill of the new firm and its accounting treatment.
4. Revaluation of assets and liabilities of the new firm.
5. Distribution of accumulated profits and losses and reserves among all the partners (including the retiring partner).
6. Treatment of Joint Life Policy
7. Settlement of the amount due to the retiring partner
8. Adjustment of capital accounts of the remaining partners in their new profit sharing ratio.

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Question 3: Distinguish between sacrificing ratio and gaining ratio.

ANSWER:

Basis of Difference	Sacrificing ratio	Gaining Ratio
1. Meaning	It is the ratio in which old partners agree to sacrifice their share of profit in favour of new partners/partner	It is the ratio in which continuing partner acquires the share of profit from outgoing partner/partner
2. Calculation	$\text{Sacrificing Ratio} = \text{Old Ratio} - \text{New Ratio}$	$\text{Gaining Ratio} = \text{New Ratio} - \text{Old Ratio}$
3. Time	It is calculated at the time of admission of new partners/partner.	It is calculated at the time of retirement/death of old partners/partner.

4. Objective	It is calculated to ascertain the share of profit and loss given up by the existing partners in favour of new partners/partner.	It is calculated to ascertain the share of profit and loss acquired by the remaining partners (of the new firm in case of retirement) from the retiring or deceased partner.
5. Effect	It reduces the profit share of the existing partners.	It increases the profit share of the remaining partners.

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Question 4: Why do firm reevaluate assets and reassess their liabilities on retirement or on the event of death of a partner?

ANSWER:

At the time of retirement or death of a partner, it becomes inevitable to revalue the assets and liabilities of the firm for ascertaining their true and fair values. The revaluation is necessary as the value of assets and liabilities may increase or decrease with the passage of time. Further, it may be possible that there are certain assets and liabilities that remained unrecorded in the books of accounts. The retiring or the deceased partner may be benefited or may bear loss due to change in the values of assets and liabilities. Therefore, the revaluation of the assets and liabilities is necessary in order to ascertain the true profit or loss that is to be divided among all the partners in their old profit sharing ratio.

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Question 5: Why a retiring/deceased partner is entitled to a share of goodwill of the firm?

ANSWER:

Goodwill is an intangible asset of a firm that is earned by the efforts of all the partners of the firm. After the retirement or death of a partner, the fruits of the past performance and reputation will be shared only by the remaining partners. Thus the remaining partners should compensate the retiring or the deceased partner by entitling him/her a share of firm's goodwill.

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Question 1: Explain the modes of payment to a retiring partner.

ANSWER:

The following are the modes of payment to a retiring partner.

1. If the amount due to the retiring partner is to be paid in lump sum on the day of his/her retirement then the following Journal entry need to be passed.

Retiring Partner's Capital A/c Dr.

To Cash/Bank A/c

(Retiring partner paid in cash)

- 2) If the amount due to the retiring partner is to be paid in installments then the balancing figure of his/her capital account is transferred to his/her loan account. In this case, the retiring partner receives equal installments along with the interest on the amount outstanding. The following necessary Journal entry is to be passed.

Retiring Partner's Capital A/c Dr.

To Retiring Partner's Loan A/c

(Retiring partner capital account transferred to the
retiring partner's loan account @ ----- % p.a.).

3) If the amount due to the retiring partner is to be paid partly in cash and partly in equal installments then a certain amount is paid in cash to the retiring partner on the date of the retirement and the rest amount due to him/her is transferred to his/her loan account. The following necessary Journal entry is to be passed.

Retiring Partner's Capital A/c (with the total amount due to the retiring partner) Dr.

To Retiring Partner's Loan A/c (with the amount transferred to the partner's
loan account)

To Cash A/c (with the amount paid in cash immediately on the date of the
retirement)

(Retiring partner partly paid in cash and balance transferred to the partner's loan
account)

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Question 2: How will you compute the amount payable to a deceased
partner?

ANSWER:

The legal executer of the deceased partner is entitled for the balancing
figure of the deceased partner's capital account. The balancing figure of

the deceased partner's capital account is derived after posting the below mentioned items in Step 1 and Step 2.

Step 1: The following items are posted in the debit side of the deceased partner's capital account.

- a) Credit balance of the deceased partner's capital account and/or current account.
- b) Deceased partner's share of profit up to the date of his/her death.
- c) Deceased partner's share of goodwill.
- d) Deceased partner's share in accumulated reserves and profit account.
- e) Deceased partner's share in gain on revaluation of assets and liabilities.
- f) Deceased partner's share of Joint Life Policy.
- g) Interest on capital, if any, up to the date of the death.
- h) Salary or commission, if any, up to the date of the death.

Step 2: The following items are posted in the credit side of the deceased partner's capital account.

- a) Debit balance of the deceased partner's capital account and/or current account.
- b) Amount withdrawn in the form of drawings up to the date of death of the partner.
- c) Interest on drawings, if any, up to the date of the death.
- d) Deceased partner's share in loss on revaluation of assets and liabilities.
- e) Deceased partner's share of loss up to the date of the death.
- f) Deceased partner's share in the accumulated losses of the firm.

The legal executor is entitled for the balancing figure that is the excess of the credit side over the debit side of the deceased partner's capital account.

Deceased Partner's Capital Account

Dr.

Cr.

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
	Revaluation A/c (Loss) Profit and Loss Suspense A/c (Share of loss up to the date of the death) Accumulated Losses A/c Goodwill A/c (Written off) Partner Executor's A/c <i>(Balancing Figure)</i>				Balance b/d Profit and Loss Suspense A/c (Share of profit up to the date of the death) Goodwill Reserves and Profits Revaluation A/c (gain) Joint Life Policy A/c Interest on Capital A/c Salary A/c Commission A/c		

Question 3: Explain the treatment of goodwill at the time of retirement or on the event of death of a partner?

ANSWER:

At the time of retirement or at the event of death of a partner, the goodwill is adjusted among the partners in gaining ratio with the share of goodwill of the retiring or the deceased partner. As per Para 16 of Accounting Standard 10, it is mandatory to record goodwill in the books only when consideration in money or money's worth has been paid for it.

In case of retirement and death of a partner, goodwill account cannot be raised. There are namely two probable situations on which the treatment of goodwill rests.

1. If ***goodwill already appears*** in the books of the firm.
2. If ***no goodwill appears*** in the books of the firm.

Situation 1: If goodwill already appears in the books of the firm.

Step 1: Write off the existing goodwill

If goodwill already appears in the old balance sheet of the firm (if mentioned in the question), then first of all, this goodwill should be written off and should be distributed among all the partners of the firm including the retiring or the deceased partner in their old profit sharing ratio. The following Journal entry is passed to write off the old/existing goodwill.

All Partners' Capital A/c

Dr.

To Goodwill A/c

(Goodwill written off among all the partners
in their old ratio)

Step 2: Adjusting goodwill through partner's capital account.

After writing off the old goodwill, the goodwill need to be adjusted through the partner's capital account with the share of the goodwill of the retiring or the deceased partner. The following Journal entry is passed.

Remaining Partner's Capital A/c Dr.

To Retiring/Deceased Partner's Capital A/c

(Gaining Partner's Capital A/c is debited in their
gaining share and retiring/deceased partner's
capital account in credited for their share of
goodwill)

Situation 2: If no goodwill appears in the books of the firm.

As no goodwill appears in the books of the firm, so the goodwill is adjusted through the partner's capital account with the share of the goodwill of the retiring or the deceased partner. The following Journal entry is passed.

Remaining Partner's Capital A/c Dr.

