Maharashtra State Board 12th Book Keeping & Accountancy Solutions Chapter 4 Reconstitution of Partnership (Retirement of Partner)

A. Select the most appropriate alternatives from those given below and rewrite the sentence.

Question 1.
The profit or loss from revaluation on retirement of partner is shared by ____________
(a) the remaining partners
(b) all the partners
(c) only retiring partner
(d) bank
Answer:
(b) all the partners

Question 2.
Descrease in the value of assets should be ____________ to Profit and Loss Adjustment Account.
(a) debited
(b) credited
(c) added
(d) equal
Answer:
(a) debited

Question 3.
The balance of the capital account of retired partner is transferred to his ____________ account if it is not paid.
(a) loan
(b) personal
(c) current
(d) son's
Answer:
(a) loan

Question 4.
Gain ratio = ____________ Ratio less Old Ratio.
(a) New
(b) Equal
(c) Capital
(d) Sacrifice
Answer:
(a) New

Question 5.
New Ratio = Old Ratio + ____________ Ratio.
(a) Gain
(b) Capital
(c) Sacrifice
(d) Current
Answer:
(a) Gain

Question 6.
Apte, Bhate and Chitale are sharing 1/2, 3/10, and 1/5 if Apte retire their new ratio will be ____________
(a) 5 : 2
(b) 3 : 2
(c) 5 : 3
(d) 2 : 5
Answer:
(b) 3 : 2

B. Write the word, term, phrase, which can substitute each of the following statement.

Question 1.
Credit balance of Profit and Loss Adjustment Account.
Answer:
Profit on Revaluation Accounts

Question 2.
The ratio in which the continuing partners are benefited due to retirement of partner.
Answer:
Gain Ratio

Question 3.
Debit balance of Revaluation Account.
Answer:
Loss on Revaluation

Question 4.
The ratio which is obtained by deducting Old Ratio from New Ratio.
Answer:
Gain Ratio

Question 5.
Money value of business reputation earned by the firm over a number of years.
Answer:
Goodwill

Question 6.
Partner's Account where Loss or Profit on revaluation is transferred.
Answer:
Capital/Current Account

C. State whether the following statement are true or false with reasons.

Question 1.
Gain ratio means New ratio minus Old ratio.
Answer:
This statement is True.
As per definition, profit sharing ratio which is acquired by the continuing partners from the retiring partner is called gain ratio. If gain ratio added to old ratio we will get New ratio. It means New ratio = Old ratio + Gain ratio by interchanging the terms, we will get Gain ratio = New ratio – Old ratio.

Question 2.
Retiring partner's share in profit up to the date of his retirement will be debited to Profit and Loss Suspense Account.
Answer:
This statement is True.
If a partner retires from the firm during the accounting year, the profit or loss for the period from the date of last balance sheet to the date of retirement is calculated on the basis of last year's profit or average profit and it is credited to retiring partner's capital A/c and for time being it debited to new account called Profit and Loss Expense A/c. This is because final accounts cannot be prepared on any date during the accounting year.

Question 3.
On retirement of a partner, sacrifice ratio is considered.
Answer:
This statement is False.
On retirement of a partner, his share is acquired by continuing partners in certain proportion and it is nothing but gain for them. Therefore, on retirement of a partner instead of sacrifice ratio gain ratio is considered.

Question 4.
Retiring partner is called an outgoing partner.
Answer:
This statement is True.
When a person retires from the firm due to health issues, financial issues or personal reasons then it is known as person retires from the business and for the business, he is an outgoing partner.

Question 5.
On retirement of a partner, remaining partner will share the goodwill in their profit sharing ratio.
Answer:
This statement is False.
On retirement of a partner, after giving retiring, partner's share in goodwill and if goodwill is written off, then remaining partners will adjust the goodwill in their new profit sharing ratio. (If raised to full extent and written off)

Question 6.
Retiring partner is not entitled to share in general reserve and accumulated profit.
Answer:
This statement is False.
General reserve and accumulated profit are created out of past undistributed profit, such profits are the outcome of hard work of all the partners including retiring partner. Hence, retiring partner's has right to share general reserve and accumulated profit. He is therefore, entitled to get share in general reserve and accumlated profit.

