## TEXTBOOK SELF-EXAMINATION QUESTIONS SOLVED

**I. Choose the correct answer:**

**1.** A partner retires from the partnership firm on $30^{th}$ June. He is liable for all the acts of the firm up to the ...................... .

(*a*) End of the current accounting period (*b*) End of the previous accounting period
(*c*) Date of his retirement (*d*) Date of his final settlement

**Ans.** (*c*) **Date of his retirement**

**2.** On the retirement of a partner from a partnership firm, accumulated profits and losses are distributed to the partners on the basis of ...................... .

(*a*) New profit sharing ratio (*b*) Old profit sharing ratio
(*c*) Gaining ratio (*d*) Sacrificing ratio

**Ans.** (*b*) **Old profit sharing ratio**

**3.** On the retirement of a partner, general reserve will be transferred to the ...................... .

(*a*) Capital account of all the partners (*b*) Revaluation account
(*c*) Capital account of the continuing partners (*d*) Memorandum revaluation account

**Ans.** (*a*) **Capital account of all the partners**

**4.** On revaluation, the increase in liabilities leads to ...................... .

(*a*) Gain (*b*) Loss
(*c*) Profit (*d*) None of these

**Ans.** (*b*) **Loss**

**5.** At the time of retirement of a partner, determination of gaining ratio is required ...............

(*a*) To transfer revaluation profit or loss (*b*) To distribute accumulated profits and losses
(*c*) To adjust goodwill (*d*) None of these

**Ans.** (*c*) **To adjust goodwill**

**6.** The final amount due to a retiring partner is not paid immediately, it is transferred to .........

(*a*) Bank A/c (*b*) Retiring partner's capital A/c
(*c*) Retiring partner's loan A/c (*d*) Other partners' capital A/c

**Ans.** (*c*) **Retiring partner's loan A/c**

**7.** 'A' was a partner in a partnership firm. He died on 31st March 2019. The final amount due to him is ₹ 25,000 which is not paid immediately. It will be transferred to ...................... .

(*a*) A's capital account (*b*) A's loan account
(*c*) A's Executor's account (*d*) A's Executor's loan account

**Ans.** (*d*) **A's Executor's loan account**

**8.** A, B and C are partners sharing profits in the ratio of 2:2:1. On retirement of B, goodwill of the firm was valued as ₹ 30,000. Find the contribution of A and C to compensate B:

(*a*) ₹ 20,000 and ₹ 10,000 (*b*) ₹ 8,000 and ₹ 4,000

(*c*) ₹ 10,000 and ₹ 20,000 (*d*) ₹ 15,000 and ₹ 15,000

**Ans.** (*b*) **₹ 8,000 and ₹ 4,000**

**9.** A, B and C are partners sharing profits in the ratio of 4:2:3. C retires. The new profit sharing ratio between A and B will be ...................... .

(*a*) 4:3 (*b*) 3:4 (*c*) 2:1 (*d*) 1:2

**Ans.** (*c*) **2:1**

**10.** X, Y and Z were partners sharing profits and losses equally. X died on 1st April 2019. Find out the share of X in the profit of 2019 based on the profit of 2018 which showed ₹ 36,000.

(*a*) ₹ 1,000 (*b*) ₹ 3,000 (*c*) ₹ 12,000 (*d*) ₹ 36,000

**Ans.** (*b*) **₹ 3,000**

## II. Very Short Answer Questions:

**1. What is meant by retirement of a partner?**

**Ans.** When a partner leaves from partnership firm it is known as retirement. The reasons for the retirement of a partner may be illness, old age and disagreement with other partners, etc.

**2. What is gaining ratio?**

**Ans.** Gaining ratio is the proportion of the profit which is gained by the continuing partner.

Gaining ratio = Ratio of share gained by the continuing partners.

Share gained = New share – Old share

**3. What is the purpose of calculating gaining ratio?**

**Ans.** The purpose of finding the gaining ratio is to bear the goodwill to be paid to the retiring partner.

**4. What is the journal entry to be passed to transfer the amount due to the deceased partner to the executor of the deceased partner?**

**Ans.**

| Date | Particulars | L.F. | Debit | Credit |
|---|---|---|---|---|
| | Deceased Partner's Capital A/c Dr.<br>To Deceased Partner's Executors A/c<br>(Amount transferred to Executors Account) | | xxx | xxx |

## III. Short Answer Questions:

**1. List out the adjustments made at the time of retirement.**

**Ans.** a) Distribution of accumulated profits, reserves and losses

b) Revaluation of assets and liabilities

c) Determination of new profit sharing ratio and gaining ratio

d) Adjustment for goodwill

e) Adjustment for current year's profit or loss up to the date of retirement

f) Settlement of the amount due to the retiring partner

**2. Distinguish between sacrificing ratio and gaining ratio.**

**Ans.**

| S. No | Basis | Sacrificing Ratio | Gaining Ratio |
|---|---|---|---|
| 1. | Meaning | It is the proportion of the profit which is sacrificed by the old partners in favour of a new partner. | It is the proportion of the profit which is gained by the continuing partners from the retiring partner. |
| 2. | Purpose | It is calculated to determine the amount to be adjusted towards goodwill for the sacrificing partners. | It is calculated to determine the amount to be adjusted towards goodwill for the gaining partners. |
| 3. | Time of Calculation | It is calculated at the time of admission of a new partner. | It is calculated at the time of retirement of a partner. |
| 4. | Method of Calculation | It is the difference between the old ratio and the new ratio. | It is the difference between the new ratio and the old ratio. |

**3. What are the ways in which the final amount due to an outgoing partner can be settled?**

**Ans.** The amount due to the retiring partner may be settled in one of the following ways:

(i) Paying the entire amount due immediately in cash

(ii) Transfer the entire amount due to the loan account of the partner

(iii) Paying part of the amount immediately in cash and transferring the balance to the loan account of the partner.