To Retiring/Deceased Partner's Capital A/c

(Gaining partner's capital account is debited in their
gaining share and retiring/deceased partner's capital
account in credited for their share of goodwill)

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Question 4: Discuss the various methods of computing the share in profits in the event of death of a partner.

ANSWER:

In case of death of a partner during the year, his/her executer is entitled for share of profit up to the date of death of the partner.

The share of profit can be calculated by one of the two methods.

1) **On time basis:** Under this method, profit up to the date of the death of the partner is calculated on the basis of the last year's/years' profit or average profit of last few years. In this approach, it is assumed that the profit will be uniform throughout the current year. The deceased partner will be entitled for the share of the profit proportionately up to the date of his/her death.

Share of Deceased Partner in Profit =

$$\text{Previous Year/Average Profit} \times \frac{\text{Time period from date of balance sheet till death}}{12 \text{ month } / 52 \text{ weeks } / 365 \text{ days}} \\ \times \text{Profit Share of deceased partner}$$

Example- A, B and C are equal partners. The profit of the firm for the years 2008, 2009 and 2010 are Rs 10,00,000, Rs 7,00,000 and Rs 13,00,000 respectively. C dies on April 30, 2011. The share of C in the firm's profit will be calculated on the basis of average profit of last three years. Firm closes its books every year on December 31.

In this case, C's share in the profits will be calculated for four months, i.e. from January 01, 2011 to April 30, 2011.

$$\text{Average Profit} = \frac{10,00,000 + 7,00,000 + 13,00,000}{3} = \text{Rs. 10,00,000}$$

$$C's \text{ share of Profit} = 10,00,000 \times \frac{4}{12} \times \frac{1}{3} = \text{Rs. 1,11,111 approx.}$$

2) On the sale basis: Under this method, profit is calculated on the basis of last year's sale. In this situation, it is assumed that the net profit margin of the current year's sale is similar to that of the last year's.

Share of Deceased Partner's Profit = $\frac{\text{Previous Year's Profit}}{\text{Previous Year's Sales}} \times \text{Sales from the beginning of the current year up to the date of death} \times \text{Share of deceased partner}$

Example- X Y and Z are equal partners. The last year's sales and profit were Rs 25,00,000 and Rs 2,50,000. Z died on the April 30, 2011. Sales of the current year till the date of Z's death amounts to Rs 12,00,000. Firm closes its books on December 31 every year.

$$\text{Z's share of profit} = \frac{2,50,000}{25,00,000} \times 12,00,000 \times \frac{1}{3} = \text{Rs. } 40,000$$

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Question 1: Aparna, Manisha and Sonia are partners sharing profits in the ratio of 3:2:1. Manisha retires and goodwill of the firm is valued at Rs 1,80,000. Aparna and Sonia decided to share future in the ratio of 3:2. Pass necessary Journal entries.

ANSWER:

Books of Aparna, and Sonia

Journal

Date	Particulars	L. F.	Amount Rs	Amount Rs
	Aparna's Capitals A/c	Dr.	18,000	
	Sonia's Capital A/c	Dr.	42,000	
	To Manisha's Capital A/c			60,000
	(Manisha's share of goodwill adjusted to Aparna's and Sonia's Capital Account in their gaining ratio)			

Working Notes:

1. Manisha's share in goodwill:

Total goodwill of the firm \times Retiring Partner's Share

$$= 1,80,000 \times \frac{1}{3} = 60,000$$

2. Gaining Ratio = New Ratio – Old Ratio

$$\text{Aparna Gaining share} = \frac{3}{5} - \frac{3}{6} = \frac{18-15}{30} = \frac{3}{30}$$

$$\text{Sonia Gaining share} = \frac{2}{5} - \frac{1}{6} = \frac{12-5}{30} = \frac{7}{30}$$

Gaining Ratio between Aparna and Sonia = 3 : 7

$$3. \text{ Aparna's share in goodwill} = 60,000 \times \frac{3}{10} = 18,000$$

$$\text{Sonia's share in goodwill} = 60,000 \times \frac{7}{10} = 42,000$$

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Question 2: Sangeeta, Saroj and Shanti are partners sharing profits in the ratio of 2:3:5. Goodwill is appearing in the books at a value of Rs 60,000. Sangeeta retires and goodwill is valued at Rs 90,000. Saroj and Shanti decided to share future profits equally. Record necessary Journal entries.

ANSWER:

**Books of Saroj and Shanti
Journal**

Date	Particulars	L.F.	Amount Rs	Amount Rs
	Sangeeta's Capital A/c Dr.		12,000	
	Saroj's Capital A/c Dr.		18,000	
	Shanti's Capital A/c Dr.		30,000	
	To Goodwill A/c			60,000
	(Goodwill written off)			
	Saroj's Capital A/c Dr.		18,000	
	To Sangeeta's Capital A/c			18,000
	(Sangeeta's share of goodwill adjusted to Saroj's Capital Account in her gaining ratio)			

Working Notes:

1. Sangeeta's share of goodwill.

$$\text{Total goodwill of the firm} \cdot \text{Retiring Partner's share} = 90,000 \times \frac{2}{10} = 18,000$$

2. Gaining Ratio = New Ratio – Old Ratio

$$\text{Saroj's Gaining Share} = \frac{1}{2} - \frac{3}{10} = \frac{10-6}{20} = \frac{4}{20}$$

$$\text{Shanti's Gaining Share} = \frac{1}{2} - \frac{5}{10} = \frac{10-10}{20} = \frac{0}{20}$$

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Question 3: Himanshu, Gagan and Naman are partners sharing profits and losses in the ratio of 3:2:1. On March 31, 2017, Naman retires.

The various assets and liabilities of the firm on the date were as follows:

Cash Rs 10,000, Building Rs 1,00,000, Plant and Machinery Rs 40,000, Stock Rs 20,000, Debtors Rs 20,000 and Investments Rs 30,000.

The following was agreed upon between the partners on Naman's retirement:

- (i) Building to be appreciated by 20%.
- (ii) Plant and Machinery to be depreciated by 10%.
- (iii) A provision of 5% on debtors to be created for bad and doubtful debts.
- (iv) Stock was to be valued at Rs 18,000 and Investment at Rs 35,000.

Record the necessary journal entries to the above effect and prepare the Revaluation Account.

ANSWER:

Books of Himanshu and Gagan

Journal

Date	Particulars	L.F.	Amount Rs	Amount Rs
	Building A/c Dr. Investment A/c Dr. To Revaluation A/c Dr. (Value of Building and Investment increased at the time of Naman's retirement)		20,000 5,000	25,000
	Revaluation A/c Dr. To Plant and Machinery A/c To Provision for Bad and Doubt Debts A/c To Stock A/c (Assets revalued and Provision for Bad and Doubtful Debts made at the time of Naman's retirement)		7,000 	4,000 1,000 2,000
	Revaluation A/c Dr. To Himanshu's Capital A/c To Gagan's Capital A/c To Naman's Capital A/c (Profit on revaluation transferred to all Partners' Capital Accounts in their old profit sharing ratio)		18,000 	9,000 6,000 3,000

Revaluation Account

Dr.

Cr.

Particular	Amount Rs	Particular	Amount Rs
Plant and Machinery	4,000	Building	20,000
Stock	2,000	Investment	5,000
Provision for Bad and Doubtful Debts	1,000		

Profit transferred to Capital Account:			
Himanshu	9,000		
Gagan	6,000		
Naman	3,000	18,000	
		25,000	25,000

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Question 4: Naresh, Raj Kumar and Bishwajeet are equal partners. Raj Kumar decides to retire. On the date of his retirement, the Balance Sheet of the firm showed the following: General Reserves Rs 36,000 and Profit and Loss Account (Dr.) Rs 15,000.