D. Fill in the blanks and rewrite the following sentence:

Question 1.
New Ratio (less) ____________ = Gain ratio.
Answer:
Old ratio

Question 2.
Retiring partner's share of goodwill is ____________ to remaining Partner's Capital Account.
Answer:
debited

Question 3.
Revaluation A/c is also known as ____________ Account.
Answer:
Profit and Loss Adjustment

Question 4.
On retirement, the balance at a Current Account of a partner is transferred to his ____________ Account.
Answer:
Capital

Question 5.
A proportion in which the continuing partners get the share of retiring partner is known as ____________ Ratio.
Answer:
Gain

E. Answer in one sentence.

Question 1.
What is meant by Retirement of a Partner?
Answer:
Retirement of a partner refers to a process in which a partner leaves the firm or severes his relations with other partners on account of his old age, continued ill health, loss of interest in the firm, misunderstanding amongst the partners, etc.

Question 2.
What is Benefit Ratio?
Answer:
Profit sharing ratio which is acquired by the continuing partners on account of retirement or death of a partner is called Benefit Ratio or Gain Ratio.

Question 3.
What is New Ratio?
Answer:
The ratio in which profits or losses are shared by the continuing partners after retirement of a partner is called New Profit Sharing Ratio.

Question 4.
How is the amount due to the retiring partner settled?
Answer:
The amount due to a retiring partner is settled as per the terms of partnership agreement or otherwise mutually agreed upon either in lumpsum or in instalments.

Question 5.
How is Gain Ratio calculated?
Answer:
Gain ratio is calculated at the time of retirement of a partner by deducting old ratio from new ratio.

Question 6.
Why is retiring partner's capital account credited with goodwill?
Answer:
Goodwill is an intangible assets or benefits accrued to the firm and its benefits are transferred to retiring partner's Capital A/c by giving credit.

Practical Problems

Question 1.
The Balance Sheet of Mr Mama, Kaka and Mr Baba who shared profits and losses as 4 : 3 : 3 respectively.
Balance Sheet as on 31st March, 2018

Liabilities	Amt ₹	Amt ₹	Assets	Amt ₹	Amt ₹
Suppliers		7,000	Cash		4,500
Loan		5,000	Sundry Debtors	5,000	
General Reserve		6,250	Less : R:D:D	500	4,500
Capital Account:			Live Stock		12,500
Mama		20,000	Motor Car		4,000
Kaka		15,000	Furniture		17,500
Baba		12,250	Plant		22,500
		65,500			65,500

Kaka retires on 1st April, 2018 on the following terms.
1. The share of Kaka in Goodwill of the firm is valued at ₹ 2,700.
2. Furniture to be depreciated by 10% and Motor car by 12.5%.
3. Live Stock to be appreciated by 10% and Plant by 20%.
4. A provision of ₹ 2,000 to be made for a claim of compensation.
5. R.D.D. is no longer necessary.
6. The amount payable to Kaka should be transferred to his Loan A/c.
Prepare Profit and Loss Adjustment A/c, Partners' Capital A/cs and Balance Sheet of the new firm.
Solution:
In the books of Partnership Firm

Dr. Profit and Loss Adjustments Account Cr.

Particulars		Amount (₹)	Particulars	Amount (₹)
To Furniture A/c		1,750	By Live Stock A/c	1,250
To Motor Car A/c		500	By Plant A/c	4,500
To Provision for Claim A/c		2,000	By R.D.D. A/c	500
To Partners' Capital A/cs : Profit				
Mama	800			
Kaka	600			
Baba	600	2,000		
		6,250		6,250

Balance Sheet as on 1st April, 2018

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Partners' Capital A/cs :			Furniture	17,500	
Mama	23,300		Less : Depreciation	1,750	15,750
Baba	14,725	38,025	Motor Car	4,000	
Kaka's Loan A/c		20,175	Less : Depreciation	500	3,500
Suppliers		7,000	Sundry Debtors		5,000
Loan		5,000	Live Stock	12,500	
Provision for Claim		2,000	Add : Appreciation	1,250	13,750
			Plant	22,500	
			Add : Appreciation	4,500	27,000
			Cash		4,500
			Goodwill		2,700
		72,200			72,200

Dr. **Partners' Capital Accounts** Cr.