**IV. Exercises:**

**1. Dheena, Surya and Janaki are partners sharing profits and losses in the ratio of 5:3:2. On 31.3.2018, Dheena retired. On the date of retirement, the books of the firm showed a reserve fund of ₹ 50,000. Pass journal entry to transfer the reserve fund.**

**Journal Entries**

| Particulars | Dr. | Cr. |
|---|---|---|
| General reserve A/c Dr. | 50,000 | |
| To Dheena's Cap. A/c | | 25,000 |
| To Surya's Cap. A/c | | 15,000 |
| To Janaki's Cap. A/c | | 10,000 |
| (Gnl. reserve transferred to all partners cap. account in old profit ratio) | | |

**2. Rosi, Rathi and Rani are partners of a firm sharing profits and losses equally. Rathi retired from the partnership on 1.1.2018. On that date, their balance sheet showed accumulated loss of ₹ 45,000 on the asset side of the balance sheet. Give the journal entry to distribute the accumulated loss.**

| Particulars | | Dr. | Cr. |
|---|---|---|---|
| Rosi's Cap. A/c | Dr. | 15,000 | |
| Rathi's Cap. A/c | Dr. | 15,000 | |
| Rani's Cap. A/c | Dr. | 15,000 | |
| To profit and loss A/c | | | 45,000 |
| (Accumulated loss transferred to all partners capital account) | | | |

**3. Akash, Mugesh and Sanjay are partners in a firm sharing profits and losses in the ratio of 3:2:1. Their balance sheet as on 31st March, 2017 is as follows:**

| Liabilities | ₹ | ₹ | Assets | ₹ |
|---|---|---|---|---|
| Capital accounts: | | | Buildings | 1,10,000 |
| Akash | 40,000 | | Vehicle | 30,000 |
| Mugesh | 60,000 | | Stock in trade | 26,000 |
| Sanjay | 30,000 | 1,50,000 | Debtors | 25,000 |
| Profit and loss appropriation A/c | | 12,000 | Cash in hand | 15,000 |
| General reserve | | 24,000 | | |
| Workmen compensation fund | | 18,000 | | |
| Bills payable | | 2,000 | | |
| | | 2,06,000 | | 2,06,000 |

Pass journal entry to transfer accumulated Profit and prepare the capital account of the partners.

| Particulars | Dr. | Cr. |
|---|---|---|
| Profit and loss appropriation A/c | 12,000 | |
| General Reserve a/c | 24,000 | |
| Workmen Compensation Fund A/c | 18,000 | |
| To Akash Capital A/c | | 27,000 |
| To Mugesh Capital A/c | | 18,000 |
| To Sanjay Capital A/c | | 9,000 |
| (Undistributed Profit tr to Capital) | | |

**Capital Account**

| Particulars | Akash ₹ | Mugesh ₹ | Sanjay ₹ | Particulars | Akash ₹ | Mugesh ₹ | Sanjay ₹ |
|---|---|---|---|---|---|---|---|
| To Balance c/d | 67,000 | 78,000 | 39,000 | By Balance b/d | 40,000 | 60,000 | 30,000 |
| | | | | By Undistributed Profit | 27,000 | 18,000 | 9,000 |
| | 67,000 | 78,000 | 39,000 | | 67,000 | 78,000 | 39,000 |

**4. Roja, Neela and Kanaga are partners sharing profits and losses in the ratio of 4:3:3. On 1st April 2017, Roja retires and on retirement, the following adjustments are agreed upon:**

(i) Increase the value of building by ₹ 30,000.

(ii) Depreciate stock by ₹ 5,000 and furniture by ₹ 12,000.

(iii) Provide an outstanding liability of ₹ 1,000

Pass journal entries and prepare revaluation account.

**Dr. Revaluation A/c Cr.**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Stock | 5,000 | By Buildings A/c | 30,000 |
| To Furnniture | 12,000 | | |
| To Outstanding liability | 1,000 | | |
| To Share of profit<br>Roja - 4,800<br>Neela - 3,600<br>Kanaga - 3,600 | 12,000 | | |
| | 32,000 | | 30,000 |

**Journal Entries**

| Particulars | | Debit ₹ | Credit ₹ |
|---|---|---|---|
| Revaluation A/c<br>To Stock A/c<br>To Furniture A/c<br>To Outstanding liability A/c<br>(Decrease in value of assets) | Dr. | 18,000 | <br>5,000<br>12,000<br>1,000 |
| Buildings A/c<br>To Revaluation A/c<br>(Value of building increases) | Dr. | 30,000 | <br>30,000 |
| Revaluation A/c<br>To Roja's Cap. A/c<br>To Neela's Cap. A/c<br>To Kanaga's Cap. A/c<br>(Profit on revaluation account) | Dr. | 12,000 | <br>4,800<br>3,600<br>3,600 |

**5. Vinoth, Karthi and Pranav are partners sharing profits and losses in the ratio of 2:2:1. Pranav retires from partnership on 1st April 2018. The following adjustments are to be made:**

(i) Increase the value of land and building by ₹ 18,000

(ii) Reduce the value of machinery by ₹15,000

(iii) A provision would also be made for outstanding expenses for ₹ 8,000.

Give journal entries and prepare revaluation account.