Pass the necessary journal entries to the above effect.

ANSWER:

Books of Naresh and Bishwajeet

Journal

Date	Particulars	L.F.	Amount Rs	Amount Rs
	General Reserve A/c Dr.		36,000	
	To Naresh's Capital A/c			12,000
	To Raj Kumar's Capital A/c			12,000
	To Bishwajeet's Capital A/c			12,000
	(General Reserve distributed among old partner in old ratio)			

	Naresh's Capital A/c	Dr.	5,000	
	Raj Kumar's Capital A/c	Dr.	5,000	
	Bishwajeet's Capital A/c	Dr.	5,000	
	To Profit and Loss A/c			15,000
	(Debit balance of Profit and Loss Account written off)			

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Question 5: Digvijay, Brijesh and Parakaram were partners in a firm sharing profits in the ratio of 2:2:1. Their Balance Sheet as on March 31, 2017 was as follows:

Liabilities	Amount Rs	Assets	Amount Rs
Creditors	49,000	Cash	8,000
Reserves	18,500	Debtors	19,000
Digvijay's Capital	82,000	Stock	42,000
Brijesh's Capital	60,000	Buildings	2,07,000
Parakaram's Capital	75,500	Patents	9,000
	2,85,000		2,85,000

Brijesh retired on March 31, 2017 on the following terms:

- (i) Goodwill of the firm was valued at Rs 70,000 and was not to appear in the books.
- (ii) Bad debts amounting to Rs 2,000 were to be written off.
- (iii) Patents were considered as valueless.

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of Digvijay and Parakaram after Brijesh's retirement.

ANSWER:

Books of Digvijay and Parakaram

Revaluation Account

Dr.

Cr.

Particular	Amount Rs	Particular	Amount Rs
Bad Debts	2,000		
Patents	9,000	Loss transferred to Capital Account:	
		Digvijay	4,400
		Brijesh	4,400
		Parakaram	2,200
	11,000		11,000

Partners' Capital Account

Dr.

Cr.

particular	Digvijay	Brijesh	Parakaram	particular	Digvijay	Brijesh	Parakaram
Brijesh's Capital A/c	18,667		9,333	Balance b/d	82,000	60,000	75,500
Revaluation (Loss)	4,400	4,400	2,200	Digvijay's Capital A/c		18,667	
Brijesh's Loan		91,000		Parakaram's Capital A/c		9,333	
Balance c/d	66,333		67,667	Reserves	7,400	7,400	3,700
	89,400	95,400	79,200		89,400	95,400	79,200

Balance Sheet as on March 31, 2017

Liabilities	Amount Rs	Assets	Amount Rs
Creditors	49,000	Cash	8,000
Brijesh's Loan	91,000	Debtors	19,000
		Less: Bad Debts	2,000
Digvijay's Capital A/c	66,333	Stock	42,000
Parakaram's Capital A/c	67,667	Buildings	2,07,000
	2,74,000		2,74,000

Note: As sufficient balance is not available to pay the amount due to Brijesh, the balance of his Capital Account transferred to his Loan Account.

Working Note:

1. Brijesh's Share of Goodwill

Total goodwill of the firm ' Retiring Partner's Share = $70,000 \times \frac{2}{5} = \text{Rs. } 28,000$

2. Gaining Ratio = New Ratio – Old Ratio

$$\text{Digvijay's Share} = \frac{2}{3} - \frac{2}{5} = \frac{10-6}{15} = \frac{4}{15}$$

$$\text{Parakaram's Share} = \frac{1}{3} - \frac{1}{5} = \frac{5-3}{15} = \frac{2}{15}$$

Gaining ratio between Digvijay and Parakaram = 4 : 2 or 2 : 1

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Question 6: Radha, Sheela and Meena were in partnership sharing profits and losses in the proportion of 3:2:1. On April 1, 2017, Sheela retires from the firm. On that date, their Balance Sheet was as follows:

Liabilities	Amount Rs	Assets	Amount Rs
Trade Creditors	3,000	Cash-in-Hand	1,500
Bills Payable	4,500	Cash at Bank	7,500
Expenses Owing	4,500	Debtors	15,000
General Reserve	13,500	Stock	12,000
Capitals:		Factory Premises	22,500
Radha	15,000	Machinery	8,000
Sheela	15,000	Loss Tools	4,000
Meena	15,000		
	45,000		
	70,500		70,500

The terms were:

- a) Goodwill of the firm was valued at Rs 13,500.
- b) Expenses owing to be brought down to Rs 3,750.
- c) Machinery and Loose Tools are to be valued at 10% less than their book value.
- d) Factory premises are to be revalued at Rs 24,300.

Prepare:

1. Revaluation account
2. Partner's capital accounts and
3. Balance sheet of the firm after retirement of Sheela.

ANSWER:

Books of Radha and Meena

Revaluation Account

Dr.	Cr.
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Particulars	Amount Rs	Particulars	Amount Rs
Machinery	800	Expenses Owing	750
Loose Tools	400	Factory Premises	1,800
Profit transferred to Capital Account:			
Meena	675		
Radha	450		
Sheela	225		
	2,550		2,550

Partners' Capital Account

Dr.

Cr.

Particulars	Radha	Sheela	Meena	Particulars	Radha	Sheela	Meena
Sheela's Capital A/c	3,375		1,125	Balance b/d	15,000	15,000	15,000
Sheela's Loan A/c		24,450		General Reserve	6,750	4,500	2,250
Balance c/d	19,050		16,350	Revaluation (Profit)	675	450	225
				Radha's Capital A/c		3,375	
				Meena's Capital A/c		1,125	
	22,425	24,450	17,475		22,425	24,450	17,475

Balance Sheet as on April 01, 2017

Liabilities		Amount Rs	Assets		Amount Rs
Trade Creditors		3,000	Cash in Hand		1,500
Bills Payable		4,500	Cash at Bank		7,500
Expenses Owing		3,750	Debtors		15,000
Sheela's Loan		24,450	Stock		12,000
Capitals:			Factory Premises		24,300
Radha	19,050		Machinery	8,000	
Meena	16,350	35,400	Less: 10%	(800)	7,200
			Loose Tools	4,000	
			Less: 10%	(400)	3,600
		71,100			71,100

Working Notes:

1) Sheela's share of goodwill

Total goodwill of the firm \times Retiring Partner's share = $13,500 \times 26 = 4,500$

2) Gaining Ratio = New Ratio – Old Ratio

$$\text{Radha's Share} = \frac{3}{4} - \frac{3}{6} = \frac{18-12}{24} = \frac{6}{24}$$

$$\text{Meena's Shares} = \frac{1}{4} - \frac{1}{6} = \frac{6-4}{24} = \frac{2}{6}$$

Gaining Ratio between Radha and Meena = 6 : 2 or 3 : 1

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Question 7: Pankaj, Naresh and Saurabh are partners sharing profits in the ratio of 3:2:1. Naresh retired from the firm due to his illness. On that date the Balance Sheet of the firm was as follows:

Books of Pankaj, Naresh and Saurabh

Balance Sheet as on March 31, 2017

Liabilities	Amount Rs	Assets	Amount Rs
General Reserve	12,000	Bank	7,600
Sundry Creditors	15,000	Debtors	6,000
Bills Payable	12,000	<i>Less: Provision for Doubtful Debt</i>	400
Outstanding Salary	2,200		
Provision for Legal Damages	6,000	Stock	9,000
Capitals:		Furniture	41,000

Pankaj	46,000		Premises	80,000
Naresh	30,000			
Saurabh	20,000	96,000		
		1,43,200		1,43,200

Additional Information

- (i) Premises have appreciated by 20%, stock depreciated by 10% and provision for doubtful debts was to be made 5% on debtors. Further, provision for legal damages is to be made for Rs 1,200 and furniture to be brought up to Rs 45,000.
- (ii) Goodwill of the firm be valued at Rs 42,000.
- (iii) Rs 26,000 from Naresh's Capital account be transferred to his loan account and balance be paid through bank; if required, necessary loan may be obtained from Bank.
- (iv) New profit sharing ratio of Pankaj and Saurabh is decided to be 5:1.