Particular	Mama (₹)	Kaka (₹)	Baba (₹)	Particulars	Mama (₹)	Kaka (₹)	Baba (₹)
To Loan A/c	–	20,175	–	By Balance b/d	20,000	15,000	12,250
To Balance c/d	23,300	–	14,725	By General Reserve A/c	2,500	1,875	1,875
				By Profit and Loss Adjustment A/c (Profit)	800	600	600
				By Goodwill A/c	–	2,700	–
	23,300	20,175	14,725		23,300	20,175	14,725

Working Notes:
1. R.D.D. is no longer require means it is a gain for firm.
2. A provision of ₹ 2,000 to be made for a claim of compensation, ₹ 2,000 is recorded on debit side of Profit and Loss Adjustments A/c and then on liability side of Balance Sheet.
3. Total payable amount to Kaka ₹ 20,175 is recorded as Kaka's Loan A/c.

Question 2.
The Balance Sheet of Ram, Shyam and Ghanshyam sharing profits and losses in 3 : 2 : 1 respectively and their position on 31-3-19 were as follows:
Balance Sheet as on 31st March, 2019

Liabilities	Amt ₹	Assets	Amt ₹
Capitals :		Bank	54,000
Ram	1,20,000	Debtors	90,000
Shyam	90,000	Building	60,000
Ghanshyam	60,000	Investment	1,50,000
Creditors	22,000		
Bills payable	12,000		
Loan	50,000		
	3,54,000		3,54,000

Ghanshyam retired on 1st April, 2019 on the following terms:
1. Building and Investment to be appreciated by 5% and 10% respectively.
2. Provision for Doubtful Debts to be created at 5% on Debtors.
3. The provision of ₹ 3,000 be made in respect of Outstanding Salary.
4. Goodwill of the firm is valued at ₹ 90,000 and partners decide that goodwill should be written back.
5. The amount payable to the retiring partner be transferred to his Loan A/c.
Prepare: Profit and Loss Adjustment A/c, Partners' Capital A/c, Balance Sheet of new firm.
Solution:
In the books of Partnership Firm

Dr. **Profit and Loss Adjustment Account** Cr.

Particulars		Amount (₹)	Particulars	Amount (₹)
To R.D.D. A/c		4,500	By Building A/c	3,000
To Provision for Outstanding Salary A/c		3,000	By Investments A/c	15,000
To Partners' Capital A/cs : Profit				
Ram	5,250			
Shyam	3,500			
Ghanshyam	1,750	10,500		
		18,000		18,000

Dr. **Partners' Capital Accounts** Cr.

Particulars	Ram (₹)	Shyam (₹)	Ghanshyam (₹)	Particulars	Ram (₹)	Shyam (₹)	Ghanshyam (₹)
To Loan A/c	–	–	76,750	By Balanced b/d	1,20,000	90,000	60,000
To Goodwill A/c	9,000	6,000	–	By Profit and Loss Adjustment A/c (Profit)	5,250	3,500	1,750
To Balance c/d	1,16,250	87,500	–	By Goodwill A/c	–	–	15,000
	1,25,250	93,500	76,750		1,25,250	93,500	76,750

Balance Sheet as on 1st April, 2019

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Partners' Capital A/cs :			Bank		54,000
Ram	1,16,250		Debtors	90,000	
Shyam	87,500	2,03,750	Less : R.D.D. (5 %)	4,500	85,500
Ghanshyam's Loan A/c		76,750	Building	60,000	
Creditors		22,000	Add : Appreciation	3,000	63,000
Bills Payable		12,000	Investments	1,50,000	
Loan		50,000	Add : Appreciation	15,000	1,65,000
Provision for Outstanding Salary		3,000			
		3,67,500			3,67,500