Dr. **Revaluation A/c** Cr.

| Particulars | ₹ | Particulars | | ₹ |
|---|---|---|---|---|
| To Machinery A/c | 15,000 | By Buildings A/c | | 18,000 |
| To Outstanding exp. A/c | 8,000 | By Revaluation loss | | 5,000 |
| | | Vinoth | 2,000 | |
| | | Karthi | 2,000 | |
| | | Pranav | 1,000 | |
| | 23,000 | | | 23,000 |

| Particulars | | Debit ₹ | Credit ₹ |
|---|---|---|---|
| Revaluation A/c | Dr. | 23,000 | |
| To Machinery A/c | Dr. | | 15,000 |
| To Outstanding Expenses A/c | Dr. | | 8,000 |
| (Decrease in value of asset) | | | 23,000 |
| Building's A/c | Dr. | 18,000 | |
| To Revaluation A/c | Dr. | | 18,000 |
| (Value of Buildings) | | | |
| Vinoth's cap. A/c | Dr. | 2,000 | |
| Karthi's cap. A/c | Dr. | 2,000 | |
| Pranav's cap. A/c | Dr. | 1,000 | |
| To share of loss A/c | | | 5,000 |
| (Loss on revaluation A/c) | | | |

**6. Chandru, Vishal and Ramanan are partners in a firm sharing profits and losses equally. Their balance sheet as on 31st March, 2018 is as follows:**

| Liabilities | | ₹ | Assets | | ₹ |
|---|---|---|---|---|---|
| Capital accounts: | | | Furniture | | 60,000 |
| Chandru | 60,000 | | Machinery | | 1,20,000 |
| Vishal | 70,000 | | Sundry debtors | 33,000 | |
| Ramanan | 70,000 | 2,00,000 | Less: Provision for | | |
| Bills payable | | 80,000 | doubtful debts | 3,000 | 30,000 |
| | | | Bills receivable | | 50,000 |
| | | | Cash at bank | | 20,000 |
| | | 2,80,000 | | | 2,80,000 |

Ramanan retired on 31st March 2019 subject to the following conditions:

(i) Machinery is valued at ₹ 1,50,000

(ii) Value of furniture brought down by ₹ 10,000

(iii) Provision for doubtful debts should be increased to ₹ 5,000

(iv) Investment of ₹ 30,000 not recorded in the books is to be recorded now.

Pass necessary journal entries and prepare revaluation account and capital account of partners.

Dr. **Revaluation A/c** Cr.

| Particulars | | ₹ | Particulars | ₹ |
|---|---|---|---|---|
| To Furniture | | 10,000 | By Buildings a/c | 30,000 |
| To PBDD | | 2,000 | By Investment A/c | 30,000 |
| To Share of profit | | 48,000 | | |
| Chandru | 16,000 | | | |
| Vishal | 16,000 | | | |
| Ramanan | 16,000 | | | |
| | | 60,000 | | 60,000 |

Dr. **Capital Account** Cr.

| Particulars | Chandru ₹ | Vishal ₹ | Ramanan ₹ | Particulars | Chandru ₹ | Vishal ₹ | Ramanan ₹ |
|---|---|---|---|---|---|---|---|
| To Balance c/d | 76,000 | 86,000 | 86,000 | By Bal b/d | 60,000 | 70,000 | 70,000 |
| | | | | By Revaluation Profit | 16,000 | 16,000 | 16,000 |
| | 76,000 | 86,000 | 86,000 | | 76,000 | 86,000 | 86,000 |
| | | | | By Balance b/d | 76,000 | 86,000 | 86,000 |

**7. Kayal, Mala and Neela are partners sharing profits in the ratio of 2:2:1. Kayal retires and the new profit sharing ratio between Nila and Neela is 3:2. Calculate the gaining ratio.**

New Profit Sharing Ratio and Gaining Ratio

Gain Ratio = New Ratio – Old Ratio

<u>Kayal</u> –

Mala $= \frac{3}{5} - \frac{2}{5} = \frac{1}{5}$

Neela $= \frac{2}{5} - \frac{1}{5} = \frac{1}{5}$

Gaining Ratio = 1:1

**8. Sunil, Sumathi and Sundari are partners sharing profits in the ratio of 3:3:4. Sundari retires and her share is taken up entirely by Sunil. Calculate the new profit sharing ratio and gaining ratio.**

New Ratio – Old Ratio

Sunil $= \frac{3}{10} + \frac{4}{10} = \frac{7}{10}$

(Sundari share is added with old ratio)

Sumathi $= \frac{3}{10}$

New Ratio = 7 : 3

Sacrificing Ratio = 4 : 0

**9. Ramu, Somu and Gopu are partners sharing profits in the ratio of 3:5:7. Gopu retires and the share is purchased by Ramu and Somu in the ratio of 3:1. Find the new profit sharing ratio and gaining ratio.**

| | Ramu | Somu | Gopu |
|---|---|---|---|
| Old Ratio = | $\frac{3}{15}$ | $\frac{5}{15}$ | $\frac{7}{15}$ |

Gopu = $\frac{7}{15} \times \frac{3}{4} = \frac{21}{60}$

Somu = $\frac{7}{15} \times \frac{1}{4} = \frac{7}{60}$

$= \frac{21}{60} : \frac{7}{60} = 21 : 7 = 3 : 1$

Gaining Ratio = 3:1

New Ratio = Old Ratio + Share Gained

Ramu = $\frac{3}{15} + \frac{21}{60} = \frac{12+21}{60} = \frac{33}{60}$

Somu = $\frac{5}{15} + \frac{7}{60} = \frac{20+7}{60} = \frac{27}{60}$

$= 33 : 27 = 11 : 9$

New Ratio = 11 : 9

**10.** Navin, Ravi and Kumar are partners sharing profits in the ratio of 1/2, 1/4 and 1/4 respectively. Kumar retires and his share is taken up by Navin and Ravi equally. Calculate the new profit sharing ratio and gaining ratio.