Give the necessary ledger accounts and balance sheet of the firm after Naresh's retirement.

ANSWER:

Revaluation Account

Dr.

Cr.

Particulars	Amount Rs	Particulars	Amount Rs
Stock	900	Premises	16,000
Provision for Legal Damages	1,200	Provision for Doubtful Debts	100
Profit transferred to Capital:		Furniture	4,000
Pankaj	9,000		
Naresh	6,000		
Saurabh	3,000		
	18,000		
	20,100		20,100

Partners' Capital Accounts

Dr.

Cr.

Particulars	Pankaj	Naresh	Saurabh	Particulars	Pankaj	Naresh	Saurabh
Naresh's Capital A/c	14,000			Balance b/d	46,000	30,000	20,000
Naresh's Loan A/c		26,000		General Reserve	6,000	4,000	2,000
Bank		28,000		Revaluation (Profit)	9,000	6,000	3,000
Balance c/d	47,000		25,000	Pankaj's Capital A/c		14,000	
	61,000	54,000	25,000		61,000	54,000	25,000

Bank Account

Dr.

Cr.

Particulars	Amount Rs	Particulars	Amount Rs
Balance b/d	7,600	Naresh's Capital A/c	28,000
Bank Loan (<i>Balancing Figure</i>)	20,400		
	28,000		28,000

Balance Sheet as on March 31, 2017

Liabilities	Amount Rs	Assets	Amount Rs
Sundry Creditors	15,000	Debtors	6,000
Bills Payable	12,000	<i>Less:</i> Provision for Doubtful Debts	300
Bank Loan/overdraft	20,400	Stock	8,100
Outstanding Salaries	2,200	Furniture	45,000
Provision for Legal Damages	7,200	Premises	96,000
Naresh's Loan	26,000		
Capitals:			
Pankaj	47,000		
Saurabh	25,000		
	1,54,800		1,54,800

Question 8: Puneet, Pankaj and Pammy are partners in a business sharing profits and losses in the ratio of 2:2:1 respectively. Their balance sheet as on March 31, 2017 was as follows:

Books of Puneet, Pankaj and Pammy

Balance Sheet as on March 31, 2017

Liabilities	Amount Rs	Assets	Amount Rs
Sundry Creditors	1,00,000	Cash at Bank	20,000
Capital Accounts:		Stock	30,000
Puneet	60,000	Sundry Debtors	80,000
Pankaj	1,00,000	Investments	70,000
Pammy	40,000	Furniture	35,000
Reserve	50,000	Buildings	1,15,000
	3,50,000		3,50,000

Mr. Pammy died on September 30, 2017. The partnership deed provided the following:

- (i) The deceased partner will be entitled to his share of profit up to the date of death calculated on the basis of previous year's profit.
- (ii) He will be entitled to his share of goodwill of the firm calculated on the basis of 3 years' purchase of average of last 4 years' profit. The profits for the last four financial years are given below: for 2013–14; Rs 80,000; for 2014–15, Rs 50,000; for 2015–16, Rs 40,000; for 2016–17, Rs 30,000.

The drawings of the deceased partner up to the date of death amounted to Rs 10,000. Interest on capital is to be allowed at 12% per annum.

Surviving partners agreed that Rs 15,400 should be paid to the executors immediately and the balance in four equal yearly instalments with interest at 12% p.a. on outstanding balance.

Show Mr. Pammy's Capital account, his Executor's account till the settlement of the amount due.

ANSWER:

Pammy's Capital Account

Dr.		Cr.	
Particulars	Amount Rs	Particulars	Amount Rs
Drawings	10,000	Balance b/d	40,000
Pammy Executor's A/c	75,400	Profit and Loss (Suspense)	3,000
		Puneet's Capital A/c	15,000
		Pankaj's Capital A/c	15,000
		Interest on Capital	2,400
		Reserve	10,000
	85,400		85,400

Pammy's Executor Account

Dr.

Cr.

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2017-18				2017-18			
Sep. 30	Bank		15,400	Sep. 30	Pammy's Capital A/c		75,400
Mar. 31	Balance c/d		63,600	Mar. 31	Interest		3,600
			79,000				79,000
2018-19				2018-19			
Sep. 30	Bank		22,200	April 01	Balance b/d		63,600
	(15,000+3,600+3,600)			Sep. 30	Interest		3,600
Mar. 31	Balance c/d		47,700	Mar. 31	Interest		2,700
			69,900				69,900
2019-20				2019-20			
Sep. 30	Bank		20,400	April 01	Balance b/d		47,700
Mar. 31	Balance c/d		31,800	Sep. 30	Interest		2,700
			52,200	Mar. 31	Interest		1,800
							52,200
2020-21				2020-21			
Sep. 30	Bank		18,600	April 01	Balance b/d		31,800
	(15,000+1,800+1,800)			Sep. 30	Interest		1,800

			15,900	Mar. 31	Interest		900
			34,500				34,500
2021-22				2021-22			
Sep. 30	Bank (15,000+900+900)		16,800	April 01	Balance b/d		15,900
			16,800	Sep. 30	Interest		900
			16,800				16,800

Working Notes:

1) Pammy's Share of Profit

Previous Year's Profit × Proportionate Period × Share of Deceased

$$\text{Partner} = 30,000 \times \frac{6}{12} \times \frac{1}{5} = \text{Rs. } 3,000$$

2) Pammy's Share of Goodwill

Goodwill of the firm = Average Profit × Numbers of Year's Purchase

$$\text{Average Profit} = \frac{80,000+50,000+40,000+30,000}{4} = \frac{2,00,000}{4} = \text{Rs. } 50,000$$

$$\text{Goodwill of the firm} = 50,000 \times 3 = \text{Rs } 1,50,000$$

$$\text{Pammy's Share} = 1,50,000 \times \frac{1}{5} = \text{Rs. } 30,000$$

3) Gaining Ratio = New Ratio – Old Ratio

$$\text{Puneet's Share} = \frac{2}{4} - \frac{2}{5} = \frac{10-8}{20} = \frac{2}{20}$$

$$\text{Pankaj's Share} = \frac{2}{4} - \frac{2}{5} = \frac{10-8}{20} = \frac{2}{20}$$

Gaining Ratio between Puneet and Pankaj = 2: 2 or 1 : 1

4) Interest on Capital for 6 months, i.e. from April 1, 2007 to September 30, 2007

$$\text{Amount of Capital} \times \text{Rate of Interest} \times \text{Period} = 40,000 \times \frac{12}{100} \times \frac{6}{12} = \text{Rs. } 2,400$$

5) Interest Amount

The firm closes its books every year on March 31, while installments to Pammy's Executor are paid on September 30 every year.

$$\text{Amount outstanding on 30 September} = 75,400 - 15,400 = \text{Rs } 60,000$$

Calculation of Interest

Periods	Amount Outstanding	Yearly Interest	For 6 Months
2017-18	60,000	$60,000 \times \frac{12}{100} = 7,200$	$7,200 \times \frac{6}{12} = 3,600$
2018-19	45,000	$45,000 \times \frac{12}{100} = 5,400$	$5,400 \times \frac{6}{12} = 2,700$
2019-20	30,000	$30,000 \times \frac{12}{100} = 3,600$	$3,600 \times \frac{6}{12} = 1,800$
2020-21	15,000	$15,000 \times \frac{12}{100} = 1,800$	$1,800 \times \frac{6}{12} = 900$

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Question 9: Following is the Balance Sheet of Prateek, Rockey and Kushal as on March 31, 2017.