Working Notes:
1. Provision of ₹ 3,000 for outstanding salary is recorded on debit side of Profit and Loss Adjustment A/c and then on the Liability side of Balance Sheet.
2. Goodwill of the firm is valued at ₹ 90,000 and share of retiring partner in it is ₹ 15,000 (16th part) and it is to be written back means it is to be shared by remaining partners in their profit-loss ratio.

Question 3.
The Balance Sheet of the Anu, Renu and Dinu is as follows, and the partners are sharing profits and losses in the proportion of 2 : 2 : 1 respectively.
Balance Sheet as on 31st March, 2019

Liabilities	Amt ₹	Amt ₹	Assets	Amt ₹	Amt ₹
Creditors		8,000	Bank		5,000
Bills Payable		2,000	Debtors	20,000	
General Reserve		5,000	Less : R.D.D	1,000	19,000
Capital Account:			Furniture		15,000
Anu		40,000	Machinery		4,000
Renu		30,000	Free hold Property		27,000
Dinu		15,000	Goodwill		30,000
		1,00,000			1,00,000

Dinu retires from the firms on 1st April, 2019 on the following terms:
1. The assets are to be revalued as : freehold property ₹ 30,000, Machinery ₹ 5,000, Furniture ₹ 12,000, All debtors are good.
2. Goodwill of the firm be valued at thrice the average profit for preceding five years. Profits of the firm for the year.
2014-15 – ₹ 14,500
2015-16 – ₹ 10,500
2016-17 – ₹ 10,000
2017-18 – ₹ 16,000
2018-19 – ₹ 10,000
3. Dinu should be paid ₹ 3,000 by cheque.
4. The Balance of Dinu's Capital A/c should be kept in the business as loan.
Prepare: Profit and Loss Adjustment A/c, Capital Accounts of Partners, Balance Sheet of the new firm.
Solution:
In the books of Partnership Firm

Dr. **Profit and Loss Adjustment Account** **Cr.**

Particulars		Amount (₹)	Particulars	Amount (₹)
To Furniture A/c		3,000	By Freehold Property A/c	3,000
To Goodwill – Loss		1,500	By Machinery A/c	1,000
To Partners' Capital A/cs : Profit			By R.D.D. A/c	1,000
Anu	200			
Renu	200			
Dinu	100	500		
		5,000		5,000

Dr. **Partners' Capital Accounts** **Cr.**

Particulars	Anu (₹)	Renu (₹)	Dinu (₹)	Particulars	Anu (₹)	Renu (₹)	Dinu (₹)
To Bank A/c	–	–	3,000	By Balance b/d	40,000	30,000	15,000
To Loan A/c	–	–	13,100	By General Reserve A/c	2,000	2,000	1,000
To Balance c/d	42,200	32,200	–	By Profit and Loss Adjustment A/c (Profit)	200	200	100
	42,200	32,200	16,100		42,200	32,200	16,100

Balance Sheet as on 1st April 2019

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Partners' Capital A/cs :			Bank		2,000
Anu	42,200		Debtors		20,000
Renu	32,200	74,400	Furniture	15,000	
Dinu's Loan A/cs		13,100	Less : Depreciation	3,000	12,000
Creditors		8,000	Machinery	4,000	
Bills Payable		2,000	Add : Appreciation	1,000	5,000
			Freehold Property	27,000	
			Add : Appreciation	3,000	30,000
			Goodwill		28,500
		97,500			97,500

Working Notes:
1. Average profit = Total Profit No. of years
= 1000+10,500+10,000+16,000+10,0005
= 47,5005
= ₹ 9,500
Goodwill = Avg. profit × No. of years
= 9,500 × 3 years
= ₹ 28,500
Goodwill value given in balance sheet = ₹ 30,000
New value arrived at = ₹ 28,500
Loss due to revaluation = ₹ 1,500
To be recorded in P & L Adj. A/c – Dr. Side.
In asset side of Balance sheet, write ₹ 28,500 for Goodwill.