Gaining Ratio

| Navin | Ravi | Kumar |
|---|---|---|
| $\frac{1}{2}$ | $\frac{1}{4}$ | $\frac{1}{4}$ |

Kumar share taken up and Navin by Ravi equally

$\frac{1}{4} \times \frac{1}{2} = \frac{1}{8}$ = Navin

$\frac{1}{4} \times \frac{1}{2} = \frac{1}{8}$ = Ravi

Navin = $\frac{1}{2} + \frac{1}{8} = \frac{4+1}{8} = \frac{5}{8}$

Ravi = $\frac{1}{4} + \frac{1}{8} = \frac{2+1}{8} = \frac{3}{8}$

New Ratio = 5:3

Gaining Ratio = 1:1

**11. Mani, Gani and Soni are partners sharing the profits and losses in the ratio of 4:5:6. Mani retires from the firm. Calculate the new profit sharing ratio and gaining ratio.**

Since new profit sharing ratio, share gained and the proportion of share gained is not given, the new share is calculated by assuming that the share gained is in the proportion of old ratio. Therefore, the new profit sharing ratio and gaining ratio between the continuing partners, Gani and Soni is their old profit sharing ratio, that is 5:6.

**12. Rajan, Suman and Jegan were partners in a firm sharing profits and losses in the ratio of 4:3:2. Suman retired from partnership. The goodwill of the firm on the date of retirement was valued at ₹ 45,000. Pass necessary journal entries for goodwill on the assumption that the fluctuating capital method is followed.**

Value of Goodwill = $45{,}000 \times \frac{3}{9} = 15{,}000$

**Journal Entries**

**Adjustment for goodwill**

| Date | Particulars | | L.F. | Debit | Credit |
|---|---|---|---|---|---|
| | Rajan's Capital A/c | Dr. | | 10,000 | |
| | Jegan's Capital A/c | Dr. | | 5,000 | |
| | To Suman's Capital | | | | 15,000 |
| | (Suman's capital value of goodwill is shared to other partners) | | | | |

**13. Balu, Chandru and Nirmal are partners in a firm sharing profits and losses in the ratio of 5:3:2. On 31st March 2018, Nirmal retires from the firm. On the date of Nirmal's retirement, goodwill appeared in the books of the firm at ₹ 60,000. By assuming fluctuating capital account, pass the necessary journal entry if the partners decide to**

(a) write off the entire amount of existing goodwill

(b) write off half of the existing goodwill.

| | Particulars | | L.F. | Debit | Credit |
|---|---|---|---|---|---|
| (a) | Balu's Capital A/c | Dr. | | 30,000 | |
| | Chandru's Capital A/c | Dr. | | 18,000 | |
| | Nirmal Capital A/c | Dr. | | 12,000 | |
| | To Goodwill A/c | | | | 60,000 |
| | (Value of goodwill entirely shared to all partners) | | | | |
| (b) | Balu's Capital A/c | Dr. | | 15,000 | |
| | Chandru's Capital A/c | Dr. | | 9,000 | |
| | Nirmal Capital A/c | Dr. | | 6,000 | |
| | To Goodwill A/c | | | | 30,000 |
| | (Half amount of Goodwill written off) | | | | |

**14. Rani, Jaya and Rathi are partners sharing profits and losses in the ratio of 2:2:1. On 31.3.2018, Rathi retired from the partnership. Profit of the preceding years is as follows: 2014: 10,000; 2015: ₹ 20,000; 2016: ₹ 18,000 and 2017: ₹ 32,000**

Find out the share of profit of Rathi for the year 2018 till the date of retirement if
(a) Profit is to be distributed on the basis of the previous year's profit
(b) Profit is to be distributed on the basis of the average profit of the past 4 years
Also pass necessary journal entries by assuming partners capitals are fluctuating.

a) If the profit is to be distributed on the basis of previous year profit (2017) Rathi's share distributed 3 months = $₹\ 32,000 \times \frac{1}{5} \times \frac{3}{12} = ₹\ 1600$

| Date | Particulars | L.F. | Debit | Credit |
|---|---|---|---|---|
| | Profit and loss suspense A/c Dr.<br>To Rathi's Capital A/c<br>(Profit is to be distributed on the basis of previous year profit) | | 1,600 | 1,600 |

b) Average Profit

| Year | Profit |
|---|---|
| 2014 | 10,000 |
| 2015 | 20,000 |
| 2016 | 18,000 |
| 2017 | 32,000 |
| Total profit | 80,000 |

$$\text{Average Profit} = \frac{\text{Total Profit}}{\text{No. of years}} = \frac{80000}{4} = ₹\ 20,000$$

$$\text{Rathi's Share} = 20,000 \times \frac{1}{5} = ₹\ 4,000$$

| Date | Particulars | L.F. | Debit | Credit |
|---|---|---|---|---|
| | Profit and loss suspense A/c Dr.<br>To Rathi's Capital A/c<br>(Rathi's current year share of profit Cr. to her cap. A/c) | | 4,000 | 4,000 |

**15. Kavin, Madhan and Ranjith are partners sharing profits and losses in the ratio of 4:3:3, respectively. Kavin retires from the firm on 31st December, 2018. On the date of retirement, his capital account shows a credit balance of ₹ 1,50,000. Pass journal entries if:**

(a) The amount due is paid off immediately.
(b) The amount due is not paid immediately.
(c) ₹ 1,00,000 is paid and the balance in future.