Books of Prateek, Rockey and Kushal

Balance Sheet as on March 31, 2017

Liabilities	Amount Rs	Assets	Amount Rs
Sundry Creditors	16,000	Bills Receivable	16,000
General Reserve	16,000	Furniture	22,600
Capital Accounts:		Stock	20,400
Prateek	30,000	Sundry Debtors	22,000
Rockey	20,000	Cash at Bank	18,000
Kushal	20,000	Cash in Hand	3,000
	70,000		
	1,02,000		
			1,02,000

Rockey died on June 30, 2017. Under the terms of the partnership deed, the executors of a deceased partner were entitled to:

- a) Amount standing to the credit of the Partner's Capital account.
- b) Interest on capital at 5% per annum.
- c) Share of goodwill on the basis of twice the average of the past three years' profit and
- d) Share of profit from the closing date of the last financial year to the date of death on the basis of last year's profit.

Profits for the year ending on March 31, 2015, March 31, 2016 and March 31, 2017 were Rs 12,000, Rs 16,000 and Rs 14,000 respectively. Profits were shared in the ratio of capitals.

Pass the necessary journal entries and draw up Rockey's capital account to be rendered to his executor.

ANSWER:

Books of Prateek and Kushal

Journal

Date	Particulars	L.F.	Amount Rs	Amount Rs
2017				
June 30	Interest on Capital A/c	Dr.	250	
	Profit and Loss (Suspense) A/c	Dr.	1,000	
	General Reserve A/c	Dr.	4,571	
	To Rockey's Capital A/c			5,821
	(Share of profit, interest on capital and share of General Reserve credited to Rockey's Capital Account)			
June 30	Prateek's Capital A/c	Dr.	4,800	
	Kushal's Capital A/c	Dr.	3,200	
	To Rockey's Capital A/c			8,000
	(Rockey's share of goodwill adjusted to Prateek's and Kushal's Capital Account in their gaining ratio, 3:2)			
June 30	Rockey's Capital A/c	Dr.	33,821	
	To Rockey Executor's A/c			33,821
	(Balance of Rockey's Capital Account transferred to his Executor's Account)			

Rockey's Capital Account

Dr.							Cr.
Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2017				2017			
April 1	Rockey's Executor A/c		33,821	April 1	Balance b/d		20,000
					Interest on Capital		250
					Profit and Loss (Suspense) A/c		1,000
					General Reserve		4,571
					Prateek's Capital		4,800
					Kushal's Capital		3,200
			33,821				33,821

Working Notes:

1. Rockey's Share of Profit = Previous year's profit × Proportionate Period × Share of Deceased Partner

$$= 14,000 \times \frac{3}{12} \times \frac{2}{7} = \text{Rs. } 1,000$$

2. Rockey's Share of Goodwill

Goodwill of a firm = Average profit × Numbers of year's Purchase

$$\text{Average Profit} = \frac{12,000 + 16,000 + 14,000}{3} = \frac{42,000}{3} = \text{Rs. } 14,000$$

$$\text{Goodwill of a firm} = 14,000 \times 2 = \text{Rs } 28,000$$

3. Gaining Ratio = New Ratio – Old Ratio

$$\text{Prateek's Share} = \frac{3}{5} - \frac{3}{7} = \frac{21-15}{35} = \frac{9}{35}$$

$$\text{Kushal's Share} = \frac{2}{5} - \frac{2}{7} = \frac{14-10}{35} = \frac{4}{35}$$

Gaining Ratio between Prateek and Kushal = 9:4 or 3:2

4. Interest on Capital for 3 months i.e. from April 1, 2017 to June 30, 2017

$$\text{Amount of } \times \text{Rate of Interest } \times \text{Period} = 20,000 \times \frac{5}{100} \times \frac{3}{12} = \text{Rs. 250}$$

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Question 10: Narang, Suri and Bajaj are partners in a firm sharing profits and losses in proportion of 1/2, 1/6 and 1/3 respectively. The Balance Sheet on April 1, 2015 was as follows:

Books of Suri, Narang and Bajaj

Balance Sheet as on April 1, 2015

Liabilities	Amount Rs	Assets	Amount Rs
Bills Payable	12,000	Freehold Premises	40,000
Sundry Creditors	18,000	Machinery	30,000
Reserves	12,000	Furniture	12,000
Capital Accounts:		Stock	22,000
Narang	30,000	Sundry Debtors	20,000
Suri	20,000	Less: Reserve	1,000
Bajaj	28,000	for Bad Debt	
	88,000	Cash	7,000
	1,30,000		1,30,000

Bajaj retires from the business and the partners agree to the following:

- a) Freehold premises and stock are to be appreciated by 20% and 15% respectively.
 - b) Machinery and furniture are to be depreciated by 10% and 7% respectively.
 - c) Bad Debts reserve is to be increased to Rs 1,500.
 - d) Goodwill is valued at Rs 21,000 on Bajaj's retirement.
 - e) The continuing partners have decided to adjust their capitals in their new profit sharing ratio after retirement of Bajaj. Surplus/deficit, if any, in their capital accounts will be adjusted through current accounts.
- Prepare necessary ledger accounts and draw the Balance Sheet of the reconstituted firm.

ANSWER:

Revaluation Account

Dr.		Cr.	
Particulars	Amount Rs	Particulars	Amount Rs
Machinery	3,000	Freehold Properties	8,000
Furniture	840	Stock	3,300
Reserve for Bad debts	500		
Capitals:			
Narang	3,480		
Suri	1,160		
Bajaj	2,320	6,960	
	11,300		11,300

Partners' Capital Account

Dr.

Cr.

Particulars	Narang	Suri	Bajaj	Particulars	Narang	Suri	Bajaj
Bajaj's Capital A/c	5,250	1,750		Balance b/d	30,000	30,000	28,000
Bajaj's Loan			41,320	Reserves	6,000	2,000	4,000
Balance c/d	34,230	31,410		Revaluation (Profit)	3,480	1,160	2,320
				Narang's Capital A/c			5,250
				Suri's Capital A/c			1,750
	39,480	33,160	41,320		39,480	33,160	41,320
Suri's Current A/c		15,000		Balance b/d	34,230	31,410	
Balance c/d	49,230	16,410		Narang's Current A/c	15,000		
	49,230	31,410			49,230	31,410	

Balance Sheet as on April 01, 2015

Liabilities	Amount Rs	Assets	Amount Rs
Bills Payable	12,000	Free hold Premises	48,000
Sundry Creditors	18,000	Machinery	27,000
Bajaj's Loan	41,320	Furniture	11,160
Suri's Current	15,000	Stock	25,300
Capital Account:		Sundry Debtors	20,000
Narang	49,230	<i>Less: Reserve for Bad Debt</i>	1,500
Suri	16,410	Cash	7,000
	<hr/>	Narang's Current Account	15,000
	<hr/>		<hr/>
	1,51,960		1,51,960
	<hr/>		<hr/>

Working Notes:

1. Bajaj Share in Goodwill = Total Goodwill of the firm × Retiring Partner's Share = $21,000 \times \frac{1}{3} = \text{Rs. } 7,000$