2. Balance of Bank A/c = Opening Balance – Cheque given to Dinu
= 5,000 – 3,000
= ₹ 2,000

Question 4.
Rohan, Rohit and Sachin are partners in a firm sharing profits and losses in the proportion 3 : 1 : 1 respectively. Their balance sheet as on 31st March, 2018 is as shown below:
Balance Sheet as on 31st March, 2018

Liabilities	Amt ₹	Assets	Amt ₹
Creditors	40,000	Bank	12,500
General Reserve	50,000	Debtors	60,000
Bills payable	25,000	Live Stock	50,000
Capital Accounts :		Building	75,000
Rohan	1,25,000	Plant and Machinery	35,000
Rohit	1,00,000	Motor Truck	1,00,000
Sachin	50,000	Goodwill	57,500
	3,90,000		**3,90,000**

On 1st April, 2018 Sachin retired and the following adjustments have been agreed upon:
1. Goodwill was revalued on ₹ 50,000.
2. Assets and Liabilities were revalued as follows:
Debtors ₹ 50,000, Live stock ₹ 45,000, Building ₹ 1,25,000, Plant and Machinery ₹ 30,000, Motor truck ₹ 95,000 and Creditors ₹ 30,000.
3. Rohan and Rohit contributed additional capital through Net Banking of ₹ 50,000 and ₹ 25,000 respectively.
4. Balance of Sachin's Capital Account is transferred to his Loan Account.
Give Journal entries in the books of new firm.
Solution:
Journal entries in the books of Partnership Firm

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2018				
April 1	General Reserve A/c Dr.		50,000	
	To Rohan's Capital A/c			30,000
	To Rohit's Capital A/c			10,000
	To Sachin's Capital A/c			10,000
	(Being General Reserve distributed among partners)			
1	Revaluation A/c Dr.		32,500	
	To Debtors A/c			10,000
	To Live Stock A/c			5,000
	To Plant and Machinery A/c			5,000
	To Motor Truck A/c			5,000
	To Goodwill A/c			7,500
	(Being assets depreciated)			
1	Building A/c Dr.		50,000	
	Creditors A/c Dr.		10,000	
	To Revaluation A/c			60,000
	(Being Building appreciated and Creditors amount is payable less)			
1	Revaluation A/c Dr.		27,500	
	To Rohan's Capital A/c			16,500
	To Rohit's Capital A/c			5,500
	To Sachin's Capital A/c			5,500
	(Being Profit on revaluation distributed and transferred to Capital accounts)			
1	Bank A/c Dr.		75,000	
	To Rohan's Capital A/c			50,000
	To Rohit's Capital A/c			25,000
	(Being additional capital brought by partners)			
1	Sachin's Capital A/c Dr.		65,500	
	To Sachin's Loan A/c			65,500
	(Being balance of Sachin's Capital A/c transferred to Sachin's Loan A/c)			

Working Notes:

1. Calculation of Profit on Revaluation of Assets and Liabilities.

Dr. **Revaluation Account** Cr.

Particulars		Amount (₹)	Particulars	Amount (₹)
To Debtors A/c		10,000	By Building A/c	50,000
To Live Stock A/c		5,000	By Creditors A/c	10,000
To Plant and Machinery A/c		5,000		
To Motor Truck A/c		5,000		
To Goodwill A/c		7,500		
To Partners' Capital A/cs : Profit				
Rohan	16,500			
Rohit	5,500			
Sachin	5,500	27,500		
		60,000		60,000

Dr. **Partners' Capital Accounts** Cr.