| Date | Particulars | L.F. | Debit ₹ | Credit ₹ |
|---|---|---|---|---|
| a) | Kavin's capital A/c Dr.<br>To Bank A/c<br>(Paid off immediately) | | 1,50,000 | 1,50,000 |
| b) | Kavin's capital A/c Dr.<br>To Kavin's loan A/c<br>(Cr. to loan A/c) | | 1,50,000 | 1,50,000 |

**17. Kannan, Rahim and John are partners in a firm sharing profit and losses in the ratio of 5:3:2. The balance sheet as on 31st December, 2017 was as follows:**

| Liabilities | ₹ | ₹ | Assets | ₹ |
|---|---|---|---|---|
| Capital accounts: | | | Buildings | 90,000 |
| Kannan | 1,00,000 | | Machinery | 60,000 |
| Rahim | 80,000 | | Debtors | 30,000 |
| John | 40,000 | 2,20,000 | Stock | 20,000 |
| Workmen's compensation Fund | | 30,000 | Cash at bank | 50,000 |
| | | | Profit and loss A/c (loss) | 20,000 |
| Creditors | | 20,000 | | |
| | | 2,70,000 | | 2,70,000 |

John retires on 1st January 2018, subject to following conditions:

(i) To appreciate building by 10%

(ii) Stock to be depreciated by 5%

(iii) To provide ₹1,000 for bad debts

(iv) An unrecorded liability of ₹8,000 have been noticed

(v) The retiring partner shall be paid immediately

Prepare revaluation account, partners' capital account and the balance sheet of the firm after retirement.

**Dr.** **Revaluation A/c** **Cr.**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Stock | 1,000 | By Buildings A/c | 9,000 |
| To PBDD | 1,000 | By Revaluation Loss | 1,000 |
| To Liability Unrecorded | 8,000 | Kannan 500<br>John 300<br>Rahim 200 | |
| | 10,000 | | 10,000 |

**Dr.** **Capital A/c** **Cr.**

| Particulars | Kannan ₹ | Rahim ₹ | John ₹ | Particulars | Kannan ₹ | Rahim ₹ | John ₹ |
|---|---|---|---|---|---|---|---|
| To Revaluation Loss | 500 | 300 | 200 | By Balance b/d | 1,00,000 | 80,000 | 40,000 |
| To P/L A/c | 10,000 | 6,000 | 4,000 | By workmen compensation Fund | 15,000 | 9,000 | 6,000 |
| To Balance c/d | 1,04,500 | 82,700 | | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| To Cash A/c | | | 41,800 | | | | |
| | 1,15,000 | 89,000 | 46,000 | | 1,15,000 | 89,000 | 46,000 |
| | | | | By Balance b/d | 1,04,500 | 82,700 | |

**Balance Sheet**

| Liabilities | | ₹ | Assets | | ₹ |
|---|---|---|---|---|---|
| Capital | | | Buildings | 90,000 | |
| Kannan | 1,04,500 | | (+) Revalue | 9,000 | 99,000 |
| Rahim | 82,700 | 1,87,200 | Machinery | | 60,000 |
| Creditors | | 20,000 | Debtors | 30,000 | |
| Unrecorded liability | | 8,000 | (–) PBDD | 1,000 | 29,000 |
| | | | Stock | 20,000 | |
| | | | (–) Revalue | 1,000 | 19,000 |
| | | | Cash | 50,000 | |
| | | | (–) John's Cap. | 41,800 | 8,200 |
| | | 2,15,200 | | | 2,15,200 |

**18. Saran, Arun and Karan are partners in a firm sharing profits and losses in the ratio of 4:3:3. Their balance sheet as on 31.12.2016 was as follows:**

| Liabilities | ₹ | ₹ | Assets | ₹ | ₹ |
|---|---|---|---|---|---|
| Capital accounts: | | | Buildings | | 60,000 |
| Saran | 60,000 | | Machinery | | 40,000 |
| Arun | 50,000 | | Investment | | 20,000 |
| Karan | 40,000 | 1,50,000 | Stock | | 12,000 |
| General reserve | | 15,000 | Debtors | 25,000 | |
| Creditors | | 35,000 | Less: | | |
| | | | Provision for bad debts | 1000 | 24,000 |
| | | | Cash at bank | | 44,000 |
| | | 2,00,000 | | | 2,00,000 |

Karan retires on 1.1.2017 subject to the following conditions:

(i) Goodwill of the firm is valued at ₹ 21,000

(ii) Machinery to be appreciated by 10%

(iii) Building to be valued at ₹ 80,000

(iv) Provision for bad debts to be raised to ₹ 2,000

(v) Stock to be depreciated by ₹ 2,000

(vi) Final amount due to Karan is not paid immediately

Prepare the necessary ledger accounts and show the balance sheet of the firm after retirement.

Dr. **Revaluation A/c** Cr.

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To PBDD | 1,000 | By Machinery A/c | 4,000 |
| To Stock | 2,000 | By Buildings A/c | 20,000 |
| To Revaluation Profit<br>Saran - 8,400<br>Arun - 6,300<br>Karan - 6,300 | 21,000 | | |
| | 24,000 | | 24,000 |

Dr. **Capital A/c** Cr.

| Particulars | Saran | Arun | Kannan | Particulars | Saran | Arun | Kannan |
|---|---|---|---|---|---|---|---|
| To Karan Cap A/c | 3,600 | 2,700 | | By Balance b/d | 60,000 | 50,000 | 40,000 |
| To Balance c/d | 70,800 | 58,100 | | By Revaluation Profit | 8,400 | 6,300 | 6,300 |
| To Loan A/c | | | 57,100 | By Gnl. Reserve | 6,000 | 4,500 | 4,500 |
| | | | | By Saran Cap A/c | | | 3,600 |
| | | | | By Arun Cap A/c | | | 2,700 |
| | 74,400 | 60,800 | 57,100 | | 74,400 | 60,800 | 57,100 |