2. Gaining Ratio = New Ratio – Old Ratio

$$\text{Narang's Gaining Share} = \frac{3}{4} - \frac{3}{6} = \frac{9-6}{12} = \frac{3}{12}$$

$$\text{Suri's Gaining Share} = \frac{1}{4} - \frac{1}{6} = \frac{3-2}{12} = \frac{1}{12}$$

Gaining Ratio between Narang and Suri = 3:1

3. Calculation of New Capitals of the existing partners.

$$\text{Balance in Narang's Capital} = 34,230$$

$$\text{Balance in Suri's Capital} = \underline{\underline{31,410}}$$

$$\text{Total Capital of the New firm after} = \underline{\underline{\text{Rs } 65,640}}$$

revaluation of assets and liabilities
and adjustment of Goodwill and Reserves
Based on new profit sharing ratio of 3:1

$$\text{Narang's Capital} = 65,640 \times \frac{3}{4} = \text{Rs. } 49,230$$

$$\text{Suri's Capital} = 65,640 \times \frac{1}{4} = \text{Rs. } 16,410$$

NOTE:

- i. In the given Question Suri's Capital is Rs 30,000 instead of Rs 20,000.
- ii. Due to insufficient balance in Bajaj's Capital Account, the amount due to Bajaj is transferred to his Loan Account.

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Question 11: The Balance Sheet of Rajesh, Pramod and Nishant who were sharing profits in proportion to their capitals stood as on March 31, 2015:

Books of Rajesh, Pramod and Nishant

Balance Sheet as on March 31, 2015

Liabilities	Amount Rs	Assets	Amount Rs
Bills Payable	6,250	Factory Building	12,000
Sundry Creditors	10,000	Debtors	10,500
Reserve Fund	2,750	Less: Reserve	500
Capital Accounts:		Bills Receivable	7,000
Rajesh	20,000	Stock	15,500
Pramod	15,000	Plant and Machinery	11,500
Nishant	15,000	Bank Balance	13,000
	50,000		69,000
	69,000		69,000

Pramod retired on the date of Balance Sheet and the following adjustments were made:

- a) Stock was valued at 10% less than the book value.
- b) Factory buildings were appreciated by 12%.
- c) Reserve for doubtful debts be created up to 5%.
- d) Reserve for legal charges to be made at Rs 265.
- e) The goodwill of the firm be fixed at Rs 10,000.
- f) The capital of the new firm be fixed at Rs 30,000. The continuing partners decide to keep their capitals in the new profit sharing ratio of 3:2. Pass journal entries and prepare the balance sheet of the reconstituted firm after transferring the balance in Pramod's Capital account to his loan account.

ANSWER:

Journal

Date	Particulars	L.F.	Amount Rs	Amount Rs
2015				
Mar. 31	Revaluation A/c To Stock A/c To Reserve for Doubtful Debts A/c To Reserve for Legal Charges A/c (Assets and Liabilities are revalued)	Dr.	1,840 	1,550 25 265
Mar. 31	Factory Building A/c To Revaluation A/c (Factory Building appreciated)	Dr.	1,440	1,440
Mar. 31	Rajesh's Capital A/c	Dr.	160	

	Pramod's Capital A/c	Dr.	120		
	Nishant's Capital A/c	Dr.	120		
	To Revaluation A/c			400	
	(Loss on Revaluation adjusted to Partners' Capital Account)				
Mar. 31	Rajesh's Capital A/c	Dr.	2,000		
	Nishant's Capital A/c	Dr.	1,000		
	To Pramod Capital's A/c			3,000	
	(Pramod's share of goodwill adjusted to Rajesh's and Nishant's Capital Account in their gaining ratio)				
Mar. 31	Reserve Fund A/c	Dr.	2,750		
	To Rajesh's Capital A/c			1,100	
	To Pramod's Capital A/c			825	
	To Nishant's Capital A/c			825	
	(Reserve Fund distributed all the partners)				
Mar. 31	Pramod's Capital A/c	Dr.	18,705		
	To Pramod's Loan A/c			18,705	
	(Pramod's Capital transferred to his Loan Account)				
Mar. 31	Rajesh's Capital A/c	Dr.	940		
	Nishant's Capital A/c	Dr.	2,705		
	To Rajesh's Current A/c			940	
	To Nishant's Current A/c			2,705	
	(Excess in Capital Account is transferred to Current Account)				

Partners' Capital Account

Dr.

Cr.

Particulars	Rajesh	Pramod	Nishant	Particulars	Rajesh	Pramod	Nishant
Revaluation (Loss)	160	120	120	Balance b/d	20,000	15,000	15,000
Pramod's Capital A/c	2,000		1,000	Reserve Fund	1,100	825	825
Pramod's Loan A/c		18,705		Rajesh's Capital A/c		2,000	
Rajesh's Current A/c	940			Nishant's Capital A/c		1,000	
Nishant's Current A/c			2,705				
Balance c/d	18,000		12,000				
	21,100	18,825	15,825		21,100	18,825	15,825

Balance Sheet as on March 31, 2015

Liabilities	Amount Rs	Assets	Amount Rs
Bills Payable	6,250	Plant and Machinery	11,500
Sundry Creditors	10,000	Debtors	10,500
Reserve for Legal Charges	265	<i>Less: Reserve</i>	(525)
Pramod's Loan	18,705	Bills Receivable	7,000
Current Account:		Stock	15,500
Rajesh	940	<i>Less: 10% Depreciation</i>	(1,550)
Nishant	2,705		13,950
Capital Account:	<hr/>	Factory Building	12,000
Rajesh	18,000	<i>Add: 12% Appreciation</i>	1,440
Nishant	12,000	Bank Balance	13,000
	<hr/> <hr/> <hr/> <hr/> <hr/>		68,865
			<hr/> <hr/> <hr/> <hr/> <hr/>

Working Notes:

1) Pramod's share of goodwill = Total goodwill of the firm × Retiring Partner's Share = $10,000 \times \frac{3}{10} = \text{Rs. } 3,000$

2) Gaining Ratio = New Ratio – Old Ratio

$$\text{Rajesh's Gaining Share} = \frac{3}{5} - \frac{4}{10} = \frac{6-4}{10} = \frac{2}{10}$$

$$\text{Nishant Gaining Share} = \frac{2}{5} - \frac{3}{10} = \frac{4-3}{10} = \frac{1}{10}$$

Gaining Ratio between Rajesh and Nishant = 2:1

NOTE: In the above solution, in order to adjust the capital of remaining partners in the new firm according to their new profit sharing ratio, the

surplus or the deficit of Capital Account is transferred to their Current Account. But, in order to match the answer with that given in the book, the surplus or the deficit amount of the Partners' Capital Account, will either be withdrawn or brought in by the old partners. This treatment will be shown in the Partners' Capital itself and no need to transfer the surplus or deficit capital balance to their Current Accounts. The following Journal entry is passed to record the withdrawal of surplus capital by the partners.

If existing partners withdraw their excess capital

Journal entry

Rajesh's Capital A/c	Dr.	940	
Nishant's Capital A/c	Dr.	2,705	
To Bank A/c			3,645
(Surplus Capital withdrawn)			

Balance Sheet as on March 31, 2015

Liabilities	Amount Rs	Assets	Amount Rs
Bills Payable	6,250	Plant and Machinery	11,500
Sundry Creditors	10,000	Debtors	10,500
Reserve for Legal Charges	265	<i>Less: Reserve</i>	(525)
Pramod's Loan	18,705	Bills Receivable	7,000
Capital:		Stock	15,500
Rajesh	18,000	<i>Less: 10% Depreciation</i>	(1,550)
Nishant	12,000	Factory Building	12,000
	30,000	<i>Add: 12% Appreciation</i>	1,440
			13,440

		Bank Balance	9,355
	65,220		65,220

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Question 12: Following is the Balance Sheet of Jain, Gupta and Malik as on March 31, 2016.