Particulars	Rohan (₹)	Rohit (₹)	Sachin (₹)	Particulars	Rohan (₹)	Rohit (₹)	Sachin (₹)
To Loan A/c	–	–	65,500	By Balance b/d	1,25,000	1,00,000	50,000
To Balance c/d	2,21,500	1,40,500	–	By General Reserve A/c	30,000	10,000	10,000
				By Revaluation A/c (Profit)	16,500	5,500	5,500
				By Bank A/c	50,000	25,000	–
	2,21,500	1,40,500	65,500		2,21,500	1,40,500	65,500

Question 5.
Shah, Lodha and Dhole were partners sharing profits and losses in the ratio of 4 : 3 : 3. Their Balance Sheet as on 31st March, 2019 is given below:
Balance Sheet as on 31st March, 2019

Liabilities	Amt ₹	Amt ₹	Assets	Amt ₹	Amt ₹
Sundry Creditors		20,000	Cash		9,000
Bills payable		4,000	Sundry Debtors	10,000	
Capital Account:			Less: R.D.D.	1,000	9,000
Shah		45,000	Furniture		25,000
Lodha		35,000	Computers		43,000
Dhole		27,000	Vehicles		45,000
		1,31,000			**1,31,000**

On 1st April, 2019 Mr. Lodha retired from the firm on the following terms:
1. Goodwill is to be valued at an average profits and losses of the last five years which were as follows:
Year – Profit/Loss
2015 – ₹ 35,000
2016 – ₹ 20,000
2017 – ₹ 30,000
2018 – ₹ 20,000
2019 – ₹ 25,000
2. Computers to be depreciated by 10%.
3. Furniture to be revalued at ₹ 27,500.
4. Vehicles appreciated by 20%.
5. R.D.D. was no longer necessary.
6. Shah and Dhole will share the future profits and losses in the ratio of 2 : 1.
7. It was decided that goodwill should not appear in the books of a new firm and amount payable to Lodha is to be transferred to his Loan A/c.
Prepare: Profit and Loss Adjustment A/c, Partners' Capital Accounts, Balance Sheet of new firm.
Solution:
In the books of Partnership Firm

Dr. **Profit and Loss Adjustment Account** **Cr.**

Particulars		Amount (₹)	Particulars	Amount (₹)
To Computers A/c		4,300	By Furniture A/c	2,500
To Partners' Capital A/cs : Profit			By Vehicles A/c	9,000
Shah	3,280		By R.D.D. A/c	1,000
Lodha	2,460			
Dhole	2,460	8,200		
		12,500		12,500

Dr. **Partner's Capital Account** **Cr.**

Particulars	Shah (₹)	Lodha (₹)	Dhole (₹)	Particulars	Shah (₹)	Lodha (₹)	Dhole (₹)
To Goodwill A/c	17,333	–	8,667	By Balance b/d	45,000	35,000	27,000
To Balance c/d	41,347	–	–	By Profit and Loss Adjustment A/c (Profit)	3,280	2,460	2,460
To Lodha's Loan A/c	–	45,260	28,593	By Goodwill A/c	10,400	7,800	7,800
	58,680	45,260	37,260		58,680	45,260	37,260

Balance Sheet as on 1st April 2019

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Partners' Capital A/cs :			Cash		9,000
Shah	41,347		Debtors		10,000
Dhole	28,593	69,940	Furniture	25,000	
Lodha's Loan A/c		45,260	Add : Appreciation	2,500	27,500
Sundry Creditors		20,000	Computers	43,000	
Bills Payable		4,000	Less : Depreciation	4,300	38,700
			Vehicles	45,000	
			Add : Appreciation	9,000	54,000
		1,39,200			1,39,200

Working Note:
Average profit = *Total Profit No. of Years*
= *35,000+20,000+30,000+20,000+25,0005*
= *1,30,0005*
= ₹ 26,000
∴ Goodwill = ₹ 26,000
Goodwill should not appear in the books of accounts.
Therefore, ₹ 26,000 credited in Partners' Capital Account in partners' old profit and loss ratio. ₹ 26,000 will be debited in Partners' Capital Account in partners' new profit-loss ratio.