**Balance Sheet**

| Liabilities | | ₹ | Assets | | ₹ |
|---|---|---|---|---|---|
| Capital | | | Buildings | 60,000 | |
| Saran | 70,800 | | (+) Revaluation | 20,000 | 80,000 |
| Arun | 58,100 | 1,28,900 | Machinery | 40,000 | |
| Karan Loan A/c | | 57,100 | (+) Revaluation | 4,000 | 44,000 |
| Creditors | | 35,000 | Stock | 12,000 | |
| | | | (–) Revaluation | 2,000 | 10,000 |
| | | | Debtors | 25,000 | |
| | | | (–) PBDD | 2,000 | 23,000 |
| | | | Cash | | 44,000 |
| | | | Investment | | 20,000 |
| | | 2,21,000 | | | 2,21,000 |

**19. Rajesh, Sathish and Mathan are partners sharing profits and losses in the ratio of 3:2:1 respectively. Their balance sheet as on 31.3.2017 is given below.**

| Liabilities | ₹ | ₹ | Assets | ₹ | ₹ |
|---|---|---|---|---|---|
| Capital accounts: | | | Premises | | 4,00,000 |
| Rajesh | 4,00,000 | | Machinery | | 4,20,000 |
| Sathish | 3,00,000 | | Debtors | | 1,60,000 |
| Mathan | 2,50,000 | 9,50,000 | Stock | | 3,00,000 |
| General reserve | | 1,20,000 | Cash at bank | | 20,000 |
| Creditors | | 50,000 | | | |
| Bills payable | | 1,80,000 | | | |
| | | 13,00,000 | | | 13,00,000 |

Mathan retires on 31st March, 2017 subject to the following conditions:

(i) Rajesh and Sathish will share profits and losses in the ratio of 3:2

(ii) Assets are to be revalued as follows: Machinery ₹ 4,50,000, Stock ₹ 2,90,000, Debtors ₹ 1,52,000.

(iii) Goodwill of the firm is valued at ₹ 1,20,000

Prepare necessary ledger accounts and the balance sheet immediately after the retirement of Mathan.

(i) Computation of Gaining Ratio:

Share Gained = New Share - Old Share

Rajesh $= \frac{3}{5} - \frac{3}{6} = \frac{18-15}{30} = \frac{3}{30}$

Sathish $= \frac{2}{5} - \frac{2}{6} = \frac{12-10}{30} = \frac{2}{30}$

Gaining Ratio of Rajesh and Sathish is = 3:2

(ii) Adjustment for Goodwill:

Goodwill = ₹ 1,20,000

Share of Goodwill of Manoj = 1,20,000 $\times \frac{1}{6}$ = ₹ 20,000

It is to be adjusted in the capital accounts of Rajesh and Sathish in the gaining ratio of 3:2.

Rajesh = $\frac{3}{5} \times$ 20,000 = ₹ 12,000

Sathish = $\frac{2}{5} \times$ 20,000 = ₹ 8,000

Dr. **Revaluation A/c** Cr.

| Particulars | ₹ | ₹ | Particulars | ₹ | ₹ |
|---|---|---|---|---|---|
| To Machinery | | 30,000 | By Loss on Revaluation | | |
| To Stock | | 10,000 | Rajesh Cap | 24,000 | |
| | | | Sathish Cap | 16,000 | |
| | | | Mathan Cap | 8,000 | 48,000 |
| To Debtors | | 8,000 | | | |
| | | 48,000 | | | 48,000 |

Dr. **Capital A/c** Cr.

| Particulars | Rajesh ₹ | Sathish ₹ | Mathan ₹ | Particulars | Rajesh ₹ | Sathish ₹ | Mathan ₹ |
|---|---|---|---|---|---|---|---|
| To Revaluation Loss | 24,000 | 16,000 | 8,000 | By Balance b/d | 4,00,000 | 3,00,000 | 2,50,000 |
| To Mathan's Cap A/c | 12,000 | 8,000 | - | By General Reserve | 60,000 | 40,000 | 20,000 |
| To Mathan's loan A/c | - | - | 2,82,000 | By Rajesh Cap A/c | - | - | 12,000 |
| No Balance c/d | 4,24,000 | 3,16,000 | - | By Sathish Cap A/c | - | - | 8,000 |
| | 4,60,000 | 3,40,000 | 2,90,000 | | 4,60,000 | 3,40,000 | 2,90,000 |
| | | | | By Balance b/d | 4,24,000 | 3,16,000 | |

**Balance Sheet as on 31.12.2017**

| Liabilities | ₹ | ₹ | Assets | | ₹ |
|---|---|---|---|---|---|
| Rajesh Capital | 4,24,000 | | Premises | | 4,00,000 |
| Sathish Capital | 3,16,000 | 7,40,000 | Machinery | 4,20,000 | |
| Madhan's Loan | | 2,82,000 | (–) Depreciation | 30,000 | 3,90,000 |
| Creditor | | 50,000 | Debtors | 1,60,000 | |
| Bills Payable | | 1,80,000 | (–) Bad Debts | 8,000 | 1,52,000 |
| | | | Stock | 3,00,000 | |
| | | | (–) Revalued | 10,000 | 2,90,000 |
| | | | Goodwill | | 20,000 |
| | | 12,52,000 | | | 12,52,000 |

**20. Janani, Janaki and Jamuna are partners sharing profits and losses in the ratio of 3:3:1 respectively. Janaki died on 31st December, 2017. Final amount due to her showed a credit balance of ₹ 1,40,000. Pass journal entries if,**

(a) The amount due is paid off immediately.