Books of Jain, Gupta and Malik

Balance Sheet as on March 31, 2016

Liabilities	Amount Rs	Assets	Amount Rs
Sundry Creditors	19,800	Land and Building	26,000
Telephone Bills Outstanding	300	Bonds	14,370
Accounts Payable	8,950	Cash	5,500
Accumulated Profits	16,750	Bills Receivable	23,450
		Sundry Debtors	26,700
Capitals :		Stock	18,100
Jain	40,000	Office Furniture	18,250
Gupta	60,000	Plants and Machinery	20,230
Malik	20,000	Computers	13,200
	1,65,800		1,65,800

The partners have been sharing profits in the ratio of 5:3:2. Malik decides to retire from business on April 1, 2016 and his share in the business is to be calculated as per the following terms of revaluation of

assets and liabilities: Stock, Rs 20,000; Office furniture, Rs 14,250; Plant and Machinery Rs 23,530; Land and Building Rs 20,000.

A provision of Rs 1,700 to be created for doubtful debts. The goodwill of the firm is valued at Rs 9,000.

The continuing partners agreed to pay Rs 16,500 as cash on retirement of Malik, to be contributed by continuing partners in the ratio of 3:2. The balance in the capital account of Malik will be treated as loan.

Prepare Revaluation account, capital accounts, and Balance Sheet of the reconstituted firm.

ANSWER:

In the books of Jain and Gupta

Revaluation Account

Dr.			Cr.
Particulars	Amount Rs	Particulars	Amount Rs
Office Furniture	4,000	Stock	1,900
Land and Building	6,000	Plant and Machinery	3,300
Provision for Doubtful Debts	1,700	Loss transferred to Jain's Capital A/c	3,250
	11,700	Gupta's Capital A/c	1,950
		Malik's Capital A/c	1,300
			6,500
			11,700

Partners' Capital Account

Dr.

Cr.

Particulars	Jain	Gupta	Malik	Particulars	Jain	Gupta	Malik
Revaluation (Loss)	3,250	1,950	1,300	Balance b/d	40,000	60,000	20,000
Malik's Capital	1,125	675		Accumulated Profits	8,375	5,025	3,350
Cash			16,500	Jain's Capital A/c			1,125
Malik's Loan			7,350	Gupta's Capital A/c			675
Balance c/d	53,900	69,000		Cash	9,900	6,600	
	58,275	71,625	25,150		58,275	71,625	25,150

Balance Sheet

Liabilities	Amount Rs	Assets	Amount Rs
Sundry Creditors	19,800	Stock (18,100 + 1,900)	20,000
Telephone Bills Outstanding	300	Bonds	14,370
Accounts Payable	8,950	Cash	5,500
Malik's Loan	7,350	Bills Receivable	23,450
Partners' Capital:		Sundry Debtors	26,700
Jain	53,900	<i>Less: Provision for Bad Debts</i>	1,700
Gupta	<u>69,000</u>	Land and Building (26,000 – 6,000)	20,000
		Office Furniture (18,250 – 4,000)	14,250
		Plant and Machinery (20,230 + 3,300)	23,530
		Computers	13,200
			<u>1,59,300</u>

Question 13: Arti, Bharti and Seema are partners sharing profits in the proportion of 3:2:1 and their Balance Sheet as on March 31, 2016 stood as follows:

Books of Arti, Bharti and Seema
Balance Sheet as on March 31, 2016

Liabilities	Amount Rs	Assets	Amount Rs
Bills Payable	12,000	Buildings	21,000
Creditors	14,000	Cash in Hand	12,000
General Reserve	12,000	Bank	13,700
Capitals:		Debtors	12,000
Arti 20,000		Bills Receivable	4,300
Bharti	12,000	Stock	1,750
Seema	8,000	Investment	13,250
	78,000		78,000

Bharti died on June 12, 2016 and according to the deed of the said partnership, her executors are entitled to be paid as under:

- (a) The capital to her credit at the time of her death and interest thereon @ 10% per annum.
- (b) Her proportionate share of reserve fund.
- (c) Her share of profits for the intervening period will be based on the sales during that period, which were calculated as Rs 1,00,000. The rate of profit during past three years had been 10% on sales.

(d) Goodwill according to her share of profit to be calculated by taking twice the amount of the average profit of the last three years less 20%. The profits of the previous years were:

2013 – Rs 8,200

2014 – Rs 9,000

2015 – Rs 9,800

The investments were sold for Rs 16,200 and her executors were paid out. Pass the necessary journal entries and write the account of the executors of Bharti.

ANSWER:

Books of Arti and Seema

Journal

Date	Particulars	L.F.	Amount Rs	Amount Rs
2016				
June 12	Interest on Capital A/c	Dr.	240	
	General Reserve A/c	Dr.	4,000	
	Profit and Loss (Suspense) A/c	Dr.	3,333	
	To Bharti's Capital A/c			7,573
	(Profit, interest and general reserve are in credited to Bharti's Capital account)			
June 12	Arti's Capital A/c	Dr.	3,600	
	Seema's Capital A/c	Dr.	1,200	
	To Bharti's Capital A/c			4,800
	(Bharti's share of goodwill adjusted to Arti's and Seema's Capital Account in their gaining ratio, 3:1)			

June 12	Bharti's Capital A/c To Bharti's Executor's A/c (Bharti's capital account is transferred to her executor's account)	Dr.		24,373	24,373
June 12	Bank A/c To Investment A/c To Profit on Sale of Investment (Investment sold)	Dr.	16,200	13,250 2,950	
June 12	Bharti's Executor A/c To Bank A/c (Bharti Executor paid)	Dr.	24,373	24,373	

Bharti's Capital Account

Dr.

Cr.

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2016				2016			
June 12	Bharti's Executor's A/c		24,373	Mar. 31	Balance b/d		12,000
				June 12	Interest on Capital		240
					Profit and Loss (Suspense)		3,333
					General Reserve		4,000
					Arti's Capital A/c		3,600
					Seema's Capital A/c		1,200
			24,373				24,373

Bharti's Executor's Account

Dr.

Cr.

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2016				2016			
June 12	Bank		24,373	June 12	Bharti's Capital A/c		24,373
			24,373				24,373

Working Notes:

1. Bharti's share of profit = Profit is 10% of sales

Sales during the last year for that period were Rs 1,00,000

If sales are Rs 1,00,000, then the profit is Rs 10,000

$$\text{Bharti's share} = 10,000 \times \frac{2}{6} = \text{Rs. } 3,333$$

2. Bharti's Share of Goodwill

Goodwill of the firm = Average Profit \times Number of Years Purchase

$$\text{Average Profit} = \frac{8,200+9,000+9,800}{3} = \text{Rs. } 9,000$$

$$\text{Or, } 9,000 - 20\% \text{ of } 9,000 = 9,000 - 1,800 = \text{Rs } 7,200$$

$$\text{Goodwill of the firm} = 7,200 \times 2 = \text{Rs } 14,400$$

$$\text{Bharti's share} = 14,400 \times \frac{2}{6} = \text{Rs. } 4,800$$

3. Gaining Ratio = New Ratio – Old Ratio

$$\text{Arti's Gaining Share} = \frac{3}{4} - \frac{3}{6} = \frac{9-6}{12} = \frac{3}{12}$$

$$\text{Seema's Gaining Share} = \frac{1}{4} - \frac{1}{6} = \frac{3-2}{12} = \frac{1}{12}$$