(b) The amount due is not paid immediately.

(c) ₹ 75,000 is paid and the balance in future.

**Journal Entries**

| Date | Particulars | L.F. | Debit ₹ | Credit ₹ |
|---|---|---|---|---|
| | Janaki's Executors A/c Dr.<br>To Bank A/c<br>(Janaki's Cap amount paid off immediately) | | 1,40,000 | <br>1,40,000 |
| | Janaki's Executors A/c Dr.<br>To Janaki's Executors Loan A/c<br>(Janaki's Cap amount not paid immediately) | | 1,40,000 | <br>1,40,000 |
| | Janaki's Executors A/c Dr.<br>To Bank A/c<br>To Janaki's Executors Loan A/c<br>(₹ 75,000 is paid and the balance is transferred to loan A/c) | | 1,40,000 | <br>75,000<br>65,000 |

**21. Varsha, Shanthi and Madhuri are partners, sharing profits in the ratio of 5:4:3. Their balance sheet as on 31st December 2017 is as under:**

**Balance Sheet as on 31st December 2017**

| Liabilities | ₹ | ₹ | Assets | ₹ |
|---|---|---|---|---|
| Capital accounts: | | | Premises | 1,20,000 |
| Varsha | 80,000 | | Stock | 40,000 |
| Shanthi | 60,000 | | Debtors | 50,000 |
| Madhuri | 20,000 | 1,60,000 | Cash at bank | 18,000 |
| General reserve | | 48,000 | Profit and loss A/c (loss) | 12,000 |
| Sundry creditors | | 32,000 | | |
| | | 2,40,000 | | 2,40,000 |

On 1.1.2018, Madhuri died and on her death the following arrangements are made:

(i) Stock to be depreciated by ₹ 5,000

(ii) Premises is to be appreciated by 20%

(iii) To provide ₹4,000 for bad debts

(iv) The final amount due to Madhuri was not paid

Prepare revaluation account, partners' capital account and the balance sheet of the firm after death.

**Dr.** **Revaluation A/c** **Cr.**

| Particulars | ₹ | ₹ | Particulars | ₹ | ₹ |
|---|---|---|---|---|---|
| To Stock | | 5,000 | By Premises | | 24,000 |
| To Bad Debts | | 4,000 | | | |
| To Varsha Cap A/c | 6,250 | | | | |

| | | | | | |
|---|---|---|---|---|---|
| To Shanthi Cap A/c | 5,000 | | | | |
| To Madhuri Cap A/c | 3,750 | 15,000 | | | |
| | | 24,000 | | | 24,000 |

**Dr.** **Capital A/c** **Cr.**

| Particulars | Varsha ₹ | Shanthi ₹ | Madhuri ₹ | Particulars | Varsha ₹ | Shanthi ₹ | Madhuri ₹ |
|---|---|---|---|---|---|---|---|
| To Profit and Loss a/c | 5,000 | 4,000 | 3,000 | By Balance b/d | 80,000 | 60,000 | 20,000 |
| To Balance c/d | 1,01,250 | 77,000 | | By General Reserve | 20,000 | 16,000 | 12,000 |
| To Executors A/c | | | 32,750 | By Revaluation Profit | 6,250 | 5,000 | 3,750 |
| | 1,06,250 | 81,000 | 35,750 | | 1,06,250 | 81,000 | 35,750 |

**Balance Sheet as on 1.1.2018**

| Liabilities | ₹ | ₹ | Assets | ₹ | ₹ |
|---|---|---|---|---|---|
| Creditors | | 32,000 | Premises | 1,20,000 | |
| Madhuri Exec Account | | 32,750 | (+) Revalued Stock | 24,000 | 1,44,000 |
| Capital Accounts | | | | 40,000 | |
| Varsha | 1,01,250 | | (–) Revalued | 5,000 | 35,000 |
| Shanthi | 77,000 | 1,78,250 | Debtors | 50,000 | |
| | | | (–) Bad Debts | 4,000 | 46,000 |
| | | | Cash | | 18,000 |
| | | 2,43,000 | | | 2,43,000 |

**22. Vijayan, Sudhan and Suman are partners who share profits and losses in their capital ratio. Their balance sheet as on 31.12.2018 is as follows:**

**Balance Sheet as on 31.12.2018**

| Liabilities | ₹ | ₹ | Assets | ₹ |
|---|---|---|---|---|
| Capital accounts: | | | Building | 80,000 |
| Vijayan | 70,000 | | Stock | 45,000 |
| Sudhan | 50,000 | | Debtors | 25,000 |
| Suman | 30,000 | 1,50,000 | Cash at bank | 20,000 |
| General reserve | | 18,000 | Cash in hand | 15,000 |
| Creditors | | 17,000 | | |
| | | 1,85,000 | | 1,85,000 |

Suman died on 31.3.2019. On the death of Suman, the following adjustments are made:

(i) Building is to be valued at ₹ 1,00,000

(ii) Stock to be depreciated by ₹ 5,000

(iii) Goodwill of the firm is valued at ₹ 36,000

(iv) Share of profit from the closing of the last financial year to the date of death on the basis of the average of the three completed years' profit before death.

Profit for 2016, 2017 and 2018 were ₹ 40,000, ₹ 50,000 and ₹ 30,000, respectively.

Prepare the necessary ledger accounts and the balance sheet immediately after the death of Suman.

Profit Sharing Ratio:

Capital = 70,000 : 50,000 : 30,000 = 7:5:3

Gaining Ratio between Vijayan and Sudhan = 7:5

Calculation of Goodwill = $\frac{40000+50000+30000}{3} = \frac{120000}{3} =$ ₹ 40,000

Current Year Profit Share = $40000 \times \frac{3}{15} =$ ₹ 8,000

Share Goodwill = $36000 \times \frac{3}{15} =$ ₹ 7,200

It is borne by = Vijayan : Sudhan = 7:5

$= 7200 \times \frac{7}{12} =$ Rs. 4,200

$= 7200 \times \frac{5}{12} =$ Rs. 3,000

**Dr.** **Revaluation A/c** **Cr.**

| Particulars | ₹ | ₹ | Particulars | ₹ | ₹ |
|---|---|---|---|---|---|
| To Stock | | 5,000 | By Buildings A/c | | 20,000 |
| To Profit tr to Capital A/c | | | | | |
| Vijayan's Capital | 7,000 | | | | |
| Sudhan's Capital | 5,000 | | | | |
| Suman's Capital | 3,000 | 15,000 | | | |
| | | 20,000 | | | 20,000 |

**Dr.** **Capital A/c** **Cr.**

| Particulars | Vijayan ₹ | Sudhan ₹ | Suman ₹ | Particulars | Vijayan ₹ | Sudhan ₹ | Suman ₹ |
|---|---|---|---|---|---|---|---|
| To Suman's Share of Profit | 4,200 | 3,000 | - | By Balance b/d | 70,000 | 50,000 | 30,000 |
| To Suman's Executors A/c | | | 43,800 | By General Reserve | 8,400 | 6,000 | 3,600 |
| To Balance c/d | 81,200 | 58,000 | | By Revaluation Profit | 7,000 | 5,000 | 3,000 |
| | | | | By Vijayan's Capital A/c | | | 4,200 |
| | | | | By Sudhan's Capital A/c | | | 3,000 |
| | 85,400 | 61,000 | 43,800 | | 85,400 | 61,000 | 43,800 |

**I. Choose the correct answer:**

1. On the retirement of a partner, profit on revaluation of assets and liabilities should be credited to the capital accounts of ...................... .

   (*a*) Retiring partner in their old ratio (*b*) All partners in their old ratio

   (*c*) Remaining partners in new ratio (*d*) Remaining partners in old ratio

**Ans. (*b*) All partners in their old ratio**

2. On the retirement of a partner, reserves should be transferred to the capital accounts of ......

   (*a*) Retiring partner (*b*) Remaining partner

   (*c*) All partners (*d*) None of these

**Ans. (*c*) All partners**

3. Credit balance of Profit and Loss Account - appearing in the Balance sheet on the dealth of a partner is credited to ...................... .

   (*a*) Deceased Partner's Capital Account

   (*b*) All partner's capital account (including deceased partner's capital account

   (*c*) Remaining partner's capital account

   (*d*) None of the above

**Ans. (*b*) All partner's capital account (including deceased partner's capital account)**

4. P, Q and R are partners sharing profits in the ratio of 4:3:1. P retires and his share is taken by Q and R equally. Calculate new profit sharing ratio of Q and R

   (*a*) 1:1 (*b*) 4:3 (*c*) 3:4 (*d*) 5:3

**Ans. (*d*) 5:3**

5. In case of death of a partner, the whole amount standing to the credit of his capital account is transferred to ...................... .

   (*a*) Capital Accounts of all partners (*b*) Capital Accounts of remaining partners

   (*c*) His executor's account (*d*) Revenue Account of the Government

**Ans. (*c*) His executor's account**

Find out the share of profit of Rathi for the year 2018 till the date of retirement if

(a) Profit is to be distributed on the basis of the previous year's profit

(b) Profit is to be distributed on the basis of the average profit of the past 4 years

Also pass necessary journal entries by assuming partners capitals are fluctuating.

a) If the profit is to be distributed on the basis of previous year profit (2017) Rathi's share distributed 3 months = ₹ 32,000 $\times \frac{1}{5} \times \frac{3}{12}$ = ₹ 1600

| Date | Particulars | L.F. | Debit | Credit |
|---|---|---|---|---|
| | Profit and loss suspense A/c Dr.<br>To Rathi's Capital A/c<br>(Profit is to be distributed on the basis of previous year profit) | | 1,600 | 1,600 |

b) Average Profit

| Year | Profit |
|---|---|
| 2014 | 10,000 |
| 2015 | 20,000 |
| 2016 | 18,000 |
| 2017 | 32,000 |
| Total profit | 80,000 |

Average Profit = $\frac{\text{Total Profit}}{\text{No. of years}}$

= $\frac{80000}{4}$ = ₹ 20,000

Rathi's Share = 20,000 $\times \frac{1}{5}$ = ₹ 4,000

| Date | Particulars | L.F. | Debit | Credit |
|---|---|---|---|---|
| | Profit and loss suspense A/c Dr.<br>To Rathi's Capital A/c<br>(Rathi's current year share of profit Cr. to her cap. A/c) | | 4,000 | 4,000 |

**15. Kavin, Madhan and Ranjith are partners sharing profits and losses in the ratio of 4:3:3, respectively. Kavin retires from the firm on 31st December, 2018. On the date of retirement, his capital account shows a credit balance of ₹ 1,50,000. Pass journal entries if:**

(a) The amount due is paid off immediately.

(b) The amount due is not paid immediately.

(c) ₹ 1,00,000 is paid and the balance in future.

| Date | Particulars | L.F. | Debit ₹ | Credit ₹ |
|---|---|---|---|---|
| a) | Kavin's capital A/c Dr.<br>To Bank A/c<br>(Paid off immediately) | | 1,50,000 | 1,50,000 |
| b) | Kavin's capital A/c Dr.<br>To Kavin's loan A/c<br>(Cr. to loan A/c) | | 1,50,000 | 1,50,000 |