Gaining ratio between Arti and Seema = 3:1

4. Interest on Capital for 73 days, i.e. from April 1, 2016 to June 12, 2016

Interest on capital = Amount of Capital \times Ratio of Interest \times Period =
 $12,000 \times \frac{10}{100} \times \frac{73}{365} = \text{Rs. } 240$

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Question 14: Nithya, Sathya and Mithya were partners sharing profits and losses in the ratio of 5:3:2. Their Balance Sheet as on March 31, 2015 was as follows:

Books of Nithya, Sathya and Mithya

Balance Sheet at March 31, 2015

Liabilities	Amount Rs	Assets	Amount Rs
Creditors	14,000	Investments	10,000
Reserve Fund	6,000	Goodwill	5,000
Capitals:		Premises	20,000
Nithya	30,000	Patents	6,000
Sathya	30,000	Machinery	30,000
Mithya	20,000	Stock	13,000
	80,000	Debtors	8,000
		Bank	8,000
	1,00,000		1,00,000

Mithya dies on August 1, 2015. The agreement between the executors of Mithya and the partners stated that:

- (a) Goodwill of the firm be valued at times the average profits of last four years. The profits of four years were: in 2011-12, Rs 13,000; in 2012-13, Rs 12,000; in 2013-14, Rs 16,000; and in 2014-15, Rs 15,000.
- (b) The patents are to be valued at Rs 8,000, Machinery at Rs 25,000 and Premises at Rs 25,000.
- (c) The share of profit of Mithya should be calculated on the basis of the profit of 2014-15.
- (d) Rs 4,200 should be paid immediately and the balance should be paid in 4 equal half-yearly instalments carrying interest @ 10%.

Record the necessary journal entries to give effect to the above and write the executor's account till the amount is fully paid. Also prepare the Balance Sheet of Nithya and Sathya as it would appear on August 1, 2015 after giving effect to the adjustments.

ANSWER:

Books of Nithya and Sathya

Journal

Date	Particulars	L.F.	Amount Rs	Amount Rs
2015				
Aug. 1	Nithya's Capital A/c	Dr.	2,500	
	Sathya's Capital A/c	Dr.	1,500	
	Mithya's Capital A/c	Dr.	1,000	
	To Goodwill A/c			5,000
	(Goodwill written off among all the partners)			

Aug. 1	Patents A/c	Dr.	2,000		
	Premises A/c	Dr.	5,000		
	To Revaluation A/c			7,000	
	(Increase in the value of patents and premises)				
Aug. 1	Revaluation A/c	Dr.	5,000		
	To Machinery A/c			5,000	
	(Decrease in the value of machinery)				
Aug. 1	Revaluation A/c	Dr.	2,000		
	To Nithya's Capital A/c			1,000	
	To Sathya's Capital A/c			600	
	To Mithya's Capital A/c			400	
	(Profit on revaluation of assets and liabilities transferred to Partners' Capital Account)				
Aug. 1	Reserve Fund A/c	Dr.	6,000		
	To Nithya's Capital A/c			3,000	
	To Sathya's Capital A/c			1,800	
	To Mithya's Capital A/c			1,200	
	(Reserve Fund transferred to Partners' Capital Account)				
Aug. 1	Nithya's Capital A/c	Dr.	4,375		
	Sathya's Capital A/c	Dr.	2,625		
	To Mithya's Capital A/c			7,000	
	(Mithya's share of goodwill adjusted to Nithya's and Sathya's Capital Account in their gaining ratio, 5:3)				

Aug. 1	Profit and Loss A/c (Suspense) To Mithya's Capital A/c (Profit till date of death credited to Mithya's Capital Account)	Dr.	1,000	1,000
Aug. 1	Mithya's Capital A/c To Mithya Executors A/c (Mithya's Capital Account transferred to her executor account)	Dr.	28,600	28,600
Aug. 1	Mithya Executor's A/c To Cash A/c (Cash paid to Mithya's executor)	Dr.	4,200	4,200

Mithya Executor's Account

Dr.					Cr.		
Date	Particulars	J. F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2015 Aug. 1	Bank		4,200	2015 Aug. 1	Mithya's Capital A/c		28,600
2016 Jan. 31	Bank (6,100 + 1220)		7,320	2016 Jan. 31	Interest (24,400 × 10100 × 612) (24,400 × 10100 × 612)		1,220

Mar. 31	Balance c/d		18,605	Mar. 31	Interest $(18,300 \times 10100 \times 212)$ $(18,300 \times 10100 \times 212)$		305
			30,125				30,125
2016 July 31	Bank (6,100 + 305 + 610)	7,015	2016 April 01 July 31 2017	Balance b/d Interest $(18,300 \times 10100 \times 412)$ $(18,300 \times 10100 \times 412)$ Interest $(12,200 \times 10100 \times 612)$ $(12,200 \times 10100 \times 612)$		18,605 610	
2017		6,710	Jan. 31	610			
Jan. 31	Bank (6,100 + 610)	6202	Mar. 31	Interest $(6,100 \times 10100 \times 212)$ $(6,100 \times 10100 \times 212)$		102	
		19,927					19,927
2017 July 31	Bank (6,100 + 102 + 203)	6,405	2017 April 01 July 31	Balance b/d Interest $(6,100 \times 10100 \times 412)$ $(6,100 \times 10100 \times 412)$		6,202 203	
		6,405					6,405

Balance Sheet

As on August 31, 2015

Liabilities	Amount Rs	Assets	Amount Rs
Creditors	14,000	Investments	10,000
Mithya's Executor's Loan A/c	24,400	Premises	25,000
Partners' Capital A/c		Machinery	25,000
Nithya	27,125	Stock	13,000
Sathya	28,275	Debtors	8,000
	<hr/>	Patents	8,000
		Bank (8,000 – 4,200)	3,800
		Profit and Loss (Suspense)	1,000
	93,800		93,800
	<hr/>		

Working Notes:

1.

Partners' Capital Accounts

Dr.

Cr.

Particulars	Nithya	Sathya	Mithya	Particulars	Nithya	Sathya	Mithya
Goodwill	2,500	1,500	1,000	Balance b/d	30,000	30,000	20,000
Mithya's Capital A/c	4,375	2,625		Revaluation A/c	1,000	600	400
Mithya's Executor's A/c			28,600	Reserve Fund	3,000	1,800	1,200
Balance c/d	27,125	28,275		Profit and Loss A/c (Suspense)			1,000
				Nithya's Capital A/c			4,375
				Sathya's Capital A/c			2,625
	34,000	32,400	29,600		34,000	32,400	29,600

2. Mithya's Share of Profit:

$$\text{Previous year's profit} \times \text{Proportionate Period} \times \text{Share of Profit} = \\ 15,000 \times \frac{4}{12} \times \frac{2}{10} = \text{Rs. } 1,000$$

3. Mithya's share of Goodwill

Goodwill of a firm = Average Profit \times Number of Year's Purchase

$$\text{Average Profit} = \frac{13,000 + 12,000 + 16,000 + 15,000}{4} = \text{Rs. } 14,000$$

Goodwill of the firm = $14,000 \times 2\frac{1}{2}$ = Rs. 14,000

$$\text{Mithya's share of goodwill} = 35,000 \times \frac{2}{10} = \text{Rs. } 7,000$$

4. Gaining Ratio = New Ratio – Old Ratio

$$\text{Nithya's Gaining share} = \frac{5}{8} - \frac{5}{10} = \frac{25-20}{40} = \frac{5}{20}$$

$$\text{Sathya's Gaining share} = \frac{3}{8} - \frac{3}{10} = \frac{15-12}{40} = \frac{3}{40}$$

Gaining Ratio between Nithya and Sathya = 5 : 3